Baltic Rim Economies

Quarterly Review

Baltic Rim Economies

ISSUE NO. 6, 19 DECEMBER 2012

EXPERT ARTICLES:

EXPERT ARTICLES CONTINUED ON NEXT PAGE

Baltic Rim Economies

Quarterly Review

Baltic Rim Economies

ISSUE NO. 6, 19 DECEMBER 2012

EXPERT ARTICLES CONTINUED:

EXPERT ARTICLES CONTINUED ON NEXT PAGE

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

pan-european institute

Baltic Rim Economies

Quarterly Review

Baltic Rim Economies

ISSUE NO. 6, 19 DECEMBER 2012

EXPERT ARTICLES CONTINUED:

Belarus – joining Europe and Eurasia together (Integration of Integrations concept)

By Mikhail V. Myasnikovich

The unique social and historical system – the USSR has gone from the world arena, but now the economies of the West are ill, and this illness may become chronic. It means that problems do not consist in "the evil empire", against which the cold war was fought. But, it seems that politicians should give up the ideology of confrontation and be guided with objective economic laws of development. The politics of sanctions and dictate cannot be the European politics, there must be no room in Europe for the politics of ultimatums and preconditions, the politics of double standards and isolation are anti-European in its essence. Belarus is ready and open for cooperation and dialogue with the European Union on principles of mutual respect, partnership and mutual benefit.

This is an approach proposed by the leaders of Belarus. In 2011 the President of the Republic of Belarus Aleksander Lukashenko advanced an Initiative of "Integration of Integrations" for creating a wide platform for collaboration and economic co-operation in the area from Vladivostok to Lisbon. The European Union and the Common Economic Space of Belarus, Kazakhstan and Russia (CES) have enormous potential of partnership on the principles of freedom of trade, non-discrimination, mutual respect and constructive dialogue between the peoples all over the world.

The initiative of the Belarusian side is reflected in the Declaration on Eurasian Economic Integration signed by the Presidents of Belarus, Kazakhstan and Russia in Moscow on November 18, 2011. It confirms "striving for mutually beneficial and equal co-operation with other countries, international integration associations, including the European Union, along with access to the creation of a common economic space".

The work for establishing the free trade zone between the CES and the European Free Trade Association (EFTA) is a practical aspect of implementation of the strategic initiative of the President of the Republic of Belarus A.G. Lukashenko for interaction between the CES member-states and Europe. Implementation of four basic freedoms – freedoms of movement of goods, services, capital and workforce is the explicit imperative of the European response to the global challenges of the contemporary world.

Openness of markets, availability of the world reserve currencies, transnational character of economic integration and cooperative ties represent the main, but far from the complete list of peculiarities of the world economy development at the contemporary stage. And this development can only be successful if issues of development of national economies which are per se transnational are taken into account. By creating joint ventures and implementing joint projects our states will gain more benefit than from protectionism and isolation. Practical work confirms urgency of this statement. Presently, 2924 companies with the capital from EU-countries and 2120 companies with the capital from Russia and Kazakhstan are working in the Republic of Belarus. Out of the Belarus's foreign trade turnover of 100 bln US Dollars, 30 per cent are falling on EU-countries and 48 per cent on the countries of the Customs Union of Belarus, Kazakhstan and Russia. These facts prove that Belarus has become an economic bridge linking Europe and Eurasia.

Research intensity and business-friendly environment are the factors of attractiveness of the national economy of Belarus. The Government of Belarus stakes just on them by implementing its economic policy. According to the World Bank, Belarus ranks 45th among 146 countries on the Index of Knowledge and 59th on the Economy of Knowledge Index. Our country is the sixth in the world by the number of applications for inventions (to the amount of 1 bln US Dollars of GDP).

Belarus has opened its economy for foreign investors and privatization. Procedures of registration and business regulation are radically simplified. As reflected in the World Bank's ranking on the ease of doing business, Belarus changed its 115th place in 2008 for the 58th place among 185 countries in 2012. Experts of the World Bank and the International Finance Corporation included our country to the list of most active reformers. The process of market and innovation transformations has acquired the irreversible character in Belarus. Our strategy is ambitious – to be included to the first 30 leading countries with most investment-friendly climate already by 2015.

The European legislation is applied in Belarus. It guarantees all rights of investors, allows for application of British, Swiss, Italian and another law and arbitration. We are ready for the use of most advanced forms of investing: from establishment of foreign mixed companies to concession agreements. As of January 1, 2012 Belarus has the lowest in Europe corporation tax of 18%. Highly technological companies and new businesses in small and middle-size towns are exempted from taxation. A stimulating tax block is introduced for investors. We could ensure budget consolidation and get the deficit-free budget in the current year and in 2013.

Not all the problems of transformation have been resolved, but our country is systemically proceeding on the way of developing and improving the market institutions. The main thing is that Belarus does not bring about any problems for anybody in the world and is consecutively advancing its ideas of open platforms and technological transfer in the Eurasian Economic Community, CIS, UNO. Our initiatives have also been presented within the dialogue with the European Union (the Eastern Partnership). The European Union and emerging Eurasian Union complement each other. These unions represent two parts of the single whole, our common house – the Big Europe. We are ready to actively participate in the Pan-European integration with our industrial and intellectual capital. There is a need for constructive international political contacts between the leading elites which go beyond the frameworks of regional and block unions. Strict actions for introduction of the global systems of the unidirectional world belong to an obsolete arsenal. They will not work, and oil conjuncture, local conflicts, etc., will not work either. The mankind has become educated and well-informed during the recent decades. And new ideas are needed in order to restore faith of this enlightened international community in stable and successful development.

Mikhail V. Myasnikovich

Prime Minister

The Republic of Belarus

Professor, Doctor in Economics and Associate Member of the National Academy of Sciences of Belarus

Direct investments in city-to-city cooperation between Belarus and EU

By Pekka Salminen and Hannamaria Yliruusi

International cooperation is done at different governmental levels. Often, the most tangible results are achieved at the local level, when true practitioners combine their efforts. Despite the level of cooperation, funding is needed to bring the international policies into practice. Belarus ratified the ENPI (European Neighbourhood and Partnership Instrument) agreement in 2008. Since then, direct investments to Belarus have been possible within several EU funding programmes. Currently, the Union of the Baltic Cities (UBC) is coordinating two investment-oriented projects focusing on Belarus.

The project-based cooperation at the local level has proven to be a powerful tool. Joining forces with the Belarusian cities is a new opening for the UBC in the common effort to improve the state of the environment and the Baltic Sea.

Direct environmental investments in Belarus are needed. Infrastructure, for example, in the water management sector is old and inefficiently operated. This results in water pollution, health and odour issues and a lower quality of the environment in general. New investments in wastewater management and the from-waste-to-recourse thinking can result in more cost-efficient processes, energy savings and energy production. Sustainable investments also need maintenance which is enabled by a sufficient level of tariffs and payments.

Modernisation of wastewater treatment infrastructure leads not only to cost efficiency but also to eco-efficiency. Direct EU investments to Belarusian water infrastructure improve the local state of the environment in Belarus. However, the whole Baltic Sea Region benefits from these joint efforts as the state of the water bodies is a common concern. The efforts to improve water management in Belarus are of special interest to Lithuania and Latvia, through which the River Daugava and River Neman runs, so connecting Belarus to the Baltic Sea.

In the UBC-lead projects PURE and PRESTO – co-financed by the Baltic Sea Region Programme – direct investments are focused on most cost-effective technologies to enhance phosphorous removal in five municipal wastewater treatment plants in Belarus. The phosphorous load from point sources, like municipal wastewater treatment plants, causes eutrophication, which is one of the biggest environmental problems of the Baltic Sea.

Cooperation has been practical and productive although several challenges exist. The EU ENPI funding enables direct investments to Belarus, with 90 % EU co-financing. In practice, successful implementation of investments would require a more harmonised interpretation of the financial agreements between the EU and Belarus; the fundamental difficulty being that despite common financial agreements, Belarus and the EC differ on how they interpret the source of funding and method of payment, which affects the rules to be applied in projects. On the grass-root level, differences in public procurement procedures especially complicate implementation of direct investments.

International cooperation always includes challenges. The UBC was established in 1991 to overcome the challenges left from the collapse of the Soviet Union and to start the reconstruction of the Baltic States and Poland, with specific focus on the city level. In the turbulent political atmosphere, practical local-level cooperation was enabled through international funding and joint initiatives. Since the early 90's, the UBC has successfully lead several cooperation projects with Russian, Baltic, Nordic and other European cities to improve the state of the Baltic Sea and productive relations within the Baltic Sea Region and Europe. The natural continuation in this cooperation is welcoming the Belarusian cities to join their efforts in reaching the common goals.

For the future cooperation and direct investments, the momentum is here, as the new EU funding period is under preparation. For the EU-Belarusian and EU-Russian cooperation, the ratification of the ENPI agreement is crucial. At the moment, the situation looks positive and, hopefully, the challenges related to interpretation of financial agreements will also be overcome.

Pekka Salminen

Project Manager

Hannamaria Yliruusi

Project Manager

Union of the Baltic Cities

Commission on Environment

Finland

Security issues in the Baltic Sea region

By Artis Pabriks

The Baltic Sea region is a nodal point where national views of about 7 nations as well as the EU and NATO initiatives overlap. Moreover, this is the region where relations with partner nations of both organisations are very much appreciated; hence the cooperation has flourished throughout years despite diverse institutional and organizational boundaries. This mix of interests has formed a multidimensional regional agenda

The vibrant interactions with NATO partner nations in the region positively contribute not only to strengthening our ties but also will bring peace and stability far away from the region as from the beginning of 2013 Latvia will cooperate with Finland and Sweden in Afghanistan in the framework of Nordic Transition Support Unit initiative.

Such gradual deepening and broadening of cooperation has once again put into question many issues. What is the future of Finnish and Swedish non-alignment policies in the post-neutrality context? Is further deepening of cooperation possible between Allies and both partner nations without taking up binding obligations? What would be the best way how to address the issue of fully-fledged NATO membership? Taking into consideration the increasing and mutually beneficial military cooperation between Finland, Sweden and NATO maybe it is the right time to make historical decision and ensure that both countries have their say not only in Allied decision shaping process but also in Allied decision making.

The dynamics of the Baltic Sea Region are closely linked with Russia. In many cases this country seems to be the regional enigma because frequently Russian statements turn out to be contrary to its most evident security needs. For example, NATO Lisbon Summit and the "reset" provided a new opportunity for the U.S., Europe and Russia to cooperate to counter ballistic missile proliferation. However, Russia regularly makes statements which are in line with the Cold War logic of Mutual Assured Destruction and works on countermeasures to NATO missile defence primarily in the Baltic Sea Region. Russia seems to ignore changes of strategic context like increased proliferation of nuclear weapons and missile technologies in the southern direction of Russia. Fortunately, Russia's stance towards Allied and Russian cooperation further away from the Baltic Sea Region is much more constructive and together we ensure smooth transition in Afghanistan by delivering mutually beneficial outcomes.

Another security issue, which bears crucial importance in the region, is the overlap of_NATO and the EU capabilities, institutions and efforts. As I mentioned earlier, for quite a while Europe has been obsessed with regular budget cuts. In this context it is surprising that NATO-EU dialogue on harmonisation and overcoming the duplication of capabilities remains in largely embryonic form after several years of experiencing the after-shocks of financial crisis on European military budgets. Now it seems like we have missed out on our window of opportunity to introduce more cost-effective and complementary capabilities.

The prosperity of the Baltic Sea Region becomes more and more dependent on joint efforts to counter emerging security threats such as the increasing frequency of cyber-attacks, the ability to overcome challenges related to energy security as well as the build-up of Russian 'soft power'. Lately Latvia pays a lot of attention to the Baltic security of information space because it has become quite evident by now that Russia uses media not only to influence public opinion at home but also in its periphery with a help of re-broadcasted media, mainly TV channels. Unfortunately the information provided by these media represent journalistic distortion in its most extreme forms and therefore provides completely misleading views to the public.

Despite the variety and complexity of the emerging threats I am sure that the vast experience of multinational cooperation in the region regarding the conventional military capabilities is a good base for further expansion of security 'trans-nationalisation' regarding the unconventional threats. In fact the Baltic Sea Region already is developing as a hub of expertise on emerging threats as two NATO centres of excellence are based in the capitals of the Baltic States and Nordic countries have put cooperation on cyber defence as their top priority.

In conclusion, NATO and EU member states of the region seem willing and highly motived to concentrate more efforts on future challenges. This orientation occasionally stands in stark contrast with Russia's warnings of conventional military build-up in the Western direction. However, these statements do not affect the overall regional enthusiasm in dealing with new security issues. The region has reaffirmed its political commitment by providing necessary funds for activities related to emerging threats and pays constant attention towards ensuring a sustainable defence spending level. For years the region has been on the right track because networking is the key to cost efficiency and enduring peace, prosperity and stability around the Baltic Sea. As I mentioned before there are several institutions and networks already in place which I am sure will continue to deliver tangible solutions to the emerging challenges.

Artis Pabriks

Dr., Minister of Defence

The Republic of Latvia

Rail Baltica as a stimulant to Baltic economies

By Petri Sarvamaa

European transportation has long been riddled with a certain set of problems. Inefficiency that stems from the lack of intermodality, the existence of bottlenecks along crucial economic trade corridors, and the ecological impact of increased commercial and non-commercial road travel serve as examples of the kind of challenges Europe faces. Existing transport networks act as the foundation for a demanding, EU-wide trade sector, but they have mostly not been built for the needs of the Common Market and cross-border shipping.

The Trans-European Transport Network (TEN-T) initiative was launched by the Commission to tackle these exact problems. The aim is to provide Europe with a comprehensive network of roads, railways, ports and inland waterways that can handle the challenge of intermodality and provide faster, easier and more efficient means of transportation. In this article, I will introduce an aspect of the TEN-T project that is perhaps the most important one for the future of Baltic economies, TEN-T Priority project No. 27, better known as "Rail Baltica".

The objective of the Rail Baltica project is to establish a modern, high-speed, European 1,435mm UIC gauge railway line from Warsaw via Kaunas and Riga to Tallinn, with Helsinki connecting to the network by ferry. The project would provide the first inter-state north-south railway link between the Baltic states and Central Europe, while taking pressure off the road network by providing an alternative, more efficient method of transport.

Rail Baltica will form the northern most part of the Baltic-Adriatic Corridor, with continuous transport links all the way from Helsinki and Tallinn to Bologna and Ravenna in northern Italy. A joint venture for the planning and construction of the Tallinn-Warsaw -line has been set up by Estonia, Latvia, Lithuania and Poland, with the objective of having a comprehensive plan for all sections of the line ready by 2015. The track itself is planned to be ready for traffic in 2020.

There have been discussions about expanding the railway line from Tallinn to Helsinki via a tunnel beneath the Gulf of Finland. Though the price of such an engineering feat would undoubtedly be high, the option has not been ruled out as a future development. In the timetable of the current project, the link with Helsinki would remain by ferry alone.

The driving force of the TEN-T initiative is to provide a framework for growth. Better transport infrastructure means more mobility at a cheaper price. The capability of the network to handle more cargo and reduce total shipping time in turn gives companies better connections to the Common Market and opens up new geographical areas for trade. Simultaneously, the area from which a company can draw its workforce is expanded as workers have more and more efficient means to reach jobs further away, even across state borders.

Much of the new network prioritises railways over roads. The reasons behind this are many, but the main benefits remain clear. Firstly, improving road quality provides better safety, but by and large, it does not enable the travel speeds of up to 160km/h that can be reached by modern trains. Secondly, among the Commission's objectives for the TEN-T network is to reduce greenhouse gas emissions from transport by 60% by 2050. The environmental benefit of transferring freight from road to rail is essential if this goal is to be reached.

High speed inter-state railway lines that provide sustainable links between key economic areas play a vital role in encouraging businesses to deliver their cargo by train. In the specific case of Rail Baltica, it also provides companies and individuals in the Baltic states with direct access to Central European transport hubs such as Warsaw and Berlin. By providing a fast, relatively inexpensive link across the Baltic states, Rail Baltica would be a much needed solution to fill a long standing void in Baltic transport infrastructure.

Answering the challenge of intermodality in transport has been in the center of the project from the beginning. The construction of the line would provide a railway link that reaches three major Baltic seaports, Helsinki, Tallinn and Riga, with only a short rail connection to the port of Klaipeda. The establishment of true Baltic transport hubs, where cities, ports, major railways and airports connect, along the Baltic corridor would stimulate local economies, provide more jobs, increase the efficiency of travel and freight transport and, in the long-term, save both money and the environment.

The construction and progress of the project is tightly interlinked with the EU Multiannual Financial Framework (MFF) for the years 2014-2020. Funded largely through the Connecting Europe Facility, constraints in the MFF for the next 7 years ultimately mean less money for cross-border ventures of added European value, such as Rail Baltica. The outcome of the negotiations for the MFF remains clouded at the moment, and lack of extra funding might lead to delays on the project. If completed on schedule, however, Rail Baltica should provide a welcome boost to the economies of the cities, regions and states along the route of the future connection.

Petri Sarvamaa

Member

The European Parliament

Nordic competitiveness in trade and commerce – a strong and secure future established by growth

By Jessica Polfjärd

Sweden and the other Nordic countries stand for an open market of trade and commerce. The recipe for a strong and vital market assigns some especially important ingredients such as openness and competitiveness. Furthermore, a strong and secure future is established by growth. The growing Swedish economy provides long term potential for a secure job market, an equal welfare system and stable finances of the state. The requirements for growth are I turn education, research, business and entrepreneurship –factors which the Swedish government, by its policies, is set to achieve.

The economic crises paralyzed most countries of Europe, striking especially hard on countries such as Greece, Spain and Portugal and accelerated a shift in the balance of the world economy. We now see a slow European recovery whilst China, other Asian countries, Latin America and Africa are becoming more important in future markets of trade but also for Swedish jobs and investments abroad. As relatively small, open and export-dependent economies, the Nordic countries are in need of policies that understand and meet the global challenges. Therefore, the Nordic countries need to maintain a constant flow of innovations and opportunities for trade.

However, to reach high levels of competition the Nordic countries need to maintain a strong competitiveness without thumbing domestic labor rights. For that reason Swedish governmental policies offers social market economy that combine both growth and welfare.

We believe that the Swedish model, where social partners are responsible for conditions and wage formation, is something to protect. This in turn has strengthened Swedish competitiveness and creates a strong long term wage growth.

To maintain and uphold other countries interest in inputs of capital and financial flows Swedish companies have been forced to strengthen their competitive ability to establish themselves in new markets. Furthermore, Swedish wage formation has been responsible and stable over time, thereby strengthening Swedish competitiveness.

Swedish Exports are equivalent to about half of Sweden's GDP towards a growing international market. The global market has, in the last 30 years, undergone major changes and world trade has increased multiple times benefitting both Swedish companies and Swedish welfare by generating tax revenues. However, many challenges lies ahead and what used to be countries buying Swedish export is now countries that relay on own manufacturing thus leaving Swedish companies alone on a rough and demising global market.

To further strengthen Swedish and Nordic competiveness the following aspects must be taking to consideration.

Firstly, we need to accumulate knowledge through investments. Secondly, we need to ensure having a high productivity of labor relative to labor costs and finally, Sweden needs to be able to attract investment.

Therefore, Sweden needs to continue to promote research that leads to discoveries and innovations. We need to ensure that professional skills of the labor force is high and that companies operating in Sweden does not have a cost rate for including wages that differ from the countries we compete with.

Availability of labor, productivity, capital and knowledge as well as the conditions for entrepreneurship affect the general economic environment growth. All kinds of uncertainties and imbalances in the economy give rise to risks. Therefore, by reducing the incentives to invest and promote economic activity it is of great importance to maintain macroeconomic stability such as stable public finances and low inflation to further promote growth.

Sweden has a long history of promoting companies that are strong in large and complex projects. The potential for exporting business is great in many emerging markets and need to be taken further by intensifying cooperation between Swedish companies, especially small-and medium-sized, and foreign missions. The vision to increase the internationalization and foreign trade demands different solutions and action are taken to enhance Swedish export. Focus ahead will therefore include five areas; global free trade, targeted trade improvement against individual strategic markets, a more open and better EU market, a clearer and more positive image of Sweden in the world and better utilization of expert resources at home.

Jessica Polfjärd

Member of Parliament
Moderate Party

Chair
Committee on industry and trade

Sweden

The Baltic Sea Labour Forum (BSLF) is working

By Franz Thönnes

One year after its establishment, the second **BSLF** Round Table took place in Hamburg at 15th November 2012. BSLF is a platform for cooperation between social partners and other key labour market actors in the Baltic Sea Region (BSR). This tripartite forum for social dialogue in the BSR mainly deals with jointly identified problems such as labour mobility, growth, competitiveness, education and training, and high employment rates. It is important for societies in the BSR to safeguard fair competition for enterprises based on respect for industrial and labour relations, decent working conditions and fair treatment of workers.

From the Baltic Sea Labour Network (BSLN) to a permanent "BSLF"

In 2008, representatives of 22 social partners and political institutions (trade union federations, employers' associations, the Council of the Baltic Sea States and the Baltic Sea Parliamentary Conference), jointly formed the BSLN. It was a flagship project within the EU-Strategy for the BSR with the aim to achieve through social dialogue sustainable labour markets, fair employment conditions and proper social protection. Its excellent work culminated in the establishment of the permanent BSLF, set up by 22 organisations in November 2011. BSLF became more and more interesting and today it has 28 members and 7 organisations with observer status.

BSLF - unique platform for cooperation

Employers' confederations, trade unions, politicians and other experts were called upon to exchange ideas creating sustainable regional labour markets in the BSR in Hamburg in November 2012. BSLF wants to promote a social dialogue and tripartite cooperation structures for sustainable economic growth and social development in the BSR. They dealt with the two main subjects

Youth Employment and **Mobility of Labour** as most important challenges in the BSR. The rate of unemployed young people in the Baltic Sea States differs between 7 and 30 percent. The number of commuters in the region is also growing, currently 140.-150.000 are living in one and working in another country. A Conference of information centres in the BSR, advising commuters and employers about the legal framework of working and social security conditions, has been established at the same time,

Youth unemployment

Especially young people (15 to 24) have lower participation rates in the labour market. This has strong negative impacts for societies and labour markets alike due to the risk of rising poverty amongst youth as well as a lack of skilled and trained labour in the BSR. Especially missing practical experience and mismatches between education and qualifications that the labour market demands currently pinpoint which in turn makes labour market integration more difficult. Special attention should be paid to the transition management from school to workplace, occupational safety and health issues. This includes early economic education in schools, cooperation between schools and enterprises and measures as mentoring and apprenticeships.

Mobility of labour in the BSR – Cross-border mobility

The BSR has a high mobility rate. Care must be taken to safeguard fair competition for enterprises in order to secure a sustainable social development in this region. BSLF wants to ensure that norms, responsibilities, conditions, rules and labour relations in each country are the same for foreign and domestic business and employees. Special attention will be paid to the border regions since they have to deal with many interrelated aspects of labour force mobility. The existing information centres, which offer information to commuters and migrant workers, could complement the efforts of the BSLF. Another problem is the existence of barriers for commuters in the BSR. The existing information centres are aware of these problems, but do not have enough resources to work on these issues. Their networking would help to draw special attention to the needs of the border regions. The lack of statistics especially on migration is a fundamental problem in this field. The recommendation of labour market strategies by the BSLF requires sufficient and comparative data.

Working groups and Resolution

For dealing with this issues two working groups have been established in Hamburg and a joint resolution with the following positions was adopted. The second Round Table called on trade unions, employer and business organizations, politicians, public officials, experts, NGOs and scholars to

1. launch concrete measures to reduce number of school drop-outs
2. step up in their efforts to integrate young people in labour markets
3. develop effective strategies equipped with powerful measures to tackle youth unemployment, and to ensure that existing programmes are better coordinated; the aim should be to offer each young person a job, an apprenticeship, additional continuing education or a combination of employment and vocational training after a maximum of four months of unemployment;
4. devise strategies and programmes to ease young peoples' transitions between school and work
5. work towards mutual recognition of vocational training in the BSR countries
6. set in motion concrete steps to dismantle existing bureaucratic barriers in the BSR that hamper the mobility of labour
7. continue to facilitate mobility within the BSR
8. ensure that conditions, rules and labour relations in each country are comparable for foreign and domestic employers and employees
9. promote the social dimension of cross border labour mobility
10. counteract the growing problem of illegal work by all actors in labour markets;
11. further explore the idea of establishing easy-to-reach one-stop information centers in the BSR and a unique information website.

Franz Thönnes

MP, former Parliamentary State Secretary

Deutscher Bundestag

Member of the BSLF

Steering Committee

Germany

A cleaner Baltic Sea – a task for parliamentarians across borders

By Ann-Kristine Johansson

The Baltic Sea is one of the most polluted seas in the World which is a threat to the livelihoods of many people in the region. The challenges to the environment of the Baltic Sea aretherefore high on the agenda of the Nordic Council. The responsible governments are still not carrying out the policies needed to make the Baltic Sea healthy again. Parliamentarians from the entire region therefore need to work together to make sure governments from all countries around the Baltic Rim stay on track when it comes to following up on commitments.

The Nordic Council is the parliamentary wing of Nordic cooperation, uniting politicians from Denmark, Finland, Iceland, Norway and Sweden. The work of the Council takes place in a number of committees and parliamentary groupings, mirroring the political landscape of the five Nordic countries. One of these committees is the Environment and Natural Resources Committee, of which I am the chair.

The Committee visited the Aaland Islands in the heart of the Baltic Sea last summer. There we discussed amongst other things the latest HELCOM reports as well as the Baltic Sea Scorecard issued by the World Wildlife Fund in 2011.

According to the latter survey only two out of the nine countries around the Baltic Sea perform adequately in terms of living up to the requirements set out in the HELCOM action plan. And when it comes to eutrophication – one of the four focus areas of the plan and also one of the biggest threats to the Baltic Sea itself – the challenge is even clearer. According to the WWF scorecard, out of a possible 24 points, Denmark scores 8, Finland 5 and Sweden 11.

