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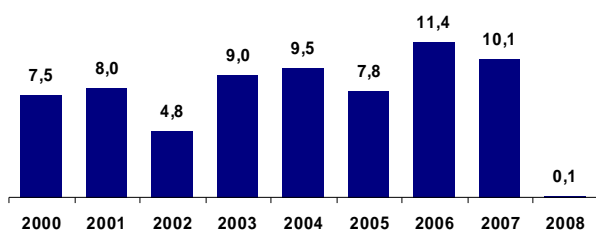
## Estonia

### Economic growth record slow

According to preliminary calculations by Statistics Estonia, GDP growth was only 0.1% in the first quarter of 2008 compared to the corresponding period from the previous year. This was the slowest growth percentage in eight years. The Bank of Estonia explains the sharp slowdown in the economy mainly by a heightened caution by households when acquiring real estate and making decisions related to consumption. This is indicated by a smaller turnover of consumer goods compared to earlier and by a slowdown in borrowing activities. Some experts have argued that the main driver behind Estonia's fast growth in recent years was not the high demand of the world market but the inflow of cheap capital from the Scandinavian banking sector. This in turn, overheated the Estonian real estate market.

However, the Bank of Estonia also sees some positive signals despite the current economic situation. Government debt is low, the national budget and financial sector are strong. The Bank of Estonia projects that economic growth will also be slow later in 2008 as in 2009 and the excessive growth of previous years will be over for the time being. In line with the Bank of Estonia, Danske Bank has cut its growth projections for Estonia. The bank predicted earlier a growth of 3.5% for 2008 but has now lowered its estimate to 2.5%.

### GDP growth in Q1 in 2000-2008 (y-o-y, %)



Source: Statistics Estonia

### Foreign trade - imports decrease 10%

The value of Estonian exports rose by 2% in March 2008 compared to March of the previous year. At the same time, the value of imports decreased by 10% thus being the main contributor to the reduced trade deficit which was almost EUR 110 million less than in March 2007 according to Statistics Estonia. In Q1, exports grew by 5% and imports fell by 4% y-o-y. The greatest increase in commodities exports was in metals and products thereof, with a growth percentage of 27 and machinery and equipment with a growth percentage of 8 compared to March of the previous year. Exports of mineral products decreased by 16%. Imports increased in very few categories, raw materials and products of the chemical industry having the most notable rise in imports (17%). Imports declined particularly in the commodity group of wood and products thereof (-39%) as well as in mineral products (-26%).

Estonia - main economic indicators	2000	2001	2002	2003	2004	2005	2006	2007	2008	as of
GDP (y-o-y %-growth, constant prices)	7.9	6.5	8.0	7.2	8.3	10.2	11.2	7.1	0.1	Q1/2008
Industrial production (y-o-y %-growth)	14.6	8.9	8.2	11.0	10.5	11.0	7.3	6.1	-5.0	3/2008
Inflation (CPI, end of period, y-o-y %-change)	5.0	4.2	3.6	1.3	3.0	4.1	4.4	9.6	11.4	4/2008
General government budget balance (% of GDP)	-0.6	0.3	1.5	2.0	2.3	2.3	3.8	2.8	n/a	1-12/2007
Gross wage (period average, EUR)	314	352	393	430	466	555	596	784	788	Q1/2008
Unemployment (% end of period)	13.9	11.9	11.3	9.3	8.5	7.9	5.9	4.7	4.2	Q1/2008
Exports (EUR million, current prices)	3445	3698	3642	4003	4770	6190	7647	8028	1987	Q1/2008
Imports (EUR million, current prices)	4615	4798	5079	5715	6704	8213	10576	11278	2576	Q1/2008
FDI inflow (EUR million, current prices)	425	603	307	822	775	2255	1341	1817	n/a	1-12/2007
Current account (% of GDP)	-5.5	-5.6	-10.6	-11.6	-12.5	-10.5	-14.8	-17.4	n/a	1-12/2007

Sources: Statistics Estonia, Bank of Estonia, Eurostat, author's calculations 1

### Construction and real-estate in decline

The total production of Estonian construction enterprises decreased by 4% in the first quarter of 2007 y-o-y, according to Statistics Estonia. The construction market growth slowed down in 2007 and has declined even further in 2008. Compared to Q1 in 2007, building construction diminished by 9% but the volume of civil engineering increased by 17%. The main reasons for the construction sector slowdown were the decreased volumes in dwelling construction, increases in housing loans and rising construction prices. Construction sector unemployment has soared and the Finnish construction sector has become increasingly interesting to Estonian builders.

The Estonian real estate market has been in serious difficulties in the first quarter of 2008. According to Statistics Estonia, the total number of notarized purchase-sale contracts decreased by more than a third compared to the corresponding quarter of the previous year and by a fifth compared to the previous quarter. In addition, the total value of the contracts decreased by half compared to the corresponding quarter of the previous year and by roughly 25% compared to the previous quarter. The stricter loan policy of Estonian banks and the buyers' expectations of a decline in real estate prices have contributed to the slowdown in the market.

### Industrial production decreases in March

The seasonally adjusted data of Statistics Estonia showed that industrial production decreased by 5% in March compared to February. In addition, in comparison to March 2007 industrial production also decreased by 5%. Manufacturing fell by 3%. The decrease in manufacturing was mainly caused by the decrease in the production of food, wood and building materials. However, some economic activities enjoyed growth in their production. Mainly due to an increase in exports, the production of metal products, chemicals and electrical machinery grew when compared to March of the previous year.

### Some business highlights

- § The EU wants to divide Eesti Energia, the Estonian energy company, into two separate companies of Eesti Energia and Pohivork by 2013. The alternatives for the split are either that both will stay as state companies but under different ministries or to privatise one of them.
- § Pohivork, the grid operator of Eesti Energia has initiated preliminary planning for the preparations for laying a second underwater power cable between Estonia and Finland due to be completed in 2013. Estlink 2, costing approximately EUR 250 million, will most likely have a capacity of 635 MW.
- § Eesti Energia has begun constructing a wind farm in the northern part of the country in Aluepa. The energy company plans to invest roughly EUR 55 million in the project with a 39 MW capacity. The wind farm is expected to be operational by mid-2009.
- § A new joint venture called Vopak EOS will be established by Royal Vopak and N-Trans, owners of the oil terminal operators Pakterminal and the Estonian Oil Service. N-trans will have 65% of the stock while Vopak will get the remaining share.
- § Henkel, the manufacturer of consumer chemicals, has announced that it will open a new production plant employing 25 people in Tartu.

## Latvia

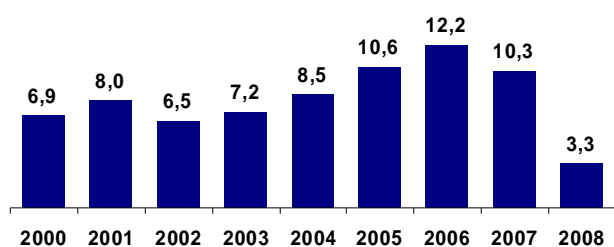
### GDP growth plummets in Q1

According to a flash estimate by the Central Statistical Bureau of Latvia, GDP growth in the first quarter was only 3.3%. GDP growths for the first quarters of the year during the three previous years were over 10% which indicates that the Latvian economy is now facing hard times.

The Bank of Latvia states that the main contributors to the cooling of the economy are weakening domestic demand, slower lending due to tighter loan-policies and falling budget revenues. The real estate market has experienced a gradual downslide in prices. Exports still enjoy growth, although competitiveness is suffering from gradual erosion due to high inflation.

Perceptions of the economy of both producers and consumers have worsened. According to surveys from the first quarter, assessments of industry, services and construction have deteriorated, as well as consumer perceptions, which have a key position in fueling domestic demand. Growth forecasts have been bearish. The IMF expects only a 0.5 percent growth for this year. Danske Bank is now forecasting a 2.5% growth, down from the previous estimate of 5%.

### GDP growth in Q1 in 2000-2008 (y-o-y, %)



Source: Central Statistical Bureau of Latvia

### Exports grew by 7.1% in the first quarter of 2008

The value of exports rose by 7.1% in the first quarter of 2008 compared to the corresponding quarter of the previous year according to the Central Statistical Bureau of Latvia. Compared to the corresponding period of the previous year, the largest increase in commodity exports in Q1 in 2008 was in products of iron or steel with a 28.3% increase, in veneer sheets and plywood (up by 15.2%) and in electrical machinery and equipment (up by 13.7%). Exports in sawn wood went down by 33.9%. The largest increase in commodity imports in Q1 in 2008 compared to the corresponding period of the previous year was in mineral products with a 35.0% increase, in agricultural goods and food products (up by 25.6%) and in chemical products and allied industries (up by 13.3%). Imports of wood and articles of wood went down by 26.6%.

Latvia - main economic indicators	2000	2001	2002	2003	2004	2005	2006	2007	2008	as of
GDP (y-o-y %-growth, constant prices)	6.9	8.0	6.5	7.2	8.5	10.6	12.2	10.3	3.6	Q1/2007
Industrial production (y-o-y %-growth)	3.2	6.9	5.8	6.5	6.0	5.6	4.8	0.5	3.7	4/2008
Inflation (CPI, end of period, y-o-y %-change)	1.8	3.2	1.4	3.6	7.3	7.0	6.8	14.1	17.5	5/2008
General government budget balance (% of GDP)	-2.8	-2.1	-2.3	-1.6	-1.0	-0.4	-0.2	0.0	n/a	1-12/2007
Gross wage (period average, EUR)	268	282	297	298	314	350	430	683	645	Q1/2008
Unemployment (% end of period)	13.3	12.9	11.6	10.3	10.3	8.7	6.8	5.4	6.5	Q1/2008
Exports (EUR million, current prices)	2020	2232	2416	2559	3204	4085	4594	5727	1528	Q1/2008
Imports (EUR million, current prices)	3453	3910	4284	4634	5671	6879	8828	10986	2635	Q1/2008
FDI inflow (EUR million, current prices)	n/a	n/a	223	248	489	568	1324	1797	397	Q1/2008
Current account (% of GDP)	-4.8	-7.6	-6.6	-8.1	-12.9	-12.3	-21.1	-22.8	n/a	1-12/2007

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

### Consumer price level soars high

The consumer price level in May increased by 17.9% compared to May of the previous year, the Central Statistical Bureau of Latvia reports. The rise in the price level in May 2008 compared to the previous month was 0.9%. The price increase of vegetables and fuel had the greatest impact on the inflation level in April. However, the price level of clothing and footwear and communication decreased somewhat. Annual inflation is still strongly affected by the prices of food, tobacco and energy resources.

The Bank of Latvia projects that inflation will continue its rise, as a further rising in the energy costs is expected in the coming months. Thus the central bank estimates that annual inflation will stay on an upward trend and some moderation is expected in mid-summer at the earliest. Danske Bank has raised its inflation forecast to 17%.

### Unemployment increased slightly

Unemployment rose by 1.2 percentage units to 6.5% in the first quarter of 2008 compared to the previous quarter, according to the Central Statistical Bureau of Latvia. However, when compared to the corresponding quarter of the previous year, unemployment decreased by 0.4 percent. The Bank of Latvia has reported that new jobs are now somewhat more difficult find due to the cooling down of the economy.

### Some business highlights

§ The Russian SMP Bank has acquired a majority stake in a small Latvian financial institution Multibanka which suffered greatly a few years back when the U.S. financial department blacklisted it on suspicions of money laundering. Later acquitted from the charges, Multibanka will most likely change its name and continue its activities normally. The bank's assets were EUR 74 million in late 2007.

§ Bergvik Skog, a Swedish forestry company, is taking over two Latvian companies in the largest Latvian transaction involving forest properties. The company is purchasing Fraximus and Ruda which control 30,000 hectares of forest property. The value of the deal was not published. However, some experts have estimated that the sum might be around EUR 57-71 million.

§ In other banking sector news, GE Money is planning to begin banking activity in Latvia in the near future. GE Money acquired a majority stake at the Baltic Trust Bank already back in 2006 and will most likely offer its services under the name of GE Money Bank.

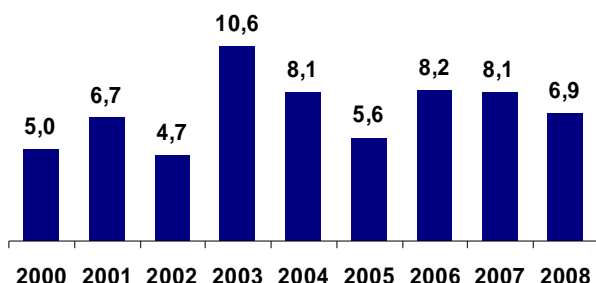
§ Cemex, the global Mexican building materials company, is planning a cement plant near Daugavpils. The company is already building a new facility at its existing plant at Broceni in Southern Latvia and is also reconstructing a terminal in Liepaja.

## Lithuania

### Economic growth slower in Q1

According to Statistics Lithuania, GDP growth was 6.9% in the first quarter of 2008 compared to the corresponding quarter of the previous year. This was somewhat slower than in the corresponding quarters of 2007 (8.1%) and 2008 (8.2%). The Bank of Lithuania explains the slowdown in the economy mainly by the cooling of the over-heated real estate market and tighter lending conditions; high inflation; and the global economic downturn affecting Lithuanian exports. However, the Bank of Lithuania also sees some positive signals despite the current economic situation. Most of all, the structure of Lithuanian exports is not as dependent on demand fluctuations as economies in general and should therefore have a better resistance to the economic downturn.

### GDP growth in Q1 in 2000-2008 (y-o-y, %)



Source: Statistics Lithuania

However, projections regarding the Lithuanian economy are not optimistic. The Bank of Lithuania projects that economic growth will be slower in 2008 (GDP growth forecast 6.6%) as in 2009 (3.9%). Danske Bank has a bit gloomier forecast – GDP is predicted to grow 5.0% in 2008 and 4.0% in 2009. Standard & Poor's has predicted the worst case scenario for Lithuania, predicting a steep decline in the second half of the year and a growth of only 3.7% for 2008. Particularly the closing down of the Ignalina nuclear power plant after 2009 is expected to raise energy prices, thus suffocating growth possibilities in the long run.

### Inflation still high

Statistics Lithuania informs that inflation was 12.0% in May 2008 compared to May 2007. The rise in the price level in May 2008 was 0.8% when compared to the previous month. Transport, food products with non-alcoholic beverages, and housing, water, electricity, gas and other fuels had the greatest impact on the monthly price rise in May.

Inflation is expected to stay relatively high. The Bank of Lithuania forecasts that inflation will hit its peak in the first half of 2008 and decline gradually after that. Average annual inflation of 9.8% is expected. Danske Bank raised its inflation

forecast to 10.0%, in line with the Bank of Lithuania, as well as Standard & Poor's inflation forecast of 10.0%.

### Industrial production increases in April

The data of Statistics Lithuania shows that industrial production increased by 15.7% in April compared to March. However, the annual increase in industrial production was on a more moderate level. In comparison to April 2007 industrial production increased by 5.5%.

### Construction sector grows in the first quarter

According to the provisional data by Statistics Lithuania, the work carried out by construction inside the country's borders totaled EUR 625 million in the first quarter of 2008. This was 13.0% more than in Q1 in 2007. The bulk of construction went towards non-residential buildings which had an approximate 50% share and grew by 12.9% compared to the corresponding quarter in 2007. Residential buildings (up by 6.3% in value) and civil engineering (up by 18.7%) amounted to a quarter share of the total construction value each.

When residential buildings are measured in dwellings, 40% more dwellings were completed in the first quarter of 2008 compared to Q1 in 2007. In addition, the geographical division of new dwellings showed that Vilnius County had the largest share (over 70%) of all new dwellings completed. However, building permits issued for residential buildings in the first quarter of 2008 were 2.8% fewer than in the corresponding period in 2007. This could be taken as an indicator of a moderate slowdown in residential building construction.

### Some business highlights

- § Gazprom, the Russian gas giant, has announced that it will invest almost EUR 300 million in a new cogeneration power plant to be constructed in Kaunas. The new power plant is expected to reach a capacity of 300 MW and it is seen as one replacement electricity source for the Ignalina power plant which is due to be shut down in the near future.
- § Lietuvos Energija, the Lithuanian energy company, and Polish transmission operator PSE have finally agreed on a new power link between the countries. The LitPol Link project is worth roughly EUR 240 million.
- § Mazeiku Nafta, the Baltics' only oil-refinery, has managed to reduce its first quarter losses to only EUR 1.9 million compared to EUR 39 million in the same period in 2007. The refinery suffered hard in 2006 when it lost its vacuum distillation unit in a fire. The unit was re-launched in January 2008 and the return to pre-fire capacity shows in the results.
- § Stumbras, the Lithuanian producer of alcoholic beverages, is investing in a new production facility near Kaunas and the Via Baltica highway. The company has already invested some EUR 3 million in the new lot. The new location will also help to facilitate the company's exports to its strategic neighbouring market, Poland.

Lithuania - main economic indicators	2000	2001	2002	2003	2004	2005	2006	2007	2008	as of
GDP (y-o-y %-growth, constant prices)	4.1	6.6	6.9	10.3	7.3	7.9	7.7	8.0	6.9	Q1/2008
Industrial production (y-o-y %-growth)	2.2	16.0	3.1	16.1	10.8	7.3	8.9	7.2	5.5	4/2008
Inflation (CPI, end of period, y-o-y %-change)	1.4	2.0	-1.0	-1.3	2.9	3.0	3.8	8.1	12.0	5/2008
General government budget balance (% of GDP)	-2.5	-2.0	-1.4	-1.3	-1.5	-0.5	-0.3	-1.2	n/a	1-12/2007
Gross wage (period average, EUR)	263	274	293	311	335	421	459	594	623	Q1/2008
Unemployment (% end of period)	16.9	17.9	13.0	11.6	10.6	8.3	5.6	4.2	n/a	1-12/2007
Exports (EUR million, current prices)	3841	4778	5526	6158	7478	9502	11250	12522	5100	1-4/2008
Imports (EUR million, current prices)	5650	6767	7943	8526	9959	12446	15384	14341	7100	1-4/2008
FDI inflow (EUR million, current prices)	439	516	772	160	623	826	1448	1645	n/a	1-12/2007
Current account (% of GDP)	-5.9	-4.7	-5.1	-6.8	-7.7	-7.2	-10.8	-13.7	n/a	1-12/2007

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



## Poland

### GDP growth strong in Q1

Central Statistical Office informs that the Polish GDP grew 6.1% in the first quarter compared to the corresponding period in 2007. GDP grew by 7.2% in Q1 of 2007 compared to the corresponding period in 2006. Thus the first quarter growth was still strong but approximately one percentage-unit less than before. According to the National Bank of Poland, the Polish economy is still enjoying a period of strong growth which encompasses all its sectors. Information on the latest labour market developments indicates a sustained growth of employment and wages, which in turn ultimately increases the inflationary pressure.