So there is room for improvement when it comes to raising the environmental standards of the Baltic Sea. And our role as parliamentarians is to act not only as legislators but also as watchdogs when it comes to making sure the necessary steps are taken to save our common sea.

Consequently, the Baltic Sea is one of the main focus areas of the Environment Committee of the Nordic Council and over the last couple of years we have drawn attention to a number of issues in that respect.

In 2011 we criticized the Danish government for not living up to its commitments based on the HELCOM agreement of 2007. We scrutinized the actions taken by Denmark, Finland and Sweden in following up on that agreement and made note of the fact that Denmark has been lax particularly in terms of reducing the output of nitrogen, possibly due to agricultural output.

We also criticized the fact that only two of the five Nordic countries had ratified the IMO Ballast Water Convention, thus holding up the final implementation of the measures stipulated in the convention. The cruise industry is ever growing and other commercial traffic on the Baltic Sea is also increasing. So there is a great need to limit the influx of harmful organism and alien species – one of the aims of this IMO agreement. And it is our duty as parliamentarians to question our governments as to why they are holding up such an important ratification and what interests are at stake here.

The Environment Committee has also been involved in the question of improving port facilities around the Baltic and overall we have pushed for the implementation of HELCOM recommendations and guidelines. One of my Finnish colleagues, Christina Gestrin, has been chair of the Baltic Sea Parliamentary Conference and also deeply involved in the work of HELCOM.

Another focus these days is green growth and here the chair of the Nordic Council Committee for Business and Enterprise, Cecilie Tenteford-Toftby, is currently chairing a working group under the Baltic Sea Parliamentary Conference, exploring the common grounds for a greener development around the Baltic Rim.

For we need development and we need new jobs. But we also need to make sure that this development takes place in a sustainable and smart way. And this is where we need to cooperate more.

The Nordic Council is one arena assembling three of the nine Baltic Rim countries. The Baltic Sea Parliamentary Conference assembles all nine nations and the Council of Baltic Sea States is doing a major effort along with the Union of Baltic Cities and others. Likewise, our sister organization, The Nordic Council of Ministers – representing the Nordic governments – is deeply involved in for example the EU strategy for the Baltic Sea. And an institution like the Nordic Environment Financing Corporation under the Nordic Council of Ministers has contributed to financing needed investment for a cleaner Baltic Sea, including for instance new waste water treatment facilities in Saint Petersburg.

So there are plenty of arenas to meet and discuss, and plenty of ideas and strategies to carry them out. But maybe we still lack the framework for a truly united effort to save what is after all the only thing that really unites us all: namely the very waters of the Baltic Sea.

And above all, we need to stay on our toes to keep abreast of the new threats and challenges that keep popping out of the sea, so to speak – or maybe rather out of the countries surrounding it. And we must make sure that our governments stay on track when it comes to actually implementing the necessary steps and living up to the commitments to restore the good ecological status of the Baltic marine environment by 2021.

Ann-Kristine Johansson

Member of Parliament

Chair of the Nordic Council Environment Committee

Sweden

The reluctant partner – Russia in WTO

By Hannu Himanen

It comes as no surprise to pundits that Russia is dragging its feet in fulfilling its obligations as WTO member. There are real challenges. But instead of resorting to a negative rhetoric, Russian leadership could focus on obvious gains on the longer term. This means transparency, deregulation and fair play in the open global market.

As one of the globally big economies, Russia was the odd man out as its WTO membership process dragged on for 18 years. When it joined, it became the 156th member of the organisation. The member economies now cover 97 per cent of world trade. Because of the size of the Russian economy and the extent of its foreign trade, bilateral agreements were concluded with as many as 89 countries. Real progress was made in the bilaterals, above all with the European Union and the United States, in the pre-crisis years of 2004–2008.

But it takes two to tango: as WTO members were prepared for the final crunch, Russia announced, in June 2009, that it had established a Customs Union with Kazakhstan and Belarus and wanted to join the organisation *en bloc* with its two partners. This led to a delay of two additional years before the deal was sealed at the WTO Ministerial Conference in December 2011.

Commitments

Through its membership agreement, Russia is committed to liberalising trade, opening the domestic market in services, improving protection of intellectual property and reducing direct subsidies to domestic industrial and agricultural producers.

However, Russia insisted on and got exceptionally long transitional arrangements. Because of this, Russia will become a full-fledged member only by 2020. The longest transitional periods cover agriculture, financial services (insurance and banking) and the automobile industry.

The first steps Russia has taken as WTO member have not served to strengthen confidence. In a number of cases, Russia has either not implemented clear commitments or started to apply measures in clear violation of its commitments. There is an extensive government programme to protect Russian companies from the negative impacts of WTO membership. While this is understandable against the complex background of domestic politics, it raises justified fears of further trouble to come. The EU insists on full implementation as agreed and is engaged in negotiations with Russian authorities.

Gains

Even if transitional arrangements delay some obvious benefits, both Russia and its trading partners will in due course see positive development. With improved transparency and predictability, it is expected that Russia will attract more FDI. Consequently, according to a World Bank estimate, the Russian economy may grow 3 per cent in the short term and 11 in the longer term in the wake of its accession to WTO.

In the case of Finland, a growth of 6 to 10 per cent in Russian import demand would translate to an annual growth of 300 to 500 million euro in Finnish exports to Russia. The Bank of Finland has estimated that Russian WTO membership could translate into an additional growth of 0.11 to 0.17 in the Finnish economy. This is particularly significant as Finnish exporters are struggling with their traditional European markets in the midst of a recession and significant uncertainties.

In Russia itself, the most significant immediate beneficiary will be the Russian consumer. As trade liberalises and competition bites in, consumer prices will tend to go down. This is particularly true for products with high pre-membership tariff levels, such as medicines, food and domestic appliances. As the Government continues to protect domestic automobile manufacturers, import tariffs on automobiles will be reduced only after a seven-year transition period.

There are many economic players in Russia who see WTO membership as a positive challenge. In the Invest Forum in Sochi late September, Mr. Victor Yermakov, Director-General of the Russian Small and Medium Business Agency, explained in detail how even smaller companies can reap the benefits of open markets. Export procedures will be easier, and to support SME exporters, the government has set up export agencies in all major cities.

A positive agenda

The debate on the implementation of Russia's membership obligations should not distort the big picture. Russia is rich with energy and natural resources, but the economy cannot in the longer run be based on raw materials. Economic diversification is an imperative clearly understood by the Government. Russia stands to gain significantly and quickly by participating fully in the global market and opening its economy to foreign direct investment. To attract more FDI, it needs to improve its business climate significantly. It will not be easy for Russia to climb from place 112 to 20 in World Bank's *Doing Business* ranking, a goal declared by President Putin.

Cheaper imports would benefit Russian consumers and industries alike. Tougher competition at home, with transparent and fair rules, would make Russian manufacturers much better equipped for competition in the export markets. This is a classic win-win agenda, occasionally difficult to be fully appreciated by many Russians obsessed with zero-sum games.

Seasoned politicians as different as Mr. Yevgeny Primakov, former Russian Prime Minister, and Mr. Karel de Gucht, the European Trade Commissioner, have concluded that Russia's accession to WTO is not the end, but the beginning, or a fork in the road. There are important choices to be made, choices that will determine whether Russia will continue to grow and prosper. This is a choice for Russia itself to make.

Hannu Himanen

Ambassador of Finland
to the Russian Federation

The dynamic corner of Europe – the High North as a strategic survival strategy for Finland

By Maimo Henriksson

In the larger Baltic Sea region there is one area that is currently living through a positive and dynamic phase in an otherwise gloomy European overall picture. This is the northernmost part of the region, the Arctic of the Nordic countries, the so called High North. Here we suddenly find growing municipalities, business initiatives and quite concretely a remarkably high number of crane trucks, digging machines and bulldozers. To put it shortly: here we find intense economic activities in combination with bright expectations for the future.

The north of Norway is the driving force in this development. Sweden and Finland follow, but with a more modest speed and volume.

There are several reasons behind the blooming of the northern regions. One is that the Norwegian energy industry is moving more and more to the north, at the same time as new discoveries also in the old areas in the North Sea are made. Technologic advancement makes it more and more profitable to utilize also northern and harder-to-get sources of gas and oil. In fact, the Norwegian energy industry is right now – in the winter of 2012-13 - taking a big leap up to the north. In the latest license round, that opened last summer and expires next spring, for the first time ever most of the slots to be applied for are situated in the northern seas. Out of all-in-all 86 slots, 72 are in the Norwegian or the Barents Sea.

Another reason behind the increased perspectives of prosperity for the north is the return of the mineral industry. Here Sweden and Finland are forerunners and Norway follows. The Norwegian Mineral Strategy is expected to be ready early next year. In Sweden and Finland tens of old as well as new mines are operative and running and an even bigger number is in the pipeline of prospecting or applying for a license.

Both the energy industry and the mineral industry need transport infrastructure: the goods have to be delivered to the purchasers. Here we come to the third reason, which is very problematic, but which at the same time offers an additional boost to the region. Climate change is opening up the North-Eastern Sea Route. Sooner than we expect also that day will come when the ships will sail not along the Russian coast, but across the North Pole, straight over from the European High North to Asia. Although we talk about small numbers of ships, especially compared to the traditional southern routes between Europe and Asia, we do talk about significant sums. The savings can be counted in hundreds of thousands of euros per day and shipment, as fewer travel days are needed.

Also the transport routes on land need to be improved and developed. Luckily we now have an instrument, the Northern Dimension Partnership on Transports and Logistics, that gathers all the relevant players – the EU, Norway, Iceland and Russia, at the same table to decide on new projects and to solve old bottlenecks.

Norway has understood the opportunities of the north and established its High North policy already some six years ago. This policy is the number one foreign policy priority of Norway. The ambitious policy outlines that Norway will seek to be the leader in the field of knowledge of the High North. Norway wants to exercise its authority in the High North "in a credible, consistent and predictable manner" and it wants to strengthen cooperation with other countries in the Arctic or interested in the Arctic.

All these developments offer opportunities for Finland. In fact, Finland faces a fully loaded silver platter of untapped potential. In times of harsh economic challenges such a silver platter should be used. I do not mean that all the challenges of the economy of Finland could be overcome by cooperation in the north, but Finland should see the strategic importance of this dynamic region. The High North might not be able to change the whole of the Finnish economy, but it certainly can contribute to our welfare. Seen from a wider Baltic or European perspective: all positive developments in northernmost Europe will reflect also on Europe as a whole and thus promote Europe in the global competition.

What can then Finland offer? As president Sauli Niinistö put it during his recent state visit to Norway: Finland has a lot of "cold-how", being the only country in the world where in winter every single harbour may freeze. To be more precise: Finland has a strong arctic know-how in very many fields: offshore-industry, oil spill technology, maritime industry, shipping, forestry, mineral industry, metallic industry, energy efficiency, wind power, construction, waste management, healthcare solutions, bio- and nano technology, winter testing etc.

A special sector where we could join forces is tourism. Sweden and Finland can offer good products of experiences on land. If we to this package add a cruise in northern waters with a Norwegian cruise ship we have a very attractive product, which could attract tourists from all over the world.

The basis for all this to take place and succeed is education and research. I recall that the key word for the Norwegian High North Strategy is knowledge. Also in Finland we need to have the courage to invest in our northern knowhow. We need to build up networks between the universities in the north. We need institutional networks that promote exchange of students, teachers and researchers. Therefore it is very promising that some Norwegian and Finnish universities lately have agreed on closer cooperation. It is high time that Finland starts to focus on the silver platter offered to it in the High North.

Maimo Henriksson

Ambassador of Finland to Norway

Security and defense in the Baltic Sea region – what to expect?

By Riho Terras

Kalevipoeg, a giant hero and a protagonist of the Estonian national epic, caused the first security incident between the neighbouring Estonia and Finland. He was a man of thick skull and disputable social skills according to the modern standards. He went to hunt down the kidnappers of his mother, met a Finnish blacksmith named Ilmarine who prepared him a new sword. While celebrating the fresh blade, Kalevipoeg killed the blacksmiths' son. Fortunately enough the concept of statehood was somewhat blurry these days so no war broke out. The retaliation though was very personal by the Finnish artisan as he cursed the very sword he had created and the Estonian giant lost his feet eventually. The relations between the neighbours have not always been as bright as they seem today.

The two decades that have passed since the collapse of the Soviet Empire and the Warsaw Pact have witnessed a smooth and steady westernisation of the security and defence sphere around the Baltic Sea (with one exception remaining, obviously). The positive effects of the EU and NATO enlargement processes cannot be overestimated both in terms of greater coherence in security and defence as well as stronger basis for the economic growth and intertwinement. The region has often been described as the one with the greatest growth potential in Europe, and sure there is every reason to believe in it. But wait, is that all? No frictions, no conflicting interests, no (hidden) ambitions? Let's face some facts and try to draw some conclusions.

The Baltic states are still quite a rare area in NATO with no balance of conventional arms across the Narva river in Estonian case. Russia has become visibly and worryingly active at its borders. There are more than 300 military instalments spread throughout the borders with the Baltic neighbours. Should we be alarmed or are we simply witnessing Russia filling the gaps that were left by somewhat disorganised, sloppy and western-forced pull-out from its Soviet era borders in 1990's. Russia has historically been severely allergic against any changes and dynamics concerning the border regions and thus often very defensive in behaviour. It should not be a surprise that the security concerns listed in the top of the agenda for Russian policy and strategy makers are the Kurile Islands in the east and the Baltic states in the west.

How should this influence the security thinking in the Baltic Sea region? First and foremost the region should be seen in the broader context, both geo-politically and in terms of the changes in economy and demographics that have led many nations to question the need and reduce the money and manpower necessary for security and defence. The Baltic Sea region is not unique in that sense. Since the understanding of Asia's increasing role hit almost a decade ago, the US's pivot towards the Asia-Pacific has been heavily debated by the Europeans, primarily. Americans seem to have much pragmatic view on the issue and are reserved in their explanations, denying the sudden loss of interest against Europe. The US interest in the Baltic Sea region is of utmost importance. How to maintain it? Co-operation and common understanding among the states in the region is the primary option. There are number of regional initiatives (NORDEFCO, BALTDEFCOL and other Baltic Military projects) that may as well serve as good selling arguments. When the like-minded states in the region are able to pool their resources and give meaningful contributions where and when it's necessary, there is a chance we are still seen as someone punching above his or her weight. In addition the UK's initiative on the Northern Group may add another dimension to the Baltic Sea region co-operation. Signing of a Memorandum of Understanding on the Enhancement of Defence Co-operation between UK and Norway earlier this year may be seen as the first step in that path.

It's not a secret that countries like Finland and Sweden have contributed remarkably in NATO-led operations in the Balkans and in Afghanistan more recently. This is a strong argument for closer co-operation among the Baltic Sea region states both NATO/non-EU and non-NATO in military operations. Without any particular wish to cause allergic reactions, there is a stronger strategic interest towards the states that can form so called Coalitions of Willing when there's a clear demand.

The Baltic Sea region has the potential to attract interest. Baltic Defence College in Tartu, Estonia is surely one of the examples that deserve closer attention. Established by the three Baltic states with strong involvement from Denmark, Sweden, Finland and Norway it has become the only modern English language based multinational military educational institution in the region. And there is a wish to broaden the focus so that not only the Baltic states could benefit from its educational outcome but the Nordic countries and other regional players as well.

Finally, one can't discuss the security and defence affairs in the region without emphasising the prominent role of Poland. For the countries east of the Baltic sea, Poland has become a real and reliable partner and advocate in voicing and explaining security concerns. And it's not only words that matter, Poland is one of the very few countries in Europe to maintain the level of defence expenditures close to the 2% of GDP and to possess real military power. It is vital to envisage deeper involvement of Poland in the regional initiatives in order to gain more visibility and credibility. Let the numbers do the talking – Nordic/Baltic countries all together have a population of 32 million, Poland a population of 38,5 million people.

Riho Terras

Brigadier General
Commander

The Estonian Defence Forces

Estonia

European and Asian rivalries over the Arctic

By Stephen Blank

The Russo-Norwegian agreement of 2010 should have put to rest the ongoing controversy over the future of the Arctic Ocean in terms of soverignty, exploration, and thus security. However, that has not happened. Despite this agreement many governments are making claims concerning the Arctic either to gain a material advantage, e.g. control of shipping routes or energy deposits, or to prove that they are still major players there and by extension in world politics. For example, the recent Anglo-Norwegian exericse, Operation Cold Response, not only tested the capability of those two armed forces in an austere theater with exremely difficult climactic conditions, it also was intended to show that the UK can provide a credible military capabiity in Northern Scandinavia and the Arctic and do so in support of or in tandem with its allies.

Neither is the UK or Norway alone in this posture. Russia's unilateral claims to an excessive amount of the projected Northern Sea Route are well known. Moscow also bases itself in the 2006 findings of the US Geological Society that suggested the Arctic is a treasure trove of energy deposits and minerals to the point where Moscow regads the Arctic as its future "treasure house", that is essential to its future viability as an energy power, and sees the Arctic as being perpetually menaced by foreign military threats. Russia's 2009 security concept and subsequent official and unofficial writings cling to the obsession that foreign governments covet Russia's energy holdings and entertain thoughts of seizing them by force. As a result there are equally large-scale Russian exercises in the Arctic and a comprehensive militarization of the Arctic is taking place in Russian defense policy. This militarization involves not only exercises but also deployments of the navy, also to provide maritime protection for Russia's SSBN fleet in the Northern Fleet based at Arkhanglelsk, air, air defense, and ground forces.

Yet given the actual size of NATO forces the pressures on Europe to reduce defense spending and the utterly remote possibility of East-West military confrontation, Russia's obsessions seem excessive. Even if writers in the US or Canada are composing scenarios calling for development of forces possessing an Arctic capability, the budgetary and political pressures upon these govenrmetns in Europe and North America make it quite unlikely that such forces will be a priority or be built in large numbers anytime soon. In other words, the chance of actual use of force majeure in the Arctic from the European side seems qutie remote if not literally incredible. Nevertheless this securitizaiton of the Arctic, postulating it as a kind of threatened zone, and the ensuing militarization continues.

But it is in Asia that we may find the real challenges emerging to Russia's pretensions. Already in 2010 Russia's Commander in Chief of the naval forces Admiral Vladimir Vysotsky, warned China that Russia was prepared to defend its claims by force and chastised China for contesting the idea that Russia enjoyed sovereignty over the Northern Sea Route. Chinese diplomats have claimed that nobody should enjoy such sovereignty. Moreover, China has beefed up not only its overall scientific capabilities for epxloring and navigaitng the Arctic, but also its military capabiliteis and has entered into serious commerical and diplomatic relations with Arctic ocuntries like Iceland, Greenland, and Norway. But it is not alone.

For example, South Korea has recently established a partnership with Norway to develop the Arctic and this agreement is merely part of a broader South Korean initiative to become a perrmanent obsrver at the Arctic Council and exploit the opening up of navigable sea routes through the Arctic. Obviously to the degree that the Arctic becomes increasingly navigable this presents South Korea, Japan, and China with immense opportunities to reduce the cost of naval shipping to Europe and Russia and to make substantial commerical profits. And to the extent that Asian governments' interests evolve from scientific and environmental issues to questions of shipping, energy, and defense of their commercial vessels and interests, these states too will likely contribute to the overall process of securitizaton of the Arctic and even its potential militarization. We have, as noted above, already seen the latter phenomeon in the case of Sino-Russian relations, and in the continuing programs of Canada, European governments, Russia, and possibly the US depending on the next Adminsitration's perspectives.

These trends, taken in the context of the increasing centrality and dynamism of East Asia for international economics and security suggest that the future quarrels and competing claims concerning the Arctic are as likely as not to be more centered on the competing interests of Russia, China, Japan, South Korea, Canada, and the US that pertain to the Asiatic sector of the Arctic Ocean than the European side. Comepting European claims will no doubt be a factor as will the long-standing and ingrained paranoia of Russian security perspectives. But it is more probable that the truly difficult struggles over the demarcation of a Northern Sea Route, the competing claims under the rubric of the United Nations Convention on the Law of the Sea (UNCLOS), and the potential for both securitization and militrization of the Arctic as a factor in world politics will originate largely from the Asian continent rather than Europe. Moreover, the two drivers of these competing claims are likely to be Russia and China. And that fact suggests that there is considerably more to Russo-Chinese relations than most observers have hitherto envisioned. Finally in the future it is unlikely that the vaunted identity of interests that Beijing and Moscow so frequently invoke will remain unscathed by the impact of rival energy and security claims, not only in the Arctic, but also across Asia.

*Stephen Blank**

Professor

Strategic Studies Institute

The USA

**The views expressed here do not represent those of the US Army, Defense Department, or the US Government.Education and Culture.*

The great future of Murmansk is still based on visions

By Timo Rautajoki

Murmansk Region has been famous for good future expectations and visions. According to the recent listing of the Ministry of Economic Development in the Murmansk Region the total value of planned investments in the Kola Peninsula is more than 70 billion euro. The biggest problem is still in defining if these plans are realistic and when this investment boom is going to start.

Shtokmanovskoje (Shtokman) gas field has been more than 20 years the number one project with huge total value of 47 billion euro. This project has been postponed time after time. The establishment of Shtokman Development AG in 2008 was the first positive sign for a long time. Gazprom was the biggest shareholder and French Total SA and Norwegian Statoil were minority shareholders. Then the outbreak of global financial crisis some months later once again slowed down the project. Finally in the beginning of 2012 rumors had it that Shtokman is going to be postponed to the indefinite future because expected price level of gas was too low due to new innovations in the use of shale gas.

During the summer of 2012 several news from Shtokman Development began to confirm the rumors to be true. First Statoil left the company and announced to focus on a new cooperation projects with Rosneft. Then in August Gazprom confirmed that the Shtokman project was shelved for an indefinite period. Third shareholder Total made an exception and announced to continue in Shtokman Development. These messages were clear, but on the other hand the decision of Total was causing some confusion.

The general reaction in Murmansk was a big disappointment. Shtokman project had also been a base for other important investments and for better economic future. Among others the plan to establish new Murmansk Transport Hub in the seaport of the city was seriously endangered. Shtokman gas was also planned to be a new energy source in the Murmansk region. Now all energy efficiency plans based on this seemed to become impossible.

Also another arctic offshore project which has effects on the development of Murmansk seems to be in problems. The production of Prirazlomnye oil field on the Pechora Sea should have been starting this year, but the start has been postponed to the autumn of 2013 due to safety and environmental problems. The produced oil should be transported to the oil terminal of Murmansk Commercial Seaport. The future plans of the enlargement of the terminal and possible establishment of oil refinery were based on this new production.

The global media and also public opinion in the Russian Arctic was ready to declare Shtokman project deceased, but the meeting between President Vladimir Putin and the governor of Murmansk region, Maria Kovtun in the end of October 2012 changed once again the situation. President Putin told Governor Kovtun that Shtokman project is not put on hold indefinitely, but the decision to start the implementation is planned to happen in the near future and the project launch is going to be before 2017. So the situation seems to be same as before 2008. Shtokman Development AG is going to be re-established. Gazprom and Total are continuing as shareholders, but one new partner is needed. The return of Statoil seems to be unlikely the solution, but new actors like ENI, Exxon-Mobil or even Shell have been active in other arctic projects. The future shows if the resurrection of Shtokman is realistic. Until then this never ending story with ups and downs continues.

Murmansk Transport Hub project is in danger to become similar to Shtokman. Expectations of the Hub have been based also on the increasing use of the Northern Sea Route. The navigation season of 2012 is closing now when two Finnish icebreakers Fennica and Nordica are returning from Alaska through this famous shortcut route. This season was a record season with 46 ships and 1.2 million tons of cargo. Murmansk is still in the pole position of the increasing arctic transport. This all creates great possibilities to investments, but also competition with some other ports is increasing. The port of Sabetta which is part of the Yamal LNG project of Novatek company, and the plan of new seaport in Arkhangelsk are so far the main competitors of Murmansk.

People in Murmansk are beginning to be impatient with all the big plans in the region. However the economical development in the region has been positive several years. Mining industry is the backbone of Kola Peninsula and the global rise of raw material prices has enabled better income. Secondly Murmansk region is area one of the most important military bases in Russian Federation. Military salaries have been rising because of the political decisions made by president Putin. This development can be seen today in Lapland in the growth of bordercrossings from the level of 100.000 people to almost 400.000 in this year.

The mining industry is also investing in Kola Peninsula. Companies like Norilsk Nickel, Severstal, Fosagro, Akron and Eurochem are renewing mining technology and opening new mines. Foreign mining companies like Canadian Barrick Gold Company are participating to these projects. Total value of these investments in Murmansk region is expected to be about 3.5 billion euro before 2020. Finnish mining technology has been very popular in the north. Therefore you should definitely keep an eye on all branches of business in Murmansk.

Timo Rautajoki

CEO

Lapland Chamber of Commerce

Finland

Times are changing for the Northern Russian town of Pechenga

By Anneli Ahonen

The rough beauty of Arctic nature is stunning. The Pechenga River runs wildly through the hills towards the Pechenga Bay on the Barents Sea. It was July 2012, but the temperature was only a few degrees above zero, as I was traveling with photographer Nikolai Gontar in the Murmansk region in Northern Russia. We were compiling material for a series of articles to be published in the Finnish newspaper Helsingin Sanomat.

The focus of our attention was the settlement of Pechenga near the Norwegian border. Only a couple of years ago it was still a restricted military zone where foreigners were not welcome. Since June, the residents of the border areas in Russia and Norway have been able to apply for a special ID card that allows them to cross the border without a visa. Pechenga is one of the territories included in the deal, so it felt like a current topic to cover: a once strictly closed military town that now struggles to meet the needs of the modern world.

At the same time, there is a great deal happening in the northern parts of Russia. For example, cooperation with Norway is rapidly increasing: Already in 2010 the two countries resolved their maritime boundary dispute, an Russian Rosneft and Norwegian Statoil have agreed to cooperate on oil and gas projects in the Arctic. In November the oil companies even declared their commitment to the preservation of the biodiversity of the Arctic – the true meaning of the promise remains to be seen. Norway is also planning to develop Kirkenes into a major port.

As we arrived in Pechenga from Murmansk, we were greeted by a huge statue of a Soviet soldier. Behind it stood Pechenga, consisting of run-down concrete buildings. According to the 2010 census, Pechenga has less than 3,200 inhabitants, of which over 70 percent are men. Almost all of them are soldiers or former military personnel. The only civilian building holds a health care clinic, a post office, a library and municipal administration offices. We were supposed to meet with Eduard Zatona, the head of the municipal administration. The contrast between his fully renovated office with its MacBook and iPhone and the surrounding town was obvious. His black leather jacket brought to mind the times when it was a necessary status symbol. Zatona did not have time to speak with us, even though we had made an appointment.

"You had better move on to Nikel," he said, smiling "They have more experience on international cooperation."

At the parking lot we met a middle-aged woman with a toddler. Olga Romanovskaya told us she had moved to Pechenga from Belarus two years ago. She was only supposed to visit her two brothers who were serving in the Russian army, but she ended up staying. Earning 20,000 rubles (500 euros) a month as a shop assistant, she can send money to relatives back home.

Retired soldier Konstantin, 50, was on his way to the grocery store. He thought everything was better than before.

"There's more money and more cars than before," he said. His pension is 35,000 rubles a month - a exceptionally good pension in Russia. He is one of the few who has actually obtained the ID card that allows visa-free travel to Norway. In Finland and Norway he shops for food and electric appliances.

Pensioner Alevtina Glinkina, 72, was leaning on her walking stick, as she told us her living conditions had not improved.

"Soldiers are being fired and people are moving away. Our apartment block was built in 1972, and it hasn't been renovated since. It's very cold in the corner apartments, when the wind is blowing hard," Glinkina said.

Glinkina moved to Pechenga from Novgorod after she met her husband, who served at the ice-free harbour of Liinahamari only a couple of kilometres from Pechenga. They had two children and life was settling down, but then her husband's drinking problem got worse, and eventually he left. Glinkina now lives alone in Pechenga, and the children have already moved away. Her 10,000-ruble (250-euro) pension is not enough for medicines.

"I have been writing complaints even to Moscow, but it doesn't help."

But life is not just misery for her, thanks to television and the entertainment it offers. And it seemed she was not the only one to feel that way. There were satellite dishes all over the grey block buildings.

Schoolboys Sascha, 15, and Danil, 13, were feeding pigeons with sunflower seeds near the local culture center.

"We want to go and study somewhere, but probably close to Pechenga, maybe Nikel," the boys say.

The Russian metropolises, Moscow and Saint Petersburg, are far away from Pechenga. During their free time, the boys ride around on their bikes or surf the internet.

The Arctic region is going through huge changes. Opening borders and the internet are changing people's daily lives, often complicated by lack of money and the poor quality of municipal services and health care. At the same time they hear constant promises of better life from politicians.

When it comes to Pechenga, there may be new work opportunities to come. In the beginning of December, the 200th independent motorized infantry brigade became part of the Northern Fleet. The headquarters of the brigade are in the settlement of Pechenga. According to the internet news service BarentsObserver, this means that the Kola Peninsula is about to get a powerful land-based force. There are plans to make the brigade in Pechenga one of the Arctic Brigades in 2015, which would mean special training programs and modern equipment.

Bearing this in mind, the opening of Pechenga to foreign tourists is not likely, even though the area has potential to attract foreign visitors. Suggestions that Finland could rent a harbor in Pechenga also seem rathe unrealistic.

While we were doing our reportage in Pechenga, we were observed by black-suited men from a distance, constantly talking on the phone. As we were heading back to the center of Pechenga from the nearby German-Russian cemetery, we were stopped by four men, introducing themselves as representatives of the Russian Ministry of Internal Affairs. They checked our passports and press credentials and wanted to know what people had told us. In the center we were again told to stop and wait until the lieutenant colonel would come to question us. He deleted all our photos of military buildings.

Anneli Ahonen

Finnish journalist based in St. Petersburg

The bridge over troubled waters of North West Russia

By Martti Hahl

In North West Russia you cannot use the water from the tap directly for drinking, not anywhere. And at the other end of the sewage pipe approximately 75-80% of the waste water is led to the surrounding natural waters untreated.

The whole system of water and waste water treatment is seriously outdated and needs immediate renovation.

In order to get the water and waste water treatment up to date you need financing. To get the financing there has to be a business plan, a plan how to pay the loan back. The normal practice in municipal water services is to make a long term forecast showing how the financing of the payback is structured with tariffs and potential local and state support tools. Though in North West of Russia there is not one decision making politician, who supports the raising of the tariffs. Raising of the tariffs would lead to protests, which could jeopardize any political career. Not raising the tariffs leads to a loss in operations so the water works are unprofitable.

This is where it gets tough in North West Russia, which is basically the area north of Leningrad Oblast to Murmansk. It has been operating with a sizeable budget deficit since the fall of the Soviet Union. In more simple terms, the area is insolvent. This in turn has led to a situation, where the local government and authorities have to act and operate in concert with the wishes of Moscow, which pays the bills the local governments cannot.

European Bank of Reconstruction Development (EBRD), Northern Dimension Environmental Partnership (NDEP), Nordic Environmental Financing Corporation (NEFCO) and Nordic Investment Bank (NIB) have been the active financiers of these kind of long term infrastructure supporting projects in Russia. The most well-known of their "water" projects has been the cooperation with St. Petersburg Vodokanal. This has become a prime example of successful cooperation between the Northern Dimension countries and the skillful Russian management of the project, for dramatic lessening of the harmful waste water effects in the Baltic Sea. This project was supported by all Northern Dimension countries and the Russian Federation on the highest political level.

This is does not seem to be the case in North West Russia.

The Murmansk City Water and Wastewater Infrastructure Rehabilitation Project has been waiting two years for the governor´s approving signature since the planned initial date of December 2010. The former, disputed, Murmansk Oblast governor has been replaced by Marina Kovtun in late spring 2012. The project size is 28, 7 M€, the self-financing part of the project amounts to approximately 5 M€ and grant funds to 8 M€. The project moves slowly, if at all, although a Public Investment of this kind would be the first concrete good news for the Murmansk Oblast citizens since the freezing of the Shtokman gas field, which was supposed to make the whole Kola peninsula fly. The package is prepared and ready, so the governor, as the insiders say, just decides if it is a go or no. If it will be a yes, it will be a major step forward in improving the infrastructure and signals the Oblasts willingness to make real progress.

In Archangel´sk the Municipal Water Services Development (Water Treatment Plant) received a financing package of 25, 5 M€, supported by NDEP, Finnish and Swedish government grants (8 M€). According to sources in Archangel´sk the agreed loan repayment has been stopped a few months ago and the Archangel´sk Water Treatment Plant may end up in receivership or bankruptcy. This would lead to the Archangel´sk Oblast taking the hit of the loan repayment and the grants in full, due to Oblast being the guarantor for the loan. This would give the new Governor Igor Orlov a tough start in his new job and make the IFI: s to rethink their preparedness to finance Russian infrastructure projects.

But there is a positive exception, Petrozavodsk in Karelia. The Water and Wastewater Project agreement signatures and approvals had been off for a couple of years. The signature would give this project a Republican guarantee and therewith a go ahead. The total package was 32 M€, with NIB/NEFCO loans, federal allocations, and grant funds 5 M€ from NDEP and 2 M€ from the Finnish Government. The agreement was not signed by the two previous Heads of the Karelian Republic. When Alexander Hudilainen the new Head of the Karelian Republic entered the office late spring 2012, one of his very first Public Investment actions was to sign the agreement for Petrozavodsk Water and wastewater Project in summer 2012.

So what should be done? North West Russia is a group of traditional, hierarchically governed, oblasts acting under the Federal Government. The Russian governors talk with governors and ministers, and occasionally talk to directors. The closest neighbor to North West Russia, and an active grant provider, Finland got rid of regional county governors a few years ago, which left the Russian governors without an equal talking partner on the Finnish side. The Finnish ministers and ministries are the next acceptable level of contact.

By bringing up the issue with these infrastructure improvement projects in North West Russia to ministerial level, locally, and if needed federally, like it was already done in St. Petersburg, would help to get the projects started or back on track, improve the potential for other long term investments and boost the substance and credibility of the new governors.

The Finnish and Norwegian governments and ministries, which have had the most active contact and knowledge of North West of Russia, should now take an active role in supporting these projects and their completion and replace political rhetoric for something, that really improves the living environment.

N.B. The partner governments in Northern Dimension Environmental Partnership (NDEP) are Russia, France, Canada, Germany, United Kingdom, Denmark, Norway, Netherlands, Belgium, Belarus, Finland and Sweden.

Martti Hahl

President

Barents Center Finland

Finland

Baltic energy infrastructure – from isolation towards integration

By Philip Lowe

History of the Baltic Energy Market Interconnection Plan (BEMIP) - cooperation of the countries around the Baltic Sea in energy - started in 2008 when European Commission President Barroso called for setting up a High Level Group to deal with security of energy supply in the Baltic region and to allow for integrated and functioning energy markets.

Since adoption of the 2009 Action Plan endorsed by the EU Member States in the Baltic region (along with Norway as observer), the progress is undeniable. New investments in energy infrastructure and advance in internal market issues prove this cooperation as effective, one that delivers tangible results.

At the same time, four years after the first steps taken, there are obvious signs of stumbling. It is up to concerned Member States to avoid the fall and to overcome actual and emerging challenges.

What were the reasons for grouping the EU Member States around the Baltic Sea? What made Denmark, Sweden Finland and Germany to participate in BEMIP and to deal with energy issues concerning mainly their Eastern neighbours? Beside the evident interests of Western Member States linked to increasing their security of supply and flexibility of their energy networks, the key element of the cooperation was and still is a principle of European energy policy: solidarity.

The challenges the Baltic Sea region faces are significantly different in West and East. While in the West main preoccupations are integration of renewables and ensuring better implementation of the internal market rules, the East lacks even the basic conditions for security of supply and functioning markets. In any case, being isolated from European energy networks while having monopolist suppliers and operators allowing for no competition, cannot be seen as proper conditions…

So far, so good?

Implementation of electricity action plan appeared to be easier. A major aspect for electricity-related actions was the effort of the three Baltic States for strengthening their energy security situation through development of energy interconnections to Finland, Sweden and Poland and integration of their markets with the well-developed Nordic power market, with active support and help of Nordic countries. A condition set for political support was creation of an open and functioning electricity market in the three Baltic States. Market conditions – through the possibility of securing project financing without public intervention – would allow for bulk of necessary investments. Existence of a functioning energy market on both sides of the planned interconnections was required in order to maintain the well-functioning electricity market Nordpool undamaged. The roadmap for electricity within the BEMIP Action Plan identified major steps towards a functioning internal market in the three Baltic States and the integration of the Baltic electricity market into Nordpool. Implementation of the electricity actions is on good track. Electricity interconnections NordBalt (Sweden-Lithuania) and EstLink (Finland-Estonia) are under construction, LitPolLink between Poland-Lithuania seems to be also on track. Beside the infrastructure, regulatory aspects progressed as well. NordPool spots started their operations in Estonia (2011) and Lithuania (2012), with Latvia expected to follow in 2013.

Baltic region's gas landscape is very diverse: some Member States are producers, some net exporters and some rely fully on imports. Norway and Denmark are net exporters of gas, Poland and Germany that have indigenous production (of around 4,3 bcm and 16 bcm per year, respectively) which can cover a certain share of their national needs, while Sweden, Finland and the three Baltic States rely on imports. These facts along with geographical and geopolitical differences called for customised solutions. Declining production of Danish gas fields necessitated investments in gas networks at the German-Danish border and – considering possible game changer unconventional gas production and the Swinoujscie LNG terminal in Poland – between Denmark and Poland. Although Sweden's sole interconnection to Denmark may be seen as a potential issue (as identified by TSOs' ten year network development plan), the real threat for security of supply and functioning of internal energy market is the isolation of the three Baltic States and – to some extent – Finland.

Due to their isolated status and existence of one dominant, derogations under the Third Market Package are in place for these Member States (except Lithuania). Relatively small gas consumption in the Eastern Baltic region (5 bcm per year in the three Baltic States, potentially doubled by adding Finland to the equation) hardly justifies considerable investments in infrastructure, due to economies of scale.

In the Eastern Baltic Sea area a vicious circle prevents availability of benefits of a functioning market: no development in security of supply and competition due to lack of required infrastructure elements and no investments infrastructure due to uncertain market conditions. This vicious circle calls for action: intense cooperation of concerned Member States is required in order to provide political and - as last resort – regulatory and public support for project promoters. To this end in 2009 the BEMIP High Level Group agreed on a minimum set of infrastructure projects in the three Baltic States and Finland, with a view to ending isolation and derogations. These projects are the Polish-Lithuanian gas link, the BalticConnector between Estonia and Finland, and a regional LNG terminal. Strengthening of the internal system in Estonia, Latvia and Lithuania and additional storage capacity in the region would also be required.

A recent study – prepared by the European Commission on specific request of the BEMIP High Level Group – identified the optimal location for an LNG terminal in the Eastern Baltic region along with linked pipeline projects. The project set proposed by the study would allow for competition and increased security of supply level.

Outstanding issues

While the Member States in the Baltic region were struggling with implementation of the Action Plan designed back in 2008, new challenges aroused, resulting in additional questions and issues concerning Baltic infrastructure development. The economic crisis made financing of energy infrastructure cumbersome in the whole world and made itself felt in particular in the Eastern Baltic region.

For historic reasons, the Baltic States power and gas systems are closely connected with the Russian Federation, a key neighbour and energy supplier of the EU. One should consider the inevitable role of Russia when shaping the future of Baltic energy policy. Russia is and will remain a key political and economic partner of the European Union in general and the Baltic region in particular. Integration of the Baltic States into EU energy markets and their development of energy relations with Russia are not in contradiction. The more the Baltic energy markets are integrated in the EU markets, the easier relations with Russia may become.

Political agendas sometimes constitute the biggest challenges. In electricity, recent political developments question implementation of a key infrastructure element (Visaginas nuclear power plant in Lithuania), calling for new options to assess when aiming one of the main long-term objectives, integration of Baltic networks into the main European grid. This swift change significantly impacts on-going negotiations with Russia and Belarus on operational rules and the study prepared by network operators on synchronisation of Baltic electricity systems with the European ones.

Baltic States – after a years-long deadlock – have to agree on implementation of key regional gas infrastructure projects. The urge for action requires governments' goodwill for cooperation and a flexibility level unfortunately so far unprecedented in the Eastern Baltic region.

Time to take decisions

Decisions on key energy infrastructure projects should ultimately be with the governments of concerned Member States. They are all aware of the fact that benefits of a functioning internal market and upgraded infrastructures are not free of charge. Investments are to be recovered through tariffs and ultimately paid by the consumers. Public support in legitimate cases can somewhat offset this burden. In the last years a large number of Baltic infrastructure projects received financial support from the Trans-European Networks – Energy programme and no wonder that a significant part of EU funds provided through the European Energy Programme for Recovery in 2009 was earmarked for the Baltic region (533 million EUR for gas and electricity projects, 23.5 % of the financial envelope).

Despite any financial solidarity, bulk of the costs shall be borne by consumers in the Baltic region. In a far-from-rosy economic situation, allowing for increased energy bills due to additional investments is the last on governments' wishlist, especially in the Eastern Baltic region, where energy poverty is an everyday reality.

Calculation is far for being simple. On one hand there are the inevitable and certain costs related to infrastructure projects (e.g. more than 600 million EUR for gas infrastructure developments identified by the study mentioned above), on the other hand the benefits delivered by them may be not immediate, especially when considering the relatively short political cycles. Benefits to welfare delivered by increased security of supply and competitive market conditions may be hard to quantify.

Experience of the BEMIP clearly indicates that though energy challenges in the Baltic region require regional answers, elaborated through regional cooperation. It is high time to understand that mathematics is an abstract science: best solutions for the region are not equal to the sum of national maximum programs. One should agree with the words of European Commissioner Oettinger: "now, more than ever, there is need for cooperation, understanding and compromise…"

Philip Lowe

Director-General

DG ENERGY

European Comission

Natural Gas, LNG and the Baltic Sea

By Torstein Indrebø

Cleaner energy for a changing world

Globally natural gas steadily increased its share of the global energy market from about 18% of primary energy consumption in 1970 to 23% at the end of the millennium, roughly the percentage share it still holds today.

Our human population continues to grow rapidly; it took little more than a decade to increase from 6 billion to 7 billion people in the world and there is little sign of this trend slowing down. Global energy demand will increase and low-polluting solutions, which involve a larger share of natural gas being used in more efficient applications, must be found.

My confidence in natural gas is founded on five key attributes:

1. Natural gas is Clean; producing no sulphur, no particulates and far less CO2 and nitrogen oxides than oil or coal.
2. Natural gas is Affordable; with low capital cost for power generation and not requiring subsidies
3. Natural gas is Reliable; with many supplies and diverse routes to Europe, and well-connected flexible infrastructure within the EU that should allow gas to complement the use of less reliable, intermittent renewable energy sources.
4. Natural gas is Efficient; gas-fired plants are typically 40% more efficient than coal and require far less construction time the nuclear.
5. Natural gas is Safe and Secure; with the best safety record in the industry and with abundant conventional and unconventional supplies within economic distance of Europe.

In short, natural gas CARES about the world. It is a clean, affordable, reliable, efficient, and secure energy source that has a vital role to play in the sustainable energy future of our planet.

Growth in Liquefied Natural Gas

During the last decade there has been an enormous increase in Europe's ability to import LNG, with new regasification terminals or major expansion of existing facilities in Belgium, Netherlands, France, United Kingdom, Spain, Portugal, Italy, Greece and Turkey. In 2000 Europe imported 32 bcm (billion cubic metres) of natural gas as LNG, by 2010 this had increased to 87 bcm. Looking to the future, construction of a new LNG import facility is underway in Poland adding new gas supply options from 2014 for a country with growing gas demand. There are many other European LNG projects in a variety of planning stages in Germany, France, UK, Ireland, Spain, Albania, Croatia, Italy, Cyprus and of course in the Baltic States.

Europe, however, continues to struggle with the effects of an economic downturn that knocked back energy demand. Gas demand in Europe fell but has started slowly to recover. Even if demand growth remains slow there is no doubt that Europe will need to import more natural gas as our indigenous supplies are now well in decline. It is essential, therefore, that political leaders provide the right signals that encourage business leaders to continue to make investment decisions. Consumers will only be supplied if new gas sources are developed with supply routes in place to bring natural gas to the market, and if we have the facilities ready to receive, store and distribute LNG and natural gas.

LNG and shale gas

LNG ships have been operating for more than fifty years. In January 1959 the Methane Pioneer (5034 dwt) set off for Europe with a cargo of liquefied natural gas from the Louisiana Gulf coast of the USA. International LNG trade now uses a global fleet of over 350 active ships, the largest carrying up to 266,000 m3 of LNG. Annual worldwide deliveries are equivalent to more than 300 bcm of natural gas, about 10% of global consumption.

The global economic slowdown and the aftermath of the Fukushima nuclear disaster both caused shifts in regional gas demand, but probably the biggest and longest lasting influence on the trade of LNG is the rapid development of natural gas from tight shale formations in North America. This 'shale gas revolution' is now expected to endure sufficiently for the USA and Canada not to import LNG as expected five years ago, but to make potentially significant LNG sales. Contracts are already signed with several companies in Europe and in Asia, and most commentators expect deliveries to ramp up quickly from 2016-2018. It seems that only political concerns stand in the way of the US, and North America as a whole, becoming a net exporting region.

LNG for the Baltic

Additional gas infrastructure and gas supply options in the Baltic region would benefit from security of energy supply and help long term sustainable development. The projects involved are challenging, not only because they are capital intensive, but also because international treaties and agreements often need to be negotiated. Can the Baltic States benefit through their own access to LNG, better integration and wider use of natural gas particularly for shipping? I think that there are some very positive signs:

Major development of a fleet of LNG-fuelled product tankers still has some financial, political and technical challenges to overcome, but with the EU's new Emission Control Area regulations on pollution from ships in force from 2015 the momentum seems to be growing.

In October 2011 the LNG-fuelled product tanker 'Bit Viking' (25,000 dwt) was converted from heavy fuel oil to dual fuel engines running on LNG, supplied by two 500 cubic meter LNG storage tanks, and officially re-entered service. She operates along the coast of Norway, from Oslo to Kirkenes, with reported environmental benefits including greenhouse gas reductions of 20-25%, sulphur output cut entirely, NOx gases down 90% and particulate emissions reduced by 99%.

Use of LNG as a ship fuel will help to meet the environmental standards and promote a better ecological balance in the Baltic Sea. Like most aspects of the international gas business (which require investment in delivery & storage infrastructure as well as supply) the promotion of the use of LNG as ship fuel requires joint action between States, administrations, ports and the industry. There was already some progress on this in July 2012, when representatives of seven Baltic ports gathered in Copenhagen and signed a partner agreement related to "LNG in the Baltic Sea Ports".

Natural gas is a continuing success story. One of the most economically efficient ways of reducing CO2 emissions is simply by using proven high-efficiency natural gas technology and switching to natural gas in preference to other fuels. If we want a clean and secure energy future at an affordable price then there needs to be an important role for natural gas throughout the world, and that includes Europe and use of LNG in the Baltic.

Torstein Indrebø

Secretary General

International Gas Union, IGU

www.igu.org

Europe needs energy investments

By Esa Härmälä

Europe has set on the highest political level the ambitious target to decrease green house gas emissions by 85-90% by the year 2050. This means that energy production must become practically carbon free. Less than 40 years is a short time. It is often said that in energy business a quartile is 25 years. The expected life time of many energy investments is even longer – in many cases more than 50 years.

The way to a low carbon energy sector can only go through massive investments. They are needed not only for energy production but also for transmission and distribution. In the future the energy system will be a combination of both centralized very sizeable production concentrations and decentralized production units which must be connected by smart grids flexible enough to operate in a stable, safe and environmentally friendly way. For example off-shore wind parks or nuclear power plants represent the centralized production pattern and the solar panels on the roofs of private homes the decentralized way to do it.

The energy revolution cannot be realized in a way that threatens peoples´ energy security. Our modern society sets very high requirements for example for the quality of electricity. Computer centers or hospitals cannot go up and down with the wind or sun!

The first problem is to find the money for the massive energy investments. We speak about thousands of billions of euro during the coming decades. As such there is a lot of money in the world. It is more about the readiness to invest in the energy sector. Today investors feel uncertain.

Investors are aware that there are political risks in investing in energy. Partly this is very natural because in very long term investments there are always considerable uncertainties. However, in the energy sector the political risks are even higher because since the climate policy has taken such a strong role they are not anymore "energy only" investments. Due to the linkage between climate and energy policy political interventions and steering is more dominant than before. This makes investors cautious.

The main problem is that the European energy and climate policy targets beyond year 2020 are open and it will still take a couple of more years before they will be set. Today the European targets for 2020 are 20% less emissions, the share of renewables up to the average level of 20% (in Finland 38%) and 20% more energy efficiency. The first two are binding targets for the EU Member States but the energy efficiency target is for the EU as a whole. The main policy tools of the EU to achieve these targets are emission trading, support schemes for renewables and the energy efficiency directives.

The open questions for years after 2020 are basically that how many targets there will be, are they binding for the Member States and what is the level of ambitions, in other words, how high percentages for 2030 and further on? These are very relevant questions for investors.

Today there are more and more demands that only one of the targets – emission reductions – should be binding. The others should be general EU-level targets. The main argument for this is that the more binding targets you have on an ambitious level the more difficult it is to cost optimize measures. One has to choose measure A although the same emission reduction could be achieved more economically by using B.

There is also growing criticism of different support schemes to renewables. The main argument is that subsidies cause disturbance to markets. Electricity or heat is the same product in spite of the fact how it is produced: by renewables, fossil fuels or nuclear. Investors feel that it is very demanding to make price scenarios beyond 15 years or so as there are different terms of competition; some are subsidized, the others taxed, and both are subject to changing political decisions. There are already some worrying EU-level examples on the changing decisions. So far the production of bio fuels for transport has been supported but now there is a proposal to put limits on the so called first generation bio fuels thus preventing the industry to expand its activities. There is also a proposal to change the rules for emission trading in the middle of the emission trading period till 2020.

It is of outmost importance that decision makers realize that investors need stability and thus decisions for years beyond 2020 must be made sooner than later. It is equally important that the political risks of changing rules in the middle of the game will be kept to minimum.

Energy issues central in the Baltic area

The countries around the Baltic Sea are not very homogeneous in the field of energy. Societies, their history and structure of the economy as well as natural circumstances vary a lot. For the Baltic States connecting to the energy networks of the rest of the EU is the priority. Especially in the area of natural gas through possible construction of an LNG-terminal at the Gulf of Finland there is light at sight. Finland has an active role in this development because an LNG-option could make natural gas market more competitive in Finland.

Polish economy is strongly based on coal and it will take a lot of time and money to change this situation. The others should respect that. Germans are testing the sustainability of their own country, as well as that of their neighbors, with their Energiewende. The Danes are climate radicals relying more and more on wind as well as regulating power from the other Nordic countries.

Norway is the energy giant both in oil, gas and hydro. They do not have too much to worry about. Sweden is well placed, too. They have a lot of both hydro, nuclear and biomass. Finland has less hydro and nuclear than Sweden and thus still today more carbon in the energy system.

The Baltic Sea area is an area of growth in Europe with its relatively stable and well developing societies. If each of the countries alone, and all together, has the strength to invest in the energy systems area´s future looks much better than that of the rest of Europe.

Esa Härmälä

Director General

Energy Department

Ministry of Employment and the Economy

Finland

LNG terminal in Lithuania – a small solution to a very large problem

By Rokas Masiulis

On November 23 the European Commission published a strategic vision on the construction of a liquefied natural gas terminal. The study by Booz & Company concluded that the regional terminal should be built in either Estonia or Finland. The study, which was undertaken at the request of the EU states working to implement the Baltic Energy Market Interconnection Plan (BEMIP), provides the strategic framework upon which the countries and project promoters concerned should base future decisions.