### Foreign trade grows by a fifth in the first quarter

Polish exports rose in value to almost EUR 28.5 billion in the first quarter of 2008. This is 18.4% more compared to the corresponding quarter of the previous year informs the Central Statistical Office of Poland. Exports were overwhelmingly dominated by EU countries (a 77% share) although this was slightly less than in the corresponding period of 2007 when the share was 81%. Germany was the most important export market, with a quarter share of all exports. Accordingly, exports to developing countries and non-EU-countries of Central and Eastern Europe rose slightly, from 14.5% in Q1 in 2007 to 18% in Q1 this year.

Imports rose in value to almost EUR 33.3 billion in the first quarter of 2008. This is almost 20% more compared to the corresponding quarter of the previous year. Imports were dominated by EU countries (a 68% share), although not as overwhelmingly as in exports. Exports to the EU were slightly less than in the corresponding period of 2007 when the share was 72%. As in exports, Germany was the most important source of imports with a quarter share of all imports. Accordingly, imports from developing countries and non-EU-countries of Central and Eastern Europe rose slightly, from 25.8% in Q1 in 2007 to 31.9% in Q1 this year.

### Prices of consumer goods and services rose by 4%

The Central Statistical Office reports that the prices of consumer goods and services rose by 4.0% in April 2008 when compared to April 2007. Commodity groups with the highest price increase included food, all beverages and tobacco (up by 6.6%) and restaurants and hotels (up by 5.8%). The most notable decrease in prices was in clothing and footwear, down by 6.4%.

The rise in the price level in April compared to the previous month was 0.4%. Commodity groups with the highest price increase included food, all beverages and tobacco (up by 0.6%) and restaurants and hotels (up by 0.6%).

### Price changes in selected commodity groups, April 2008 (%)

Commodity group	y-o-y	Previous month
Food, all beverages and tobacco	6.6	0.6
Clothing and footwear	-6.4	-0.1
Dwelling	6.4	0.2
Transport	3.8	0.2
Restaurants and hotels	5.8	0.6
TOTAL	4.0	0.4

Source: Central Statistical Office

The National Bank of Poland has set an inflation target of 3.5% which the y-o-y inflation has surpassed by a small marginal. The National Bank forecasts that inflationary pressures in 2008-2009 will grow due to the increases of administered prices, particularly energy and natural gas. However, compared to the Baltic countries, Polish inflation is very moderate.

### Industrial output increases in April

The data of the Central Statistical Office shows that industrial production grew by 14.9% in April 2008 compared to the corresponding period in 2007. Output was up in 25 of the 29 industrial sectors. The highest growth was noted in manufacturing which was up by 15.7%. However, more moderate growth figures were registered in mining-quarrying (8.8%) and in electricity, gas and water supply (6.9%).

### Some business highlights

- § Wienerberger, the clay brick and roofing tile producer, has announced that it will invest EUR 500 million by 2012 on 25 new manufacturing plants in Central and Eastern Europe. The company would not disclose the exact number of new Polish facilities, but experts are estimating that several new plants will be opened in Poland, where the company already has 19 facilities and 20 in the latter part of the year, when the new Olesnica plant opens.
- § Carlo Tassara Group, an Italian financial group, will set up a new bank in Poland. The group's Alior Bank is one of the largest FDI projects in Poland. Alior is planning to open 80 branches in Poland's 50 largest cities.
- § The energy concern RWE is planning to invest in building wind farms in Mazuria and Pomerania. The wind farms are to generate 200 MW of power and the first wind farms are expected to be added to the electricity grid in 2010.
- § Oil and gas company PNiG Kraków which employs roughly 1300 people has won new contracts in Kazakhstan, Latvia and Mozambique.
- § Car manufacturer Ford is returning to Poland by investing in a new plant in the Silesian town of Tychy. The investment is worth EUR 200 million and the plant will be manufacturing an estimated 120,000 Ford Ka's annually.
- § The Lotos Group, the Polish oil concern, has released its report on operating profit for 2007. According to the revised report, operating profit was almost EUR 210 million. The forecast for crude oil production is 192,300 tonnes. The company has also acquired a stake in the Yme oil deposits in the North Sea for EUR 33 million. Extraction is planned to begin in 2009.

Poland - main economic indicators	2000	2001	2002	2003	2004	2005	2006	2007	2008	as of
GDP (y-o-y %-growth, constant prices)	4.2	1.1	1.4	3.8	5.3	3.5	6.1	6.5	6.1	Q1/2008
Industrial production (y-o-y %-growth)	6.7	0.6	1.1	8.3	12.6	4.1	5.7	9.7	14.9	4/2008
Inflation (CPI, end of period, y-o-y %-change)	8.5	3.6	0.8	1.7	4.4	0.7	1.4	4.0	4.0	4/2008
General government budget balance (% of GDP)	-0.7	-3.7	-3.3	-2.9	-3.3	-6.1	-3.9	-2.0	n/a	1-12/2007
Gross wage (period average, EUR)	472	557	544	497	505	591	692	825	882	Q1/2008
Unemployment (% end of period)	16.0	18.5	19.7	19.3	18.0	16.7	12.2	11.4	11.1	3/2008
Exports (EUR billion, current prices)	34.4	40.4	43.4	47.5	59.7	71.4	87.5	101.1	28.5	Q1/2008
Imports (EUR billion, current prices)	53.1	56.2	58.3	60.4	71.4	80.6	100.0	118.8	33.3	Q1/2008
FDI inflow (EUR billion, current prices)	10.3	6.4	4.4	3.7	10.0	8.3	15.1	12.8	2.3	1-2/2008
Current account (% of GDP)	-6.0	-2.9	-2.6	-2.1	-3.5	-1.7	-2.3	-3.7	n/a	1-12/2007

Sources: Central Statistical Office, National Bank of Poland, Eurostat, author's calculations

## St. Petersburg

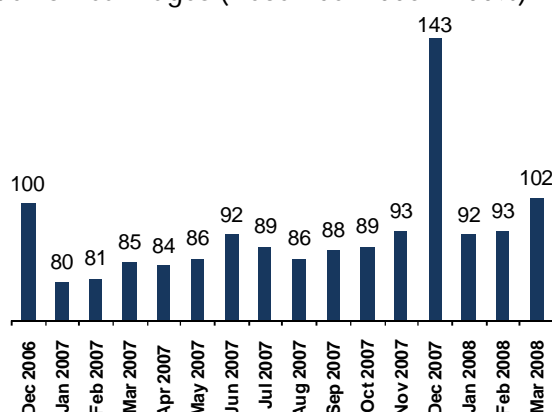
### Economy decelerates

The first four months of 2008 marked a shift to lower rates of regional economic growth. The slowdown was experienced by almost all sectors of the economy. Industrial production grew 9.0% y-o-y; the basic reasons were the stagnation of food production (which increased by 2.6% only), and a significant 41.5% y-o-y fall in the manufacturing of vehicles and transport equipment. Nonetheless, non-transport machine-building and metallurgy grew 30.1% and 35.6% y-o-y respectively, contributing to the modest increase of St. Petersburg's industrial sector. In January-April 2008 construction, trade and communication services experienced a less impressive performance than a year ago, increasing by 16.3%, 15.7%, and 18.2% y-o-y respectively. Transport appeared to be the only sector to grow rapidly: its output rose by 36.7% y-o-y. This splash could be explained partly by a high increase in fuel prices, and partly by automobile cargo turnover growing 80% y-o-y.

### Inflation vs. rising incomes

The inflation rate continued to grow during the first four months of 2008. CPI grew 6.6% from December 2007 till April 2008, which meant 13.6% y-o-y. Moreover, transport tariffs rose much higher, namely by 19.3% from December 2007. Transport companies had to increase the tariffs due to the sky-rocketing costs of diesel fuel; its price grew 7.3% in April 2008 compared to March 2008 and reached EUR 0.59 per litre. As a result, diesel fuel became more expensive than A-92 gasoline. Petrol prices for individual consumers rose by 24.6% during January-April 2008. These changes were induced by a recent price boom on international fuel markets. Private and corporate incomes were also increasing in January-April 2008, mostly due to wages. The latter grew 26.5% in nominal terms and 11.8% in real terms y-o-y, during the first four months of 2008.

### Index of real wages (December 2006 = 100%)



Source: Petrostat, 2008

In the first quarter of 2008 the share of residents with incomes below the survival minimum (*the poor*) decreased by 1% of the total population: from 15.4% down to 14.4%, y-o-y.

### Construction: first signs of stagnation

The bright results of the first quarter of 2008 (when the sector expanded by 22.2% y-o-y) were followed by a significant cooling in April, with a growth of 3.1% y-o-y only. Most contractors moved towards building offices and trade centres, whilst residential construction experienced a significant decline in January-April 2008: the total number of apartments finalised decreased by 25.9% y-o-y. It is noteworthy, that in 2007 the total residential space completed during the first four months of the year doubled compared to 2006 y-o-y. The basic reason for the fall in 2008 was decreasing demand, dropping to almost zero by the beginning of May 2008. It is quite possible, that the regional real estate market shifts to a stage of overheating, with an average price of one m2 reaching EUR 2740.

### Exports equaled imports

In the first quarter of 2008 regional exports finally came up with regional imports, for the first time since 2001. Booming prices on mineral fuel, which took 76.9% of the exports, resulted in a 49.2% y-o-y growth. Regional imports increased in January-March 2008 by 41.5% y-o-y. The list of St. Petersburg's leading export partners remained almost as it did in 2007, with the Netherlands at the top, followed by Turkey, Slovakia, and Italy (25.6%; 10.5%; 7.6%; and 5.6% of total exports, respectively). The only newcomer was Latvia with its 8.0% share of regional exports. The comparatively good political climate in Russian-Latvian relationships enabled a certain revival of energy exports through Latvia's ports. On the import side China acquired significant dominance with its 19.0% of total imports. It was followed by Germany, Finland, USA, and South Korea (11.3%; 9.0%; 6.8%; and 5.6% of the total, respectively). Chinese imports were not only food, toys, and textiles, but also durables, e.g. transport equipment. EU countries were losing their import share due to the strong euro.

### Some business highlights

- § Removal of Russia's Constitutional Court from Moscow to St. Petersburg was finalised. The Court started its first session in St. Petersburg on May 27, 2008.
- § St. Petersburg City Administration announced a tender for the reconstruction and further exploitation of Pulkovo Airport. A potential investor of EUR 900 million needed for the Airport's reconstruction would receive a right to run Pulkovo for a period of 30 years.
- § Russian shipbuilding holding OPK, the owner of two St. Petersburg shipyards, signed a memorandum with South Korean Daewoo Shipbuilding and Marine Engineering on joint projects in shipbuilding. The sides have plans to invest EUR 650 million in creating a large shipyard complex in St. Petersburg, which would produce gas tankers for Gazprom. Norwegian Aker Yards might also join this project.
- § Construction of C-1 complex, which is the largest and the most important component of St. Petersburg City Dumb was finalised in April 2008. The complex has an automobile tunnel inside, which would enable easy connection between the town of Kronstadt and the City. The total cost of this complex equalled EUR 420 million.
- § MTS, Russia's largest mobile operator, announced its plan to invest EUR 270 million in a new 3G communication format in the St. Petersburg region. This would be a pilot project of nationwide importance for MTS.

St. Petersburg - main economic indicators	2000	2001	2002	2003	2004	2005	2006	2007	2008	as of
Regional GDP (y-o-y %-growth, constant prices)	10.5	4.5	17.7	8.4	7.2	8.4	8.4	9.1	n/a	1-12/2007
Industrial production (y-o-y %-growth)	26.2	0.2	31.4	5.8	14.1	4.2	-7.0	10.0	9.0	1-4/2008
Regional inflation (CPI, y-o-y %-change)	23.5	16.3	16.6	13.0	12.7	12.0	10.0	10.9	13.6	1-4/2008
Gross average wage (monthly, EUR)	n/a	n/a	217	209	285	345	407	510	563	3/2008
Unemployment (% average annual)	7.9	4.4	3.5	4.3	2.8	2.4	2.4	2.0	2.0	Q1/2008
Exports (EUR million, current prices)	2736	2134	1839	2429	3210	3954	5499	12978	3553	Q1/2008
Imports (EUR million, current prices)	2693	4423	5158	5123	5560	8081	10299	15093	3596	Q1/2008
FDI inflow (EUR million, current prices)	158.4	126.8	88.9	62.1	90.0	200.5	512.4	566.5	177.8	Q1/2008

Source: Petrostat, Rosstat, Central Bank of Russia, European Central Bank, author's calculations

In 2002 and 2004 average wage is for December; in 2003, 2005, 2006 and 2007 wage is for November of corresponding year

## Leningrad region

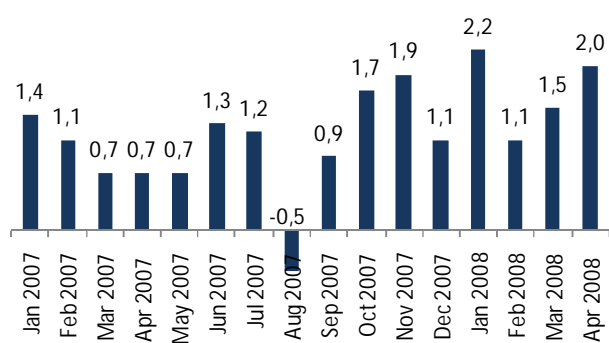
### Economy moves to stagnation

In January-April of 2008 almost all sectors of the regional economy stagnated or even decreased. The industrial sector, the engine of regional development, only grew 0.4% y-o-y. Construction, transport, and total investment fell 12.4%, 3.8%, and 6.6% y-o-y respectively. Communication and retail trade increased in January-April, but more moderately, than before: by 9.6%, and 11.9% y-o-y respectively. The only positive trend during the first four months of 2008 was agricultural output, growing 2.2% y-o-y. The stagnation of industry and transport is a bad sign for regional development, based on FDI in new plants and domestic investment in the infrastructure and transport complex. The biggest branch of regional industry, namely food and tobacco production, with its 20.5% of total industrial output, experienced a 5.8% y-o-y decline in January-April 2008. The reasons were increasing food imports and a national anti-tobacco campaign announced in April, 2008. Russia's State Duma plans to limit the use of cigarettes in public places, following the example of developed countries, and therefore has ratified the WHO Framework Convention on Tobacco Control on April, 14th, 2008. Construction declined, due to corporate loan rates in the sector rising up to 14-15% and the strengthening of demand limitations. The number of finalised residential apartments, nevertheless, continued to grow: in January-April 2008 it tripled compared to the corresponding period of 2007. The supply on the regional real estate market was obviously overrunning solvent demand, and the latter was unable to match with high housing prices.

### Inflation accelerates

Despite a general cooling of the regional economy, inflation in Leningrad province was accelerating further. CPI growth accounted for 6.9% during January-April 2008, which meant 14.5% y-o-y.

### CPI change (month-on-month, %)



Source: Petrostat, 2008

During the spring months of 2008 the inflation rate was increasing, regardless of its normal seasonal contraction, e.g. in 2006 and 2007. This might be a first sign of 'stagflation' of the regional economy, i.e. a combination of stagnating economy and a rising inflation rate.

### Agriculture's positive trends

Agriculture was among the main beneficiaries of the global food crisis. It has been in a constant decline since the start of the economic reforms of the early 1990-ies, with the sole exception being a comparatively short period following the devaluation of the rouble in 1998. But the radical rise of global food prices, added to a constant increase of real incomes of St. Petersburg and Leningrad province's residents, led to the higher profitability of the regional agricultural sector. The quickest response to new market conditions was achieved by the most added-value branch of the regional agricultural complex, namely meat production: its output grew 20.0% in January-April 2008, y-o-y. The share of local meat producers on the regional market grew from 43% in the first quarter of 2007 to 48% in the corresponding period of 2008, whilst the share of imports, both from abroad and from other Russian regions, contracted respectively.

### Repatriation of finances

Despite an obvious worsening of general economic indicators, including total investment, the foreign sector of regional economy continued to grow in the first quarter of 2008. Foreign investment, increased in January-March 2008 by 81% y-o-y, and FDI by 90% y-o-y. The structure of foreign capital inflow into Leningrad province also changed: the share of FDI rose to 70.2% of the total, compared to 63.4% a year ago. The largest share, 38.8% of all foreign investment, came to the real estate sector, and 29.3% to agriculture. The regional industrial sector was only 24.8%. A large part of incoming foreign capital was, in fact, owned by Russian residents, taking their money from vulnerable global markets back to the homeland. Cyprus was the leading investor country in the first quarter of 2008 with its 30.3% of total foreign investment into Leningrad province.

### Some business highlights

- § Regional oil refinery Kinef, the largest petroleum supplier for St. Petersburg and the province, announced its plans to finally launch a new refining complex in 2009. The complex would reprocess 5 million tonnes of black oil into diesel and jet fuel annually. Kinef has been building the new complex since 2005 at a cost of EUR 1.5 billion.
- § The first line of the Sever pipeline, transporting petroleum products, connected Yaroslavl and Primorsk, Leningrad province. The new pipeline's annual capacity is 8.4 million tonnes. This is a first line of a new pipeline complex, which would export through Primorsk seaport a total of 24.6 million tonnes of petroleum products per annum. Total cost of the project accounted for EUR 650 million.
- § The first unit of the largest in North-West Russia Pulkovski hog breeding complex was launched in Tarasovo, Leningrad province. The complex would consist of 6 units, located on the province's territory, and would produce pork for the regional market. Construction of the whole complex would take until 2012, with total investment of EUR 50 million.
- § The municipality of Ust-Luga, Leningrad province, approved a project of a new town that would appear near the constructed seaport. The town would accommodate nearly 35,000 residents, the employees of new seaport enterprises, and would grow until 2025.
- § Ford Motors Vsevolozhsk plans to recruit 1,500 more workers until the end of 2008, in addition to 2,000 existing staff. The additional workforce is needed for expanding the plant's production up to 125,000 vehicles per annum.

Leningrad region - main economic indicators	2000	2001	2002	2003	2004	2005	2006	2007	2008	as of
Regional GDP (y-o-y %-growth, constant prices)	12.8	8.5	16.3	14.6	8.8	8.3	8.1	8.5	n/a	1-12/2007
Industrial production (y-o-y %-growth)	26.8	10.7	35.6	20.9	10.3	5.9	26.9	2.6	0.4	1-4/2008
Regional inflation (CPI, y-o-y %-change)	23.5	19.6	14.8	13.0	14.9	12.0	9.9	9.3	14.5	1-4/2008
Gross average wage (monthly, EUR)	106	141	152	173	190	259	324	403	441	3/2008
Unemployment (% average annual)	12.7	10.8	9.6	9.2	7.5	7.8	6.2	3.3	3.2	Q1/2008
Exports (EUR million, current prices)	1787	2350	2301	2580	3887	4862	5443	6078	1791	Q1/2008
Imports (EUR million, current prices)	328	810	939	1061	1372	2561	2858	4759	1320	Q1/2008
FDI inflow (EUR million, current prices)	222.5	266.0	121.9	104.5	106.6	178.7	288.0	276.5	88.1	Q1/2008

Source: Petrostat, Rosstat, Central Bank of Russia, European Central Bank, author's calculations

In 2000-2007 average wage is for November of corresponding year



## Kaliningrad region

### Slower growth in the first months

Economic growth in Kaliningrad has slowed down in the first four months of 2008. As Kaliningrad's economy demonstrated some signs of overheating in 2007 e.g. the unemployment rate falling to 3.4% and clearly unsustainable growth rates in some sectors, this slowdown might actually help to avoid major imbalances.