This document also identifies the infrastructure required for the internal market to function correctly and for the region's energy supplies to be secured.

The member states concerned are expected to agree upon an action plan for the implementation of the programme in the areas of infrastructure development and gas supply diversification at the next meeting of the high-level BEMIP task group. The plan will outline specific measures covering political arrangements, regulatory issues and commercial decisions, project development and the implementation of infrastructure projects.

A perfect chain of work – from study, through agreement to planning – should ensure successful project implementation. This project is highly significant and is a necessity for all the countries involved in BEMIP implementation.

The regional terminal would supply gas to the Baltic States and Finland, which are now completely dependent upon a single Russian supplier. The terminal would be eligible for financial support from the EU.

Accordingly, it should be large, located in a strategic position and served by well-planned infrastructure. The terminal could be opened in around 2030 but Lithuania cannot wait this long.

Therefore, Klaipėdos Nafta AB is implementing a liquefied natural gas terminal project in the country. The terminal will be built in Klaipėda, the northernmost ice-free port in the Baltic States, close to an island bearing the somewhat ironic name of Kiaulės Nugara (Pig's Back). It will be relatively small and will not receive financial support from the EU.

Nevertheless, it has one huge advantage – it is already being built. At the moment, the project is on track and both the necessary coastal infrastructure and a floating storage and regasification unit (FSRU) under construction in South Korea, which Lithuania will lease from Norwegian company Hoegh LNG, will be operational at the end of 2014.

Moreover, I would guess that this terminal will be used as a small regional terminal in the near future, regardless of the implementation of European Commission-supported initiatives. Despite its relatively small capacity (between 2 and 3 billion cubic metres of gas per year), it will be big enough to be significant to both the Baltic gas import structure and the gas price. The Klaipėda terminal, which in theory will be able to meet up to two-thirds of the gas demand of the Baltic States is set to become a serious alternative and a useful asset in negotiations with gas suppliers.

The project implementation process suggests an increasing number of reasons that it has the potential to turn from a strategic project meeting energy security objectives into a real regional gas market player.

Such potential was not seen as a priority back in 2010 when the Lithuanian Government addressed essential project progress and timing issues. In the wake of the decommissioning of the Ignalina Nuclear Power Plant, Lithuania's dependence on gas supplied by Gazprom became a real threat to the country's energy security. Industry, the heating of households and electricity production became dependent on a single source and a single supplier. Therefore, in addition to the new nuclear power plant project which has a very long implementation period, a fast and efficient solution was required for the transition. The new terminal is in line with both strategic and economic objectives, as it will provide access to gas from alternative suppliers and will create the preconditions necessary for securing cheaper gas and negotiating better prices with the Russian supplier (Lithuania currently pays the highest price for gas in Europe – EUR 405 per 1,000 cubic metres while, since 2002, the price of gas has risen six fold).

Consultations with the other Baltic States have shown that a quick decision on a joint project is not possible because too many positions would have to be coordinated. After evaluating the situation and possibilities, the Lithuanian Government decided to implement the project in Lithuania, taking into account the situation in the country and possible alternatives. It should be pointed out that Lithuania has also decided to implement the EU Third Energy Package requirements for the electricity and gas markets. Therefore, the terminal should be seen in the context of this comprehensive energy sector reform.

The first decision to be made was over the type of terminal to be built. Two alternatives – land-based or floating – were considered for the type of LNG terminal. A working group set up to examine the alternatives recommended a floating terminal at a cost that is about EUR 100 million less than the land-based alternative. It would be built much faster and would allow its floating storage and regasification unit to be moved to another location if necessary.

This is an important factor as far as the project lifetime is concerned. Unprecedented gas market dynamics have meant that the FSRU along with the operator functions will be leased for ten years instead of being purchased. Moreover, the possibility of increasing the design capacity of the terminal in the event that Latvia or Estonia decides to buy more gas in Klaipėda in future was taken into account during the preparatory stage of the project.

The terminal project has already reached the point of no return – something which is focusing minds and imposing strict disciplines upon both the company implementing the project and the main decision makers. This is a very important factor given the changing political context, uncertainty in prioritising different energy sources and the actions and lobbying potential of other gas market participants. Moreover, the legal and political uncertainty that has arisen following an advisory referendum on the construction of a new nuclear power plant in October has further increased the importance of the LNG terminal project in the immediate future.

These are the factors that have been taken into account by the project promoters who recognise that the

LNG terminal project is in the spotlight when it comes to the energy system in Lithuania and across the Baltics.

The good news is that progress on the project is proceeding according to plan. South Korea's Hyundai Heavy Industries shipyard has already started steel cutting work on the FSRU – which will have a capacity of 170,000 cubic metres – as well as starting production of the unit’s technical equipment. Meanwhile, the preparation and approval of the project financing structure is being finalised in Lithuania.

Having evaluated the environment, project progress and any changes, it is safe to say that the strategic Lithuanian energy security installation is becoming a timely project of benefit to the entire region.

This is extremely important when we consider the very significant but long-lasting and quite cumbersome processes within the EU. While the European Commission is forced to deal with assumptions and “what if” scenarios, we can prepare the ground for radical changes in the future with small but effective solutions. Even if we listen to those who prophesise the domination of the European gas market by a few very large companies, we cannot ignore the fact that liquefied natural gas terminal infrastructure development and shale gas have radically altered the balance of power and possibilities in global gas markets – perhaps forever.

A lot of white spots still remain on the new map of the global gas market. Those who are first to market in new areas will be the winners.

Rokas Masiulis

CEO

Klaipėdos Nafta AB

Lithuania

LNG import terminals in Baltic Sea Region – review of current projects

By Monika Rozmarynowska

One of the most important energy source for economies around the Baltic Sea is natural gas. However, there are no large natural gas supplies in Eastern Europe and Russia is a dominant supplier of gas to the Baltic countries such as: Estonia, Finland, Latvia, Lithuania and Poland. That's why over the past several years diversification of natural gas supply has been a widely discussed issue within Baltic Sea Region. The technology that provides an excellent way to diversify Baltic counties gas supplies away from Russia is LNG. As there are several projects concerning LNG terminals within Baltic Region under way, it can be expected that liquefied natural gas may play an important role in the Baltic Sea Region in the near future.

It can be said that the history of LNG within Baltic Sea Region has already been started. The first LNG import terminal in Baltic Region was officially put into operation in May 2011 in Nynäshamn (Sweden). The terminal's owner and operator is AGA (Linde Group). It is a medium size import facility. It is equipped with one tank, which capacity reaches 20,000 m3 (9,000 tonnes). Terminal can receive LNG carriers with a capacity up to 15,000 m3, and length up to 120 m. The natural gas for terminal in Sweden is sourced from the Stavanger LNG plant in Norway. Facility is used to supply with gas various customers in the Eastern part of Sweden. Terminal supplies for example the city grid of Stockholm and some industrial facilities, including the neighbouring crude oil refinery Nynas.

The second LNG import terminal within Baltic Sea is being constructed in Świnoujście (Poland). However, this terminal will be of a much larger scale than that existing in Sweden. According to the plans, the annual handling capacity of the terminal will vary from 5.0 to 7.5 billion m3 of gas following the demand of the market. This capacity will constitutes from about 30% to 50% of the current annual demand for gas in Poland (which is approximately 15 billion m3). LNG jetty will be adjusted for LNG carriers of a capacity up to 216,000 m3 (Q-flex). Terminal will be equipped with two storage tanks, each able to store 160,000 m3 of LNG. Terminal is planned to be put into operation in June 2014. The only company to have confirmed its will to use the terminal so far is PGNiG, which intends to import 1.5 billion m3per year of LNG from Qatar.

The construction of large scale LNG terminals in order to diversify energy sources and reduce energy dependence on Russia is considered also by other Baltic countries (Lithuania, Latvia, Estonia, Finland). Currently, Lithuanian project seems to be at the most advanced stage of implementation. In the first quarter of 2012 the Lithuanian government has accepted a bill, which covers all necessary conditions for setting up a LNG terminal in Klaipeda port. The central element of Lithuanians LNG terminal will be Floating Storage and Regasification Unit (FSRU). The unit is ordered by the Norwegian company Höegh LNG, but will be handed over to Lithuanian Klaipedos Nafta (developer of LNG terminal in Lithuania) under a time-charter agreement. The ship will be chartered for 10 years at $189,000 a day ($689 million for 10 years). After this period, FSRU may be bought by the operator. The unit, will be moored at port of Klaipeda and will be connected to a network of gas pipelines. The tanks' capacity will be 170,000 m3, while the annual capacity of a floating terminal is estimated at 2-3 billion m3 (which is an equivalent of the 100% of Lithuania's current demand for natural gas). The FSRU will receive gas from ordinary gas tankers. According to plans, Lithuania's LNG terminal should be put into operation in 2014.

Construction of LNG terminal is also considered by Estonia. The terminal is intended to build on the east side of Muuga Harbour. The initial plans assume that the proposed terminal could be equipped with storage tank of a capacity of 90,000 m3 and would be able to receive LNG carriers up to 75,000 m3. Also Latvia revealed its idea to build LNG terminal. Riga is indicated as a potential localization for such facility.

However, three large scale LNG terminals in the near vicinity that will be certainly too many. The most suitable option would be to build one regional LNG terminal for all of three Baltic States. And here the problem starts. All three countries persist that construction of LNG terminal in each own country would be the best option. However European Union will not co-finance the construction of a LNG terminal if an agreement is not reached for involving all Baltic States in the project. Latvia, Lithuania and Estonia were unable to reach a final agreement in autumn 2011, therefore, the European Commission hired consulting company (Booz & Company) that carried out an independent research in order to identify the most suitable location. The EC plans to reveal the findings of its research by the end of this year. However, according to the initial results the terminal should most likely be located in Latvia. Consulting company recommended also choosing Estonia for construction of the Baltic liquefied natural gas (LNG) terminal, on condition that Finland joins the project. On the other hand Finland also considers its own LNG terminal. Gasum considers construction of such facility in the southern part of the country. The potential localizations are: Jöddböle, Ingå, or Tolkkinen, Porvoo.

To sum up, the issue of LNG import terminals is a very present topic within Baltic Sea Region. Currently, there are two certain localizations of such facilities (Nynäshamn in Sweden and Świnoujście in Poland). It is still not sure, how the problem of LNG terminal localization in the eastern part of Baltic Region will be solved and whether there will be one or more LNG terminals. However, for sure LNG will play a very important role in future gas supply within Baltic Sea Region.

Monika Rozmarynowska

Assistant

Department of Transport and Logistics

Gdynia Maritime University

Poland

Environment projects in the Central Baltic Programme

By Juha Kettunen

The higher education institutions in Finland define their profiles and specify them by the focal areas of expertise. Turku University of Applied Sciences defined innovation pedagogy based on multi-field education as its profile, where applied research and development respond to the development needs and are integrated with education to support the innovations created in the work places in Southwest Finland.

Innovations are created in international activities and they are prerequisites for entrepreneurship.

The research and development programmes of the institution are based on the focal areas of the faculties. They are applied information and communication technology, biocompetence and business know-how, expertise in health care and medication, lifelong well-being services, marine environment and construction expertise, and working life based approaches to creative arts. The institution and faculties allocate financial resources to these programmes. External funding is sought to supplement the internal funding.

The Central Baltic INTERREG IV A Programme 2007–2013 covers regions from Estonia, Latvia, Sweden and Finland, including Åland. The Programme funds cross-border cooperation projects in the central Baltic Sea area, and allocates 96 million euros of project financing from the European Regional Development Fund. The Programme has three common priorities, which are Safe and Healthy Environment, Economically Competitive and Innovative Region, and Attractive and Dynamic Societies. Turku University of Applied Sciences has been an active partner especially in the environmental expertise projects, which matches the expertise of the institution best.

Turku University of Applied Sciences is a partner in 12 projects funded by the Central Baltic Programme, which is about 10% of the total number of 119 funded projects. According to the Act on Finnish universities of applied sciences, applied research and development serve education and promote working life and regional development, taking into account the economic structure. The following environment-related projects are examples of applied research and development:

The SUSBIO project (Sustainable utilization of waste and industrial non-core materials) aims to develop tools for the added sustainability of the food value chain in order to reduce the total environmental load on the Baltic Rim area. The project develops methods for the economic utilisation of industry byproducts and other biomaterials while applying the remains to energy production in integrated biofuel processes.

The BALTICSEANOW.INFO project (Innovative participatory forum for the Baltic Sea) aims to raise the environmental awareness, concern and commitment of the general public in the Baltic Sea environmental issues, to offer an arena for discussion, participation and information sharing and to promote the networking of educational institutions. The primary target group is the people living in the coastal areas of Finland, Sweden, Estonia and Latvia.

The general object of the DEVEPARK project (Sustainable historic park management and development in Finland and Estonia) is to improve the well-being and life quality of the EU citizens by developing historic parks. The Degree Programme in Design at Turku University of Applied Sciences has expertise in design and woodworking. The degree programme has agreed with the City of Turku to get the cut tree material for utilisation in park benches, signs and other products to promote sustainability.

The aims of the MINVA project (Minimization of wastewater loads at sparsely populated areas) are the exchange of knowledge and experience in the handling of waste water in sparsely populated areas, education and training and dissemination of good practices. The partners from Finland and Estonia develop models for common wastewater treatment systems, maintenance and service and follow-up systems.

The ProNatMat project (Promoting natural material know-how) promotes natural material know-how in Finland and Estonia. The aim of the project is to increase the use of natural materials in ecological building, handicraft, design and art and cultural heritage and increase the awareness of natural material know-how among all groups of population in Finland and Estonia.

The main objective of the project ACTIVE WETLANDS (Active measures on wetlands for decreasing the nutrient load in the Baltic Sea) is to generate knowledge and find out the applicability of different methods for increasing the efficiency of small wetlands. The project disseminates the latest wetland know-how and the outcomes of this project to farmers, agricultural stakeholders, rural advisers and decision-makers.

The objective of the PURE BIOMASS project (Potential and competitiveness of biomass as energy source in Central BSR) is to facilitate integrated and effective renewable energy resources (RES) usage in project regions by assessing RES potential and developing tools and solutions that help municipalities and companies in RES usage. The specific objectives are to assess the potential of renewable energy sources such as wind, biomass and solar energy in the project regions, to identify new RES usage possibilities and technologies, to determine the most effective RES usage (socially and economically) in the project regions and to develop cross-border competence tools for RES management and usage.

The objective of the COFREEN project (Concepts for using reed biomass as local bioenergy and building material) is to execute the sustainable managing of reed beds in southern Finland, Estonia and Latvia. The project also creates concepts for using reed biomass as a local source of bioenergy and construction material. The activities support Integrated Coastal Zone Management (ICZM) and counteract climate change. The project focuses on bioenergy production with reed, and looks for new ways to use reed in the construction industry.

The environmental projects are the most successful in getting funding from the Central Baltic Programme, but there are also four other projects titled CB JOB FERRY, eMEDIC, MIMO and VIRTU, where Turku University of Applied Sciences is a partner. All of these projects are examples of innovation pedagogy, which promotes radical innovations or incremental improvements of products, services or processes.

Juha Kettunen

Rector

Turku University of Applied Sciences

Finland

Responsible university education of business and economics in the BRE

By Markus Granlund

Turku School of Economics (TSE) belongs to the wide group of established and esteemed business schools in the Baltic Sea region that maintain high international standards in research and education. TSE has excellent relationships with a number of business schools in the BRE, but there is room for development in making these relations deeper. With some business schools we plan to form strategic partnerships, which would in a much more systematic manner create leading edge research and high quality, truly international learning experiences to students from bachelor to doctoral levels, without forgetting executive education. Co-operation may range from short period student exchange to long researcher and teacher visits to large common research projects, funded, for example, by the European Union.

The business schools around the Baltic Sea should also have a look at the mirror to reflect how they foster research based education of the future professionals and leaders regarding sustainability. It is more and more important to incorporate business ethics and other themes related to responsible business to the curricula of business schools. Furthermore, this should not only mean giving single courses on the topic, but incorporation of this thematic through the curriculum in a systematic way. All disciplines, from accounting and finance to law, marketing, management, and economics, should take this initiative seriously. In its part, such development would help in making the Baltic Sea region a safer and cleaner environment. Such development would eventually turn into a competitive advantage as well: the Baltic Sea region could be made a forerunner in environmental health, globally. Unfortunately, we are currently a long way from an environmentally healthy Baltic Sea. This projection necessitates radical actions, as it should be shown to the rest of the world that in this “laboratory” of ours we succeeded in a massive, almost impossible task. This is not possible without close co-operation between the BREs.

However, there is more hope if we induce this kind of responsible research based future orientation to current students, who will make decisions in the future. We need to carry on academic research together with the business life and public bodies in order to find cures for the current “diseases” of the Baltic Sea. We can also feed to the idea of life-long learning, and take future studies/orientation and sustainability to our adult education, especially executive education. The EPAS/EFMD accredited executive MBA program of TSE has a strong commitment to future studies and long term orientation. One facilitator and important partner in this work is Finland Futures Research Centre (FFRC), a special unit of the University of Turku. They also run a 25 ECTS study module on sustainable development that offers a multidisciplinary palette of leading edge courses on the global challenges of responsibility and sustainability.

Responsible business or management, or sustainability by and large, imply, of course, much more than simply environmental issues. Naturally, the environment is upfront in related discussions, because it is an urgent matter and everybody has a word to say in that regard. Responsible management is, however, about taking all stakeholders of the organization into consideration when making significant decisions. No matter of the increased “money talk” in the university environment, we should not forget that the personnel and students are the most important stakeholders of universities, not companies, for instance. There is nothing to contribute to the business life without these stakeholders. Similarly, responsible management considers the appropriateness of excessive executive remuneration systems in times when the same companies fire or lay-off possibly hundreds of employees. This is “hard talk” from a Professor in a business discipline, but I feel it is also our duty to contribute to the sustainable and responsible development of societies in the long run. I consider business schools to be in a core position in influencing future developments in business life and thus the society on the whole.

The prevailing, many times short term oriented, thinking patterns do not too often balance short vs. long term, quantitative vs. qualitative, financial vs. non-financial, and internal vs. external aspects of management. There is a true need for balanced strategic and operative management that goes hand in hand with sustainable development. Sceptics may state that by bringing in various stakeholders, instead of focusing only on shareholders, blurs the causal relations existing or believed to exist in business models, and thus undermines strategic management. This is partly true: the balanced, responsible approach makes it visible that – especially in the long term – things and their relations are complex. Sometimes we have to simplify things in order to be able to make decisions and act, but this should not be a rule; things should not always be considered in the easiest way. Besides, by admitting the complexity and giving all stakeholders a voice, even if a quiet one, facilitates learning in a totally different manner than “single voice” approaches. Indeed, strategic renewal and emerging strategies (bottom up) necessitate listening to the weak signals. This applies not only to companies, but also to public sector organizations, including universities.

Markus Granlund

Director, Professor

Turku School of Economics

University of Turku

Finland

Link in the Baltic Sea region chain

By Janis Stonis

For the last year Latvia and the success story how to recover from the deepest crisis are main news for the international society and partners. No doubt, such news for the Latvian government and Latvian people are very pleasant as everybody is happy to receive compliments. It was also proved by the election results and Prime Minister Valdis Dombrovskis kept the office. Many study and policy centers around the globe are explaining this situation how Latvian government and Latvian people have overcome crisis with internal devaluation, noticing and analyzing both positive and negative influences.

Besides the economic theories I would like to mark few more emotional aspects that made Latvian people to overcome hard times of the crisis. The majority of people have still life memories of difficulties during so called soviet time that have made Latvians patient but at the same time proud about the national symbols. I suppose it roots also in the emotional connection to the national currency as a symbol. It makes the border between “Our crisis” and the common euro zone problems, pointing out that we have our own state and we have to fight ourselves for our nation and currency, in spite that many inhabitants have left Latvia at that time.

Latvia has been also mentioned in different reports because this crisis has influenced very hard the public sector and the higher education sector specially. It is already known that Latvian higher education has had the biggest public budget cuts across the EU, almost 60% from the approved budget for 2009 within next 2 years. From one side we can look at this situation as to the great challenge for the higher education: possibility to become more effective and efficient. But today's situation in Latvia shows that nothing much has happened from that time. Only few small colleges theoretically were merged with the bigger higher education institutions and Latvian Academy of Police was closed down, what might be more political agenda but not the higher education policy.

At that point it may seem that Latvian higher education system has already been very effective and efficient! Probably that is not the case. One big parachute for the whole higher education system to overcome the years of crisis is private capital involved in the sector. In 2008 from the total number of students 27 % were financed by the state budget (2009-30%; 2010-34%) and all others were paying tuition fees. If we look at the higher education institutions income structure in 2008, the public fund share has been 52% (2009-45%; 2010-36%). As we can see the shift to the private funds happened again during the crisis. I would like to summarize, that the private funds share played the significant role at that time. We should remember and Eurydice publication “Key data on Education in Europe 2012” proves that Latvia has the lowest annual expenditure per student. Latvian higher education system has about 60 higher education institutions and now we can see that the crisis has not changed it almost at all. Even small public higher education institutions, in which the public funds dominated in the income structure, have overcome the crisis. The usual policies during that time were like: to decrease wages, to offer less opportunities to students (smaller elective part, no free choice course etc.), to cut services etc.

At the same time I would like to point out that the level of the institutional autonomy in the higher education sector is very high. Latvian higher education institutions have large variety of decision making power like they are free to set tuition fees, set admission numbers (for not public funded places) etc. what other EU institutions do not have. According to the European University Association publication “University Autonomy in Europe II” by Thomas Estermann, Terhi Nokkala & Monika Steinel the higher education institutions in Latvia have high or medium high level of autonomy in the most indicators. We only have to take into account that the governance structures remain unchanged from the beginning of the 90ties – democratic with the powerful Senate as the governing body and rector as the academic leader. However, the distribution of functions is not clearly defined and in some cases overlapping. For example according to legislation rector “shall:

…. be responsible for the quality of education to be acquired in the institution of higher education, the quality of conducted scientific research and implemented artistic and creative work;

…. ensure the legal, economic and purposeful utilisation of funds from the State budget assigned to the institution of higher education, as well as the property of the institution of higher education; be personally responsible for the financial activities of the institution of higher education;

…. promote and be responsible for the development of the staff of the institution of higher education and ensure the academic freedom of the academic staff and students;”

Simultaneously the Senate: “is a collegial management body and decision-making body of the staff of an institution of higher education which approves procedures and provisions, regulates all areas of activity of an institution of higher education”. In the situation when the Senate consists from such members as Deans, who are elected, to make the strategic decisions is very difficult, especially in combination with private funds like tuition fees which play the significant role in the faculty budget. The incentive based budget models help at the beginning, but later they become very dangerous for quality and probably the last step is internal competition.

Nowadays universities are trying to be on rankings and almost every presentation starts with it if a university is on it. The second issue which is rather popular within the last years is mergers. Mergers appear also as an indicator of success and effectiveness. Latvia can't use any of them. That is why Latvian higher education is rather unique in the region. It seems that Latvia is the only country around the Baltic Sea where the universities cannot be found in the most important ranking lists or there are not any serious merger examples.

In short, Latvian higher education can be characterized as the system with high level of autonomy, old and democratic (not to say meriocratic) governance, large number of higher education institutions (high level of defragmentation), significant part of private funds, but at the same time low level of funding etc. I would say that if not low funds, all other indicators could lead at least some institutions to be much better positioned as it is now. Why is it going on like this? We can find good explanation from Påhl Ruin in his article “Well-educated Baltic states. Mergers have become a necessity”, published in a quarterly scholarly journal and news magazine „Baltic Worlds” June 2012. Vol. V:2. His conclusion is „Latvia has the furthest to go.”

My experience and conclusion is, that combination of high level autonomy (what is very good – no doubt), significant part of private income stream and democratic governance is the road to nowhere!

How can we make changes in the current situation? Contemporary Minister of Education and Science have announced many directions of necessary reforms in higher education: governance, financing, quality assurance, language (still on the agenda in Latvia) and learning process itself. Agreeing with that I would like to add that very important task is and will remain: how to attract well educated people into higher education sector (and not only) – on educational and research duties as well for administrative positions. Well educated - I mean persons with education and experience from the other countries who are able to bring new competencies and new “feeling of life” to our society. 2013 will decide will we move forward or not.

Janis Stonis

Administrative Director

University of Latvia

Latvia

Child welfare with a double-headed eagle as a partner

By Ari Niemi

In recent months the Russian media have pitilessly reproached Finland and the Finnish social welfare authorities for taking children into custody. Although the biggest tumult has stabilised, the repercussions can still be seen.

The furore started when four children were taken into custody in Vantaa; their mother has both Russian and Finnish nationalities and their father is a Finnish citizen with a foreign background. The reason for taking the children into custody is not known, because the authorities are bound by absolute obligation of secrecy regarding the case.

The reason is definitely not that the father had slapped one of the children on the bottom, as the Russian media and Children's Rights Commissioner Pavel Astakhov have said.

Foreign Minister Sergei Lavrov took to pondering "how much of a violation of the principles of a civilised state it is to take a baby from her mother". Russophobia and racism have also been suspected.

This was not the first time that Russia, their local media and Mr Astakhov reacted on such a case. In spring 2010, there was a fuss in Turku, where Mr Astakhov and his entourage arrived to settle a taking into custody. The episode quieted down as the family returned to Russia.

Finland's official reactions have been conciliatory. Both the President of Finland Sauli Niinistö and Minister for Foreign Affairs Erkki Tuomioja have reminded that child welfare matters are decisions of the authorities, and politicians shall not interfere with them.

It has been suspected that Russia wants to test Finland's foreign policy leaders and Mr Niinistö in particular.

Some people have seen a traditional circle of interest aspect in the dispute, according to which Russia still places Finland under its umbrella. Russia aims to protect its citizens and advance its own interest by any means in its neighbouring countries.

A tried and tested method used in Russia is to direct the attention at external threats when there are problems within the borders of the country.

According to one theory, by intimidating Russian families with the arbitrariness of the Finnish authorities Russia wants to hold on to its educated citizens and tourists that take money abroad. With poor birth-rate and low life expectancy, 62 years for men, Russia is also fighting sustainability gap and dependency ratio problems.