The slowdown was especially obvious in manufacturing: in the first four months of 2008 manufacturing output grew 'only' by 22% (y-o-y) compared with 94% for the whole of 2007. Avtotor stopped assembling Chinese Chery cars that made about 38% of all its 2007 output and helped the company to become the largest producer of foreign cars in Russia (see business highlight-section). This will push the growth rate in manufacturing further down in the second half of the year. Home electronics producers have also had a sluggish start to the year.

On the other hand, production in food manufacturing, after falling in 2006 and 2007, was growing strongly in the first four months of 2008 – by 23.5% (y-o-y). The sector was the main beneficiary of FDI in the last two years.

### Growth rates by sectors (y-o-y, %)

	Jan-Apr, y-o-y 2008	
Industrial production	6.2	40.3
Mining	0.3	1.0
Manufacturing	22.0	93.7
Utilities	-0.1	0.3
Construction	29.9	9.8
Retail Trade	16.1	17.9

Source: Kaliningradstat (2007, 2008)

While household incomes grew only by 3.1% in Q1 (y-o-y) sectors serving consumer demand performed well: retail sales expanded by 16.1% and housing construction by 14.9% in January-April.

Although high oil prices ensured that profits in Kaliningrad's oil sector swelled, the sector's fixed investment fell by over 50% in Q1. As a result, the total fixed investment in Kaliningrad dropped by 2.5% in the same period despite large increases in investments in retail trade and construction. Construction activity remained robust and the volume of contract construction works increased by 29.9% in the first four months of 2008.

### Foreign investment: a surge of interest

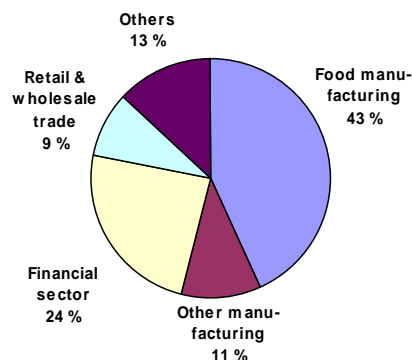
The new law on the special economic zone in Kaliningrad seems to have increased the attractiveness of the region to foreign investors. Inward foreign direct investment (FDI) to the region increased by a factor of 7 (in €) in 2007. Strong FDI inflow continued in the first months of 2008 – it reached EUR 25.1 million in Q1. About half of FDI in Q1 came from Cyprus and 41% from Poland. Manufacturing and the financial sector, similar to 2007, were the main destinations for foreign investments: 47% and 41% of all FDI.

FDI stock at the end of Q1 reached EUR 233 million.

Kaliningrad region - main economic indicators	2000	2001	2002	2003	2004	2005	2006	2007	2008	as of
Regional GDP (y-o-y %-growth, constant prices)	15.2	3.4	9.5	9.3	12.6	3.6	11.6	n/a	n/a	1-12/2006
Industrial production (y-o-y %-growth)	32.4	12.9	4.2	4.7	22.5	27.4	66.6	40.3	6.2	1-4/2008
Inflation (CPI, end of period, y-o-y %-change)	17.5	21.0	9.8	17.5	11.7	11.1	7.9	11.2	14.3	4/2008
Gross wage (period average, EUR)	67	99	125	137	155	193	285	358	393	Q1/2008
Unemployment (% end of period, LFS data)	15.6	10.6	7.2	7.6	6.5	6.6	4.5	3.4	n/a	Q4/2007
Exports (EUR million, current prices)	514	508	497	507	876	1470	2025	3666	n/a	1-12/2007
Imports (EUR million, current prices)	947	1169	1701	1894	2419	3283	4275	5714	n/a	1-12/2007
Exports (sales) to Russia (EUR million, current prices)	459	691	802	989	1449	1901	2471	3901	n/a	1-12/2007
FDI inflow (EUR million, current prices)	7.1	3.6	6.3	12.4	18.0	15.1	16.9	117.9	25.1	Q1/2008

Source: Kaliningrad Statistical Office, RosStat, Central Bank of Russia, author's calculations

### Inward foreign investment by sectors in 2007



### Consumer inflation remains a problem

Inflation continues to be a major problem for policy makers: consumer prices increased by 2.3% in April (m-o-m) and year-on-year inflation in April reached 14.3%. The cumulative increase in consumer prices over the first four months of 2008 was 6.9% compared with 4.2% a year earlier. This rise is driven by rapid increases in food prices and utility tariffs that increased by 8.4% and 10% in January-April. Basic food items grew especially fast: the price of a subsistence food basket increased by 10.1% over the same period.

Since agricultural producer prices jumped by 21.8% over the first four months of the year it is likely that food prices on the consumer market will continue to grow rapidly. Increases in most of other producer prices, however, were less exuberant: construction prices grew by 2.4%, cargo transportation tariffs – by 2.8% and manufacturing prices even fell by 1.4% over the same period.

### Some business highlights

§ Head of Rosatom S. Kirienko and Kaliningrad governor G. Boos signed a memorandum in April to build a 2300 MW nuclear power station in the Kaliningrad region by 2015. Total investments in the project are expected to be around EUR 5 billion. Foreign investors may get up to a 49% stake in the project. Rosatom plans to export some of the electricity that will be generated by the station as its capacity is likely to exceed the demand from Kaliningrad's customers.

§ Kaliningrad-based auto maker Avtotor and Chinese Chery Automobile are pulling out of their contract to assemble Chery's cars at the Avtotor plant. The official reason was an appreciation of rouble but unofficially many sources claim that it was the dissatisfaction of federal authorities with the wide-scale production of cheap Chinese cars that compete directly with AvtoVAZ models.

§ Meantime, a business delegation from AvtoVAZ visited Avtotor and AvtoVAZ's chief executive said that the company considered buying Avtotor.

§ The North-West Timber Company, which owns Neman pulp and paper mill (Kaliningrad region) filed for bankruptcy protection and started negotiations with creditors on restructuring its debt after missing interest payments. The total NWTC debt is about EUR 250 million.

§ Kaliningrad retailer Vester plans to sell a 7%-stake to an institutional investor through a private placement and raise EUR 70 million.



## Energy challenges and opportunities in the Baltic Sea Region

By Anders Fogh Rasmussen

Combating climate change and improving our energy security are among the greatest challenges facing the Baltic Sea Region today.

During recent years we have witnessed dramatic effects of climate upheaval. The evidence from the UN Climate Change Panel is extremely convincing.

One thing is clear: If we are to tackle climate change we will have to cut green house gas emissions. We must reduce our dependency on fossil fuels. This will also increase our energy security. We must co-operate globally to find solutions that offer opportunities for everyone.

The preparations for the UN Climate Conference in Copenhagen in 2009 present a unique opportunity to embark on a common path towards low-carbon economies. And a chance for the Baltic Sea countries to engage actively in the necessary transition to low carbon economy – not only to contribute to combating climate change but also because of the business potential it offers.

We need a new industrial revolution based on climate-friendly technologies.

It will require heavy investments and incentives that promote energy efficiency and clean technologies if we are to reach our ambitions of reduced GHG emissions and security of supply. Co-operation between governments and the private sector is the key. Research is also crucial to lower cost of clean energy and to put industry at the forefront of the growing low carbon technology sector.

Many tend to focus on the economic costs in this transition. But there need not be a contradiction between economic growth and reduction of emissions. On the contrary more focus on energy efficiency measures and on renewable energy sources offers also plenty of opportunities for business, growth and prosperity.

In Denmark we have achieved increased energy security and diversified our energy supplies. Moreover, with increasing oil prices it also makes good sense to save energy and to increase the use of renewables. Our long lasting efforts to convert district heating to combined heat and power and to save energy in buildings now provide a buffer zone against the rising oil prices and the adverse effect on our economy. Due to these efforts the energy consumption has been nearly stable for 25 years even though Denmark's economy has grown by 75 %. Our CO<sub>2</sub> emissions have in the same period been reduced by 14 per cent.

The Baltic Sea Region can make a significant contribution to combating climate change. Our countries have a wide range of renewable energy sources and we have already demonstrated our willingness and ability to develop those resources. Some of our countries are experienced in creating incentives and technologies for efficient use of energy.

In the EU we have agreed on the most ambitious climate and energy targets in the world. We will cut emissions by 30 % by 2020 as our contribution to a global deal. We have also set binding targets for the share of renewables in the energy mix and we have stressed the need for improving energy efficiency. In this way, we have shown that Europe is ready to take global leadership.

However, the EU countries cannot achieve its energy and climate change objectives on their own. We will also have to act and co-operate at regional levels as well as strengthen co-operation with neighbouring countries like Russia. Russia is also paying great attention to ways and measures to increase energy efficiency and the use of new technologies in their energy system. The energy co-operation in the Baltic Sea Region represents a unique tool in furthering the EU-Russia dialogue with its major producers of oil and gas.

It is essential to have as many suppliers as possible with regard to competition and security of supply. For instance some countries in the Baltic Sea Region more or less rely on one gas supplier. Diversification of supplies is important to ensure security of supply and to make use of the commercial opportunities that more than one supplier gives.

In this connection I would like to emphasize that creation of a fair, non-discriminatory and well functioning competitive market for energy round the Baltic Sea in itself will lead to diversification of supplies. One of the challenges for the Baltic Sea Region is integration of energy infrastructure as a precondition for a free and open flow of energy across the borders.

During the Danish presidency of the Council of the Baltic Sea States, the Minister for Climate and Energy will convene a conference on the key energy perspectives of climate change in September 2008. The objective is to agree on intensifying their co-operation leading to concrete measures for integration of regional markets, tackling climate issues and promoting renewables and energy efficient technologies with a specific focus on district heating and combined heat and power.

In the transformation to low carbon economy the Baltic Sea Region has the potential to take lead.

*Anders Fogh Rasmussen*

*Prime Minister*

*Denmark*



## Recent European Court of Justice rulings highlight potential complications for labour mobility, but overall a mobile work force will contribute to a more dynamic EU economy

By Vladimír Špidla

In recent years, the European Union has done much to improve the relatively low labour mobility of Europe's work force. Put simply, making Europeans more mobile in the job market can help the EU meet labour shortages and contribute to a more dynamic economy.

But European labour laws have been put to the test in the past few months with two court rulings concerning the posting of workers to another Member State. Laval, a Latvian construction firm, angered Swedish unions when it posted workers from Latvia to work on building sites in Sweden. Trouble flared when Swedish workers began industrial action in the form of a blockade, to protest at what they saw as unfair competition from cheap labour from Latvia. A similar situation arose when Finnish ferry company Viking replaced the crew of one of its ships with Estonian workers. In both cases, the European Court of Justice ultimately ruled in favour of the two companies, while still recognising the right of workers to take collective action. The Court recognised that both the freedom to provide services and the right to take collective action are fundamental rights and should be reconciled.

Both cases highlight the potential complications that greater mobility and increasingly open EU national borders can bring. But in spite of this, labour mobility still holds considerable advantages and remains a key element in Europe's ongoing efforts to create a more flexible, competitive EU economy.

There are a number of benefits that increasing labour mobility can bring to the EU. For instance, there are still serious skills bottlenecks in Europe, despite high levels of unemployment. These bottlenecks can leave employers unable to find qualified staff for the jobs that need filling. Facilitating mobility means that unemployed, skilled workers from one Member State can, more easily, contribute to easing labour shortages in another Member State. In this way, it helps increase the efficiency of the European labour market.

Furthermore, mobility strengthens the economy; it aids the creation of more jobs and increases productivity by enabling workers and businesses to adapt to changes in the labour market more flexibly and effectively. EU workers themselves can also benefit directly from increased mobility. By moving to a different country or changing jobs, people acquire new skills and experience, something that may benefit them and increase their employment chances. This in turn is good for the economy, because a work force that is able to broaden its expertise and adapt to new demands will be better equipped to face the challenges related to globalisation, such as restructuring.

One of the main issues driving the need for greater EU labour mobility is demographic ageing – and perhaps nowhere is this more relevant than in Finland. As a result of low fertility rates and rapid improvements in life-expectancy, Finland now has one of the world's fastest-ageing populations. According to Statistics Finland, 16.5% of the population are over 65 years of age. The Baby Boomers are retiring and there are increasingly fewer people of working age. Consequently, labour shortages that Finland's own younger generation will be unable to fill loom large on the horizon. The shortage of labour can only be solved either by encouraging more people to enter and remain longer in the job market, or by attracting workers from outside the country. So, labour mobility is particularly important for Finland.

But mobility can only really work if people are able to adapt to a change of job or career. Consequently, training is becoming increasingly important. Globalisation and technological advances are leading to radical shifts in the relative importance of individual sectors or occupations – and skills today can quickly become obsolete. So, lifelong learning and education and training that respond to an increasingly knowledge-based economy are vital.

Lifelong learning is an integral part of the "flexicurity" model – a policy approach that could help strike the balance between the advantages and the challenges of mobility. Flexicurity promotes a combination of flexible labour markets and a high level of employment security. The approach is made up of four main elements: modern contractual arrangements that allow a sufficiently flexible organisation of work; active labour market policies which help people adjust to job changes; lifelong learning systems which keep abreast of the requirements of a constantly changing configuration of work organisation; and social security systems which combine the need to make labour market mobility easier with the provision of supplementary income.

The situation regarding European labour mobility today is somewhat paradoxical. On the one hand, globalisation, ageing and rapid technological progress mean that mobility is more important than ever. Furthermore, it has never been easier to move around the EU – markets are more open, labour is more mobile and there are a lot of job vacancies and a lot of jobseekers across 27 Member States. And yet, the current rates of worker mobility remain low. Despite some recent improvements, only around 2% of working-age people in the EU currently live and work in Member States other than their own. And, in nine EU countries, over 40% of workers have been in the same job for over 10 years.

There are signs of improvement, however. Europeans – particularly young people – are becoming more flexible and international in their outlook and consequently, more open to changing job or moving to a new country. A 2006 Eurobarometer survey revealed that a clear majority of young workers – over 70% – are now aware that their career will require some sort of mobility. And the EU is doing more and more to facilitate and support mobility, be it through our EURES platform and network for job mobility or tools like the European health insurance card, which facilitates access to emergency healthcare during short stays in another European country.

The Laval and Viking cases highlighted some of the potential complications that can result from greater labour mobility. But overall, geographical and occupational mobility can go a long way to helping boost labour markets and growth and making the EU economy more dynamic and competitive.

Vladimír Špidla

*EU Commissioner for Employment,  
Social Affairs and Equal Opportunities*



## Co-operation in the Baltic Sea Region

By Jan-Erik Enestam

Co-operation in the Baltic Sea Region is growing closer on all fronts: political, economic, cultural and social. People and companies are forging ever-closer bonds. The walls between countries and the remains of obsolete political systems have now almost completely crumbled. It is more and more natural for people to move back and forth across borders, whether for tourism, study or work. Of course, there is still a long way to go before we can describe the Baltic Sea Region as completely integrated in all respects, but the tendency is clear and the work continues apace. It is important that all countries in the region are able to participate in this work on an equal footing.

Today, a number of organisations in the Baltic Sea Region, for various reasons and in a range of different ways, address issues that are of importance to the region and its inhabitants. On the government side we have, for example, the Nordic Council of Ministers, the Council of the Baltic Sea States (CBSS) and the Helsinki Commission (HELCOM). On the parliamentary side, there are the Nordic Council, the Baltic Assembly and the Baltic Sea Parliamentary Conference (BSPC). Those active on a regional level include the Baltic Sea States Subregional Co-operation (BSSSC) and the Union of the Baltic Cities (UBC). Business is strongly represented in, for example, the Baltic Development Forum (BDF). In addition, there are also NGOs, such as the World Wildlife Fund (WWF) and Coalition Clean Baltic (CCB), to name but a few.

The good news is that this diversity bears witness to a broad-based commitment to the development of the region and to the investment of substantial resources. A disadvantage is that it can also lead to territorial disputes, and to the overlapping and inefficient utilisation of the overall resources. It would be beneficial if these existing organisations worked even more closely together, and if agreement could be reached on how best to share the work. This would benefit both the individual organisations' efforts and the overall ability of the Baltic Sea Region to deal with the challenges it faces. Initiatives in this direction have certainly already been taken, but greater efforts are welcome.

The Nordic Council – the co-operation body for the Nordic parliaments, founded in 1952 – has long had Baltic issues on its agenda. The Council served as a kind of role model when the three Baltic states' parliaments founded the Baltic Assembly in 1991. Co-operation between the two bodies is increasingly based on the drawing up of joint political strategies and specific campaigns on politically prioritised issues. Environmental issues are obviously central, but health and social welfare, trafficking and international crime, and cultural co-operation are also priorities. Similarly, the Nordic Council of Ministers has been a driving force in building up Baltic co-operation on the government side.

The Baltic Sea Parliamentary Conference (BSPC) was established in 1991 and brings together participants from all national and regional parliaments in the Baltic Sea Region and from the European Parliament. The Nordic Council occupies a strong position in the BSPC. Since Russia, Norway and Iceland all take part, the BSPC constitutes a political platform that enables parliamentarians from both EU and non-EU countries to engage in opinion-forming, exert political pressure, and carry out different types of joint political activity. 'Task forces' and rapporteurs have been utilised as tangible and fixed-term political tools, and are becoming more and more common. The political challenges and recommendations issued by the BSPC are directed at the governments in the region, the CBSS and the EU. More than 200 MPs, ministers, experts and NGO representatives met at the 16th BSPC conference in Berlin in August 2007. The 17th conference will be held in Visby in September this year, and will focus on

energy issues and climate change, the eutrophication of the Baltic Sea and labour-market issues.

There are many good examples of words being translated into action. With the help of funding from, among others, the Nordic Investment Bank (NIB), the environmental partnership within the Northern Dimension runs a whole series of environmental projects that are of great importance for the health of the Baltic Sea. One outcome of this work is the southern sewage plant in St Petersburg, which was completed in 2005. Following a certain amount of labour pain, in November 2007 the governments in HELCOM adopted a groundbreaking action plan for the Baltic Sea (BSAP), which includes a number of far-reaching commitments and tangible strategies, e.g. for significantly reducing phosphorus and nitrogen emissions. It is also gratifying that the financial institutions active in the region, such as NIB and the Nordic Environment Finance Corporation (NEFCO), have clearly stated that they are prepared to direct financial resources into the implementation of HELCOM's action plan. At a HELCOM conference in St Petersburg in mid-March this year, it became obvious that the major task now is that the players and stakeholders in the Baltic Sea Region develop tangible and 'bankable' projects that realise the overall objectives of the action plan by linking them to the economic resources of the financial institutions. It is therefore vital that project-development skills be enhanced.

The EU Commission is in the process of drawing up its own Baltic Sea strategy. In order for it to be efficient, this strategy has to have a direct link to the Northern Dimension's policy. The Northern Dimension provides a joint overall framework for co-operation between the EU and Russia, Iceland and Norway. The EU's Baltic Sea strategy, linked to the Northern Dimension, will therefore become an important tool for mobilising resources for development in the region and for improving its position in a wider European and global context. The European Parliament is hosting a parliamentary conference on the Northern Dimension in autumn 2009, at which it is important that the representatives from the region make sure Baltic issues are given due prominence.

CBSS is in the middle of a reform process that is expected to culminate at its summit in Riga in June. The current expectation is that it will strive for greater efficiency and concentrate its work on achieving more obvious and faster results.

These are just some examples of specific initiatives that have major potential for the Baltic Sea Region's health and prosperity. The governments involved must therefore live up to their commitments to, for example, HELCOM's action plan. For their part, the region's parliamentarians have an important task ahead in terms of demanding political responsibility and following up and driving development, e.g. in their own national parliaments, in the Nordic Council, in the BSPC and in the EU Parliament. It is important to forge closer links and enhance co-operation between the players in the Baltic Sea Region so that they are able to harmonise their efforts and enable the region to speak with one voice.

*Jan-Erik Enestam*

*Secretary General*

*The Nordic Council*





## Logistics unites markets

By Anu Vehviläinen

In the global economy the companies take advantage of the differences of various markets. Manufacturing and consumption that may lie on the opposite sides of the globe are united with efficient logistics services. The same logistics services that enable companies to sell their products all over the world bring global competition to their doorsteps. The importance and challenges of supply chain management and related logistics have become widely recognised among the chief executive officers and also politicians.

The logistics system consists of actors, operations and technology, including infrastructure. The efficiency of the system may be hampered by deficiencies in any of these elements. Logistics processes are very information intensive. Long international supply chains require more planning and are still more vulnerable than domestic chains.

In Finland we have interpreted the word “logistics” to mean co-operation and common sense. Nobody can do logistics alone. It is a challenge to get all actors to operate seamlessly towards the same target and to make them share the costs and benefits fairly. For example in the logistics of the local supermarket – selling daily consumer goods – everybody involved in the delivery process should perceive themselves as part of the shelf filling system.

Logistics includes goods transport. The mobility of goods and people are increasing as the economies are developing. Each transport mode serves both people and goods. Traditionally the passenger transport has been given priority on the transport networks. When the networks get congested it is the freight that has been accused. It seems to be easier to set restrictions to freight transport than to passenger transport. On the other hand in some cases excessive heavy goods vehicle traffic can really create unreasonable nuisance to local residents and to other road users.

The common concern today is the climate change. We need to seriously take actions towards more sustainable society as transport is one major producer of the CO<sub>2</sub>-emissions. In the global economy the environmental measures should be agreed globally in order to avoid distortion in competition. Of course, each country is reluctant to make national decisions that may harm the competitiveness of their trade and industry in relation to their neighbours and competitors. However, environmental measures, price of oil, and shortage of qualified labour will soon – if not already now – force companies to rethink and restructure their supply and demand networks.

The common transport policy of the EU has for the last decade emphasised the intermodal transport. The development of Short Sea Shipping has been favourable but the rail and combined road-rail-transport have not reached the targets. There are many reasons for the slow development of rail freight, e.g. the historic burden of the state rail monopolies and lack of competition. I see analogy with rail freight and public transport: most people have nothing against them but still they choose truck or passenger car if they can afford it because it is easier and offers better service level (from door to door –services). Public transport or rail freight become attractive just when the capacity of roads is used and their service level drops or the total cost of using rail is significantly lower than using road.

The customer is always right, also the user of transport services. But the potential customer of rail freight services is often wrong. The service that he or she would like to have is

not nor is going to be available. Manufacturing and trade usually don't care how their goods are transported as long as the price and quality demands are met. The logistics service providers try to consolidate their customers' shipments to enable efficient return goods flows. When the flows are strong enough, the use of rail can be an option. The customers want to have greener cargo as long as it is not more expensive. However, in many cases there is the egg and chicken phenomenon: there is no rail service because there are not enough customers and there are not enough rail customers because there isn't any service.

The EU has laid down a number of regulations to develop the rail freight services. Also the environmental and labour market circumstances are changing so that the competitiveness of rail services should rise. Unfortunately the insufficient rail infrastructure seems to become a bottleneck to the promising outlook. Also, the intermodal transport by definition has interfaces which require infrastructure. The production of logistics and transport services should be commercially viable; transport is business.

Coming back to the analogy of rail freight and public transport, I would like to note that in many places the society has considered that it is wise to give subsidies to the public transport system. In Germany the state has supported the investments of intermodal terminals (GVZ). Is it time for the public sector to make strategic decisions on the development of the freight transport system? Or should we leave it to the markets as we have done in Finland? There are voices claiming that the markets are unable to solve the intermodal transport business. Whose business is it anyway?

The Baltic Sea is one of Europe's Motorways of the Seas. The growing trade leads to increased vessel traffic. From the point of view of logistics as well as of the environment it is extremely important that the vessel traffic flows undisturbed. The Finnish Maritime Administration and the Gulf of Finland Mandatory Reporting System, GOFREP, have been given the Logistics Project of the Year 2008 award by the Finnish Logistics Forum for its efforts to develop sea safety in the Gulf of Finland. The international cooperation with Finland, Estonia and Russia has granted the success of the GOFREP system.

Studies (e.g. LogOnBaltic) show that the logistics costs depend on the size and branch of companies. Although transport is usually the largest cost component, it is still less than half of the total logistics costs. People from trade and industry often call for government actions to improve logistics. They are eager to demand better transport infrastructure which would reduce their logistics costs. I admit that there are areas where insufficient infrastructure really is a bottleneck but in general the marginal time savings gained by better roads are easily wasted in poor operations at the terminals.

Logistics is a subject of expertise. Yet, it is just co-operation and common sense.

*Anu Vehviläinen*

*Transport Minister*

*The Ministry of Transport and Communications*

*Finland*

## The EU Strategy for the Baltic Sea Region as a tool for implementing the HELCOM Baltic Sea Action Plan

By Andreas Carlgren

During the summer months the shores of the Baltic Sea are the natural choice for holiday recreation for many people living in the Baltic Sea region, as well as for many visitors to the region. Today, more than ever, we have an attractive region in many ways open to the movement of people, goods, services and capital, as well as ideas. However, we are also facing a situation where many people have their precious summer holiday disturbed by algae blooms. With each passing summer we become more aware of the environmental challenges to the Baltic, and the threats to the attractiveness of our region. Under the surface, the dead bottoms of the Baltic Sea cover vast areas and are threatening to bring the state of the Baltic to a point of no return. Many of the ecosystem services that the Baltic provides for us are now close to ecological collapse.

What needs to be done to reverse this trend? First, it is necessary to have broad understanding at all levels, on the part of stakeholders and sectors, that the restoration of the Baltic Sea is crucial for long-term prosperity of this region. The Swedish Government has made the marine environment a priority. This includes additional budgetary resources for concrete restoration activities and initiatives for a sector-integrated maritime policy. One initiative taken by the Government is to prepare, together with Finland and others parties, a background document for a socioeconomic study to provide decision-makers with a solid foundation relating to the economic benefits of ecosystem services, the cost of measures required to protect these services and the estimated cost of inaction. The initiative follows on from the report "The Economics of Climate Change – The Stern Review" that strengthened the arguments of conservationists and scientists that something has to be done about climate change. The conclusion of that report was crystal clear: the costs of mitigation are only a fraction of the cost of climate change. The Swedish study will be ready at the end of this year and I am looking forward to its conclusions, putting forward the case for action for the Baltic Sea.

Second, I would like to highlight the geopolitical developments that, in combination with policy developments, are creating new political momentum for action. Today, after EU enlargement in 2004, eight out of the nine Baltic Sea littoral states are EU Member States. In practice, this means that eight out of nine Baltic Sea states share legislation and policy with an impact on – and a potential to improve – the Baltic Sea environment. This includes the Marine Strategy Directive, the Integrated Maritime Policy, the Water Framework Directive, the Common Agricultural Policy, the Common Fisheries Policy and legislation on chemicals. So by jointly strengthening policy implementation and further improving policy instruments when needed we are now more able than ever to take coordinated action. With the aim of drawing on this momentum, the Swedish Government has taken on board a proposal from the European Parliament by making an EU strategy for the Baltic Sea region (the Strategy) one of the key objectives for the Swedish EU Presidency in the second half of 2009. The first step was the decision of the EU Summit in December 2007 to invite the Commission to present an EU Strategy for the Baltic Sea Region by June

2009. The Commission is now working actively on this issue, and is inviting stakeholders to participate in consultations.

We welcome the immense response regarding the development of an EU Strategy for the Baltic Sea region. From the Swedish perspective we hope that the Strategy – to be adopted in the autumn of 2009 – will be a concrete, action-oriented instrument with a clear follow-up mechanism that helps the EU and the EU Member States in the Baltic Sea region identify measures to address the specific challenges of our region. We foresee a Strategy tackling the environmental challenges related to the Baltic Sea while enhancing the growth and competitiveness of the region. The adoption of the Marine Strategy Directive and the Integrated Maritime Policy open the way for regional action enabling steps to be taken for coherent regional implementation. The Strategy should aim to make the Baltic Sea Region an EU marine and maritime best practice region. To achieve this vision, more efforts are needed to improve cross-sectoral policy and implementation of legislation, as is improved matching of the available resources to priorities. The Strategy should suggest action on a broad range of issues. We see that important steps can be taken to ensure that EU legislation and policy development, for example agricultural and chemicals policy, meet the concerns of the marine environment. The macro-regional implementation of the Marine Strategy Directive in the Baltic Sea Region should develop the pilot area concept, with stricter timetables and content. Taking further steps in the Baltic Sea region could serve as a useful example for other regional seas.

Importantly, the Strategy should contribute to the implementation by EU Member States of the HELCOM Baltic Sea Action Plan (BSAP). The BSAP, adopted by all the states around the Baltic Sea – EU States and the Russian Federation – and the European Commission last year, is unique in the sense that the reduction targets are set on the basis of the ecological need to restore the Baltic Sea, not as merely a political compromise. It is clear that the plan will only become a true "action plan" if action is taken to implement it. The Russian Federation is now taking over as chair of HELCOM. I believe that the EU Strategy for the Baltic Sea Region can be a tool for enhancing the implementation of the Baltic Sea Action Plan. This will improve regional cooperation and prosperity, thereby ensuring that our region will also be an attractive place to spend our summer holidays.

*Andreas Carlgren*

*Minister for the Environment*

*Ministry of the Environment*

*Sweden*



Photo: Pawel Flato

## More maritime safety for the Baltic Sea - what are the options?

By Anita Mäkinen

The scenario of a severe oil accident in the Baltic Sea is omnipresent. Huge number of islands, routes that are difficult to navigate, slow water exchange and long annual periods of ice cover render this sea especially sensitive. And at the same time the Baltic Sea has some of the densest maritime traffic in the world. During the recent decades the traffic in the Baltic area has not only increased, but the nature of the traffic has also changed rapidly. One important change is the increase of oil transportation due to new oil terminals in Russia. In the Gulf of Finland only, the amount of transported oil has increased from 22 million tonnes in 1995 to more than 140 million tonnes in 2006. The forecast for the year 2015 is more than 250 million tonnes of oil. But not only the number of tankers has increased but also their size has grown.

Furthermore, the cruises between Helsinki and Tallinn have increased tremendously. This route is crossing the main routes of vessels transporting oil and other hazardous substances. In case of a serious oil tanker accident all coasts of the Baltic Sea would be threatened, economic activities possibly spoiled for years, and its precious nature even irreversibly damaged.

There are also other activities in the Baltic Sea area such as wind mill parks, oil and gas pipelines and oil platforms. This development puts even more pressure on the marine environment: besides the increasing risk of oil spills, more alien species such as the North American comb jelly get introduced into our sea through ballast water, marine habitats get destroyed due to building projects and the species and their populations associated to these habitats are threatened. In WWF our concern is how to safeguard our marine nature and heritage under these pressures.

### More maritime safety through PSSA status

Accordingly, WWF and its Baltic partners had asked for the official status of a "Particularly Sensitive Sea Area" (PSSA) for the Baltic Sea for years in order to tackle the environmental effects and threats associated with increasing international maritime traffic, especially oil shipping. The whole Baltic Sea except for the Russian territorial waters, was designated, in principle, as a PSSA in the International Maritime Organization's (IMO) 51st MEPC meeting in April 2004. The final approval for the Baltic PSSA and associated protective measures (APM's) was adopted in IMO Assembly in December 2005.

The PSSA status is meant to avoid accidents, intentional pollution and damage to habitats. Although, the PSSA status as such would increase the international recognition of the ecological significance of the area, it is not enough to decrease the risk of an oil accident. Hence, the IMO can also decide, upon request by the countries concerned, associated protective measures (APM's) to strengthen the protection of marine environment.

There is a variety of shipping management tools which could be used as APM's in conjunction with PSSA's. These include ships' routing systems (traffic separation schemes, areas to be avoided, no anchoring areas, inshore traffic zones, deep water routes, precautionary areas, recommended routes), ship reporting systems (Vessel Traffic Service Systems VTS, and Vessel Traffic Monitoring and Information System, VTMS), discharge and emission restrictions.

Furthermore, there are possible measures for APM's in the territorial sea which have to be considered on a case-by-case basis, based on the particular circumstances of the area. A coastal state might consider: a) Special Passage Planning Requirements (e.g. closure of routes to certain types of vessels or cargoes, seasonal closures to protect migrating marine mammals, speed restrictions b) special anchoring requirements, c) special activity

restrictions (e.g. regulation of offshore bunkering), d) obligatory escort towing and obligatory pilotage, e) discharge restrictions, f) air pollution emission limitation.

Every day 2000 ships are in service in the Baltic Sea, and the traffic at sea is estimated to increase at least by 5 per cent annually. In order to ensure safe use of our sea, maritime surveillance is of high importance. Surveillance activities are carried out by the coastal countries but most of the activities and threats that they address are transboundary in nature. Thus, better collaboration among all the Baltic countries is needed. Furthermore, we should evaluate further associative protective measures in conjunction with PSSA, and submit proposals for associative protective measures to the IMO for approval.

### Co-operation with Russia is critical

There is also a need for an analysis to discover the spatial and temporal variations in human's uses of the marine ecosystem resources in the Baltic Sea area with an integrated approach. This is not an easy task, but a very much needed exercise and worth of doing. Furthermore, there is a need for the sensitivity mapping of our sea to tell us what are the nature values and where are they located. The outcome of these two analyses could give us decision making tools in considering where to establish new harbours or shipping lanes and where we need more strict regulations for shipping.

In EU we have taken the first concrete steps in developing an integrated approach to maritime affairs as we have The Commission Communication on an integrated maritime policy for the European Union and the proposed Action Plan (Blue Paper). Therein, marine spatial planning is in central role and the future maritime policy should be developed as a tool to address the challenges facing Europe's sustainable development and competitiveness. The Marine Strategy Directive is the environmental pillar of the future European maritime policy and our mission in WWF is, that nature values will be seriously taken into account when establishing the new EU maritime policy.

Although, eight of nine Baltic countries are EU member countries, it is extremely important that European Union and Russia have good dialogue in the Baltic Sea area. European Commission is preparing an EU Strategy for the Baltic Sea Region. It should be presented in June 2009 at the latest, for example as a Communication. The new Northern Dimension policy has important role in the EU Strategy for the Baltic Sea. Russia values being an equal partner in the Northern Dimension and is now more firmly committed to constructive cooperation. For the EU and especially for the Baltic countries this should be a welcome opportunity for further cooperation in the Baltic Sea area.

The Baltic Sea is a unique and extremely sensitive ecosystem threatened by international shipping, which is also recognized by the International Maritime Organization. Furthermore, we have several options to improve maritime safety in the Baltic Sea area; we only need to agree upon the most effective ones - without any delay.

Anita Mäkinen

Head of Marine Programme, Dr.

WWF Finland





## Economic and trade cooperation between China and Finland – mutually beneficial and win-win development

By Ma Keqing

Finland and China have been enjoying longstanding and traditional friendship. The two countries established diplomatic relations as early as in 1950. In 1953, the inter-governmental trade agreement was signed between the two sides, as the first of its kind in Europe. Over the years, the two nations have witnessed a continuously consolidated political relationship and an ever-developing trade and economic ties.

Finland has been China's largest trade partner in Nordic region for the last four consecutive years, and Finland has also served as an important source of FDI and technology in North Europe. Meanwhile, China has been Finland's largest trade partner in Asia.

According to Chinese statistics, bilateral trade in 2007 reached 10.36 billion US dollars, a 28.2% increase year on year. In the breakdown, China's export to Finland amounted to 6.56 billion USD, and import stood at 3.8 billion USD. China is Finland's most important export market in Asia and the biggest import origin outside Europe. With regard to product mix in bilateral trade, machinery and transport equipments accounted for nearly 70% of the total trade in 2007. And the majority of machinery and transport equipments are telecommunications and sound recording equipments, which took a share of 36% in the overall trade.

Apart from trade, investment has also seen continuous and new developments. EK statistics shows that more than 200 Finnish enterprises have invested in China with total capital input of 5 billion Euro and annual turnover 10 billion Euro. Finnish investments in China are concentrated in IT, telecommunication, forestry, paper and machinery industries, etc. Nokia, UPM, Metso, Stora Enso, KONE, Outokumpu, among others, are the key players. More and more SMEs are showing enthusiasm in exploring the Chinese market as well.

Chinese investment in Finland is still rather modest, yet Chinese companies are displaying stronger interest in Finland. COSCO established a joint venture with John Nurminen Group in Finland in 1996, and Air China has set up a representative office in Helsinki. The famous Chinese telecommunication equipments provider Huawei Technologies signed a cooperation agreement with Finnish telecom operator TeliaSonera at the end of 2007, and is planning to establish a subsidiary in Finland. At the same time, the Chinese IT and electronic parts manufacturer BYD, one of the biggest subcontractors of Nokia worldwide, has opened its subsidiary in Finland.

Technology cooperation between two countries is also growing. In 2007, the contractual value of technology export from Finland to China totaled 633.5 million USD. The highlight is that in terms of average value per project, Finland ranks No. 1 among all the European countries. In August 2007, China-Finland CleanTech Conference was held in Lahti, which attracted more than 400 participants and boosted bilateral cooperation. ICT and Nano-tech cooperation has also been enhanced.

The sustained, steady and sound economic and trade relations between China and Finland have promoted the development of both economies, and brought benefits to the two peoples as well. Finnish investment has brought to China advanced technology and managerial expertise as well as capital and job opportunities. Meanwhile they have yielded huge return on their efforts and realized fast development and improvement in their business. China is now the largest market for Nokia, an important player in the Finnish economy. In the meantime, Chinese exports which are of good value for money brought real benefits to the Finnish people by reducing living cost of Finnish households.

Early this year, Finland's Foreign Trade and Development Minister Paavo Väyrynen led a delegation composed of representatives from 50 Finnish companies to China. In this July, the two countries will hold the 18th meeting of the Joint Economic and Trade Committee, which will further promote bilateral cooperation. Given the traditionally sound political relations, complementarities between the two economies, inter-dependence for future development and great passion of the two business communities for cooperation, the bilateral economic and trade cooperation is promising and enjoys enormous potential. For her part, China will adhere to the policy of reform and opening-up, follow the scientific approach of development and bring forward the mutually beneficial and win-win cooperation with Finland. I believe, this will provide great opportunities for businesses of the two sides.