One might think that a Children's Rights Commissioner could keep himself busy in his own country where some 650,000 children live without their parents, many of them on the streets of big cities.

There are more than 90,000 registered media outlets in Russia, three newspapers with a circulation of over one million, and more than ten magazines in the same league. As an advertising channel the Internet passed by newspapers last year.Television is incomparable in forming the public opinion. All three national main channels are directly or indirectly controlled by the state. Gazprom and other large corporations that are in friendly terms with the Kremlin are also media giants.

Next year, a public service TV channel will start in Russia; the editor-in-chief/director-general and supervisory board will be appointed by the President.

The tradition of independent media in Russia is short and thin.

There are similarities with the yellow press of the Western world, though. They know how to lean on just one source, and they are familiar with the motto that checking the facts will spoil a good story.

The media have trusted the information provided by Docent Johan Bäckman who speaks fluent Russian, and have not bothered to check the facts. That trust has recently began to crumble, though. Nobody knows about Dr Bäckman's motives.

Helsingin Sanomat made a few phone calls and found out that even the Russian families involved did not always know about the takings into custody listed by Dr Bäckman. The proportion of Russian children in takings into custody is not exceptionally high.

It is difficult for the Russian media to understand that the social welfare authorities cannot give background information on child protection cases.

It is equally difficult to tell that ending up as a customer of child welfare is completely different in Finland and Russia. In the latter the procedure is total, while Finland favours non-institutional services and soft means. Only some of the cases result in urgent taking into custody.

It is tempting to use the mother as the only source. Around the turn of the millennium the Finnish media were following a dispute over a child between a Finnish mother and an American father. The point of view of the father and the US authorities was pushed aside in favour of the mother's message.

We could take a look in the mirror. If a diplomat smuggles a child to Finland – however good his cause – his judgement has failed seriously.

At first Russia wanted to set up a bilateral commission for child protection issues which involve Russian citizens. Finland appealed to international treaties and would not agree. If necessary, the case will be solved in the European Court of Human Rights.

As the establishing of a commission did not proceed, Russia has tried to set up at least some kind of a bilateral advisory body that would be in touch with the Finnish social welfare authorities. It was proposed, for example, by Prime Minister Dmitry Medvedev on his visit in Finland.

According to former President Juho Kusti Paasikivi's basic course in political realism, the Kremlin is no district court, but a force to be reckoned with. Now Mr Paasikivi's teachings would be detrimental for us.

One cannot think of a situation in which Finns, Russians or people with dual citizenship would be treated in Finland in accordance with laws and official norms of a country other than Finland.

The thought that official decisions cannot be affected politically even by ministers and presidents is unfamiliar in Russia. In Finland we should keep that in mind.

In Russia, politics affects everything. Hence an open dialogue between key politicians is in order, even if it does not always change the mind of the media of the great power.

Ari Niemi

Editorial Writer

Turun Sanomat, Daily Newspaper

Finland

Why Gulf of Finland Year 2014?

By Hannele Pokka

Trilateral cooperation between Finland, Russia and Estonia regarding the Gulf of Finland has continued for over 15 years. The first Gulf of Finland Year was held in 1996, and now preparations are under way for the Gulf of Finland Year 2014. The background organisations are the environment ministries of Estonia, Finland and Russia.

In 1996, the focus was on determining the state of the Gulf of Finland and implementing cost-effective reductions in emissions and discharges. Today, the marine environment faces a variety of threats, such as climate change, eutrophication, pollution, risks associated with increasing maritime traffic, degradation of fish stocks, and the spread of non-native species. All this is leading to a decline in biological diversity. The threats and necessary abatement measures require more active interaction between decision-makers, researchers and other members of society, and, above all, strong commitment to protecting the Baltic Sea.

The Gulf of Finland Year 2014 provides an excellent opportunity to compile the research data needed. For the first time, the ecological status of the Gulf of Finland can be studied and analysed in great detail through a collaborative effort between three countries. We have the best experts from the three countries and modern research methods at our disposal, and a common plan of action. Obtaining fresh research data will certainly be helpful, as the Helsinki Commission (HELCOM), the European Union and other international and national parties monitor what has been achieved in terms of protecting the Baltic Sea, and what is still needed.

A number of research institutes and cities — e.g. Helsinki, Kotka and Turku in Finland — as well as other stakeholders in all three countries have already committed to collaboration during the Gulf of Finland Year.

Previously, trilateral cooperation has mainly been about cooperation between research institutes. Seminars have been held for researchers and publications on these seminars produced. The Gulf of Finland Year 2014 will also involve governmental decision-makers, cities, the private sector, people from environmental organisations and environmental education providers. In Finland, a delegation of citizens, headed by former Prime Minister Matti Vanhanen, has been established to serve as a link between the various parties. President Sauli Niinistö serves as the patron of the Gulf of Finland Year. It seems that high-level meetings between state representatives are going to take place during the year and a Gulf of Finland declaration is already being discussed.

It will be exciting for Finns — especially those living on the coast of the Gulf — to see what kind of local events are organised in cities and municipalities. Finland is a land of countless summer parties. It is likely that in summer 2014, the special theme of many of these events in the coastal region will be the Gulf of Finland, in some form or other.

In October, I participated in a meeting for researchers, which was held in Helsinki, to discuss the Gulf of Finland Year. Some 200 scientists from Finland, Estonia and Russia were present. The mood was open and informal, as like-minded professionals talked in a collegial spirit.

Why do we need the Gulf of Finland Year? We should all have a good understanding of the ecological status of the Baltic Sea. We know that much has been done to improve its state, but much should still be achieved.

In 2007, the Baltic Sea coastal countries agreed on practical measures to reduce the phosphorus load and other pollutant loads into the Baltic Sea. The countries also agreed on how these measures would be monitored. Funding for protection has been obtained from both coastal countries and international financiers.

Two years ago, Helsinki hosted the Baltic Summit, which was attended by heads of state and high-level political decision-makers from all of the coastal countries, as well as business representatives. At the summit, the countries committed to actions they were prepared to take to boost protection. For example, Finland pledged to implement enhanced measures to improve the ecological status of the Archipelago Sea. This sea, located off the south-western coast of Finland, has suffered from agricultural discharges in particular. We have already initiated the enhanced measures.

Russia has promised to organise a follow-up meeting to the summit early next year. We will hear then about what progress has been made towards meeting the commitments.

For more than twenty years, Finland's most important target for reducing discharges into the Baltic Sea has been the St Petersburg wastewater treatment system. Finland has been helping to modernise the wastewater treatment system, together with Russian authorities, international financiers, supporters and the European Union. Only a few years ago, the waste water of this city of over five million inhabitants flowed untreated into the Baltic Sea. In Finland, we calculated that minimising these discharges would be the most cost-effective way of protecting the Baltic Sea. This work has been a great success. According to researchers, the eastern end of the Gulf of Finland is becoming cleaner.

Despite all the good news given above, the Baltic Sea is still very sick. That is why we need activities such as the Gulf of Finland Year, so we can continue to move forward with implementing protection measures.

Hannele Pokka

Permanent Secretary

Ministry of the Environment

Finland

Integration of the Baltic Sea labour market

By Kari Häkämies

Until recent years, emigration had always been a characteristic of the Finnish labour market. At various points in history, many Finns have migrated to America, Canada, Australia and, most of all, to Sweden. On the other hand, since the era of Finnish autonomy, there has been foreign labour in Finland and, most of all, entrepreneurs and businessmen who have left an indelible imprint on Finland's corporate structure. Almost all of the major companies in Kotka, my city of birth, were established by Norwegian immigrants.

But after the Second World War, Finland closed in on itself. In the Finnish countryside, seeing a foreigner was considered unusual and exotic, something that only a few people had the opportunity to experience. Ever since those days, there have been areas in Finland where foreigners are not looked kindly upon and peculiar prejudices prevail.

In the 1970s, the emigration to Sweden of hundreds of thousands of Finns resulted in a labour shortage in Finland. However, it took a long time for Finnish employers to begin recruiting employees from abroad. It was only in the late 1980s that some Finnish companies began hiring employees from Estonia. Then Finland was hit by a recession, unemployment rates soared and foreign workers were no longer in demand.

The 1990s saw the arrival of many immigrants. This was now easier than before, but immigration was seldom work-related. Such immigration was caused by the breakdown of the Soviet Union and the increasing number of refugees. The Finnish Government's first Immigration and Refugee Policy did not focus on factors related to labour market policy.

In the early 2000s, it was realised that Finland was facing a serious shortage of labour due to its ageing population. We found ourselves face-to-face with a strange paradox: while Finland has many unemployed people, hiring Finnish people to do certain types of work has become impossible. In Sweden, this phenomenon has been well-known for long, and in many professions meeting a native Swede is regarded as something of a miracle.

One of the special characteristics of work-related immigration into Finland is that people do not actually "move" here because of work; instead, people stay here for a fixed period or, alternatively, they work here on a permanent basis but their families remain in their native country, while the person working in Finland visits them as often as possible.

Another easily identifiable feature of foreign labour is that it is not very highly educated. We are, after all, talking about people who are able to do many kinds of work, as in the construction sector, and, unlike Finns, they are not afraid to switch jobs just like that. You might find one of them working as a carpenter this week and painting a house the next, as if this was the most natural thing in the world.

In Finland, foreign labour is concentrated in certain parts of the country, mostly in southern Finland. In the Helsinki Metropolitan Area, one in every three construction workers is a foreigner. On many construction sites, you seldom meet a Finnish worker.

One of the peculiarities of recruiting foreign workers to Finland is that they are hired from abroad. Employers show little interest in foreign workers who already live in Finland.

Most foreign workers in Finland come from Russia, the Baltic countries and Poland. We could call this a sort of Baltic Sea labour market, the creation of which is quite easy to understand. As communism collapsed in many Baltic countries, there simply were not enough jobs for everybody in the new society. The level of pay in Finland was, and still is, very attractive. Another reason was the fact that Finland was quite near. It is easy to visit your own country and the costs are reasonable.

However, the integration of this labour market has had its share of problems. Differences in income levels between states in the Baltic Sea region have created a number of undesirable phenomena, which are difficult to control. We still have a long way to go before we can talk about equal opportunities in working life.

The Baltic countries and Poland are Member States of the European Union, and coming to work in Finland is very easy for people living in these countries. A downside is that free movement of labour also creates opportunities for criminal activities. My current position is Director-General of the Regional State Administrative Agency for Southwestern Finland. One of the Agency's areas of responsibility is occupational health and safety, which entails ensuring that Finnish law is observed on all construction sites, whether pay, occupational health and safety, or some other obligation is the issue in question.

It has become increasingly difficult for Finnish authorities to carry out their work. Many sectors are now turning to sub-contracting, which means that workers may be hired by different employers working side by side in the same workplace. This has led to an increase in the number of firms who pay their workers clearly less than the minimum pay laid down in Finnish collective agreements. In some cases, the workers are hired by a foreign company hiring leased labour, which makes it difficult even to determine which country's collective agreements should be observed.

There is no going back to the good old days. Movement of labour across national boundaries is constantly increasing. A few years ago, a major Nordic conglomerate had won a contract for a large construction site I was visiting in Tallinn. What caught my attention was that I did not hear any Estonian spoken on the site. "Of course not," said the project manager. "All the Estonian construction workers are working in Finland. Many of our workers come from Ukraine." This kind of situation is becoming the norm in the Baltic Sea region.

Owing to the Euro crisis, many European countries are beginning to entertain serious doubts about their membership of the union. Opposition to integration of the labour market is on the rise. Europeans would rather see their borders closed than opened to foreign workforce. This road is not only wrong, it is also unrealistic. The only way for us to create a better Europe is to ensure that differences in living standards between European nations are minimised as soon as possible. This kind of development would also be an efficient way of removing any undesirable phenomena from the labour market.

Kari Häkämies

Director-General

Regional State Administrative Agency for Southwestern Finland

Finland

Cooperation between Hamburg and other partners in the Baltic Sea region

By Stefan Herms

Compared to our earlier survey, real investment activity Hamburg is a major hub for innovation, dynamic economic development and employment in the Baltic Sea Region (BSR). Experience has shown that Hamburg and its surrounding districts are even stronger when cooperating with other regions, which are facing similar metropolitan opportunities and challenges. Hamburg has economically moved into the center of the BSR after the reunification of East and West Germany, the EU entry of Baltic States and the involvement of Russia into EU projects. So far Hamburg cooperates mainly with the Øresund Region, St. Petersburg, Stockholm, Kaliningrad and Uusima. Other regions like northern Poland and the Baltic States offer potential for further exchange.

One has to take into account the economic effects and challenges of the political reunification of the region:

Trade is a field that demonstrates how closely the BSR today is cooperating. The container handling with the BSR in the port of Hamburg accounted for 1.4bn EUR in 2010. It is the second most important trading area after Asia, accounting for 2m TEU (Twenty-foot Equivalent Unit) in 2011 and thereby having a promising growth rate of 26 percent compared to 2010.

In the light of the growing exchange of goods and services across the country boarders it is essential to adjust the infrastructure accordingly. This requires an active development of the train systems, the flight connections, the shipping ways and the highways. The Fehmarnbelt Crossing will be built between Denmark and Germany from 2015 onwards. Up to 12,500 vehicles per day are expected to use it on a daily basis. It will ease transnational cooperation and strengthen the bonds between the region of Hamburg and the Øresund Region and exemplifies the need to invest in the region's transport links.

To promote cooperation and to have a basis to develop new collaboration projects, Hamburg uses for example the networks of the Baltic Development Forum (BDF) and the Baltic Sea States Subregional Co-operation (BSSSC). While the first one focuses on cooperation between the public and the private sector, the latter one concentrates on cooperation between regions in the public sector. Thus, both of them foster the cooperation within the BSR and promote the regional interests within the European Institutions. Furthermore, the STRING partnership promotes regional development and green growth in the corridor stretching from the Øresund Region to Hamburg.

The subjects of regional cooperation are highly diverse, covering economic areas such as trade, infrastructure and logistics, but also important issues like education, science, research and development. Especially the latter subject has led to a political cooperation between the regions. It has been observed that "soft" fields of cooperation – education, research and science – have gained importance.

An example for a very promising political cooperation on a regional level is the Turku process. It is a joint initiative of the cities of Turku/Regional Council of Southwest Finland, St Petersburg and Hamburg with strong cooperation with the regional policy of the European Commission. Its main objective is to promote practical cooperation with Russian partners, building on the trust accumulated during a significant period of twin city cooperation. It includes a diversity of actors: cities, regional authorities, scientific institutions, businesses and their bodies, social partners etc. It exemplifies multi-level governance in practice. The process is a bottom-up initiative, based on the commitment of various stakeholders to contribute to the development of the BSR.

The development of the infrastructure enables further cooperation between Hamburg and other BSR areas on the labor market. An international labor market has become more and more important, as globalization, financial crisis and demographic changes require employers and employees to become more flexible. Employees commute across country boarders to work, business travels abroad or opens up subsidiaries in other regions: Travelling has become a necessity and daily routine for many citizens.

In order to develop a sustainable and flexible transnational labor market, the Baltic Sea Labour Network (BSLN) has been founded. The project was so successful that it has been turned into a permanent forum which is located at the Council of the Baltic Sea States (CBSS). Thus, employers, employees and politicians from 22 partners and 9 countries are able to share their knowledge and work together.

A good example from the science sector, where joint research projects between universities, specialized institutions and companies lead to synergy effects, is the cooperation between the European Spallation Source (ESS) in Lund/Copenhagen and DESY in Hamburg in the field of materials research. These two institutions support each other by sharing their knowledge, creating a pool of highly skilled researchers and applying jointly for EU funding. As they are attracting companies to reside closely to these institutions they also stimulate each region's economic growth and provide scientific cooperation for research and development of small and medium-sized enterprises

The course of the past years has shown that Hamburg offers bright prospects for innovation. However, these prospects can only be tapped to the full potential if Hamburg cooperates with other dynamic key regions. As the BSR is highly heterogenic, many obstacles have to be overcome. There is still a lot of work ahead in order to provide a framework that enables smooth and fruitful transnational cooperation and I am sure that we are on a good way towards success.

Stefan Herms

Director General

Department International and European Affairs

Senate Chancellery

Free and Hanseatic City of Hamburg

Germany

Patient mobility in the Baltic region

By Heikki Pälve

Patients´ mobility in the European Union has been a much discussed topic more than a decade. Despite the fact relatively few patients are still willing to seek care in other countries. Patient mobility does not limit itself only to EU area. There has been some movement across borders also e.g. between Russia and Finland.

Patients who seek treatment in another country have potentially significant implications on the national health system and its costs. Therefore the issue raises many questions - even concerns –amongst health authorities and politicians. From the patient´s viewpoint it is often question of swifter access to treatment or better quality treatment than in the homeland.

Currently ongoing implementation of EU directive on patient’s rights in cross-border health care to national legislations forces governments in many Baltic region countries to find solutions how to ease patient mobility. Countries are now obliged to define – in one way or another – the national service basket in health care. The basket contains health services that are deemed to be part of the national health sceme. For example, in Finland this definition is presently not clear. Countries also have to define the level of reimbursement the patient is entitled to. The directive is clear about this: the patient should get the same reimbursement as in the similar situations at home country in all the servicers that are deemed to belong to the national reimbursement and service basket. This is essential in order to reach the aim of the legislation which is to enhance free movement of persons in the EU. In the Finnish two tier health system (public vs. private sector supported by sickness insurance reimbursements) decisions on the reimbursement level are challenging.

Evolving EU legislation is one factor that encourages different actors to change their attitude towards patient mobility. Another is the patients themselves. People are used to get health services in a known and safe environment, close to their home. The awareness of the new possibilities in the health field is however spreading, and a more internationally oriented generation is growing, which will likely increase the number of patients crossing borders in the future.

Finland has been an island. Older generation is used to not been able to travel to Russia and there has been no personal connection to Russian people. To other European countries one has been forced top cross the Baltic sea. This has been cumbersome and expensive. This not the case in either instances any more.

Health care professionals are as well more willing to work abroad. In Finland the biggest foreign groups of physicians come from Estonia and Russia. As national borders somewhat fade, there is need to find new ways of cooperation between health care providers.

New initiatives to increase the patient mobility in the Baltic region emerge. For example, in October 2012 Finpro and the Finnish Ministry of Employment and the Economy launched a FinlandCare -program. The purpose of the program is to promote patient mobility from Russia to Finland and to open the doors to Finnish health service companies in Russia. According to survey made by Finpro about 120 000 Russians travelled abroad to receive health services in 2011. However, only few hundred of them came to Finland. Russians are now given more information on the Finnish health care services in their own language on a website (FinlandCare.ru) developed for the program.

Finns have traditionally sought health care in the neighboring countries, Estonia and Sweden. Private health care providers in Estonia – some of them originally from Finland - offer e.g. dental care and plastic surgery services. There have been some unethical patient recruitment especially on the field of plastic surgery. This has lead to complications and mishaps and since the service has been given outside Finland’s boarders patients have not been under the coverage of Finnish patient insurance system. It is essential that patients are well informed not only concerning their rights but also duties, follow-ups, insurance and the way their patient information is conveyed back to their country of origin.

One can ask is Finnish health care system lucrative in the foreign patient´s eyes? Health care in Finland is generally characterized as safe and quality of the services high. In Finland the nosocomial infection rate in hospital treatment is very low in comparison to all other countries. All these are important elements of safe and effective health care to the patients. There are cultural issues and language limitations that hinder excessive rush of patients to Finland. Geographically Finland is far away also to the patients seeking care in Finland. The situation may be somewhat different in very rare and high-specialized treatments like neurosurgery where university hospitals can give added value to foreign patients. There are now also very esteemed private health institutions for ex. in the field of cancer care and sports medicine.

Private providers in Finland have already discovered potential patient markets abroad. For instance, cancer treatments in Finnish public hospital are marketed to Russian patients. Relatively new phenomenon in Finland, are private hospitals established, and mainly owned by public entities. Also these do look behind the national borders, and expect some of the “clientele” come from abroad, especially from the East.

Heikki Pälve

CEO

Finnish Medical Association

Finland

Entrepreneurship as a source of growth and competitiveness in the Baltic Sea Region

By Jussi Järventaus

Finland is part of the Baltic Sea Region. Throughout history, the Baltic Sea Region has been essential for Finland. Economically speaking, its significance is illustrated by the fact that around 40% of Finland's exports and 45% of imports are connected to the economic region surrounding the Baltic Sea. The area is home to Finland's three most significant trading partners: Germany, Russia and Sweden. In terms of investments, around 70% of direct investments targeted at Finland come from the Baltic Sea Region, and around 40% of investments made from Finland are targeted at the region. Even today, over 80% of Finland's foreign trade is shipped through the Baltic Sea. This means that the development of the Baltic Sea economic region is vital for Finland.

The Baltic Sea Region has fallen on especially hard times due to the economic recession. One of the reasons for this is the export-based nature of the region's economies. The large production of investment goods in the Baltic States means that recovery from the recession will take longer, making the situation even more challenging.

The region is united by the sea, but it is nonetheless clearly divided. On the one hand, the area is made up of the wealthy and innovative north and west, and on the other hand the developing east and south. However, the differences between the most innovative areas of Europe, such as Finland, and regions such as the Baltic States, with their well-educated young people but weak infrastructure, provide possibilities for complementary cooperation and development which will strongly benefit all players. Cooperation could provide genuine possibilities, especially for innovative small and medium-sized enterprises.

The lack of competition due to limited national markets could be considered one of the most significant challenges of entrepreneurship and of using it to its full-potential. In order to solve the problem, the area must become more deeply integrated. This is, however, challenging, because institutional obstacles continue to limit the cross-border operations of enterprises in the Baltic Sea Region. Solving this problem requires the unification of entrepreneurial activities, which are currently too fragmented, in terms of legislation and the institutional environment, and above all their simplification.

This is understood in Finland and more broadly in the European Union. The Baltic Sea Region has the honour to be the first so-called macro-regional strategy. One important goal of the EU's Baltic Sea strategy is to increase the wealth of the area. Entrepreneurship has been identified in the strategy as an integral means for achieving this goal.

The strategy gives particular consideration to SMEs and improving their operational preconditions. Taking advantage of the potential of SMEs is seen as an important way to secure the growth and development of the Baltic Sea Region. The means highlighted in the strategy for achieving this goal include the implementation of the Small Business Act, the removal of obstacles to internal market in the Baltic Sea Region and exploiting the area's research and innovation capacity to its full potential. In addition, the movement of goods across national borders must be made easier, public functions must be opened to competition, and administrative procedures must be streamlined.

Concrete measures that can be taken in order to reach these objectives include, for example, ensuring SMEs better access to the capital markets, particularly at early stages of development. Some examples of this could be cross-border venture capital funds and cross-border collateral security systems. In addition, the EU's financing instruments from the framework programme for competitiveness and innovation as well as the structural funds should be used broadly and efficiently in order to ensure sufficient financing for SMEs.

Promoting entrepreneurship among young people also represents great potential. In order to be successful in this task, there must be close cooperation between the administrators of the education system and business life. It is essential to identify the areas and sectors, which are the keys to creating sustainable growth for the future. This way it is possible to direct financial resources correctly and to encourage young people to seek out careers in sectors with large growth potential. All of this must be done in a way that simultaneously develops the mobility of young people and the creation of cross-border networks of young entrepreneurs throughout the whole Baltic Sea Region.

The EU is going in the right direction and identities many critical points. The challenge is to develop the appropriate tools for solving the problems that have been identified. Despite the EU's internal markets, there are still obstacles in the Baltic Sea Region due to national legislation. The operations of authorities also make it difficult for SMEs to access the cross border markets.

A high level of production requires a great deal of innovation and sustainable economic growth. In addition to this, the participation of people and their integration into the job market must be improved in the Baltic Sea Region. A good employment rate, high-quality jobs, the continuous availability of a well-educated and flexible workforce and a low rate of marginalisation are all integral factors for the competitiveness and appeal of the area.

Better exploitation of the possibilities and expertise offered by the region would require an improvement in political commitment to the promotion of trade and innovation compared to the current level. In addition, it would also require the strengthening of the rule of law in the Baltic Sea region. By daring to try new things and be a forerunner, the Baltic Sea economic region can develop dynamically in a way that makes full use of the preconditions for growth created by entrepreneurship.

Jussi Järventaus

Managing Director

Federation of Finnish Enterprises

Finland

The almost forgotten digital single market

By Hans Skov Christensen

The lack of a proper digital agenda for the Baltic Sea Region cuts 4 per cent in growth potential or more every year. Cross border barriers in the digital area cost yearly at least 45 billion EUR in the region alone, according to estimates in a report presented at the BDF Summit this summer. Nevertheless, it looks as if the economic crisis has led this important issue into oblivion. And that is a shame. The issues need to be relaunched.

The Baltic Sea Region needs to develop its own digital agenda, simply because a number of the Baltic Sea States are already front-runners in the field – with well-developed information and telecommunication technologies, widespread application of e-Government service products and a well educated and trained work force.

The Nordic-Baltic countries are able to show the way to a digital single market in Europe. We are among the world leaders as regards public use of ICT, e-government and e-commerce. Preconditions like high ICT maturity, mobile penetration, broadband access, education level, innovation capacity and stable economy have brought the public sector in the global front. The Nordic-Baltic countries have widespread application of e-Government service products as well as a well educated and trained work force, providing a good basis for further expansion. Obviously, the region is the outset for quite many world leading ICT companies and new ones continue to appear.

The Digital Agenda is one of the flagship initiatives of the EU 2020 strategy to create growth and jobs in Europe. One of the top priorities in the strategy is the creation of a digital single market, whereby barriers between Member States are reduced or removed.

A digital single market is of great importance to the economies in the Nordic-Baltic countries and they have an interest and possibility to go ahead and show practical results in terms of providing a better integrated legal framework in the digital arena, allowing innovative companies in their home yard to grow and prosper from a larger and better integrated home market. And in the longer-term to benefit from an integrated market at European scale. There are large benefits at stake for growth and employment, but little is known about the practical steps to be taken to achieve these benefits.