*Ma Keqing*

*Chinese Ambassador to Finland*

*China*



## Estonia - the country we are building together

By Merle Pajula

2008 is an anniversary year for Estonia – on February 24 we celebrated the 90th anniversary of the declaration of our independence, both home and abroad. The celebration of our anniversary was in a sense a continuation of the jubilee of our neighbour, since on December 6, 2007, Finland had celebrated its 90th anniversary. The motto of Estonia's anniversary year is "The country we built together", while Finland held its jubilee under the banner "Us!". The fact that both countries once declared themselves independent within a space of three months and the similarity of the slogans used in celebrating our anniversaries reflect the fact that while the two have different histories, they share many goals, principles and values. As two EU Member States bordering the Baltic Sea, we now share a closer connection than ever before.

In May 2003, a year before Estonia became a member of the EU, a report entitled "Estonia and Finland in the European Union. A Report on Future Relations" was issued by the so-called Wise Men instituted by Siim Kallas and Paavo Lipponen, the heads of government of the two countries. Jaak Jõeriüt, the Estonian ambassador to Finland, and Esko Ollila, the vice president of the Bank of Finland, presented a joint list of fifty proposals on a wide scale of topics ranging from environmental issues to cultural, political and official cooperation. Today, many of these proposals have been carried out and most are taken into account in the day-to-day cooperation between the countries. A specific example would be commissioning in 2006 of the submarine Estlink cable running between Estonia and Finland – it is the first link in the energy bridge being created between the Baltic states and the Nordic countries. An Estlink 2 cable is currently being designed in order to further facilitate the sale and purchase of electricity between the regions.

In the years following its accession to the Union in 2004, Estonia has become an experienced Member State with a steadily high level of public support for EU membership. Estonia has regained its place in Europe's common structural framework and Estonians make active use of the fundamental freedoms they have earned. The opportunities for international integration have not been exhausted, however – in December 2007 Estonia became a member of the Schengen Agreement, thereby opening many new travel possibilities for its residents but also accepting more responsibilities in the fields of border surveillance and the maintenance of law and order. The next big challenge on the national scale will be Estonia's accession to the Euro zone. According to the assessment of the European Central Bank, Estonia meets all the criteria for adopting the Euro, except for the criterion on price stability. Estonia's economic policy foresees the adoption of the Euro at the first opportunity as one of our most important goals and according to the spring forecast issued by the Central Bank, Estonia's inflation should meet the price stability criterion by the end of 2010. There are also challenges to be met outside the EU, as Estonia has been invited to participate in accession talks with OECD. Ever since we restored our independence in August 1991, it has been our aim to contribute to the spread of security, rule of law, economic welfare and stability in the world. What goes around comes around – the Estonia we see today was created as a result of international cooperation.

Bilateral and regional relationships also play an important part in Estonia's wide-ranging cooperation efforts. In June 2008, prime ministers Andrus Ansip and

Matti Vanhanen will present to the public volume 2 of the report on the future relations of the two countries, prepared by Gunnar Okk, vice president of the Nordic Investment Bank, on the Estonian end and ambassador Jaakko Blomberg on the Finnish end. The goal of the rapporteurs is to determine the scope of areas in which the cooperation between Finland and Estonia could be implemented in an innovative manner and to identify innovative trends, also prognosticating new trends related, for instance, to research and development. The wealth of mutual relations ranging from grassroots relationships to contacts between members of the governments will ensure that this issue demands a complex solution.

The authors of the aforementioned 2003 report on the cooperation between Estonia and Finland recognized that "the accession of Estonia, Latvia, Lithuania and Poland into the European Union will significantly increase the importance of the Baltic Sea region. The importance of the Baltic Sea in the context of the European Union will be similar to that of the Mediterranean. Estonia and Finland play a central role in demonstrating the importance of the Baltic Sea, as we have a considerable stake in the knowledge of Europe, the historical memory of the region." The necessity of developing an EU Baltic Sea region strategy was recognized by the members of the European Parliament, among others Toomas Hendrik Ilves, and was a report on this objective was submitted to the European Parliament in November 2006 by the former MEP and current Finnish Foreign Minister Alexander Stubb. The idea of creating a strategy for the Baltic Sea region has inspired EU Member States to think and act in order to achieve this goal.

In our opinion, the Baltic Sea region strategy should become one of the ambitious internal policies of the EU. In addition to environmental issues, the BSRS could strive towards overcoming the local differences in the region through improving the functioning of the internal market and developing infrastructures, especially energy networks. Free networking should apply in case of all fields of activity, especially in case of the "fifth freedom" of the EU – the free movement of knowledge.

There are several cooperation organizations, associations and initiatives that can be employed to implement the Baltic Sea region strategy, ranging from the Council of Baltic Sea States to HELCOM and Interreg, and it is in our interest to make the best use of these institutions and to avoid overlapping in their functions. The BSRS could be used to create an interlinked network based on existing programmes in order to determine the main problems interfering with the development of the region and to develop complex solutions to these problems. Taking into account the large differences that currently exist between the countries of the Baltic Sea region, the cooperation coordinated through the BSRS would contribute to closer integration between Member States, which in turn would increase the competitiveness of the EU as a whole. An important issue will be the funding of the strategy, which should include both regional and international financial institutions.

We believe that finishing the development of the BSRS by June 2009 in accordance with the European Council conclusions from 2007 is an achievable goal. The governments of many Member States, including Estonia, have already provided their opinions on the potential content of the strategy. Hopefully these visions will be

complemented by joint positions put forth by several countries. The strategy will be discussed in many coming international forums, including the two-day conference on the Baltic Sea Region Programme 2007–13 in Tallinn (November 26–27).

People living in the Baltic Sea region feel and acknowledge the necessity for day-to-day joint action. An article published in *Helsingin Sanomat* on May 16, 2008 states that concern for the Baltic Sea has made people change their behaviour. The results of a poll conducted in Estonia, Finland and Sweden are also telling: 83% of Estonians, 91% of Finns and 94% of Swedes considers the contamination of the sea a problem that requires intervention. In Finland and Sweden approximately 40% of respondents believed the problem was extremely serious, while in Estonia about a third of the respondents were as

concerned about the pollution of the sea. The people of the Baltic Sea region are gradually beginning to understand that the way to solve problems is through complex action programmes involving all aspects of life and that it is the governments' task to agree on the implementation of the programmes.

*Merle Pajula*

*Ambassador of  
Estonia to Helsinki*

*Estonia*





## Customs administrations and economic crime

By Tapani Erling

Economic crime keeps expanding and seeking new forms, and it endangers the safety of citizens and national economies, and even the competitive positions of legally operating companies. Regarding consumers, economic crime appears in its most serious form when dangerous copies like those of crucial spare parts or medicinal preparations are put on the market instead of authentic products. Counterfeit goods naturally also weaken the position of those companies which manufacture original goods.

Customs fraud and tax fraud cause important losses of income to the State. They also distort the competitive conditions since fraudulent companies are able to enter the market at lower expenses. Illicit operation may either take upon itself the form of traditional smuggling or exploit the structures of legal trade by forging, say, the product values and/or the data on the consignment content, thus reducing the taxes and duties to be imposed.

Economic crime may also be considered to comprise illicit transport of and trade in totally prohibited or restricted products. These include e.g. narcotic drugs, explosives, and weapons, which constitute a risk to the safety of both citizens and states. Such "transactions" also involve enormous amounts of money, which are being moved by the hard core of organized crime. They resort to illicit funds with a view to expanding into the sphere of traditional economic crime, where the risk of getting caught may be smaller or at least the consequences are more lenient.

Economic crime in its various shapes is the focus of international customs policy, both within the EU and the World Customs Organization WCO. As regards commercial and industrial life, the goal is that all customs administrations be increasingly operating like a network, thus ensuring equal and competitive conditions as efficient as possible for those companies which comply with the laws and provisions. Parallel with this, operators guilty of malpractices shall be excluded from the market and brought to justice.

It constitutes a special problem for Finnish companies that customs fraud and tax fraud cases still occur every day within the trade between the EU and Russia. In the course of the past few years, almost one half of the total value of Finnish exportation to Russia has vanished by the time of arrival in Russia. Part of this may be put down to reasons related to origin or statistical mechanics, but about one third is still unspecified or amounted, during the most recent years, to two billion euro per annum. This figure may be used to estimate the extent of customs fraud and tax fraud on which about one fourth ought to have been collected in taxes and duties.

Since malpractices of this type also appear in other fields of import, the problem is most serious both from the viewpoint of the State of Russia and for those legally operating companies which carry on trade with Russia. Also the EU Member States suffer from the consequences of double invoicing. In particular South European countries have brought up this matter, and the phenomenon is not unknown to Finnish import either. There have even been efforts to reimport in the internal market electronics that had previously been smuggled from the EU territory on forged documents.

Furthermore, it has become evident within a couple of past years that international crime is also striving to get established within the logistics business operating in

Finland. In Finland, tens of new companies have been founded which are maintaining e.g. customs warehouses in East and South Finland. There is evidence that not all of these companies are familiar with the customs procedures or do not comply with those. More and more often, customs fraud and tax fraud incurring in the trade with Russia have been both prepared and committed on the Finnish soil. If goods which were declared on the documents to be destined for Russia actually stay in the Community territory, a case of tax fraud is involved.

The valid legislation does not enable an efficient interference in the crime which exploits the structures of foreign trade, because illicit action assumes differing forms and modes within the international chain of trade. The tools applied to combat economic crime are mostly national and intended for a set-up where the act is committed and the repercussions are felt within the same state. This approach, however, has definitely become inadequate since almost all the more serious economic crime is getting organized on an international basis.

Together with the other law enforcement authorities, the Finnish National Board of Customs has repeatedly called attention to this disadvantage and proposed that a law providing for a so-called customs clearance offence be enacted urgently. It would complement the selection of the tools for combating international economic crime and enable a more efficient prevention of illicitly operating companies having foreign backgrounds from getting established in Finland.

The actual problem is that in cases where the repercussions of falsely declared data are felt outside Finland but the forged documents were drafted in this country, Finnish Customs can handle the matter as a mere offence, which only leads to a fine even in the worst case. On top of it all, such a procedure is possible only when the false documents were presented to Finnish Customs. If forged documents issued in Finland were to be given to an authority of a foreign country only, not even a fine can be sentenced. Accordingly, the criminalization of the issuance and submission of false declarations has to be sharpened with a view to enabling the use of more efficient anti-fraud tools and the threshold to engaging in falsifications raised.

It is the responsibility of the authorities to protect Society against economic crime. In the case of malpractices embedded in foreign trade, the responsible authority is Customs. Yet Customs definitely needs to cooperate with the police authorities and often also with the system of prosecution. The contribution of respective foreign parties, too, has to be solicited. Regarding this, the work is only starting towards developing legislation and practical operating models.

It is of vital importance that these aspirations of the authorities be also supported by the commercial and industrial life and its organizations. Individual companies, too, have to recognize their responsibility. Accordingly, also those Finnish companies carrying on trade across the East border of Finland shall strive to ensure that every link of their logistics chains comply with the provisions. On the other hand, it has been claimed that such a demand would lead to losing sales to those competitors whose morals are more flexible.

That might well have happened in certain cases, but as a main rule, the safeguarding of the correctness of the logistics chain has not led to detrimental consequences. In future all efforts shall be targeted at promoting the

swiftness and safety of the deliveries made by complying companies. At the same time, illicit trade will get stopped on a wider scale than before. Both of the lines of action will thus be supporting each other.

As the controls at the Finnish-Russian border are becoming stricter than elsewhere, it has also been suggested that the competitiveness of the transport route via Finland would fail. The facts, however, do not sustain this claim either. The intensity of customs controls gets determined according to the risks, which means slower traffic on the routes involving the most irregularities. Supposing, of course, that the authorities themselves are not involved in the illicit action.

The cooperation between the Finnish and Russian customs administrations has been efficient regarding both anti-fraud action and the facilitation of trade. Despite this, traffic congestions have increased and crime is common. Efforts have been made on a wide front to remove those problems. It is important that each party shoulder its due responsibility. As promised, Russian government must urgently rearrange the operation of their various authorities at the border. The improvement of traffic routes is a joint project, which in fact is progressing satisfactorily. The

electrification of customs clearances, which was started during the EU Presidency of Finland, is proceeding under a cooperation project between the Russian Customs and the EU Commission and is due to get completed towards the end of 2008.

The aggregate of all these subprojects will not be moving without a vigorous input by the political leadership of Finland and an active contribution by the authorities in the directions of both the EU and Russia. It is likely that within two or three years, the trade will be running smoother and the irregularities will be fewer than today. That will also enable the Finnish economy to benefit from its excellent geographic situation next door to the Russian market.

*Tapani Erling*

*Director-General*

*The Finnish National Board  
of Customs*

*Finland*



## Need for a Baltic Sea Region strategy from the viewpoint of Southwest Finland

By Risto Ervelä - Hannu Elo

### The European Parliament has adopted a Conclusion for a Baltic Sea Strategy

The European Parliament adopted in November 2006 a conclusion of an EU strategy for the Baltic Sea region. The Parliament stated as a starting point that cooperation strengthening economic growth in the Baltic Sea region could be promoted. The Parliament emphasized that the Baltic Sea region is an important gateway between East and West and since 2004 the Baltic Sea is almost an inner sea of the EU.

In the conclusion there is a wish to deepen integration in the Baltic Sea region, which is seen as a dynamic part of European economy and politics. The potentials of the economies of the Baltic Sea region are to be utilized to the full extent, because the region is one of the most competitive regions of the world. The European Parliament wants to prevent the deterioration of the Baltic Sea and its environment by diminishing emissions of harmful substances and risks of accidents.

### Preparation of a Baltic Sea Strategy

In December 2007 the European Council invited the European Commission to prepare a Baltic Sea strategy for the European Union. This was defined as follows: "Without prejudice to the integrated maritime policy, the European Council invites the Commission to present an EU strategy for the Baltic Sea region at the latest by June 2009. This strategy should inter alia help to address the urgent environmental challenges related to the Baltic Sea. The Northern Dimension framework provides the basis for the external aspects of cooperation in the Baltic Sea region."

The preparation work has been started. The Baltic Sea strategy is considered to be part of EU's internal policy, i.e. it will be prepared only with member states while the policy of Northern dimension is part of EU's external policy and is focused on the relationship between the EU and Russia. A working group of the Commission is collecting ideas from the DG:s and member states are sending lists of their objectives. In Finland the preparation of the strategy has been divided between the foreign ministry and Prime Minister's Office. A paper of the Commission is expected in the beginning of June. There will be a stakeholders' meeting in Stockholm in September-October with the purpose to hear opinions from different quarters.

A strategy for the Baltic Sea region has been outlined lately by public officers who have divided it into four parts:

1. Prevention of environmental threats, e.g. maritime protection and maritime safety
2. The Baltic Sea region as an economic zone seeking for growth and competitiveness
3. Safety and security, especially the fight against organised crime
4. Enhancing the brand of the Baltic Sea region and accessibility, inter alia transport networks

The focus is now on environmental questions. The preparation process is lead by Sweden, who is looking for a clear focus and priorities. The programme of the Finnish government, which was made a little more than a year ago, contains also outlines for the Baltic Sea policy, like a study of cooperation structures, environmental safety, economic cooperation and a programme for maritime safety.

### Comments on Proposals from the Viewpoint of Southwest Finland

In its conclusion the European Parliament told that the EU supports the working of the Council of the Baltic Sea States, CBSS, and proposed an annual Baltic Sea summit before the summer meeting of the European Council. On the other hand there is also criticism, according to which the CBSS has lost its role and the cooperation between the Nordic countries and the Baltic countries is now more important. The opinions of the Baltic Sea regions and cities should in any case be transmitted via their most important cooperation organisations, such as the Baltic Sea Commission of the CPMR, BSSSC and UBC, to the cooperation forum of the Baltic Sea states to be furthered to the European Commission.

The European Parliament stated in its conclusion that part of the actions of the Baltic Sea strategy requires cooperation with Russia. The general big solutions concerning transports, energy and protection of the Baltic Sea cannot be made without Russia being involved and committed to common solutions. A much better coordination than now is required to avoid an oil catastrophe and to prevent its influences. As an example we can mention double hull structures and couplers that make oil boom equipments fit together.

Concerning accessibility and transports it is, from the viewpoint of a region, important to maintain and further develop accumulated specialization and to avoid congestion caused by too centralized solutions. In the Baltic Sea region we ought to seek for a balanced, polycentric regional model, where the transports are divided and are running smoothly and there is free capacity, which can easily be utilized. For example, our region Southwest Finland is able to offer competitive alternatives in port and flight traffic and also in supply of land and services connected with them.

New financial opportunities are essential from the viewpoint of a region to get necessary resources for the implementation of the Baltic Sea strategy. For example, the proposed diminishing of the eutrophication of the Baltic Sea concerns the whole Baltic Sea area, and so does the network of valuable coastal and maritime zones. Financing from agricultural and structural funds of the EU is also needed for them. From the viewpoint of our region it is also important to utilize the present specialized research capacity like the Archipelago Research Institute and regional financiers like foundations and funds. Utilizing funds we can get development results that we shall be committed with.

In its conclusion the European Parliament states that the Baltic Sea joins the region together and tries to find smooth border-crossings "on the borderless Baltic Sea". Motorways of the seas are welcomed. On the other hand it is stated that because of growing sea traffic the maritime safety is an urgent concern. That is why the Vessel Traffic Management and Information System, VTMS, should be widened to the whole Baltic Sea area. The TEN network connected with the Nordic Triangle should also be widened to the whole Baltic Sea area. From the viewpoint of our region these opinions and proposed actions are to be welcomed. The motorway of the sea ought to be implemented in the way that also the ports of Southwest Finland, the ports of Turku and Naantali being the biggest of them, would be involved.



As a conclusion we can state that the region Southwest Finland welcomes the Baltic Sea strategy of the EU as a new opening of EU policy. It is important to take the own objectives of the Baltic Sea region into consideration. The Baltic Sea region represents a dynamic economic region of 80 million people. At the same time it is utmost vulnerable. This fact must be taken into consideration, especially as the Russians are increasing their oil harbour activities and tonnage on the Baltic Sea. There is a need to get the shipping companies on the Baltic Sea to make inputs to safety operations and technical structural solutions by common development actions. The control over our common Baltic Sea should be brought under the International Maritime Organisation IMO. We may not just hope for the best and wait for the worst in this matter.

To make the Baltic Sea strategy feasible, it is essential that all operational levels, also the regions and cities of the Baltic Sea region, will be heard under the preparation process all the way. The Regional Council of Southwest Finland and the City of Turku will arrange on 14 October at the European Parliament a seminar of Baltic Sea strategy and invite representatives from the EU, Baltic Sea states, regions and cities. The foreign ministers of Finland and Sweden have been invited as keynote speakers.

*Risto Ervelä*

*Chairman of the Assembly*

*The Regional Council of  
Southwest Finland*

*Finland*



*Hannu Elo*

*Head of the International Affairs*

*The Regional Council of  
Southwest Finland*

*Finland*



## Innorail - facilitating the renaissance of railways in Northern Europe

By Aimo Ahti

Innorail is an important cooperation and development forum for international players in the railway business and related services. The main focus of its activities is on Asia and Europe and on promoting the railway transport in trade between Russia and Europe. Kouvola is a rapidly developing research, education and services centre for international rail-way business operations. The Innorail Business Park is Finland's biggest railway services centre.

### Baltic Sea Region – a Focal Point of Trade and Traffic

The Baltic Sea region is an important economic area in Northern Europe with distinct features. Since the Hanseatic era the Baltic Sea has always been a major transport channel for surrounding areas and an important link in building commercial, economic and cultural ties. The economies of the Baltic Sea region have been among the fastest growing in Europe, mainly driven by rapid development of Russia.

The railway station of Kouvola was established at the intersection of Helsinki - St. Petersburg and Savo-railways in 1875. Kouvola is located in South-East Finland, between the EU and Russia. The so called Kymenlaakso province has throughout the history been in close trading and economic relationship with North-West Russia and especially with cities of Vyborg and St. Petersburg.

The logistics competitiveness of the Baltic Sea region is promoted through harmonisation of administration and legislation as well as the new investments to traffic and cargo handling infrastructures. Logistics in the Baltic Sea region is clearly set to undergo a renaissance in order to support foreign trade and economic growth. The Finnish logistics sector has grown to become a versatile and significant service industry. However, local demand accounts for only half of the sector's overall volume, with an increasing share being accounted for by international trade.

The special position of Kouvola at the western end of the Trans-Siberian Railway is significant both nationally and internationally. Many kinds of goods, including raw materials, forest industry products and consumer goods, travel through Kouvola, from which they are transported to different locations via specific distribution channels.

### Railways – Linking East and West

From the beginning of 2009 Kouvola and the municipalities surrounding it will form an urban network of almost 90,000 inhabitants. Kouvola's position as a railway hub linking East and West creates an excellent foundation for developing the region as a centre for traffic and trade, entrepreneurship, living and recreation.

The basis for the programme is set by the growing trade between Asia and Europe and Russia and Europe and consequent potential for rail-way transports. Recent developments in Russia create new opportunities for developing Kouvola as a railway services centre. The main trends supporting this development are:

- Increasing consumption and manufacture of products in Russia, also outside Moscow and St Petersburg
- Development of regional storage and distribution centres throughout the whole country
- Increasing congestion in the Moscow and St Petersburg areas and a rapid rise in cost levels

- Increasing problems in road traffic between Europe and Russia with longer transport distances and more border crossings
- Improvement of unit freight traffic infrastructure and service structures in Russia

These trends create the conditions for developing container and trailer train transport between Kouvola and the Russian metropolises. With concern about climate change, the railways are also receiving increasing attention as a genuinely environment-friendly mode of transport.

The rail transport market is opening up stage by stage both in the EU Member States and in Russia. In the EU, freight transport has been open to competition from the beginning of 2007. In Europe there are already numerous new railway operators both in passenger and in freight traffic operating either regionally or over the whole continent. The growing demand and for rail transport and is also reflected in the development of new international railway services between Russia and Europe.

### Innorail – Unique Private-Public Development Cluster in Railway Sector

Due to its central location and railway expertise, Kouvola is now a substantial railway city with excellent connections and the largest railway yard in Finland, where millions of tons of cargo are handled every year.

According to the vision of Innorail programme the City of Kouvola is the leading railway business and know-how centre in the border area of EU and Russia. We wish to establish Kouvola Innorail the leading international railway business co-operation forum in Northern Europe, by

- Operating as co-operation forum for companies and developing co-operation networks,
- carrying out and resource private-public development projects,
- developing railway cluster and offering business services and
- providing new information with partnership companies and institutes for business purposes and enabling its adoption to business sector.

The companies operating in Innorail Business Park have established a successful railway cluster and a business network linking Asian, Russian and European markets. The business activities are supported with research and education. The Kasarminmäki campus area in Kouvola is an internationally-acknowledged innovation, research and education centre that brings together different cultures and research communities. Growth of the market share will require more efficient research on rail-ways and a sharper focus on the training of railway personnel. The increase in rail traffic, new operators entering the field and tighter technical and maintenance requirements will make it necessary to create and develop railway technology services.

The core of the Kouvola Railway Cluster's operations is formed by the international, multi-cultural Innorail Business Park. The freight terminals served by railway lines and suited for handling general unit freight are owned at present mainly by private investors and the service providers.

The combined area of the rail terminals is currently about 90,000 sq.m In addition there are more than 60,000

sq.m of terminals dedicated to serve road traffic. The newest of these is the recently inaugurated ultra-modern food and freight terminal, with an area of more than 10,000 sq. m. All in all, the area has more than 150,000 sq.m. of modern, Class-A storage and terminal space to offer. In addition Kouvola has a combined container yard area of about 20 hectares. There are over 100 hectares available land areas for new investments.

There are both local and international forwarding agencies operating in Kouvola, as well as warehouse and terminal operators. Together with their subcontractor network, these companies offer all services relating to rail and road, cargo handling and also services requiring sophisticated logistics. Labour force availability is extremely good, and the area also has an efficient system for vocational education that has been tested and proven in practice.

Under business park services there exist an implementation concept regarding new kind of trade and industry service company. The company will support and facilitate the networking of trade and industrial enterprises with Russia, and likewise the establishment of Russian enterprises on the Finnish market via Innorail Business Park.

*Aimo Ahti*

*Mayor*

*City of Kouvola*

*Finland*



## Saint-Petersburg State University performance in the Baltic Sea Region

By Nikolai M. Kropachev

From the very moment of foundation in 1724 the Saint Petersburg State University (SPSU) – by virtue of its geopolitics – was bound to vigorous activity throughout the Baltic Sea Region.

Over the early years the University had vast cooperation with academic and educational institutions in Baltic States. Foreign scholars and scientists came to Saint Petersburg, assisting by initialization of the Academy, the University and the Grammar School (the Gymnasia). In turn Russian punditry left abroad from the city to get hand in, uppermost to Dorpat (now Tartu) and to some universities located over present-day German territory.

This way stable tradition of academic and scientific cooperation between the SPSU and Baltic educational institutions had arisen.

The cooperation was of great concern in the nineties, when not only the SPSU but the whole country acclimatized to the new realities of life. That time during an administrative reform in the University we used, in particular, experience accumulated and kindly provided by our Swedish academic colleagues.

XXI century and its realities and challenges have brought certain corrections into academic life of the universities worldwide. Today Bologna Process and global trend to internationalization of higher education push us to new strategy making in the Baltic Sea Region. New goals and objectives are forming, and a comprehension is coming that the only right answer to all the challenges in fast-moving changing world is regional integration, especially in the area of higher education.

This statement has a great importance particularly for the Baltic Region with its pronounced geographic, social and cultural diversity, various political and economical cultures.

Today the SPSU realizes its role and special liability in a common cause of formation the Northern Dimension united academic and scientific area. And we possess a great deal of methods and means to achieve this vital goal.

First of all, for efforts consolidation together with abroad colleagues we look forward to use existing bodies in the region. Being active participant of two main profiled organizations in the region, the Baltic Sea Region University Network (BSRUN) and the Conference of Baltic University Rectors (CBUR), we rush to make heavy contribution to the organizations' main goal achievement. Namely, it is enhancing the integration of knowledge-based resources in Northern Dimension according to Bologna principles. As an illustration of its bottom line one could recall the seminar for front-office staff "Bologna Process: implementation, quality assurance and accreditation" carried out at the SPSU in 2006.

Another strategy-forming factor over the Baltic is realization by regional elites that it is nowadays extremely urgent to relay not only on political institutions and business, but on intellectual resources of regional academic community too by creating a new approach to regional problems and challenges tackling.

This thesis is high on CBUR Agenda, and recently the participants of this organization have shaped a course to efforts coordination towards guaranteeing real impact of academic institutions on regional processes.

We see this course in the light of "Sustainable Development" concept which was recently brought forward by the Europe Rectors Conference: while keeping researching and educational functions, universities must

be not only "source of manpower" today, but appear on questions of principle as consultants to Government and Business. There are some key topics – e.g. cross-cultural communication, environmental management, ecology, business etc., which are being investigated and worked out most seriously and effectively by universities' academic community. And the outcome – the knowledge-based product, produced by universities – must be used to the benefit of region.

Nowadays we feel the need of active universities' engagement and connection to problem-solving process stronger than ever. And it's worth saying that the SPSU as a classical university has substantial potential for successful realization of the task.

Certainly, we should first of all speak about forming-up educational process in accordance with contemporary needs and objectives. In this regard we consider two aspects as to being most essential – gaining innovative character and internationalizing University's educational programs.

Here we rest upon wealth of experience in bilateral and multilateral cooperation with Northern Dimension states and their educational establishments. Up to date the SPSU maintains and conducts partnership relations with leading universities and research institutions in Estonia, Finland, Germany, Denmark, Latvia, Lithuania, Poland, Sweden.

Cooperation within the frame of international agreements between the SPSU and universities of these states has an overwhelming character: from students/staff exchange to joint research activities, educational projects and beyond.

One may speak for a length of time on the SPSU regional academic cooperation, but it is most likely to highlight here two projects, that easily respond the criteria mentioned above.

The Baltic University Program (BUP) is a joint educational project of many universities throughout the Baltic Sea region. It is aimed at development, formation and realization of innovative courses of study and focuses on topics attached common problems in the Baltic Sea Region. In particular within the framework of this project some actual courses are developed: "Baltic Sea Environment", "Peoples of the Baltic", "Sustainable Baltic Region".

"The Baltic University" exists as a program at the Division of International Baltic and Arctic Projects (DIBAP) that was established in May 1994 on the basis of the Faculty of Geography and Geo-ecology of the SPSU. Noteworthy, "The Baltic University" was among the first to implement telecommunication and satellite-based technologies in academic activity, and thus became pioneer in distance learning.

Second project – the Finnish-Russian Cross-Border University (CBU) – is even more innovative and large-scaled. There are 9 universities (4 Russian, 5 Finnish) participating in this project jointly developing and implementing 6 different Master's Degree programmes. The SPSU collaborates with 4 of 6 courses: Business and Administration, Information and communication technologies, International Relations and Public Health. CBU embodies all imaginable educational innovations: Internet based learning, jointly supervised projects, instruction in foreign languages, summer/winter schools, and double degree – as main goal of the project to reach.



CBU has been changed from pilot program into active project in 2007 and continues to progress. Particularly, last project's panel session (Council's meeting) held in 2008 came to a decision to introduce joint Doctorate programs starting from 2009.

Besides, the SPSU collaborates with Baltic neighbors not only in the field of academic and scientific activity. Together with partner universities of Northern Dimension we take part in such European projects like TEMPUS, Erasmus Mundus ECW, Norlet and some others. The SPSU also participates in the Neighborhood program INTEREG III "Baltic Sea Region Program 2007-2013" financed under European Neighbourhood and Partnership Instrument, ENPI.

Moreover, we are already experienced in direct cooperation with governmental institutions of some Baltic Region states. Such cooperation exists, for instance, within the frames of bilateral agreements between the SPSU and Estonian Ministry of Education, the SPSU and Kouvola City Administration (Finland).

It is much and much more to say about the SPSU activity in the Baltic Sea Region – not for nothing the region has priority importance for us. But, marking off would like to conclude.

In November 2006 Russian President V. Putin and his colleagues from Helsinki, Oslo, Reykjavik and Brussels during the Lahti Summit in Finland signed a framework agreement, converting the Northern Dimension from EU policy into common policy for Russia, EU, Norway and Iceland. Thus, innovative character in all areas of international relations in the region was affirmed on a top-level. And the Baltic Sea Region's aim is now to become the most competitive one in the world.

Succeeding that goal in April 2007 the SPSU claimed a proposal to form a united and integrated educational area within the frames of The Baltic Sea Action Plan. This proposal has gained approval by the Helsinki Commission, and nowadays the SPSU is ready to become a ground for working coordination of scholars, scientists, businessmen and local authorities on the Baltic Region issues. We take a strong stand on pursuing this red line of integration in the Baltic Region and we are on firm ground herein.

*Nikolai M. Kropachev*

*Acting Rector, Professor*

*Saint-Petersburg State University*

*Russia*

## Baltic region strategy for the technical consulting business?

By Olli Manner

### Technical consulting business in Finland

Finnish consulting and engineering companies employ approximately 20.000 people in Finland and over 14.000 of them work in member companies of the Finish Association of Consulting Firms (SKOL). More than half of them are employed in the industrial sector. Most of the investments in Finland are designed by these professionals. Domestically owned companies have, in addition, nearly half of that amount of people employed in their foreign offices, mainly outside Europe, engaged in investments abroad.

During recent years, business in Finland has been characterized by good growth and healthy order books. Global economic problems and threats have, at least until today, not had a negative influence. Investments inside Finland have grown by 30% since 2003. This has provided new work opportunities but has also resulted in workforce shortages in some areas. The export part of the business has developed well; the turnover generated from exports has grown over 50% during the same period. In general, however, the Finnish consulting business depends heavily on the success of the Finnish export industry. Smaller consulting companies hardly have any export activities of their own and the larger ones have only a small part of their activities outside the Finnish borders. This part is, however, growing and direct exports currently account for 16% of the total invoicing of SKOL member companies.

Elomatic is a leading Scandinavian consulting and engineering company. More than 600 Elomatic engineering professionals work in four business units: Life Science, Marine, Paper & Mechanical, and design solutions Cadmatic. Elomatic has six offices in Finland, an office in Sweden, in Russia and in China as well as joint ventures Elomatic-Pharmalab in India and Cadmartech in Poland. Elomatic supplies a complete and comprehensive range of plant, ship and machine design, engineering and project management services, from R&D and feasibility studies to CAD/CAM and maintenance solutions. The turnover of Elomatic reached 44 M€ in 2007 and the estimate for 2008 is approximately 47 M€.

### Finnish engineering is highly appreciated abroad

The Finnish technology industry has played a key role in creating our national well-being. Behind the impressive export figures lies a long tradition in providing excellent learning opportunities for everybody. The success of the Finnish export industry is very much based on the great innovations of Finnish engineers. This success story has, however, not led to increased employment in Finland for several years. This is due to increased productivity and the fact that investments for additional capacity are done abroad: closer to the clients and in countries with lower labour costs. An Indian and a Chinese engineer works for more than half a year with the same salary that a Finnish engineer earns in a month. This is not, however, the real cost difference. Productivity is higher in Finland and the overheads are lower. In addition, Indian and Chinese cost levels are increasing much faster than in Finland. Finnish designers can survive by keeping their knowledge up to date and their working moral at a high level.

### Business Strategy – Case Elomatic

Elomatic has selected to be a diversified consulting and engineering company. Being active within several

industries ensures more stable growth and fewer fluctuations in capacity needs and profitability.

Services are offered on a full-service principle and with the objective of providing services for all lifecycle stages of plants, ships or products. In addition to engineering and consulting services, Elomatic also markets the results of internal design method and tool development. Emphasis is placed on the employees' high level of knowledge. This is achieved by hiring well educated personnel and through continuous internal and external training. More than 70% of Elomatic employees have a MSc. or BSc. level of education.

At Elomatic we have always believed that engineering services can be an export product. In the long run, professional services may actually be the only type of export product we have. Transferring goods is becoming more and more expensive and also environmentally unsustainable. ICT developments have made it extremely easy and fast to exercise design and engineering globally and in a distributed environment. Most information forms have no borders and can be transferred rapidly. \_The world is open and full of opportunities for a knowledge-intensive company.

In reality, there are restrictions for conquering the world. These include restrictions such as financial resources, lack of strategy, competition, lack of special knowhow, etc. A part of the services must also be localised i.e. companies need offices close to their customers. There is a need to be familiar with the local circumstances, rules and regulations, cultural aspects, etc. Without a network of local offices it is difficult to succeed.

On average, one third of the turnover of Elomatic has been generated from direct export. The strategy for export was, and still partly is, to scan the market and act where there are suitable projects. Typical examples are biotechnology projects in Malaysia, a pharmaceutical project in Bangladesh, food processing technology in China, concept design of ships in Japan ...

This strategy is, however, no longer enough even though it is still working. Another type of internationalisation is needed. Local presence must be developed. Some companies have selected the so-called Baltic Strategy for themselves. Many of these are companies which have end-users as their customers. As it should be, the desired customer actually defines the strategy. Elomatic must also look carefully at what our most important customers are doing. For a multi-branch consulting and engineering company, it is too challenging to choose for example between a Baltic and a Global strategy. Some of our customers have Baltic, some European and some very global strategies.

The steps that Elomatic has selected and taken are based mainly on the following key points:

- Medicin Valley in Copenhagen – Malmö region is a leading biotechnology area
- Russia is the closest really big market and has potential for Elomatic at least in the food, pharmaceutical and shipbuilding industries
- China is the main market for the pulp and paper industry, many of Elomatic's main customers focus their activities in China
- India is experiencing huge growth in the bio and pharmaceutical sector

- Poland has a good resource of professional ship designers and has one of the highest potentials for other Elomatic businesses

These steps have been realised through acquisitions or by setting up companies from scratch.

### Conclusions

Elomatic was one of the first Finnish consulting companies to work actively abroad. Even though we have had a tradition of direct export business for decades, we are still in the very early stages of our internationalization. To be part of the inevitable globalization of our clients, we must be present in the markets that they see as the most important.

Geography, in the traditional sense, has lost its importance, at least to knowledge-based organisations such as Elomatic. Strategic decisions are not based on what market is closer to our existing markets but, for example, on studies about the strategies of our clients, on the availability of resources and knowhow in specific market areas.

However promising any market looks, success will not follow automatically. We must develop our technology, increase our investments in developing the skills needed in the international consulting business, continue innovating new engineering methods and improve our capabilities of working efficiently in a truly networked environment. Elomatic is in solid financial shape and has the desire to continue its international growth. We have already completed projects and/or installed our software in over 70 United Nations member states. We will strengthen our position step by step in some of them in order to make Elomatic a reliable and preferred engineering partner in the Baltic region and elsewhere for our clients in the future too.

*Olli Manner*

*President, CEO*

*Elomatic*

*Finland*



## Baltic Sea neighbors - time to engage with Belarus

By Torbjörn Becker

The Baltic Sea region, like any region or country, is affected by what is going on in its immediate neighborhood as well as globally. Right now, one of the neighbors, Belarus, is facing challenges that have important implications for the Baltic Sea region. This stems from Belarus' past reliance on cheap energy from Russia in the form of both gas and oil. The terms of this cheap energy has recently been re-negotiated and is putting pressure on Belarus' current account.