The growth drivers

That is the background for the initiative "Priorities towards a Digital Single Market in the Baltic Sea Region" whose first report was published and discussed at the BDF Summit June 2012 in Copenhagen-Malmö. BDF and Baltic Chambers of Commerce Association (BCCA) launched the initiative inspired by an idea of Estonia's Prime Minister Andrus Ansip, concrete policy recommendations were developed, based on analysis by Copenhagen Economics and guided by the BDF's Policy Advisory Group of public and private ICT actors. The recommendations are related to four issues identified as key growth drivers: E-procurement, Public Sector Information (PSI) and Open Data, Roaming, Online Intermediaries.

The estimated economic impact of these drivers is huge. The unreleased potential sums up to at least 45 billion EUR per year as regards only e-procurement and re-use of PSI. Reducing obstacles and developing new solutions will dramatically affect economic growth and competitiveness in the Baltic Sea Region and Europe.

EU studies have showed that there still are substantial differences in regulation between Member States which lead to a fragmented business environment for European innovators and entrepreneurs. As a result, few technology starts-ups expand their businesses to neighbouring EU countries. Instead they prefer to expand in the US market. Lacking the benefits of large scale home market slows down the rate of innovation, and hinders that European firms can benefit fully from investments in high-speed internet infrastructure. This tendency has hit the Baltic Sea Region too. However, the Baltic Sea Region has also developed pragmatic solutions that may show new ways or even shortcuts to a digital single market.

Keep up the speed

The EU strategy for the Baltic Sea Region is an obvious framework for promoting an active cooperation to harvest the benefits of an ICT Single Market. Within this framework – or complementary to it – the Baltic Sea Region countries can take joint initiatives for the benefit of welfare society and industry in terms of competitiveness, investments and growth.

Based on the recommendations in our report a few examples of such joint initiatives could be: Identify key drivers for decision makers to focus on for a better understanding of how ICT can contribute to growth, competitiveness and welfare in the region. Develop efficient, common platforms for e-procurement and e-commerce. Benchmark initiatives and case studies ("labs") for publishing public sector information and working with open data. Develop a Baltic Sea Region e-governance Academy as a framework for exchange of best practice etc, etc.

Initiatives that can be taken in spite of the current crisis. The response to the report among experts and stakeholders has been positive and BDF is ready to take further steps, not least to ensure that the topics stays on the top of the crisis-management-ridden of the EU. Then there is a need to demonstrate that it is possible for regional actors to take practical steps in liberating the potential of the sector. The EU is negotiating the EU's next multiannual financial framework at the moment and initiatives to stimulate the European economy in supposed to be included in this package, not least the "connecting Europe facility". I hope that the funds will go towards liberating the markets. It is the recipe for true sustainable growth.

Hans Skov Christensen

Chairman

Baltic Development Forum

Denmark

Management research on Central and Eastern Europe

By Thomas Steger

Almost two decades after the fall of the iron curtain, the concept of management seems to be well established in the post-socialist countries of Central and Eastern Europe (CEE). Moreover, the research interests of management scholars and the transformation of the scientific institutions in CEE have contributed to a steadily growing number of research projects and publications intended to understand the specific developments of management practice under the conditions of fundamental societal and organizational change as well as the emergent management structures of East European capitalism. This is also highlighted by the emergence of academic journals with a special focus on management issues in CEE, namely the Journal for East European Management Studies, the Journal of East-West Business, and the Baltic Journal of Management.

A recent survey exploring 286 articles published in 24 major international management journals between 1990 and 2008 provided some remarkable results in this respect. First, publications of management research on CEE show a clear dominance of Western researchers (72% of all authors). This finding is further supported by the fact that the authors with the highest numbers of articles are predominantly from the US and the UK. Among these top authors, nevertheless, three persons originating from CEE but affiliated with non-CEE institutions also play a key role. East-West migration of researchers obviously plays a considerable role in the field. In the articles with the highest impact, i.e., the number of quotations in other publications, a clear dominance of Western and particularly Anglo-American authors remains well visible.

Second, the list of the most successful publishing institutions also reflects a clear Western dominance. Indeed, institutions from the US and the UK cover 55% of all publishing institutions. In sum, Western institutions participate in 90% of all publications. However, the ranking also indicates that there are some management research institutions enjoying growing publication success in CEE countries as well (e.g., in Budapest, Moscow, Warsaw). Nevertheless, these articles are usually based on partnerships with Western colleagues and institutions while independent CEE publications are quite rare (about 7%).

Third, only about half of all articles are clearly based on theory. While 35% of articles include at least one reference to theory but do not develop an adequate framework, 16% of articles consist of simple storytelling, often based on personal experiences or on single case evidence. Over time, we have witnessed a significant increase in theoretically based studies, with cultural theories dominating (in about 20% of all articles). Further influential concepts are new institutionalist theory (12%), cognition or behavioral theories (11%), and learning theory (10%).

Fourth, more than half of the published studies can be considered to be using qualitative methodologies although many of them (particularly from the early 1990s) do not make a distinctive statement about their empirical methods. Over time, a clear trend towards the use of questionnaires and hypothesis testing has been identified while the number of case studies has decreased.

Fifth, of the topics studied, the "change management" issue is ranked at the top most often (included in 32% of all articles), followed by "corporate strategy" (23%), "managerial behaviour" (19%), "HRM" (18%), "organizational culture" (17%) and "organizational structure" (15%). Meanwhile, the number of articles dealing with leadership or knowledge transfer is rather moderate. Moreover, only a very limited number of articles deal with issues of power, control, and conflicts.

Sixth, the main focus of CEE management publications is on the "usual suspects", i.e. on Russia (referred to in 40% of all articles), Hungary (27%), Poland (21%), and the Czech Republic (14%). Meanwhile successful transformers of a smaller size, e.g., Slovenia, Estonia, or Croatia, received only limited attention from management scholars.

Finally, to conclude these findings, four major phases with different patterns characterizing the development of management research on CEE can be identified: The early 1990s can be labeled the "How to change the red executive?!" phase and was dominated by storytelling cases and normatively driven proposals. The mid/late 1990s was the "Understanding the East!" phase and marked the start of in-depth scientific investigations and local knowledge inclusion through interpretive research. The early 2000s were characterized by the "Measuring the East!" phase, which saw a broadening of scientific research attempts as well as a growing generalization through quantification. Last but not least, the mid and late 2000s can be labeled the "Integrating the East into global economy" phase, with the academic community on the road to normal modernist research and hypothesis testing.

Although those findings must be considered premature and are limited to the field of academic journals, they clearly indicate that although management research on CEE has moved forward considerably, it still exhibits some striking deficits. A better integration of local and regional scholars in the international knowledge production process regarding CEE and a growth in the number of "really" intercultural co-operation projects must be targeted in the near future.

Thomas Steger

University of Regensburg

Editor-in-chief

Journal for East European Management Studies

Germany

Latvia and the euro – a date with destiny

By Pauls Raudseps

It may seem paradoxical, but as most of the world watches the continuing crisis in the eurozone with perplexity and apprehension, the Latvian government's commitment to joining the common currency has never been stronger. The date for saying good-bye to the lats has been set, the necessary legislation is making its way through parliament, and it is certain that soon after celebrating the New Year the Latvian government will submit a request to the European Commission and the European Central Bank to evaluate whether the country fulfills the criteria for joining the euro. If all goes according to plan, on January 1st, 2014, the euro will become the official currency of Latvia and the eurozone will have expanded to 18 members.

The very fact that this is now a realistic prospect is quite astounding. After all, this is not the first time that Latvia has set itself this goal. Soon after joining the European Union in 2004 the country pegged its currency to the euro and announced that it's target for joining the common currency was 2008. Unfortunately, the massive real estate bubble Latvia experienced in the following years drove inflation up so high that this aim quickly became unattainable. When the bubble burst and the international financial crisis hit, the main obstacle to euro entry quickly became the huge deficit which had opened up in Latvia's budget. Moreover, the collapse of the country's second biggest bank forced it to turn to the IMF and the European Commission for help at the end of 2008.

This might not seem to be the most promising starting point for joining the common currency. Nevertheless, as Latvia and the international lenders put together an economic stabilization plan, they set euro entry as the ultimate goal of the program. Introducing the euro would protect the economy from the periodic panics about a possible devaluation of the lats. Entering the common currency would also give Latvian banks access to liquidity from the ECB, providing a much larger and stronger safety net than the country itself could afford. It would also prove that the Latvian economy was on the same track to development and modernization as Estonia, which gritted its teeth, fulfilled the Maastricht criteria in 2009 and joined the euro at the beginning of 2011.

After three years of difficult, sometimes dramatic battles to regain its fiscal footing, Latvia completed its IMF program in 2011. In 2012 the country is enjoying the fruits of its labors. It has driven its budget deficit down to a planned 1,6% of GDP in 2012, well below the 3% threshold set in the Maastricht criteria for joining the euro. It has kept it total government debt comfortably below the 60% of GDP limit. Moreover, and most surprisingly, it has managed to be the fastest growing economy in the EU during the first three quarters of 2012, averaging growth rates over 5%, while simultaneously lowering inflation, which now meets this criterion for euro entry as well.

The toughest skeptics — the markets — have been won over. Back in February, 2012, Latvia sold ten year bonds at a yield of 5.375%, which was already quite a respectable result in view of the yields on the bonds of some large, established, but crisis-stricken eurozone countries. In December Latvia returned to the bond markets and sold seven year bonds at a yield of 2.889%. Clearly, this is a resounding vote of confidence from the financial markets.

So the numbers look good. The politics are more complex. The Latvian population is attached to the lats and consequently rather skeptical about introducing the euro. Poll results on this issue show very divergent result regarding support for euro entry, varying between 30% and 50% in favor, but the doubters — those with a somewhat or very negative attitude — fairly consistently make up around half of the population.

Apart from a fear of increased inflation, the main reason for skepticism is the populations's sentimental attachment to the lats as a symbol of Latvian identity. Yet, when it comes to practical matters, people shows a much greater commitment to the euro. 90% of all loans are in euros, and Latvian residents' bank deposits in euros are just as large as the ones in lats. Support among businesses for changing to the euro is high, as they see advantages to be gained both for exports and for saving money on currency conversion. So skepticism, while fairly broad, also seems to be quite shallow.

Some opposition politicians are toying with the idea of holding a referendum about joining the euro. Although the possibility of such a referendum taking place can't be completely ruled out, it doesn't seem to be the most likely scenario. A referendum would face a number of legal and constitutional hurdles, because Latvia already agreed to adopt the euro when it joined the European Union. Moreover, such a referendum could boomerang on the initiators. Prime Minister Valdis Dombrovskis, the driving force behind euro entry, is also the most popular politician on the national stage, and could turn the tables on the eurosceptics by portraying them as ready to harm the country's economic interests for narrow partisan advantage and willing to assist the Kremlin, which has consistently tried to prevent Latvia from integrating ever more deeply in Western institutions.

So the likelihood of Latvia introducing the euro in 2014 is quite high. Then the next stage of the test will begin — learning to use euro membership to bolster economic growth.

Pauls Raudseps

Commentator

Weekly magazine Ir

Latvia

The Baltic Sea region needs more mutual trust

By Hiski Haukkala

The end of the Cold War heralded a wave of cooperative security in Northern Europe. For example, the rounds of EU and NATO enlargements have expanded the euro-Atlantic security community further to the East than was originally anticipated. This has brought manifold gains in economic, political and security respects. The heart of these processes in Northern Europe has been the Baltic Sea Region (BSR).

But the process has also had some unintended consequences. The biggest of them has been that Russia has increasingly felt sidelined and alienated from many of these processes. Although the hand of partnership has been repeatedly extended on both sides of the former East–West divide, both parties have in fact walked away disappointed and with growing mutual disillusionment.

There is hardly any reason to lay the blame in any direction. It seems obvious that both sides can make a convincing case to support their arguments. Yet the fact of the matter is that the dividing lines in the North have not been erased. On the contrary, they seem to be resurfacing and deepening again. This is worrisome as they have the potential to undermine, and with time also undo, the emergence of a budding security community in the North.

During the 1990s there were some signs of a security community that would have included also Russia being built in the North. The metamorphosis of security related debates in the North is a case in point. The old Cold War agenda of hard military security was quickly replaced with a host of soft security issues. In stark contrast to the previous era, security was no longer seen as a divisive issue.

Against this backdrop one of the most worrying developments has been the re-emergence of hard security related issues and even fears in the Baltic Sea. Often the Nord Stream gas pipeline is pointed out as an issue that has resulted in fresh divisions and concerns in the region. Yet it could be that the pipeline's significance is that it is a symptom and not the root cause of the lack of trust that seems to be the real underlying issue in the BSR.

On the Western (and Northern and Southern) shores of the Baltic Sea the main source for concern seems to be Russia. On the one hand Russia's domestic development is seen as worrisome. It is hard to find a country in the BSR that has not voiced concerns over Russia's development. On the other hand Russia's voiced ambitions to increase military spending and consequently also presence in the BSR is a concern. These worries have been accentuated by the August 2008 conflict with Georgia that showed that Russia does not shy away from using military force against its neighbours if it deems it necessary.

These concerns are compounded by the perceived decline in the internal cohesion and solidarity in the European Union and NATO. The EU has brought the positive forces of integration and regional cooperation to the fore while NATO and the US security guarantees have brought the reassurance to some of the countries in the region to engage also Russia in these processes. Yet in recent years both the role of the EU and NATO has being questioned in the region and this is a factor that is breeding insecurity in its own right.

On the Russia side the lack of trust is clearly visible as well. Russia's drive to secure direct ways for shipping its natural gas and oil to world markets free of intermediaries is telling: Russia does not seem to accept nor appreciate interdependence and the positive win–win dynamics that regional cooperation and division of labour could bring but seems to prefer direct control over key infrastructure. This drive for control is a factor that breeds suspicion in the region while increasing Russia's leverage over some of its neighbours.

Russia has also become an increasingly vocal opponent to NATO in the region and is overall very keen to accentuate the harder spectrum of security over the soft one – another political and rhetorical move that betrays the lack of trust on the Russian side while increasing the feeling of potential vulnerability on the other side. The end result is the current vicious circle of diminishing trust and increase of mutual suspicion that, if left unchecked, seems set to bring the old security problematic and dilemma back to the Baltic Sea.

But what could be done? Perhaps the best way to move forward is to stop the pretence that the positive agenda of the 1990s is fully alive and well in the whole of the BSR. Many in the region would probably agree that Russia's domestic trajectory will be one of the key ingredients also in the future. Yet it seems far-fetched to expect Russia to radically change its course so we must start looking for ways to find a working modus vivendi based on current realities.

It may sound anachronistic but perhaps the countries in the region should re-visit some of the older debates concerning European security from the Cold War. The CSCE was the key in developing mechanisms for confidence-building measures and increased confidence in the objectives of others seems to be the key for restoring trust also on the regional level. The work should begin now: A good deal has been achieved in the BSR but it all could be in danger of unravelling if Russia does not find a role with which everyone is comfortable in the region.

Hiski Haukkala

Professor of International Relations

University of Tampere

Finland

Port of Turku takes strongly part in LNG projects

By Christian Ramberg

Gasum is planning an LNG terminal in Pansio

In May 2012, Gasum and the Port of Turku signed a letter of intent on building an import terminal for liquefied natural gas (LNG) in the Pansio harbour. If planning and further decisions on the project are completed on the anticipated schedule, the distribution of LNG from the Turku terminal could begin during 2015. LNG is a clean fuel which may be used to replace oil-based fuels in maritime transport and industry and thus reduce the emissions caused by them.

Clean fuel for the Baltic Sea transports

The use of LNG as a fuel in maritime transport is increasing globally as the environmental requirements become tighter. The Baltic Sea with busy shipping routes is part of the special emission control area (SECA), which has tighter emission restrictions for sulphur oxides. Furthermore, the Baltic Marine Environment Protection Commission HELCOM has proposed tighter emission limits for the area concerning nitric oxides.

LNG is in practice completely sulphur-free, it causes no particle emissions and its nitric oxide emissions are as much as 90% lower compared with heavy fuel oil used in current engines. The carbon dioxide emissions which accelerate the greenhouse effect are also more than a quarter smaller. In addition to the state of the Baltic Sea, the clean liquefied natural gas has a positive effect on the immediate environment of the Port, such as the Natura area in Ruissalo, and the air quality of the living environment.

Planning proceeds quickly

According to a technical survey carried out by Gasum, the Pansio harbour is well suited as the site of an LNG terminal. The location of the harbour allows for efficient service to the Baltic Sea transports, and the harbour has a large enough area for the terminal. It is possible to place the terminal operations, including a storage tank of max. around 30,000 cubic metres in the area. From Pansio LNG can be transmitted to the Port of Turku by bunker vessels or tank trucks.

The letter of intent signed in spring allows for the project to proceed to the next phase. The City of Turku prepares an alteration of plan for the Pansio area which is a requirement for placing the terminal there. Gasum will continue the technical planning of the terminal. In addition to technical surveys, we have paid special attention to the environmental impacts of the terminal and safety issues. The aim is to complete the planning and permits so that the final decision on building the import terminal can be made in 2013, and the terminal could then start operations in late

2015. The value of the terminal investment is around 60 million euro.

Industry will be the other important user group

Although we believe that LNG's share of maritime fuel will increase rapidly in the future, the new terminal will not be based on that purpose alone. The number of vessels that use LNG as fuel will increase slowly as the stock of ships is replaced, so they need to find users of the gas in other lines of business, too. We believe firmly that existing infrastructure will make shipping companies more interested in using LNG.

According the plans, however, the Pansio terminal will also serve the industry in Southwest Finland and neighbouring provinces. It is possible to build a pipeline network from Pansio to the nearby industrial facilities, in which case the LNG can be distributed from the terminal to the places of use in gaseous form. In liquid form the gas can be distributed cost-efficiently on tank trucks within a radius of around 300 km from the Pansio terminal.

LNG in Baltic Sea ports project

In order to develop LNG infrastructure for the needs of shipping, the Port of Turku is involved in a TEN-T funded project together with six other ports in the Baltic Sea region. The aim of the project is to equip each port with facilities to offer bunkering for LNG driven vessels. The project includes clarifying and planning different LNG terminals, bunkering systems and safety procedures with the aim of developing uniform systems in each port.

The world's most environmentally friendly cruise vessel starts operating on Turku route

In January 2013 Viking Line's new vessel m/s Viking Grace will start operating between Turku and Stockholm. Representing a completely new generation of ships, the vessel uses liquefied natural gas (LNG) as fuel, which is unique for a passenger ship of this size in the whole world. Besides, the emissions from the vessel to the sea have been eliminated completely and emissions to the air are considerably less than from other vessels. The bunkering takes place at AGA's LNG-terminal in Nynäshamn. The 214-metre-long cruise ferry will be delivered from Turku yard to the buyer beginning of 2013.

Christian Ramberg

Managing Director

Port of Turku

Finland

Port of Rosrock – serving the Baltic Sea

By Ulrich Bauermeister

The Port of Rostock is Germany's largest and the deepest port in the Southern part of the Baltic Sea.

Although not directly located on the sea front it is easily accessible through a short canal. With a water depth of 14.5 meter and absence of locks and tides it is possible for vessels of up to 45 meter beam and 300 meter length to enter the port. The port is also conveniently accessible by air and by land via rail and a 4 lane motorway, the latter which will also soon connect directly to the eastern port area. It has got ferry links with Denmark, Sweden and Finland.

The Hafen-Entwicklungsgesellschaft Rostock as landlord port authority manages the port for the owners, the Federal State of Mecklenburg-Western Pomerania and the City of Rostock. Rostock has a long tradition of ship building and steel and plant construction and has also a long experience built up in the onshore wind sector.

The entire port area covers an impressive 750 hectares. There is a total of 11,000 meter of quays available. In total there are 47 berths of which 4, a total of 1,000 meter, are specifically dedicated to heavy loads with lifting capacities up to 1,200 tons by a mobile harbor crane. There are plans for developing more new quay sides and small new industrial sites in the port and there is also between 10-100 hectares available around the port.

In the middle ages, the port on the Warnow River was one of the most important locations for goods transfer on the Baltic Sea. A proud fleet with the Rostock griffon depicted on the bow was the agent of trade with Scandinavia, the Baltic States, and Western and Southern Europe. Following the prosperous times of the Hanseatic League, a century of vacillation followed. At the end of the 19th century and in the following decades, Rostock and its port lost its connection to the rapidly developing German economy. Rostock's port only had local significance up until 1945, and this significance was also lost due to the Second World War. In the post-war years, the port was redeveloped. The growth of the GDR's economy and the creation of a state trading fleet necessitated the construction of a high-capacity seaport, which was completed and put into operation in 1960.

It was continually expanded and developed to adapt to the needs of the GDR's economy until reaching a record cargo handling volume of 20 million tons – mostly bulk goods – in1989. After German reunification, the difficult task was undertaken of converting the port, until then specially adapted to the needs of the GDR, to a similar functionality as the other German ports. In the past 20 years, the port has drastically changed its appearance and scope of services. Rostock's port is now a universal cargo handling point consisting of a wide variety of specialized berths and terminals: a modern oil port, facilities for grain, coal, fertilizer and cement handling, and terminals for project cargo, paper and general cargo handling. The ferry port with the adjacent terminals for combined cargo and ro-ro traffic has come to form the heart of the port. This area has exhibited tremendous growth since the early 1990s.

The convenient geographical location of Rostock, the excellent accessibility from both land and sea as well as enormous investment in infrastructure have made the port on the Warnow number one in terms of universal cargo handling among all German Baltic Sea ports. Moreover, Rostock has topped all German Baltic Sea ports in passenger traffic between Germany and Northern Europe for many years. As was the case with ferry traffic, cruise shipping also began at a low level in the early 1990s. Today, Rostock's cruise port in Warnemünde is the most frequented German destination for international cruise ships. Hundreds of thousands of tourists from different countries throughout the world arrive in Warnemünde to explore the city and region, the state of Mecklenburg-Vorpommern and the German capital city, Berlin.

Hafen-Entwicklungsgesellschaft Rostock is, under the name Rostock Port, primarily concerned with the forward-looking expansion of the infrastructure as well as its maintenance. As the owner of the property and facilities, quays and water surfaces, the company works closely together with the shipping industry and the companies active at the port to ensure that Rostock meets all requirements to allow it to continually improve its competitive position.

Attracting businesses to the port grounds is a keystone of the company policy. Therefore, the company implements this policy in leasing property and buildings, generating more competition at the port, acquiring new customers and cargoes and opening new business areas. Rostock Port is the single operator of the ferry and cruise terminal. In addition, it is a shareholder in the company which operates the terminal for combined cargo. A further responsibility is to provide and market additional services that aim to improve the competitive position of the company or the location. In this capacity, it can found or acquire companies, own shares of companies, serve other companies, establish, acquire or lease auxiliary or companion facilities, or open branch offices.

The declared purpose of Rostock Port is to develop the port into a modern, competitive logistic center even further. Excellent conditions for this are already in place. Since 1991, hundreds of millions of Euros have been invested in the improvement of the port infrastructure. Rostock will continue recent successes such as the establishment of a new production facility by the company Liebherr and the establishment of additional companies in the production, cargo handling and distribution industries.

Ulrich Bauermeister

Dr., Managing Director

Rostock Port

Hafen-Entwicklungsgesellschaft Rostock mbH

Germany

Maritime memories, history and experiences at the same place

By Jaakko Tikka

The Forum Marinum Maritime Centre is a lively and versatile centre for maritime activities, comprising a national specialist maritime museum, and the Finnish Navy Museum.

The whole complex stands in an excellent place the middle of the Turku City, beside the River Aura, close to Turku Castle and the city's harbour. The Forum Marinum is easy to get to. There are plenty of free parking spaces in the yard, and the bus running between the airport, the centre of Turku and the harbour stops next to the maritime centre. The harbour is just a short walk away and the slightly longer route along the Aura to or from the city centre is very pleasant on foot or by bike.

The Forum Marinum Maritime Centre is the result of the development of the maritime museum activities in Turku. Its predecessors were the Åbo Akademi Maritime History Museum, established in 1936 and the Turku Maritime Museum and Astronomical Collections, founded in 1977. There was a division of responsibilities between these museums: the former focussed on research and on enlarging and maintaining its library and archive collections, while the latter concentrated on organising exhibitions and on enlarging and preserving object collections. These functions now all continue at the maritime centre. The Åbo Akademi Maritime History Museum is now the Åbo Akademi Institute for Maritime History, which is now located at the Forum Marinum.

In 2002, Forum Marinum was appointed the Finnish Navy Museum, and in the 2004 a national special maritime museum. The Military Museum advises our Navy Museum activities and the National Board of Antiquities those pertaining to the national special museum tasks. In 2009, Forum Marinum joined the network of museums within the transport and communications sector – the Trafiikki museums – which is supported by the Ministry of Transport and Communications.

Forum Marinum is also member of the Finnish Museums Association, the ICOM (International Council of Museums) and the ICMM (International Congress of Maritime Museums).

The Forum Marinum basic exhibition "From Hoy to Ro-Ro, from Galley to Hovercraft" tells the history of seafaring in South-West Finland and of the Finnish Navy. It includes themes such as the Turku shipping companies, vessel types, archipelago culture, peasant shipping, merchant shipping and tourism, and the history of the maritime administration, coast guard, the customs and the history of the Finnish Navy. This exhibition is located in the Kruununmakasiini building, which was built in 1894 as a state granary.

Furthermore the museum provides several interesting temporary exhibitions during a year and displays also a very interesting leisure boat collection. The maritime centre has a considerable collection of museum vessels: two tall sail ships, four naval ships and several smaller vessels, ranging from a steam harbour tugboat to a police boat.

The museum ships are open during the summer months only, while the exhibitions are open throughout the year. On the yard and on the other side of the river there are four museum Cranes, three from the late 1940s and one from the 1960s.

During the summer, the exhibition "The Five Lives of Our National Treasure" will be open on a full-rigger, the Suomen Joutsen, as well as an exhibition presenting the history of the ship on board a wooden barque, the Sigyn. There are also temporary summer exhibitions on the tween-deck of the Suomen Joutsen.