Although high energy prices in Belarus in itself may not be bad from a Baltic Sea perspective—since it may lead to more efficient use of energy and less pollution on our borders—it is associated with other issues that may be less appealing. For example, Russia's convoluted dealings with the transit countries for energy is one of the key reasons for the current exploration of the North Stream pipeline, which obviously has a very direct bearing on the Baltic Sea and the surrounding countries. Belarus may also develop alternatives to Russian energy, for example nuclear power, that is not necessarily attractive to all its neighbors, including the ones around the Baltic Sea. Finally, this will affect the lives of people in Belarus that we care about.

The macroeconomic impact of the oil and gas price shocks has been discussed in detail in a SITE report on Belarus that was issued in the fall of 2007. Although actual developments since then have made some of the numbers presented in the report outdated, the main thrust of the report and associated forecasts of likely versus desirable policy responses are still valid. Basically the increases in gas prices charged by Russia in combination with changed arrangement governing the trade of oil and refined product were projected to lead to a substantial current account deficit for Belarus in the order of 5 percent of GDP in 2007 and then increasing over time if imported quantities do not change.

The deterioration in the current account did not turn out to be quite as sharp as predicted since the gas prices were not increased as much as initially agreed and favorable external conditions for some key exports dampened the effect of the energy shock on the trade balance. Nevertheless, the current account widened by 2.5 percentage points of GDP compared to 2006 to 6.6 percent of GDP in 2007. Growth slowed somewhat from 9.9 percent in 2006 but still remained high at 8.2 percent in 2007. However, both CPI and PPI inflation doubled in 2007 to 12 and 17 percent respectively which puts in doubt how sustainable the recent growth is.

With a fixed exchange rate and very limited international reserves at the beginning of 2007 it was obvious that Belarus needed to find large amounts of foreign funding to deal with the gas and oil shock and associated impact on the current account. The prediction then was that this would predominantly come from borrowing from Russia and selling of some assets in not so transparent deals. This has certainly been a quite accurate prediction and external debt to GDP increased by an alarming 10 percentage points in one year, albeit from a low level. There are signs that Belarus would like to diversify its funding sources and this could provide an opportunity for the West to engage with a Belarus that is now clearly more eager to open up to foreign investors and potentially also to countries in the West.

Attracting foreign funding is clearly important when dealing with an external shock of this magnitude. However,

this is only a way of smoothing out the impact of the shock and not a substitute for real reforms since this is a permanent shock; energy prices will continue to increase and stay high. The short-run policy of borrowing and selling off assets must be accompanied by policies that aim at raising production and efficiency, particularly energy efficiency, to sustain economic growth over the longer-term. The list of reform areas are long in a country that ranks very poorly in comparison with other transition countries in the EBRD's score card on reforms; in terms of the cost of doing business as detailed by the World Bank; and in terms of corruption and democracy as is the case in the indices produced by Transparency International and the Polity IV project.

The future success of the Belarus economy will be greater if the government creates a more business and investor friendly environment. This may sound trivial but will require serious reforms of the legal system, dealing with corruption, creating a more predictable tax system and reducing the influence of government in all aspects of business. Most likely this will also require that the political system moves in a more democratic direction sooner rather than later.

If these reforms are not undertaken while the country remains eager to attract foreign investment, it could easily end up attracting the "wrong" investors from the point of view of regular Belarusians. Basically, the less attractive the country is for investors, the more special deals, protected markets and non-transparency will be part of selling-out Belarusian assets. This will not be the best way to attract companies that will improve competition in the domestic market and modernize the economy to the mutual benefit of investors, consumers and future generations of Belarusians.

That said there is of course great potential for investors in a country that has seen very low levels of foreign direct investment in the past while enjoying high growth rates, has a relatively well educated labor force and is in need of modernizing the economy. With growing income level, Belarusian consumer will also demand more of the goods and services that are produced by international and multilateral companies which makes it a potentially interesting market to enter.

These opportunities have to be weighed against macroeconomic, legal and political risks. Although Belarus has managed to attract foreign loans and has enjoyed favorable market conditions for some of its key exports, the country will continue to face pressure on the current account if the gas and oil bill continues to increase as predicted. Inflation is also picking up (like in other parts of the world) and this will pose additional challenges as the government tries to keep up growth rates while containing prices. The issue of taxes, property rights and political risks associated with the most autocratic regime on the borders of the Baltic Sea region are also things to consider for investors. Furthermore, the limits on human rights and democracy require well-intended investors to take ethical issues very seriously. Any company or donor should consider to what extent their investment or business in the country influences the move towards a more democratic and open society.

The countries in the Baltic Sea region will greatly benefit from a stable and prosperous Belarus on its borders and should think long and hard about what can be done to help the people in Belarus to move their country in



this direction. In a world going global, the Baltic region will need to define itself on the global stage. Being engaged in its immediate neighbors is a first step.

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## Is the heyday of the transit traffic via Finnish ports to Russia over?

By Matti Aura

The transit traffic via Finnish ports to Russia is constantly under debate. There is always one Doubting Thomas who predicts that the transit traffic will soon end and that no investments against it should be made. However, the transit traffic has persistently grown with success.

The official political stand in Russia is that all the Russian sea transports should be handled through Russian ports. Russia is no different from the other countries in this respect. It is common to aspire to the development of ports located in one's own country and to wish that the traffic would run through those ports as much as possible.

Nevertheless, the flow of goods tends to find a route which has the best price-quality ratio. The big ports of Germany, e.g. Bremerhaven and Hamburg, would certainly prefer handling all the German sea transports but the Port of Rotterdam in Holland and the Port of Antwerp in Belgium have always been significant for the German traffic as well. The same applies also to Gothenburg; that port has been an important gateway to the traffic to Norway.

The economic growth in Russia is remarkably rapid and the high oil price quickly increases revenues in Russia. In year 2007 the Russian import grew by 30 %. Such a rapid increase in import means that goods are flowing into Russia through all potential routes. Also the Finnish ports benefit from this.

The asset of the Finnish ports is their proximity; the Ports of Kotka and Hamina are not located much further from St. Petersburg than the new Port of Ust-Luga. In addition, the reliability and proficiency of the route raise its value. The Finnish ports function accurately and the proficiency in logistics is of high level in Finland.

However, the problem with the Finnish route is the periodically extremely congested traffic at the Vaalimaa border crossing between Finland and Russia. At worst, the truck lines have reached lengths of even 50 kilometres. The lines have been heavily criticized by the local residents because the trucks waiting in lines hinder the travelling of the locals and reduce the level of road safety. The congestions at the border crossing have caused delayed transports for exporters. In spite of the periodic lines, one should bear in mind that the Finnish-Russian border is evidently the most functional border between Russia and the Western Europe.

The best way to solve the problems of border crossing would naturally be that Russia would appoint an adequate number of officials to its borders to facilitate flexible border crossing. The problems of border crossing have regularly been under discussion at meetings held between influential Finnish and Russian authorities at all levels, even up to the presidents of both countries. Any significant improvements to border crossing have not occurred.

Because of this Finland is going to build a parking area for the trucks close to the frontier crossing point in Vaalimaa this year. The vehicle park will accommodate 30 kilometres' worth of queueing trucks, which means that the truck lines can be removed from the roads to the parking areas. This will vitally improve road safety; and it will also be more pleasant for the truck drivers to wait for border crossing in these parking areas than on the side of the road. However, this does not solve the problems of slow border crossing; that is something only the Russians can unravel.

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## The 'Baltic Main Street' highway proposal

By Alfred Hecht

In 2006, I first raised the concept of a highway around the greater Baltic Sea which would be called the Baltic Main Street highway<sup>1</sup> and would be more than 4000 km long (Figure 1). The basic idea is that such a highway would, wherever possible, hug the Baltic Sea and pass through the different countries that border on it. Driving it would be a great challenge for adventurous tourists. Having an adventurous and challenging road to drive is not a new idea, as many famous roads, routes, path, and highways<sup>2</sup>, and even famous trains<sup>3</sup>, exist in the world today. But such a highway would help to integrate the development strategy for the Baltic proposed by Ojārs Kalniņš<sup>4</sup>. Even though the greater Baltic region has a number of organizations that could foster and promote such a road designation, the Council of the Baltic Sea States (CBSS)<sup>5</sup> is probably one that already has the umbrella structure to do so. The support of the various tourist offices and departments of the different countries however, would be crucial for this challenge.

**Figure 1: Baltic Main Street highway**



The concept that the Baltic Sea can be a power to unite people and commerce goes back to the Hanseatic League which, dominated most of international trading in Northern Europe from the 13th to the mid-15th century<sup>6</sup>. At its maximum extent the Hanseatic League power was based

on some 70 cities and 130 smaller places, mainly around the southern Baltic, but reaching as far north as Estonia and Visby in Sweden and as far into the interior as present day Novgorod and 'Frankfurt an der Oder'. It also extended its power to many ports on the North Sea. Water transport, especially on the Cog<sup>7</sup>, was clearly the major mover of goods and people around the Baltic. Today however, road transport clearly dominates in keeping commerce going over most of world. Private cars are by far also the most important mover of people. Even international tourists use the road 40% of the time to get to their destination<sup>8</sup>.

But, from where do tourists come to the Baltic states? Sixty percent of international tourists to Lithuania in 2006 for example, (Table 1) came from countries bordering on the greater Baltic Sea. In absolute terms, the bigger countries of Germany and Poland provided the greatest number. However, in terms of the percentage of the sending countries population, the smaller and closer countries of Latvia and Lithuania were more important. They are followed by Finland, Denmark, Sweden, Germany and last, by a substantial margin, by Russia. An international tourist origin summary of nights stayed in Sweden, for 2006, also showed that the first three countries by origin of tourists were the neighbouring countries of Norway, Germany, Denmark, and in 6th place Finland<sup>9</sup>. Hence, connecting all neighbouring Baltic bordering countries by a famous road should improve tourism substantially for all countries.

The Baltic Main Street highway map above proposes that the highway go through eight countries with a side road through Russia's Kaliningrad Oblast. All, except the latter, are members of the EU and hence travel visas would not be required. Because Russia requires visas, this paper proposes that the main part of the Baltic Main Street highway bypass the Kaliningrad Oblast.

To make the Baltic Main Street highway a viable tourist road, it has to have a number of attributes. One is that it be clearly recognised with proper road shields and have a major web site with national portals. Each national portal should provide the following; accommodation information along the route, good maps with all the major cities and towns listed on it, information on historic sites along the route, information on restaurants, souvenir and trinket shops, automotive services, etc. Each country should offer certificates to travelers at entry and exit points that would read; " 'Joe Blow' travelled the Baltic Main Street highway in country X".

Of what benefit would such a road be to the countries and communities it would go through? The main benefit would be increased tourism. Many famous roads and highways have performed such a function all over the world: US Route 66, the Blue Ridge Parkway, the Pan-American Highway, and the Trans-Canada Highway to mention a few North American ones. A good road promotional highway model is the one for the Dempster

<sup>1</sup> Hecht, Alfred, "The Kaliningrad Oblast of the Russian Federation: Its Development Prospects on the Conceptual Baltic Main Street", GeolNova, Numero 12, 2006, pp 297-323.

<sup>2</sup> "Famous Roads - Highways", <http://www.lonypics.co.uk/new/ywxx.htm>, accessed April 28, 2008.

<sup>3</sup> Wikipedia, "Famous Trains", [http://en.wikipedia.org/wiki/Famous\\_trains](http://en.wikipedia.org/wiki/Famous_trains), accessed May 6, 2008.

<sup>4</sup> "A Baltic Sea Strategy –acting regionally, thinking globally", by Ojārs Kalniņš, Expert Article 134, Baltic Rim Economies, 31.10.2007. [http://www.mfa.gov.lv/data/CBSS%202007-2008/expert\\_article134\\_52007.pdf](http://www.mfa.gov.lv/data/CBSS%202007-2008/expert_article134_52007.pdf), accessed April 28, 2008.

<sup>5</sup> "The Council of the Baltic Sea States (CBSS)", <http://www.cbss.st/>, accessed April 29, 2008.

<sup>6</sup> "Die Hanse historic", [http://www.hanse.org/en/the\\_hansa/die\\_hanse\\_historic/](http://www.hanse.org/en/the_hansa/die_hanse_historic/), accessed April 28, 2008

<sup>7</sup> "Hanseatic cogs, Luebeck. circa 1350", [http://gordonmiller.ca/01\\_early\\_voyages/Luebeck.htm](http://gordonmiller.ca/01_early_voyages/Luebeck.htm), accessed April 28, 2008.

<sup>8</sup> "Tourism Highlight, 2007 Edition", <http://unwto.org/facts/eng/pdf/highlights/> accessed April 29, 2008.

<sup>9</sup> NUTEK, "Turiståret 2006. Tourism in Sweden 2006", [www.nutek.se/](http://www.nutek.se/), accessed May 6, 2008.

Highway<sup>10</sup> in Canada that runs some 671 km north from Dawson City (64° 04' N) in the Yukon Territory to the community of Inuvik in the Northwest Territories (68° 16'N) near the Arctic Sea and north of the Arctic circle. Tornio, Finland, the furthest northern point of the Baltic Main Street Highway, is located a little further south at 65° 50'N, just south of the Arctic Circle.

Such northern highways produce a special challenge to drive in the summer and winter in order to experience both the long day and night phenomena. Other tourists could do it by stages in different years. It certainly would help to integrate the greater Baltic countries.

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**Table1: Lithuanian tourists from Baltic Sea bordering countries, 2006**

Year	2006	%	Country Population (1)	Country Tourist - %
Total - Non residents	756857	100.00	NA	NA
Denmark	15817	2.09	5,475,791	0.289
Estonia	32212	4.26	1,340,602	2.403
Finland	34898	4.61	5,308,208	0.657
Germany	132540	17.51	82,210,000	0.161
Latvia	56299	7.44	2,270,700	2.479
Poland	102539	13.55	38,518,241	0.266
Russia	59743	7.89	142,008,838	0.042
Sweden	23410	3.09	9,182,927	0.255
Total	457458	60.44		

Source: Lithuania, State Department of Tourism, "Lithuanian Tourism Statistics, 2006", <http://www.travel.lt/ntisFiles/uploadedAttachments/LT%20statistika2008311101424.pdf>  
(1) country population are taken from country Wikipedia websites

<sup>10</sup> Dempster Highway; <http://www.yukoninfo.com/dempster/> accessed May 1, 2008.



## Ports as gateways and hubs of Baltic Sea Region

By Elena G. Efimova

More than 950 million tons of cargoes will handle by seaports of Baltic Sea region countries in 2008<sup>1</sup>. This record level will achieve appreciably due to the accelerated growth in region of the Russian ports, first of all Hamburg, Primorsk and the Big port St.-Petersburg. For last years the ports have come out on top among all countries of the region on the basic parameter of transport work: the total amount of goods turnover. It became consequence of fast expansion of Russian foreign trade on Baltic direction and steady raising the transfer loading capacities of domestic seaports in the region.

Now the Russian Federation uses Baltic Sea maritime routes to support trade and economic relations both with the Baltic region states, and other countries of the world. In the geographical aspect 8 countries of EU, main Russian trade partner, refer to Baltic basin. Over 19% of the total foreign trade volume of the Russian Federation, and 37 % with the European Union, is realized with these countries. The absolute index of Russian – Baltic Sea countries foreign trade has exceeded 105 billion dollars in 2007<sup>2</sup>.

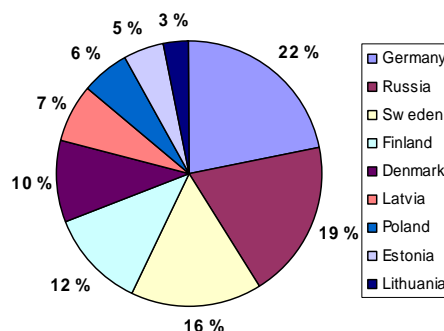
The largest freight traffics in/from the Russian ports pass through the Danish belts. Also Russian foreign trade traffics have brought the powerful contribution to the operations of Ost-Nordsee-canal. For last 10 years the turnover of goods of the canal was doubled and for has come nearer to 100 million tons (99.6 million tons in 2007 against 49 million tons in 1997). Since 2005 the Russian foreign trade cargoes have the highest position in canal turnover. Basically transportations have increased due to crude and refinery oil, coal and wood cargoes, metals, fertilizers, containers, i.e. those categories of cargoes due to the activities indexes St.-Petersburg and other Baltic ports of Russia were increased. Up to that the main suppliers of cargoes for Ost-Nordsee-canal were ports of Finland. Now about a quarter of all freight traffics in the direction from Baltic to Northern seas are cargos of the Russian ports origins. The most part of these cargoes follow in ports of Germany, the Netherlands, Belgium, the Great Britain, France.

Due to maritime routes with Russian port the largest European port Rotterdam attracts more than 40 million tons of cargoes a year. It puts ports of Russia on the second place among all counterparts<sup>3</sup>. It makes the tenth part of all annual goods turnover of the port. Hamburg port is interested in cooperation with Russia also. Since 2006 Russian ports are its main trading partner among all European ports in container transportations, conceding to ports of China and Singapore on the world container market only.

In 2007 the total commodities turnover of all seaports of Baltic Sea region was 926.4 million tones. The share of German ports was 208.9, Russian – 172.2 million tones, Swedish – 146.5, Finnish – 107.2, Danish – 97.2, Latvian – 62.4, Polish- 55.5, Estonian – 44.7, Lithuanian – 31.9. The

shares of Baltic Sea countries in the total commodities turnover in 2007 are shown on the diagram 1.

**Diagram 1. The shares of Baltic sea countries in the total commodities turnover in 2007**



It is necessary to consider, that the volume of sea born trade of Russia in the Baltic region is not limited by cargo handling via domestic ports only. Large streams of the Russian foreign trade commodities continue to go as transit goods via ports of Latvia, Estonia, Lithuania, Finland, and also Poland (crude oil). In 2007 it has been passed 65.5 million tones Russian cargoes via ports of the Baltic States<sup>4</sup>. 6.3 million tones the Russian cargoes as transit goods have gone via ports of Finland<sup>5</sup>. Thus, all in ports of the Baltic region in 2007 it has been handled nearby 244 million tones the Russian foreign trade cargoes. It makes 31 % from all port goods turnover in the basin.

About 50 container ports with different development levels are in Baltic region. About 75% of total container turnover is concentrated in five largest ports (See Table 1). During last years this region shows the fastest growing rates of sea container transportations in Europe. Because of specificity of the Danish belts all the Baltic container ports have the feeding status and cannot accept container vessels with the capacity above 4 000 thousand TEU. Besides they slowly process cargoes. The unique port of the Baltic region accepting large vessels, port Hamburg, has the status of "gateway". Big port of St.-Petersburg, Goeteborg, Klaipeda, Riga, Helsinki, Ust'-Luga and some others want to become a regional a hub-ports<sup>6</sup>. It is obvious, that the basic stage of competitive struggle in this segment of sea transportations market is still ahead.

<sup>1</sup> It is calculated by the author on the basis: Пересыпкин В.И. Значение Большого порта Санкт-Петербург на Балтийском рынке морских перевозок//Вести морского Санкт-Петербурга. 2008. №2. с. 18, [www.hafen-hamburg.de/content/view/32/33/lang,ru](http://www.hafen-hamburg.de/content/view/32/33/lang,ru).

<sup>2</sup> [www.customs.ru/ru/stats/arhiv-stats-new/popup.php?id286=364](http://www.customs.ru/ru/stats/arhiv-stats-new/popup.php?id286=364)

<sup>3</sup> It is calculated by the author on the basis of the official information of the port Rotterdam. [www.portofrotterdam.com/mmfiles/Goods%20grouped%20by%20byorigin%20and%20destination%202006\\_tcm26-9644.pdf](http://www.portofrotterdam.com/mmfiles/Goods%20grouped%20by%20byorigin%20and%20destination%202006_tcm26-9644.pdf)

<sup>4</sup> Calculations of ZAO "Morcenter-TEK"

<sup>5</sup> Data of statistical services of Finland

<sup>6</sup> Hub-ports are the ports involving large parties of cargoes, distributing and delivering by small-size quantities to the port of destination by feeding vessels.

**Table 1. The main container ports of the Baltic region**

Ports	Container turnover, thousands TEU		
	2005	2006	2007
Hamburg (Germany)	8100	8800	9890
St.-Petersburg (incl. Primorsk) (Russia)	1119	1450	1698
Arhus (Denmark)	803	856	921
Goeteborg (Sweden)	772	811	840
Gdynia (Poland)	400	462	614
Kotka (Finland)	367	462	571
Helsinki (Finland)	460	416	431
Klaipeda (Lithuania)	214	232	321
Helsingborg (Sweden)	162	200	280
Riga (Latvia)	153	177	212
Hamina (Finland)	160	167	195
Copenhagen/Malmö (Denmark/Sweden)	155	164	192
Tallinn (Estonia)	128	152	182
Kaliningrad (Russia)	n.a.	107	181
Rauma (Finland)	120	169	174

Source: the information of official Internet-sites of the ports.

In 2007 container ports actively involve transit cargoes. 355 thousand TEU of Russian foreign trade cargoes as transit goods by total weight of 2.2 million tones have gone via four Finnish ports Kotka, Hamina, Helsinki and Hanko<sup>7</sup>. The rivalry of the Baltic ports for attraction of containers from a perspective and developing transcontinental railway corridor between Asia and Europe is in progress.

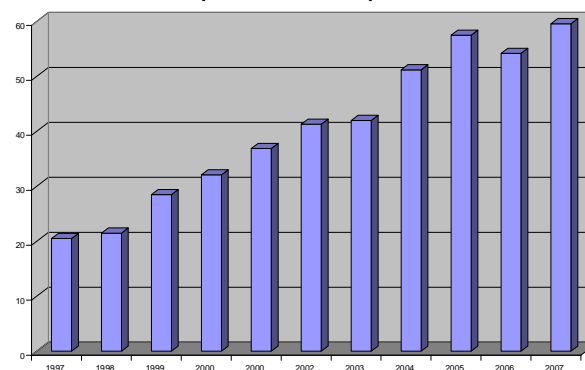
The largest port of Baltic Sea region is Hamburg. In 2007 the total volume of cargoes handling in the port was 140.4 million tones. Located on crossroads of world trade routes the port of Hamburg is the most fast-growing port in Northern Europe. It carries out function of a gate for the cargoes coming in/from Baltic basin. Located in the estuary of the river Elba, the port has direct exit to Baltic basin via Ost-Nordsee-canal. 124 feeding lines ply weekly between port Hamburg and countries of the Baltic region. The list of the key trade partners heads ports of China, including Hong Kong, then follows harbours of Singapore, Russia, Finland and Sweden.

The port Hamburg is universal port. The volume of container handling is 97 %. In spite of the fact processing of unpacked cargoes has also a great importance. Terminals of the port have necessary equipment for handling general, bulk, tanker cargoes, and also the cargoes that need special types of transportation and storage. The port of Hamburg concentrates about 40 % of all transit containers intended for Russia<sup>8</sup>. According to researches of independent scientific institutes, the container traffic will increase about 9.9 million TEU up to 18 million TEU in 2015<sup>9</sup>.

The Big port of St.-Petersburg is the second-largest Baltic universal seaport. It occupies appreciable position in Baltic region including bulk-oil port Primorsk. Goods turnover in Primorsk has reached 74.2 million tones, the St.-Petersburg port – 59.6 million tones in 2007. The vessel turnover of port St.-Petersburg has made 29 257 units (14 633 callings and 14 624 exits), port Primorsk - 1 481 tankers (740 callings and 741 exits)<sup>10</sup>. The leading

Swedish port of Goeteborg occupies the third place (40.4 million tones)<sup>11</sup>.

The St.-Petersburg port does not handle crude oil. The share of refinery oil in its turnover was only 25 % in 2007. The basic commodities are various dry cargoes: container (29 %), general (25 %), bulk (17 %), timber (4 %). Dynamics of goods turnover in the port since 1997 is shown on the diagram 2.

**Diagram 2. Growth of cargo turnover in St.Petersburg port in 1997-2007 (million tonnes)**

High rates of container transportations have quickly put forward the Big port of St.-Petersburg in leaders of the Baltic container market. In 2007 via the Petersburg terminals has passed more containers, than via all Finnish ports taken together. The pulp-and-paper production, saw-timbers, nonferrous metals are the main export cargoes are carried out in containers. Container turnover of the port can increase up to 2 – 2.5 million TEU during the nearest years. At the same time the share of container in total freight traffic remains still low, especially in export sphere due to great volume of usual general cargoes handling. But even in this case the shortage of throughputs from 0.5 up to 1.0 million TEU was observed in the St.-Petersburg port in 2007<sup>12</sup>.

Ro-Ro container transportation has not received appreciable development in the port St.-Petersburg, as well as other Baltic ports of Russia. Whereas in foreign container ports such type of transportations plays very important role. For example, in 2007 Danish port Arhus, the third size a container complex of the Baltic Sea region, had been handled 417 of 921 thousand TEU, or 47 % of total volume, by Ro-Ro traffics.

Thus, ports of the Baltic Sea region show high rates of development which is defined both economic progress of the countries, and opportunities and readiness of national authorities to resolve the problems of a port infrastructure.

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<sup>7</sup> Пересыпкин В.И. Значение Большого порта Санкт-Петербург на Балтийском рынке морских перевозок//Вести морского Санкт-Петербурга. 2008. №2. с. 21.

<sup>8</sup> Порт Гамбург – ворота в мировую торговлю России. Port of Hamburg [www.portofhamburg.com](http://www.portofhamburg.com). С 5.

<sup>9</sup> ISL/Global Insight Prognosis, PLANCO Forecast of German Maritime Traffic. [www.hafen-hamburg.de/content/view/32/33/lang.ru](http://www.hafen-hamburg.de/content/view/32/33/lang.ru)

<sup>10</sup> Грузооборот порта Санкт-Петербург и порта Приморск за 12 месяцев 2007 года// Вести морского Санкт-Петербурга. 2008. №1. с. 9.

<sup>11</sup> Пересыпкин В.И. Значение Большого порта Санкт-Петербург на Балтийском рынке морских перевозок//Вести морского Санкт-Петербурга. 2008. №2. с. 21.

<sup>12</sup> Зотова В. Прогноз развития транспортного комплекса Северо-Западного региона РФ//Вести морского Санкт-Петербурга. 2008. №2. с. 33.

## Visions for the future Baltic Sea Region cooperation - an EU avant-garde in promoting the fifth freedom of the internal market?

By Hans Brask

The call for new and embracing visions for the Baltic Sea Region comes up very often these days, when priorities for the future co-operation are being discussed widely in the many regional fora.

One reason is of course the reform and adaptation process that the Council of Baltic Sea States (CBSS) has been through the last twelve months. The Riga-declaration of the CBSS-Summit of 3 June only partially put an end to this process as the Prime Ministers agreed on just smaller changes to the organisation and its secretariat in Stockholm. More work needs to be done. The second reason is that the European Council in December 2009 will adopt its first internal meta-regional strategy which will cover the Baltic Sea Region (BSR), high-lightening both the growing importance of regions in an EU27 and the present dilemma of the BSR: Co-operation has become mainly an EU internal driven issue and regional relations with Russia an external aspect of the EU's CFSP-policy towards Russia due to the "single voice" objective. Therefore co-operation with Russia should be treated separately and mainly within the EU's Northern Dimension policy.

Originally, the political visions of the region were dominating, not least in the beginning of the 1990ies when Uffe Ellemann-Jensen and Hans Dietrich Genscher established the CBSS. Here Baltic and Polish EU membership were on the agenda long before other political leaders in Europe dared to believe in this objective. Political stability and good neighbourly relations with Russia were essential and the development of soft security measures.

Today only few try to present new political visions for the region's future. One is MEP Christopher Beazley, who has been a driving force behind the political demand of an EU strategy for the BSR. To him the vision is still linked to the historic division of Europe after World War II. The objective of the EU Strategy should be to remedy the economic inequalities that more than 40 years of Soviet domination and occupation have caused to the Baltic States and Poland and the region in general. Others see the Baltic Sea as a political space that should strive towards establishing itself as a coherent group of countries capable of formulating and promoting common political positions inside the EU. Stronger regional institutions should facilitate this development, contributing at the same time to a clearer regional identity.

Today's visions are, however, mostly linked to environmental challenges and economic questions, reflecting that many of the original political goals have been realised, besides the "Russian dimension". The advantage of environmental and economics visions compared to political ones are that they easier allow for integration of Russia into regional projects.

The environmental visions are closely linked to the Baltic Sea. The objective is a clean and healthy Baltic Sea which is presently polluted and at risk of further pollution due to increase in oil shipping from Russia in particular. A specific problem-oriented vision can, however, be very narrow and too limiting although it touches on the region's common sea. At the same time a clean Baltic Sea vision can be an important driver for regional integration and popular support, if it can be extended to other, closely linked areas such as climate change and the energy

agenda which is also often mentioned in official statements as a regional priority.

The dominating economic visions see the Baltic Sea Region as the most dynamic and innovative economic growth centre in Europe. Others narrow it down to the challenges and opportunities of knowledge driven/intensive economies where the knowledge triangle (education, research and innovation) should be at the centre of regional attention. This vision builds on the strong benchmarks of the Nordic countries and Germany in these areas (State of the Region Report, 2007). The added value is to be found in the region's ability to find regional solutions to global challenges, not least due to the fact that the EU's Lisbon strategy has generally not responded quickly to the economic challenges of globalisation due to internal political differences and institutional problems. Many of the EU-policies of the Lisbon strategy are covered by the open method of coordination which indicates that the EU competences are not strong - for example educations/universities, research, innovation. It allows for the region to play a facilitating role.

What type of regional visions do the governments of the BSR mainly base themselves on? One possible answer can be found in the different non-papers that EU-countries of the region have submitted to the Commission for inspiration when drafting a proposal for the EU strategy. Today Sweden, Finland, Estonia and Poland have elaborated such contributions and more are coming up.

In general, the regional visions are not formulated explicitly but the titles give a good idea: "A clean Baltic Sea and a prospering economic area" (Finland). "A healthy and prosperous Baltic Sea Region" (Sweden). "Cohesion and competitiveness of the Baltic Sea Region" (Poland). Here the first difference can be detected, since Poland does not give the same priority to the maritime environment as other countries of the region do.

They all, however, highlight the importance of promoting the BSR's competitiveness through scientific and R&D co-operation, new technologies, innovation policies, cluster development and the mobilisation of students, researchers and higher education institutions. The Estonian non-paper tries to cover all these areas by making reference to the European Council conclusions of March 2008 where a new EU vision is mentioned: A Fifth Freedom of the EU's Internal Market should be created. The objective is to remove barriers to the free movement of knowledge based on:

- enhancing the cross-border mobility of researchers, students, scientists, and university teaching staff,
- making the labour market for European researchers more open and competitive, providing better career structures, transparency and family-friendliness,
- further implementing higher education reforms,
- facilitating and promoting the optimal use of intellectual property created in public research organisations so as to increase knowledge transfer to industry,
- encouraging open access to knowledge and open innovation,
- fostering scientific excellence,

- launching a new generation of world-class research facilities,
- promoting the mutual recognition of qualifications.

The Danish Prime Minister has been a strong advocate of this development in the EU. In an interview with BDF (upcoming summer edition of BDF Magazine) he states that "the Baltic Sea Region has the opportunity to become a centre of knowledge, ideas and research in the areas where the region has comparative advantages". The Danish CBSS presidency in the second half of 2008 will have the chance to promote this idea.

The CBSS framework could work very well in this EU context since Russia is doing many efforts to join relevant EU research programmes and also to contribute with substantial funds. Russia has a lot to offer in this field and would be able to make this EU and regional vision come true. Perhaps the BSR could lead the way for the rest of

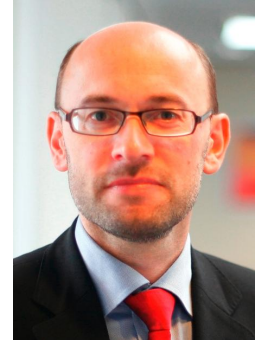
Europe. It is not a bad way of giving fresh impetus to co-operation in the Baltic Sea Region.

Baltic Development Forum will like to contribute to this vision, and the 2008 BDF Summit in Copenhagen-Malmö will have this subject on the agenda (along with energy and the EU strategy). The Öresund Region has ready come very far in creating a Fifth Freedom and has made valuable experience. It deserves wider attention in the region.

*Hans Brask*

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## The many challenges of the Baltic Sea Region

By Kari Liuhto

External economic relations take on a central role in the Finnish economy, and the value of our foreign trade is almost three-fourths of our GDP. Approximately 80 per cent of the flow of our foreign trade goods proceeds by sea, so examined economically, Finland is an island in the Baltic Sea.

Of Finland's foreign trade, 40 per cent is engaged in with other states surrounding the Baltic Sea. Roughly the same share of foreign investments by Finnish firms ends up in this area. With regard to the foreign investments coming to Finland, the significance of the Baltic Sea region is even greater than this. Approximately 70 per cent of the investments directed to Finland have their origin in some other Baltic Sea nation.

The economic dependency of the Baltic States respective to the Baltic region is even larger than Finland's, whilst the dependency respective to Germany and Russia is smaller than ours. Although Germany is the world's largest foreign trader, one-tenth of its trade goes on with other Baltic Sea countries. The Baltic Sea is also important for Russia. The EU makes up about half of Russia's foreign trade, and a lion's share of the foreign trade of the European Union and Russia proceeds through the Baltic Sea.

The Baltic Sea has risen during this decade to become Russia's most important export route for crude oil. Via the ports of the Gulf of Finland, over 140 million tonnes of oil from the east are transported each year. By the middle of the next decade, oil export is anticipated to total over 200 million tonnes. The increasing oil deliveries, intersecting traffic between Helsinki and Tallinn and the narrow shipping lanes concerned all add to the risk of an oil disaster in the Gulf of Finland.

Although the Gulf of Finland has developed a control system to prevent collision of ships, the system does not prevent them from running aground. The running aground of single-bottom oil tankers would more probably result in an oil disaster than those with a double-bottom, so the faster only double-hull tankers are permitted at Baltic Sea ports the better. At least one oil disaster was prevented due to the fact that a vessel which had run aground in the vicinity of Helsinki was double-hull.

According to the research performed by VTT Technical Research Centre of Finland, 50 – 60 ship collisions or accidents occurred annually during the period of 1989–2003 on the Baltic Sea. Of these, three vessels had been carrying dangerous chemicals. Despite the low number of accidents related to chemical shipments, I would venture that shipments of dangerous chemicals pose as significant a danger to the population of the Baltic Sea as oil transport. With respect to dangerous substances, the probability of personal injuries is considerable, even if the likelihood of an accident itself is smaller.

In examining environmental threats to the Baltic Sea, one should also not forget the daily nutrient loading caused by agriculture and residence. In the Gulf of Finland, the largest single polluter is St Petersburg, and for the Baltic as a whole Poland's agriculture applies. It seems that the Nord Stream gas pipeline planned for the base of the Baltic Sea may release nutrients from the sea bottom and even toxins which have been recessed there since the end of World War II. The alignment of the gas pipeline through the Baltic States and Poland would be, both from the

environmental and most apparently the economic perspective, considerably more rational than a pipe built along the sea-bottom. Extending 1,200 kilometres, Nord Stream can hardly be constructed for five billion euros when we consider that the cost estimate for the 900-kilometre South Stream pipeline, intended for the base of the Black Sea, is ten billion euros.

Regardless of the fact that relations between the Baltic States and Poland with Russia are not the best possible, it is highly unlikely that the EU states concerned would cause the sorts of transit delivery problems as those incurred by Belarus or Ukraine.

The construction of a natural gas pipeline across the Baltic States and Poland would bring four EU nations into the project in addition to one Dutch and two German enterprises. This would make the gas pipeline a real pan-European project, and would most evidently improve the attitude towards Russia on the part of the Baltic Sea region's former socialist states.

A gas pipeline proceeding above ground would also be an example of how the Baltic Sea region is able to integrate Russia more closely into the European Union. This gas line could be an indication of the fact that, with Russia, we are different enough to be able to learn from each other, but similar enough to be capable of engaging in cooperation.

A functional Baltic Sea region requires cooperation with Russia, but above all it requires uniformity amongst the EU countries surrounding the Baltic Sea. The Baltic Sea requires one agenda and a uniform voice so that the matters important to the Baltic Sea countries are taken into consideration within the Union.

The European Parliament has given the Commission the task to prepare a Baltic Sea Strategy by the year 2009 which may well act as a road map for the future. On the other hand, not even a good strategy can eliminate insufficient coordination in the Baltic Sea area.

One proposal is that the Nordic Council would strengthen their role by taking the Baltic States into membership, in addition to engaging Poland and Germany more closely in their operations. Whether the solution is enlarging the Nordic Council or something else, it would be important that the jungle of overlapping institutions plaguing the Baltic Sea region could be eliminated. Without a united body, the voice of the Baltic Sea region within the Union will remain weak and disjointed, regardless of the Baltic Sea Strategy.

The uniformity of the Baltic Sea region would also contribute to the systematic building of a common identity for the region. Aside from configuring a common identity, the position of the Baltic Sea Chamber of Commerce Association (BCCA) is also worth strengthening. I also regard the establishment of a common Baltic Sea region investment agency as absolutely important. It would attract investments from outside the Baltic Sea region. The problem at the moment is that national investment offices tend to compete with each other rather than see the benefits of synergy in the Baltic Sea region. It is a rare national investment office that has observed that, due to the interdependency of economies, the accumulated impacts of outside investments are reflected throughout the economic region as a whole, rather than just one individual country.

The Baltic Sea region has, in addition to many old challenges, new phenomena to deal with ahead. Most of these new phenomena are connected with Russia. Examples include the flow of Russian investments to other Baltic Sea nations, the automotive industry boom in St Petersburg's surroundings, the transfer of Russian companies' headquarters from Moscow to St Petersburg, and the special economic zones of Kaliningrad. These phenomena are bringing Russia's economic growth closer to the Baltic Sea region and are thereby consolidating the entire region's economy. On the other hand, the invigoration of Russia's superpower rhetoric may lead to a situation in which, rather than a bridge being constructed between the EU and Russia, an advance guard of the Cold Peace is built.

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