The research area of the Forum Marinum Maritime Centre is primarily defined by its role as a national special maritime museum and as the Finnish Navy Museum. The documentation responsibility of the Forum Marinum Foundation is defined in its regulations. The aim is to preserve the maritime cultural heritage of Finland's south-west coast, the Archipelago Sea and the Baltic Sea. Forum Marinum primarily focuses on preserving and documenting the history of professional seafaring in South-West Finland and that of companies, institutions and persons involved in it, as well as of the seaman profession, and on a national level, the history of the Navy. In addition, the centre preserves and documents the culture and history of maritime rescue, the Coast Guard, maritime communities, maritime hobbies, boating and leisure sailing and of institutions connected to these.

Forum Marinum is easily accessible for learning and doing. The museum is suitable for learners of all ages from pre-school to adult students. We offer various set educational packages, or we can design a programme to meet the needs and timetable of your group.

In addition to being a maritime place of interest, the Forum Marinum is also a venue for meetings and public events. The Café Restaurant Daphne serves café delicacies and a tasty, varied buffet lunch. The Museum Shop offers maritime gifts and other articles, literatur

The Forum Marinum Maritime Centre is the perfect place for organising pleasant family parties or gathering and an inspiring seminar. We have facilities for groups of various sizes and for various needs, from small meeting rooms to an auditorium seating 100.Our facilities can be hired throughout the year. All events thus include the opportunity for participants to visit our versatile exhibitions!

A suitable side event is a guided tour matching the theme of the event, for example for a children's birthday party, or an independent visit to the museum. The windows of the meeting rooms open onto the Suomen Joutsen and our other museum ships, whilst lunch may be enjoyed in the presence of an authentic sailing boat, housed in the Daphne Restaurant. Our shop welcomes visitors to browse the maritime selection of gifts and memorabilia. We organise over 600 different meetings and functions annually.

The operations are maintained by the Forum Marinum Foundation (est. 1998). The founding members were Turku City, the Åbo Akademi Foundation, the Finnish Maritime Administration, the Finnish Border Guard the Ministry of Defence and 13 private enterprises. These institutions also provide the financial bases for the Forum Marinum: 50 % of the annual budget is financed by the City of Turku, 30% is provided by the Forum Marinum foundation and 20 % is financed by the state of Finland.

Jaakko Tikka

CEO

Forum Marinum Foundation

Finland

www.forum-marinum.fi

Eurasian Economic Integration – different this time?

By Julian Cooper

Those who have been monitoring economic developments in Russia and the other countries of the Commonwealth of Independent States (CIS) over many years are well aware of the many attempts to promote economic integration. In September 1993 most member countries signed a treaty for the creation of an Economic Union, providing for a phased process of integration, a progression from a multilateral free trade area (FTA), to a customs union and then a common market with free movement of goods, labour and capital, culminating in a monetary union. This was followed in April 1994 by an agreement to form a CIS FTA, which Russia failed to ratify. In 1995 the creation of a 'customs union' was declared, initially involving Belarus and Russia, but later extending to Kazakhstan, Kyrgyzstan and Tajikistan.

All these initiatives met with little success. The first priority of all the ex-Soviet countries was market transformation, not integration, and the integration efforts took no account of the implications of potential WTO membership. In reality, CIS economic relations were regulated by a complex network of bilateral agreements, often of a non-transparent character.

An ambitious proposal of 1994 by Kazakh President, Nursultan Nazarbaev, to form a Eurasian Union, was not well received, for Boris Eltsin of Russia and most other leaders it was too reminiscent of the USSR.

After the 1998 financial crisis, as economies stabilised and began to resume growth interest in economic integration revived but now on a more realistic basis. The formation of the Eurasian Economic Community (EurAsEC) in 2000 by the members of the 'customs union' opened a new stage of development. As Putin acknowledged at the time, it was Nazarbaev who first proposed the new organisation. Its basic purpose was declared from the outset, the creation of a customs union and then a single economic space (SES).[1] Serious preparation of the establishment of a Eurasian Customs Union (ECU) of Belarus, Kazakhstan and Russia within the framework of EurAsEC was undertaken from 2006, with agreement that this time trade practices would be in full accordance with WTO rules and norms. The Commission of the Customs Union was organised in 2009, with the well known Russian economist and political figure, Sergei Glaz'ev, as executive secretary. (In July 2012 Glaz'ev was appointed Putin's advisor on Eurasian economic integration). The ECU was declared to exist formally from the beginning of 2010. Given the likelihood of early Russian accession to the WTO, the harmonisation of customs duties was facilitated by adopting Russian rates whenever possible. In July 2011 all border custom controls between the three countries were eliminated.

In August 2012 Russia finally joined the WTO and the accession of Kazakhstan is now progressing well, with membership by the end of 2013 a possibility. Belarus, until recently a laggard, has stepped up its efforts to join and government representatives have recently spoken of accession in 2014. Thus there is now a functioning ECU formed on WTO principles, although much work remains to complete the process and ensure its fully effective operation. A working group for Kyrgyzstan's accession to the ECU, expected in 2014, is operational, and it is likely that Tajikistan will apply to join once WTO membership has been secured, now in prospect by the summer of 2013.

Since early 2012 it is the newly formed Eurasian Economic Commission in Moscow that has responsibility for the development of the ECU and future initiatives for economic integration.

Chaired by the former Russian industry minister, Viktor Khristenko, the Commission has developed rapidly and has already gained authority as a supranational agency. However, it still remains to be tested whether the legal basis of the Commission is fully adequate to the requirements of a genuinely supranational agency and also whether the EurAsEC court in Minsk is competent to handle any legal challenges to its authority. From the outset, an active programme of international engagement has been pursued. Over thirty countries have expressed interest in associate relations with the Customs Union and negotiations are well-advanced for the creation of FTAs with New Zealand, Vietnam and the EFTA countries.

A major focus of activity is now the development of the single economic space (SES), formally declared to exist from 1st January 2012. The intention is to secure the free movement of goods, services, labour and capital, and harmonised policies for macroeconomic management (with Eurasian counterparts to the Maastricht criteria), competition, industry, agriculture, energy and other spheres. A considerable volume of new legislation has to be drafted, approved and ratified. The aim is to have a fully functioning single space by 2015, but the 'roadmap' for its formation suggests that this is over-ambitious, 2018-20 being more realistic.

The next stage of integration, agreed in principle at the end of 2011, will be the formation of a Eurasian Economic Union. The evolution of the idea of the Union is instructive. From available documentation, it is clear that the initial preference of Russia had to be amended to meet the objections of Kazakhstan. In early 2011 Russia favoured a Union concerned not only with economic issues, but also defence, border security and foreign policy. This was opposed by Kazakhstan, insisting that it had to be only an Economic Union. Notwithstanding Nazarbaev's authorship of the idea of a Eurasian Union, Astana in September wanted to drop the word Union and call it simply a Single Economic Space. In the end, the designation Economic Union was retained, but it appears that it will be little more than a fully functioning SES. Astana insists that its administrative headquarters must be located in Kazakhstan.

In comparing the development of economic integration in the CIS with the experience of other regional economic groupings such as the European Union or Mercosur, one important consideration should not be overlooked. Because of the common past over several decades of the participant countries, what is involved is quite as much re-integration as integration. The fact that only two decades ago the economies were part of the same coherent economic system, albeit of a non-market character, and

[1] Note, in the 1990s the idea of a common (*obshchee*) economic space was promoted, but more recently it has been termed a single (*edinoe*) space, suggesting a higher degree of integration.

shared common infrastructures and systems for transport, communications, energy, health, education and research, plus a common language for administrative purposes, undoubtedly simplifies the process of integration, making it, in principle, less demanding and time consuming than, say, the formation of the EU. In this connection it is worth noting the role over many years of the CIS itself, as an organisation. It could be argued that its diverse and extensive activities promoting coordination have helped to create the foundations for meaningful economic integration. Now, the CIS FTA being created anew on a WTO-compatible basis, has a much better chance of success than it had in the 1990s.

It is sometimes argued that the Customs Union will bring little benefit because it is formed, currently, of three rather disparate economies of medium levels of development without an evident dynamic leader able to promote active institutional modernisation and drag the weaker economies forward. However, it is already apparent that competition within the Union is playing a role. As shown by the World Bank's Doing Business rankings, Russia has the least business-friendly economy. Indeed, some Russian companies have been reregistering in Kazakhstan. Awareness that the country lags far behind Kazakhstan and even Belarus is now promoting activity in Russia to improve the situation, with Putin to the fore in calling for change, often with explicit reference to the higher rankings of the two partner economies. Meanwhile, in Kazakhstan Nazarbaev is also calling for improved performance by local companies. There is keen awareness that with the development of the ECU and the SES conditions should improve for foreign direct investment. While members of a common ECU, the three countries are becoming rivals in creating conditions favouring FDI. In these circumstances, the potential benefits of integration cannot be judged simply on the basis of the impact of the new customs regime, although as duties are progressively lowered in future years worthwhile benefits may accrue. In this connection it is worth considering the experience of regional trade areas (RTAs) more generally. Until recently scepticism about such arrangements was widely met. But contrary to frequently met claims that RTAs generate significant trade diversion and welfare losses, research suggests that to date they have proved to be beneficial and have furthered external liberalisation. 'Empirical analyses indicate that trade creation, not trade diversion, is the norm'. (Caroline Freund and Emanuel Ornelas, *Regional Trade Agreem*ents, World Bank Policy Research Working Paper, May 2010, p.41)

In the author's view the development of Eurasian economic integration merits close study. For some, the experience of the 1990s has cast a shadow, leading to the conclusion that beneficial integration is unlikely. There is also the spectre of the 'restoration of the USSR', which still haunts a few observers of present-day Russia and its relations with CIS partners. Clearly, much depends on the commitment to keeping the focus of integration exclusively on the economy, leaving security and other potentially contentious issues to other structures, national and supranational. The ECU and the Commission are now realities with which governments, international organisations and businesses are have to work. A learning process is underway. A new degree of pragmatism and flexibility is already evident. This time Eurasian economic integration could indeed be different.

Julian Cooper

Professor of Russian Economic Studies

Centre for Russian and East European Studies

University of Birmingham

The United Kingdom

Do Russian innovators need creative cities?

By Irina V. Starodubrovskaya

It's widely recognized now that the better conditions for innovative economy are being formed in those places where life is comfortable, dynamic and interesting. These places are attractive for young and creative people, so they concentrate high level of human capital which is critical for innovations. The research of the Gaydar Institute for Economic Policy had a goal to test this hypothesis for Russia. Three Russian provincial cities were selected for this research – Chelyabinsk, Perm and Novosibirsk. Students of prestigious provincial universities, young people involved in innovation economy, people from creative industries, representatives of local authorities and local intelligencia were interviewed to study their migration strategies, understanding of comfortable life, feelings about the city where they live. The results of this research are the following.

Comfort of life is not the important factor in the migration strategies of this segment of "creative class". Opportunities to use their professional skills, career perspectives, partly – level of earnings seems to be much more important. Even those who really like their place of living are ready to migrate if they can not find working place which corresponds to their specialization. The word "ceiling" was often used in the interviews to express the limited career opportunities and vertical lifts in provincial cities. If the "ceiling" has not been reached young people prefer to stay in the place where they live. But if they feel there is no space for career growth they start to think about migration. For example, Moscow is considered as the most uncomfortable place of living by vast majority of our respondents. But they understand that migration to Moscow in future can be inevitable because of the growth of business or career perspectives.

At the same time for artists, for people from creative industries the city atmosphere is much more critical. For example, when Perm started to develop actively the city culture and the image of creative city it was the reason for some people from creative industries in Perm to change their migration plans. And Perm appeared to raise its attractiveness for this kind of people form other cities (for example, several artists moved from Novosibirsk to Perm). But people involved in IT sector, though some of them are quite enthusiastic about the cultural policy of Perm's regional government, were determined that if this policy is reversed it would not stimulate them to migrate from Perm.

Big Russian cities are not compared by the criterion of comfort of life. It's the general feeling that all Russian cities are uncomfortable. There are two types of comparisons according to this criterion: between cities and periphery and between Russian and foreign cities. Periphery is generally considered as more quiet place with better ecology. Cities provide more opportunities for jobs, earnings and upbringing of children. According to the common feeling foreign cities are much more comfortable then cities in Russia. But this factor as such is not a critical incentive to migrate, at least for the creative class. It's important in the combination with better professional and career perspectives. The additional reason to consider migration abroad is the perspective of higher density of professional contacts and better accessibility of innovation centers.

To sum up, according to their migration strategies young people with high human capital can be divided into the following groups:

- those who are not ready to migrate because they prefer to use already established system of connections and contacts in their home place and are not ready to face higher competition as a newcomer in new place;
- those for whom place of leaving is not important at all, they are ready to move if there is perspective of more interesting work with better utilization of professional skills;
- those who are ready to stay as long as they have not reached "ceiling" and then consider migration as a possible option;
- those who prefer to combine better professional opportunities with better comfort of life.

For the last group migration to the foreign country is the preferable option. For the others it's only one of the possibilities.

Being not a serious incentive for migration, comfortable city atmosphere at the same time is considered as an important factor of quality of life. But usually young people do not use a standard set of criteria to assess these factor. For example, an important criterion is speed of life. Almost in all the interviews people mention this aspect of city life as very important. But there was no uniformity in the assessment of how dynamic city life should be to be comfortable. For those who come from periphery even the provincial capital is too speedy. The inhabitants of big Russian cities often consider as comfortable the speed of life which they have got accustomed to, but sometimes they prefer more dynamic atmosphere. At the same time for a considerable group of creative people life in green and quiet suburb is a preferable alternative for more dynamic but less comfortable city centers. They are ready to accept much more limited cultural life for better ecology and substitute it by sport activities.

Openness to the global world also started to be felt by young people as a part of quality of life. Different aspects of this issue were mentioned in the interviews: accessibility of European countries from local airport, lack of lectures of foreign professors in the local university, etc. The inclusion of this factor in perceiving of comfort of life is still not universal, on some territories there is serious opposition to any attempts to increase openness (for example, in the suburb of Novosibirsk local community resists the initiative of the group of students to create the statue of Steve Jobbs). But for creative class it appeared to be more and more important. In this context local authorities face an important dilemma. If they increase contacts with foreign countries, stimulate the development of language skills, they will decrease barriers to migrate abroad and outflow of young creative people can grow. At the same time it will raise comfort of living on their territory for the same group of people and can stimulate decrease of outmigration.

These results of the research demonstrate that connection between comfort and creative city atmosphere, on the one hand, and attractiveness of the territory for young and creative people, on the other hand, in Russia is far from linear. It's not the main factor, which determines migration strategies. And the factors of city attractiveness which appeared to be important, do not always coincide with the standard list (education, health, opportunities for culture and sport, creativity, ecology, safety, etc.).

Irina V. Starodubrovskaya

Department Director

Political economy and regional development

Gaidar Institute for Economic Policy

Russia

Innovation in and for Russian markets

By Marko Torkkeli

Innovating for emerging markets significantly differs from innovation in so-called developed economies. In contrast to the latter, emerging economies are in need of genuine novelties, ranging from new products and services to drastic improvements in production processes and organisational innovations. As can be pointed out, disruptive innovations are critical in emerging markets, as some of the more basic needs are not yet fulfilled by existing offerings. Traditionally, these markets inherited from innovations that were originally developed for leading economies and later transferred and adapted. This implies that most of the innovations that so far flourish on these markets have been developed relying on the analysis of market and customers' needs in developed economies, which may be far away from those of emerging markets. Russia exemplifies this approach, as it has benefitted from high technology and high ecologically performing log houses by Honkarakenne , which features include low CO_2 emissions, ability to absorb and release moisture in the atmosphere so as to ensure good air quality. The widespread diffusion of reliable, good quality and at the technological edge Nokia mobile phones is another example of innovation that migrates from Finland to Russia in the past decades. Functional dairy products such as flavoured fresh cheese by Valio have also been widely imported to the country, bringing new offerings to the market and winning twice the "product of the year" award.

As a commodity-driven economy, which has a significant economic potential, Russia should rank high in the agenda of innovation and business leaders alike. As the country experienced significant changes in the last decades, innovation should also take new forms and facets. One critical feature of innovation in this market should be its customer-driven nature, which has so far been lacking. Beyond adopting a customer-centric approach so as to detect, elicit and anticipate customers' requirements, firms should consider the potential effects of opting for an "open innovation" strategy. Coined by Chesbrough in 2003, the term refers to the exploitation of external sources to innovate internally (also called inbound open innovation) as well as the external exploitation of internally developed innovations by other firms (outbound open innovation). The conventional, closed innovation approach, by contrast, has grown out of a rather understandable desire to keep the value of innovations and ideas to oneself. Traditionally, firms have kept a tight lid on their internally generated knowledge and hardly exchanged such knowledge with others – this was for a good reason, as the field of strategy has taught us that in order to create a competitive advantage, we must create unique sources of value for our customers. The "unique" part of this prescription has usually been interpreted to mean that whatever technologies we generate, we must keep to ourselves lest we lose our differentiation advantage. The Open Innovation model, however, suggests that, if done judiciously, (selectively) sharing knowledge and innovating jointly with others, even competitors, can improve your competitive advantage. A growing body of academic research strongly supports this claim. As recently pointed out by Yablonsky, while the Russian population is not unbanked, it remains relatively conservative about using electronic payment means. Novelties such as multi-sided platforms for e-finance, which rely on a large degree of openness, both from the inbound perspective in integrating customer's concerns about security and cultural issues, as well as from an outbound perspective by cooperating with other market players to jointly disseminate the new offerings, are now well positioned in Russia. To some extent, these innovations fulfil basic needs, while further integrating customers' requirements and concerns as well as specific features of this economy, and contribute to the maturity growth of both the supply and demand sides. In doing so, innovation first of all performs its social function, i.e. to bring novelties that increase the utility function for the consumers, while simultaneously contributing to the development of the overall infrastructure for the entire economy.

Marko Torkkeli

Professor of Technology and Business Innovations

Faculty of Technology Management Lappeenranta University of Technology

Director of Publications at International Society for Professional Innovation Management (ISPIM)

Finland

Neoliberalism meets economic nationalism – the Skolkovo *innograd*

By Anni Kangas

Economic nationalism and neoliberal globalisation are conventionally treated as juxtaposed dynamics. However, it can be argued that it is also possible for nationalism to provide a symbolic system that produces a cultural susceptibility to and a discursive field for the introduction of neoliberal standards. The Russian Skolkovo *innograd* – an innovation city being built in the Moscow metropolitan area – provides one illustration that there is no necessary contradiction between economic nationalism and neoliberalism.

Skolkovo, to use a phrase by Dmitri Medvedev, is underpinned by the idea of a 'common technological and innovative space' which links it to the image of an emerging borderless world often promoted by famous neoliberal thinkers. Instead of centring on the Westphalian vision of global space divided into sovereign nation-states or enforcing an idea of the territorial integrity of the Russian nation, the *innograd* is envisaged as a key 'node' in a global network of significant places. The project is motivated by the idea of flexible accumulation and spatial deconcentration going hand-in-hand with a reconcentration of finance, management and innovation in hotspots that form supranational networks among themselves.

In order to develop Skolkovo into such a hotspot, a number of procedures, instruments and tactics that enforce 'neoliberal exceptions' (Aihwa Ong's term) over Russia's state space have been introduced. The exceptional character of the *innograd* as a 'geographically separate complex' is explicitly affirmed in the law. The law exempts participants from various legal norms and regulations in the fields of customs, taxation, immigration and administration. The characteristically neoliberal aspect of this is the fact that the activities that Skolkovo is intended to house rely on a cascade of interventions that privilege specific groups of people depending on their capacity to engage global market interests.

Moreover, rather than as a characteristically Russian location, Skolkovo is advertised as a place where the 'globally mobile elite' can feel at home. It is represented as immune to problems that are perceived to hamper foreign investment inflows to Russia: corruption, weak investor and property rights protections, and opaque judicial and administrative processes.

Although the Skolkovo project is in many ways premised on a set of neoliberal ideas that downplay the scale of the nation, the mobilisation of the discourse of nation in discussions over the *innograd* simultaneously serves to reproduce the image of Russia as a nation and a sovereign state.

The construction of the *innograd* is motivated by the idea of Russia lagging behind in international competitiveness. International competitiveness is one of the benchmarks imposed by neoliberal globalisation, but it also has the potential to turn issues into questions of national importance. Envisaging Russia as one among several nations engaged in economic competition reproduces an image of the world that consists of nations and their relations and replicates the myth of a nation's citizenry sharing a common economic fate.

The discourse of nation is also mobilised to constitute Skolkovo's activities as particularly desirable and commendable. In the spirit of country branding, the types of business activities that reverberate with the demands of neoliberal globalisation are promoted as a means that enables people to change their perception of Russia, to stop approaching it as an 'oil barrel' or a 'lump of firewood'.

The discourse of nation also serves to represent the activities that form part of the Skolkovo project, and that are expected to appeal to foreign investors, as natural for Russia and Russians to engage in. Russia's reputation as the successor state of the first country to put a man in space and develop nuclear technology, and as home to many world-class physicists and engineers, is frequently invoked. The country's Soviet past is employed in attempts to generate competitive advantage and carve out a strategic niche in the global economy. It functions as proof of the ability of the Russian population to produce commercial innovations.

Critics argue that although the Skolkovo project circulates many neoliberal tropes, its practices illustrate that Russia's modernisation does not involve institutional changes that would lead to the emergence of 'real competition' in the economy and politics. In counterarguments, the discourse of nation is mobilised to dispute the importance of modernising the political system. Russia's modernisation is said to follow a unique path of development due to which foreign models – such as 'Western democracy' – cannot simply be replicated in Russia.

The discourse of nation is also taken up to defend the central role of the state and its head against accusations of Skolkovo being an illustration of the state intervening in the sector of innovations where its involvement is harmful. For example, the top-down character of the Skolkovo project is legitimised by arguing that in order for anything substantive to work in Russia, the head of state has to be involved. The discourse of nation thus serves to uphold the idea of a strong state within a project whose ethos is in many ways neoliberal. Arguably, such a combination of elements may enable Russia to take part in neoliberal competition for footloose capital without jeopardising the system of 'sovereign democracy'.

Anni Kangas

Academy of Finland Post-Doctoral Research Fellow

School of Management (International Relations)

University of Tampere

Finland

The geography of innovation in the Baltic Sea region

By Teemu Makkonen

Innovation is commonly considered as one of the most important factors behind economic growth and regional development. Therefore the issue of geographical variation of innovative activities has been studied intensively in the recent years the European Union (EU). Similarly, territorial cohesion has become one of the leading policy guidelines of the European Commission and in the development rhetoric of the EU. This applies also to Russia in form of the heightened importance given to the neighbourhood policy in the EU development framework. The question, whether it is feasible or not to strive towards a EU-wide cohesion of economic and market relations, is an issue itself well worth of serious thought. However, here the issue is discussed through a more practical standpoint, namely how well are the countries in the Baltic Sea Region integrated and how balanced are their innovation performances when compared with each other. A sign of the successfulness of cohesion policies should imply a catch-up between the least and the most innovative countries inside the Baltic Sea Region.

Germany, Finland, Denmark and Sweden are constantly ranked among the most innovative nations in the EU, whereas the Baltic States and Poland have clearly fallen behind, when their innovative capacities are benchmarked against those nations with “top-of-the-class” performances. Of the Eastern member states, when measured for example by patents or research and development (R&D) expenditure, Estonia, however, has performed reasonably well in overall comparisons of innovation. After their EU-membership, the statistics have shown some signs of convergence, between the new member states of Eastern Europe and the core of the EU (at least) in innovative terms. However, the catching up envisioned by some researchers is not that evident when the most recent years are brought into the fore. The contemporary European-wide economic recession has had a more profound negative impact on the innovative inputs (R&D investments and government science- and technology budgets) of the new Eastern European member states compared to the situation for example in the Nordic States.

When it comes to Russia, comprehensive innovation policies directed at improving the national innovation system are fairly new phenomena. Although, the country has succeeded in sustaining certain strengths of the past science and technology system, there is a marked difference between the innovative capacities between Russia and its Western neighbours in the EU in terms of e.g. patents per inhabitant. The economies of scale do favour Russia, but at the moment a more systematic treatment to assess its former weaknesses and emerging challenges is called for to achieve a successful innovative future.

When the discussion is broadened to encompass educated (or skilled) human capital, an important facilitator of innovations, the situation is equally unbalanced. The Nordic States excel with their highly successful schooling and educational system, whereas the situation is not that developed in Poland and the Baltic States, except for Estonia which performs well in educational attainment (e.g. number of highly educated workers and participation in life-long learning). Germany still has some imbalances between the East and the West, but these differences have been levelling off and in general the situation is fairly good.

In order to meet the territorial cohesion goals set by the European Commission these imbalances between the most and least innovative countries in the Baltic Sea Region have to be taken into account, but the allocation of resources directed at achieving convergence has to be done with care. A mere increase in the amount of development funding directed at innovative activities is not enough, as lagging areas do not have the necessary absorptive capacity to gain from increasing R&D expenditure transfer. Therefore, the development should be directed first at infrastructural and educational cohesion. Strengthening of the cooperation inside the Baltic Sea Region is highly advisable to tap into the full potential of the possibilities that collaboration and knowledge flows can offer. Moreover, benchmarking (policies, funding, schooling systems etc.) allows countries to improve their practices through comparison with top-rated nations. However, the best practices cannot be replicated as such: the particular characteristics of the countries have to be taken into account before outright application. Thus, development has to begin within, not outside.

Teemu Makkonen

Postdoctoral Researcher

Pan-European Institute

Turku School of Economics

University of Turku

Finland

Russia and WTO – challenges after accession

By Alexander Dynkin

On August 22, 2012, after an 18-year long accession negotiations Russia became 156h member of the World Trade Organization. Russian Federation was the last major economy outside the WTO, accounting for over 2% of global trade. As a result of many years of negotiations, Russia will enjoy acceptable and balanced – from the economic viewpoint – terms of membership.

Some historical view would be useful to understand better the issue. In 1947, the Soviet Union refused to sign General Agreement on Tariffs and Trade (GATT) for political and ideological reasons that were too obvious. However, by the mid-1970s, the Soviet leadership decided to establish a relationship with GATT because of an urgent need for access to foreign markets. Regrettably, Russia was denied a chance to negotiate. The main obstacle was the Soviet invasion of Afghanistan in December 1979.

Only, in 1990, by the end of Gorbachev period, the Soviet Union gained observer status in GATT. Furthermore, there were more than a hundred parties to that agreement. Countries outside the system of trade negotiations lagged increasingly behind.

Russia filed an application for accession to GATT in 1993, and after establishment of the WTO in 1994 it applied for accession to this new body. Accession negotiations started the following year. By that time Russia was nearly half a century behind.

In the early 2000s, in accordance with official declarations, accession to the WTO was a top priority for the country's economic policy. Almost all countries that joined the WTO had negotiated with its members on a fairly high government level. Initially, Russia did the same. The Russian delegation at the Geneva talks in 1995 was made up of four government members, including a deputy prime minister and an economics minister, and at further talks the Russian delegation was led by first deputy minister for foreign economic relations. However, starting in 2004 as a result of administrative reform in the country, the status of the chief Russian negotiator was lowered from deputy minister to head of a department at the Economic Development Ministry.

As a similar demotion concerned most of the deputy ministers – not only in the Economic Development Ministry, but in other ministries too – the government simply did not think about the possible consequences of this purely bureaucratic decision. Meanwhile, this move immediately caused puzzlement abroad. Knowing well that Maxim Medvedkov was a true professional in trade policies, Russia's partners naturally interpreted the lowering of his status as a clear sign of a decline in Russia's interest in WTO membership. No assurances to the contrary could yield the desired effect. Sometime later, in 2008, during the next stage of administrative reform, trade policy functions were split between the Ministry for Economic Development and the Industry and Trade Ministry, which once more complicated national trade policy including the trade negotiations.

The initiative to accelerate the creation of a Customs Union among Russia Kazakhstan and Byelorussia, in early June 2009 and the intention to join the WTO collectively were not right decisions at all. This flaw became evident only a month later, when Russian President Dmitry Medvedev, after a meeting with the head of the WTO Pascal Lamy within the G8 summit in Aquila, Italy, admitted that the idea of joining the WTO collectively by the Customs Union was unlikely.

The news that Russia might withdraw from the bilateral format of accession talks at a time when the completion of the process was no more than six months away stunned the negotiating partners. In late September 2009 Pascal Lamy told The New York Times that the new configuration greatly complicated Russia's application, and its accession to the WTO would take much more time. "The fundamental reality is that there is no energy in Moscow to join" any more, he said.

There was one more cause of blocking accession talks for some time. The political atmosphere between Russia and western countries worsened after military conflict in Caucasus in August 2008. The bilateral negotiations really resumed only in spring 2010. Then more than a year was spent to adjust the Russia's commitments to the WTO with legal basis of the Customs Union with Kazakhstan and Byelorussia.

Many analysts in Russia and abroad have observed that in recent years the attitude of the Russian authorities towards accession to the WTO has been inconsistent and ambiguous. Official top-level statements of commitment to the accession policy went along with the tightening of customs and tariff policies, the growth of protectionism, departures from already negotiated obligations, undue delays in fulfilling pledges to the negotiating partners, slow adjustments of national legislations to WTO rules, etc.

It would be also necessary to note that the position of Russia's main partners, western countries, was not impeccable at a critical time. Example: by the end of 2006 after completion of bilateral talks Russia-US there was a real chance to finalize the whole process o Russia's accession in 2007 since the bilateral with all main trade partners of Russia were also completed. But it never happened. Some new countries suddenly manifested their intention to join the bilateral talks. No one understood the real motivation of that movement.

As a result, Russian business, on the whole favorably disposed to WTO membership, was confused in terms of the real intentions of the authorities in 2008-2009. Domestic lobbyists were quick to jump at the opportunity in 2009 to adopt a series of protectionist measures. The attitude toward WTO accession remained ambiguous even in September 2011 i.e. two months before the completion of negotiations (!) when the head of Russian Ministry of Economic Development said that business had to be ready to one of two scenarios: Russia into WTO or out. Certainly, the great majority of Russian business believed in the second one.

There was also nearly unknown side of the process of Russia's accession – activity of the so-called domestic anti-WTO lobby. It has been around to derive strength from the shadow economy and corruption, the large number of monopolies in the country, the merger of business with the authorities, and the suppression of sound economic competition. This lobby has certain resources to defend its selfish interests in the government, to the detriment of Russia's movement towards WTO membership.

Today, when Russia became member of the WTO a new goal emerges - to ensure that Russia's membership in the WTO would be effective in all respects. To achieve it, Russia should modernize the existing system of managing the foreign economic sphere, including trade negotiations.

The main organizational problem with Russian government agencies is that they are not plugged into a single structure that would be responsible for conducting negotiations and implementing international treaties in the sphere of trade policies. Such structures have long paid off in the U. S. (the Office of the United States Trade Representative – USTR), in the EU (the European Commission's office of Trade Commissioner), and in many other countries with developed market economies. Several prominent Russian economists with work experience in the foreign trade segment of the government have repeatedly urged the establishment of a similar extra-departmental agency in Russia.

In order to somehow sort out the existing organizational problems and achieve the desired level of representation at the WTO accession talks, the Russian government has developed a way of delegating – at critical moments – an official of ministerial rank, either a deputy prime minister or a first deputy prime minister. The current curator of WTO negotiations is First Deputy Prime Minister Igor Shuvalov. But can this practice produce effective results? The negotiations on the accession to the WTO are only one of his responsibilities, and not the primary one. A look at Shuvalov's extremely tight schedule makes it evident that the WTO membership talks have never been a top priority for him.

Over the past decades, GATT/WTO member-countries have gained extensive experience in trade negotiations. Several generations of commercial diplomats have alternated, national schools have been formed, and modern systems of state governance for foreign economic relations have been built. It is obvious that in order to derive full benefit from WTO membership and be able to influence the situation within that institution, Russia must have approximately the same components. With its potential Russia intends to become an important and active player into the WTO. That's why the experience accumulated by other WTO members is of great interest and importance for it in terms of rapid involvement in the WTO work.

One of the big problems Russia to face now is an important need in national specialists of trade policy and WTO law. Only several Universities on Moscow and St. Petersburg have a basis to educate students in trade policy. It is clear that the historical delay in this area will be difficult to overcome within the shortest possible time. One of the concrete steps in the right sense has been just taken – the Centre of WTO Competence is being established.

To conclude, I would say the accession to the WTO is a very important step for Russia towards an open, competition-driven economy. But more work is yet to be done.

Alexander Dynkin

Professor, Director

IMEMO, Institute of World Economy and International Relations

Russia

Russia as an investment destination – the recent accession of Russia to WTO and its impact on the investment in Russia

By Grigory Dudarev

Russia as an investment destination is never an easy topic as one can see many dimensions to the subject. It is a very dynamically evolving economy that changed tremendously in the past 20 years. And the change continues. Notwithstanding achievements in the transition it is still more of a norm that a discussion of investment climate in Russia focuses on matters that have to be done, on the fact that development of certain areas is not carried out in understandable and most efficient way. Although understandable, this approach leaves crucial issue without mentioning, that in order to achieve changes of such magnitude one should allow for "trial and error" in the process, for creation of the necessary informed and well-prepared, educated layer of people that will implement the changes. And this, in its turn, will take substantial time.

Since the collapse of the Soviet Union and its independency, the Government always positioned Russia as a very investor friendly place. However, as we know from the anecdotal evidence, the real picture is more mixed. On one hand the world has seen spectacular success stories of foreign (telecoms, Baltika brewery, etc) and domestic investment (retailers: X5, Magnit, OK; IT players: Kaspersky, ABBYY, Digital Sky Technologies, etc). On the other Russia is still struggling with its image as a country that is difficult to operate environment and is risky for investments. There are a lot of well-publicized issues related to corporate conflicts, red tape, increasing capital flight, etc. Hence it was easy to understand why most of commentators cheered the recent accession of Russia into the WTO as an important step and solution. Quite some hope was placed in positive impact of accession on major economic and consumption growth, growth of foreign investment and trade. It is expected that the investment barriers will lower as the country soon will develop its domestic regulations to comply with the WTO "rules of the game" and regulations.

In the present short article we argue that there are many more, mainly domestic factors that might have a major impact on evolution of the investment in Russia in the near future, that the positive effects of WTO membership could be less pronounced and substantially delayed in time.

As one the factors of the major importance we see the emerging nationalistic trend in the domestic politics and overall business sentiment. We refer here to the noticeable shift in economic, social and cultural preferences of majority of population that is based on certain disappointment in western countries and firms as allies and partners, to the attitude of setting the limits to foreign participation in the economy. Strong nationalistic agenda in politics that is observed in the rhetoric, state policies of self-sufficiency and security of supplies in certain industries, tendency to "protect" domestic producers by introducing direct or indirect forms of trade barriers, etc, is expected to have a toll on the speed and path of convergence of practices with the WTO. Decisions and legal acts related to the above, overall market sentiment biased along the same lines could lead to elaborate rules and practices, deeply embedded in the economic system that might make some of the foreign investment uncertain and will certainly take quite some effort and time to overcome or dismantle.

Another important domestic factor is its underdeveloped and inefficient institutions and procedures. In particular the regulations and procedures related to the construction of facilities and establishing of certain types of activity that requires local permits seem to be evolving in the direction of becoming impeding force behind delayed realization of the projects and development of business.

It is true that the large and growing consumer market will continue to attract foreign investment. And that convergence of rules and regulations, change of the tariff policy and other issues brought in by WTO membership, when finally enacted may lead to increase in domestic consumption of foreign goods, flow of technology and solutions to Russia. This is expected to influence investment allocation and focus. However involvement of state as a market participant that is more pronounced in Russia today, in addition to the effect from factors listed above, may also lead to the foreign investment being rather subdued and gradual. It is expected that a lot of arms twisting with WTO will take place until Russia firmly sets on the path of integration and convergence. Hence substantial time shall be added to the expectations and projections.

Notwithstanding the above said we believe that WTO accession is very important step towards an open economy model of development in Russia. We suggest that the process of associated adjustment is seen as a "tug of war" between the pressures of the open market and forces of the domestic nature. Since the major effect from membership is expected in the service (in particular in banking, insurance, telecom and transportation) we would expect this segment to follow an easier path that in certain manufacturing industries and will have a better chance of success in short term. Hence, hopefully, also it will bring more positive sentiment towards openness and gradual shift of attitude as well. It might be too optimistic to expect straightforward and rapid development but the direction is set in the right direction, change is inevitable and will follow, later than expected. When and at what cost…?

Grigory Dudarev

Partner

Evli Bank Plc

Finland

Russia – is there a way out of the dead end?

By Lilia Shevtsova

As Vladimir Putin left his role as informal wielder of power to take his place once more in the Kremlin as official personification of a monopolist power system, Russia has found itself caught in a systemic trap. Not only is Putin's regime unable to offer society the modernization opportunities it needs, it is having trouble even just guaranteeing stability. But at the same time, Russia has not yet developed an alternative system in the form of a political opposition with broad public support and a real program for moving beyond the personified power system. What's more, Putin's political regime has started showing symptoms of decline just as the current liberal democracy model is going through a crisis or at least a sort of malaise, and this is making it even more difficult for Russia to develop a liberal alternative.

This situation raises a number of questions: does crisis in the Russian political regime (Putin's leadership and government) automatically translate into a crisis for the Russian power system built on personalized power and all of its accompanying instruments, traditions, stereotypes and outlook as a model of thought among the political class and the public? What would give the impetus for the transformation needed to bring about a genuine renunciation of monopolized power in one set of hands and a system in which the bureaucracy dictates its will? What are the conditions needed for developing a system capable of providing an alternative to Putin's regime and the traditional Russian power matrix?

How the regime attempts to prolong its life and with what consequences

The Russian authorities have got over their initial shock and confusion following the first protests in late 2011-early 2012 and have now found their second wind and put together a new survival mechanism. This has led them to effectively reformat the political regime. The Kremlin has performed a transition from what we could call soft electoral authoritarianism, which tolerated the existence of an opposition ghetto and a small measure of political competition (provided it did not threaten the ruling team's monopoly on power), to a more hard-line authoritarianism with repressive trends that could in the future take on elements of a dictatorship. In carrying out this revamp of its government mechanisms, the Kremlin has abandoned efforts to imitate democratic institutions and give Russia the image of a liberal country that follows European norms, shifting its focus instead to threats, force, and supressing any dissent in society that might undermine the ruling team's hold on power. The Kremlin is now openly borrowing from Stalinist repressive tactics and using the kind of strong-arm laws typical of emergency situations or wartime scenarios.

The authorities have renounced the civic rights and freedoms enshrined in the Russian Constitution, which amounts to an anti-constitutional coup. They passed a number of laws limiting freedom of assembly, freedom of the press and the internet, and possibilities for NGOs to receive funding from foreign sources. They have expanded the definition of state treason, following on from the expanded definition of political extremism brought in during Medvedev's presidency, and have shown their readiness to introduce make blasphemy and insulting others' religious feelings criminal offences, thus creating grounds on which to press criminal charges for even the most innocent motives (it would be possible to press charges against individuals providing consulting services to international organizations, for example).

In the past, the Kremlin tried to reach out to all social groups and used modernising rhetoric to draw in liberal circles, but now it is increasingly turning to its traditional support base and appealing to the most archaic part of society. In its attempts at political consolidation, the updated Putin regime has started openly trying to implement the 'besieged fortress' model based on a constant search for an enemy in order to mobilize the loyal sections of society. The authorities are now following a policy of provoking confrontation between the traditionalists and the minority that supports modernization, are promoting a union between the state and orthodox fundamentalism, and more active in using militarism and seeking to establish a 'sphere of interests' in the post-Soviet area. Putin's regime is essentially returning to the most reactionary methods of government that completely reject liberal and reformist goals and would turn Russia once again into a civilization hostile to the West.

The authorities' tactic of political intimidation and the weaknesses within the protest movement itself saw the first wave of protests fizzle out in the end. The authorities have managed to hold their ground for now without having to resort to any large-scale violence or bloodshed. Limited use of force and intimidation was enough. The protest leaders and ideologues hoped for fragmentation within the political elite, but this has also not happened.

The Kremlin looks to have eliminated the threat to its power. But the paradox is that in the absence of serious threats to their power from the public and the opposition, the authorities have begun to undermine their own position, setting the suicidal statecraft mechanism in motion. This new situation could be seen as an example of the law of unintended consequences in action. The very factors that only recently were helping to keep the authorities in power are now starting to weaken and de-legitimize them. Completely clearing all opposition from the political stage, for example, creates a situation in which the new and active generation of citizens coming to the fore, with no institutional channels through which to express their will, is forced to take to the streets. The discrediting of all political institutions, from blatantly fraudulent elections to a parliament that has become a circus, and a multi-party system made up of dwarf parties designed by Kremlin spin doctors to put the public off creating parties, also fuels the street protests.

Until recently, corruption helped the authorities to satisfy various interests through deals within the system and between the system and society, but it has now become one of the biggest causes of people's anger. The authorities' turn to repressive, albeit still selective for now, has had the effect of radicalizing the protests as a counter reaction to government force. By giving up soft-line tactics in favour of force as a means of prolonging its survival, the regime is creating a new opposition wave, only this time more radical in nature. Of course, being pragmatics, Putin and his team are hardly likely to want to use mass force.

They realize that they cannot rely on the thoroughly corrupt law enforcement and security agencies. Nor do they want to close Russia off and isolate it from the outside world, which would anger the Russian elite, which has already integrated into the West at the personal level. But the Kremlin has become a hostage of the personalized power system's survival needs, and if it takes too soft a line the current discontent will only grow and the regime will soon find itself swept from the political stage.

What's more, by casting aside the modernizing rhetoric with which it long tried to woo the groups in society pressing for a modernizing agenda, the authorities have shrunk their support base even further and deprived themselves of a source of reformist impetus. The Kremlin's shift to a policy firmly focused on preserving the status quo has destroyed hopes for reform from above and the public is increasingly aware that only movement from below will bring about change. Public consciousness is undergoing a shift from hopes placed in a leader to realization that support for reform has to come from below, and this in turn means growing awareness of the need of the need for revolution. Of course, society still fears revolution, still lives with its memory and knows that in Russia revolution was always fierce and cruel. The question now is whether society can find a means of achieving peaceful exit from the Russian matrix and avoiding violence. This could be possible if a strong opposition emerges and accepts the consensus principle of peaceful action, and if the political class fragments, enabling potential links to be established with pragmatists who would be willing to support new rules of the game. But so far, neither of these developments are evident.

It would be naïve to imagine that Putin's regime is about to topple in the coming months or even years. The regime still has administrative, security, and social resources it can draw on. These resources enable the ruling team to keep not only the traditionalists under their control but also a substantial share of the discontented, who so far fail to see any alternative leader or system. At the same time however, the support pillars on which the 'Putin consensus' was built (above all, society's tacit and informal consent to hand power over to Putin and his elite in exchange for growing prosperity and greater security) no longer perform their job. People have lost faith in Putin's ability to guarantee higher living standards, and many no longer have confidence that the regime can ensure stability and personal safety. The vast majority of people dislike and are suspicious of Putin. Even the traditionalists (around 15% of the population) give Putin only conditional support and consider him too 'soft' and 'pro-Western'. Majority of the population of the population still express support for him because they do not see any alternative and fear chaos (with about 15 per cent minority that is ready for fight for new rules of the game). But this support could vanish at any moment. The elite's support of Putin is also conditional. In the eyes of some parts of the elite, Putin has gone from being an asset to a liability.

The Kremlin's decision to resort to forceful methods in a bid to maintain its hold on power is symptomatic of the regime's imminent demise, but at the same time, an end to Putin's regime does not mean that Russia will take a democratic road. As fate would have it, even among Putin's opponents and in the liberal camp quite a few people support the idea of a new regime that would play a firm hand and be capable of carrying out long-awaited reform from above. The possibilities for the traditional Russian power scheme to reinvent itself in a new guise go well beyond the current regime alone. It is possible that a new personalized power regime could replace the current one, either through a coup or through consensus among part of the ruling elite. It is also possible that this new regime could be an outright dictatorship. The one thing that we can say for certain is that leaving power in the hands of the current elite, which is attempting to neutralize society by demoralizing it, will only increase the tension and violence, thus making future confrontation between the authorities and society all the more unavoidable.

Crisis as the Factor of Change

Socio-economic and political crisis is the key factor that will determine whether Russia takes the road of endless stagnation or whether Russian society attempts to stop this process and finds the energy and strength to look for new forms of life. With an elite that seeks not renewal but only to protect its own interests, and without any alternative force in society, crisis is the only thing capable of stirring the swamp and snapping people out of their lethargy. So far, crisis is producing ripples that rock the Russian boat but it seems are not yet waves sufficiently large to threaten the status quo.

What could set off full-scale crisis in Russia and what would this mean for the country? Russia could head into full-scale crisis if, for example, oil prices fall to $70 a barrel, public sector workers dependent on the state see their living standards take a steep downturn, the urban population becomes increasingly politicized and the gap between them and the authorities widens, local conflicts build up, signs of splits emerge within the political class, and executive power ends up in a paralyzed state. Setting all of these exacerbating factors into motion and making them converge in time would require some kind of tipping point, some foolish act on the authorities' part, as back in 2005, for example, when the decision to replace social benefits with cash payments brought pensioners into the streets. Other tipping points could be unjustified use of violence against the population and clashes in the streets, electricity blackouts in Moscow, which would paralyze the capital's life, corruption scandals in government, growing student activeness and so on. In a full-scale crisis we could see executive power become paralyzed, underscoring the authorities' inability to keep the situation under control, the mass protest movement could swell and the law enforcement agencies could refuse to use force against the public. Crisis could cause dissension within the political class and erode the authorities' support base.

If an explosion does take place, a package of conditions is needed to channel it in peaceful stream and ensure that transformation begins. These conditions are: consolidation of all anti-regime and anti-system forces; readiness on the part of pragmatists among the authorities to enter a union with the non-systemic opposition; adoption of new laws on free and fair elections and immediate organisation of such elections; convocation of a constitutional conference to adopt a new constitution that would curtail excessive presidential power (or have constitutional amendments approved by a newly elected parliament). This would be inevitably be followed by a new stage during which the anti-system coalition would fall apart and a new round of drawing up the political boundaries would begin, only this time it would take place under new rules of the game. This is the optimistic scenario. But making this happen would require not just convergence of several trends but also consistent effort by the opposition forces to prepare for transformation on the basis of de-monopolizing power and guaranteeing political competition.

Unfortunately, Russia is moving in a dangerous direction at the moment. The authorities still have enough resources at their disposal to keep the country in a state of indefinite 'controlled decline'. What's more, the ruling class has deliberately chosen to deepen degradation and demoralization in society, hoping in this way to prevent the emergence of a constructive alternative that would threaten its survival. This atmosphere of continued decay in which moral principles and taboos that act as restraints are eroded and total mistrust and cynicism spread through society could push the country onto a path of slow collapse, and in this situation, popular protests could end up turning into ruthless and destructive mutiny.

No matter what form continued degradation takes, no matter whether the country runs into worsening crisis or implosion, the trend that has undermined the country's territorial integrity will inevitably continue, even if transformation begins. It will be very difficult to maintain within a single country, all the more so one built on a unitary construction, regions that belong to such different civilizations (the North Caucasus, say). The future of Tatarstan and Bashkortostan is also unclear, although their lack of any external borders would make it harder for these regions to secede from Russia. In any case, we need to be prepared for a new spiral in the collapse of the still partially intact old empire.

The developments I have outlined for Russia over the nearest perspective would see the country become a turbulent region, and Russia's turmoil would impact on stability across Eurasia and the European continent. Russia's future will say a lot too about the possibilities and influence of Western civilization, which has so far failed to answer the Russian challenge. But even more important is the fact that the Russian society is approaching the test that will demonstrate its ability to say farewell to the civilization based on the priority of the stats but not individual.

Lilia Shevtsova

Senior Associate

Moscow Carnegie Centre

Russia

Associate Fellow

Russia and Eurasia Program

The Chatham House

The United Kingdom

Russia increasing its military expenditure

By Tommi Lappalainen

In recent years, Russia has markedly increased its expenditure on defense and the re-equipment of its armed forces. According to current plans, state funding for defense will almost double over the next few years, while defense expenditure grows by one fifth annually. In international comparisons of funding allocated to military expenditure, Russia comes third after the US and China.

The State Armaments Program (Gosudarstvennaya programma vooruzheniya), which reaches up to 2020, will form part of the program to reform the armed forces. Within the framework of the armaments program, EUR 550 billion will be set aside for rearmament. The armaments program forms part of Russia's reform of its armed forces, which covers broad structural, operational and equipment-based renewal of the national defense. Political commitment to increased military expenditures is strong. The program is viewed as indispensable to national security.

Major rearmament underway

The war with Georgia in 2008 provided a concrete demonstration of the deficiencies in the Russian army's armaments and command systems, and of the need for the long-planned reform of the armed forces. Under the armaments program, focus areas for rearmament include strategic nuclear weapons; the development of a new, modern fighter; a surface and submarine fleet; and the development of modern air defense and command systems.

The intention is to earmark almost half of the program's funding for the upgrading of nuclear weapons. While strategic nuclear weapons are chiefly regarded as providing diplomatic leverage, Russia regards a credible nuclear deterrent, and the country's ability to maintain nuclear parity with the US, as crucial.

Another key goal is to renew the mass-deployed, Soviet-era equipment of Russia's conventional forces with modern military hardware. The objective is to achieve a level of 70% modern equipment by the end of the decade, from the current level of only around a tenth.

Are the goals of the armaments program overly optimistic?

In fulfilling the program, a key question concerns whether Russia's defense industry can indeed produce modern defense equipment at the planned pace and in line with the program's goals. After the break-up of the Soviet Union, very little industrial R&D was being carried out within the defense-industrial complex. R&D ground was lost and closing the gap with the West now presents challenges of its own. In many regards, arms manufacturers are unable to produce the modern weapon systems required by the armed forces, at least on a rapid schedule. Lack of competition and profitability, non-availability of educated labor force and the widespread corruption afflicting society are additional scourges of the defense industry. According to estimates, up to a fifth of the armaments program's funding is lost to corruption. Fulfillment of the armaments program therefore also requires the broad-based modernization of Russia's defense industry.

Another factor in the program's fulfillment clearly depends on Russia's general economic development. An acknowledged structural weakness of the national economy lies in growth's dependence on energy price trends in the global markets. During the current decade, this 'formula' looks unlikely to change.

Why is Russia rearming?

Russia's leadership has repeatedly emphasized the need to grow military expenditure and re-equip the armed forces. For its part, a substantial armaments program is a sign of the reinforcement of Russia's status as a major power. Russian security thinking emphasizes that the armed forces are not being developed to meet existing threats only. Major-power status requires considerable potential to wage war. Without strong, modern armed forces, major power status lacks credibility. Over the next few years, no significant changes are to be expected in strategic choices concerning security; defense issues will remain a key guiding principle behind the orientation of Russia's foreign policy.

In the future, it will be interesting to see whether societal pressure increases to devote ever more state funding to social infrastructure development projects and improving the general wellbeing of citizens. The evidently increasing dissatisfaction with the current administration may lead to additional funding for various social programs, at the expense of the defense budget and State Armaments Program.

In sum, many uncertainty factors hover around the fulfillment of the armaments program. It may be that, in its current condition, the defense-industrial complex is incapable of carrying out a broad-based armaments program. In many respects, money, or foreign purchases, will not suffice to paper over the defense industry's weaknesses.

For their part, the sheer variety of perceived threats to national security, and unwillingness to prioritize, pose a problem to the upgrading of Russia's armed forces. Russia has no natural allies in the area of national security policy. Partly for this reason, it has no choice but to prepare for many different types of threat.

Extensive reform of the armed forces is sure to require the whole of the current decade. However, in practice the current armaments program is no panacea for the Russian armed forces' problems.

Tommi Lappalainen

Major, Lecturer

Department of Strategic and Defence Studies

National Defence University

Finland

Russia's WTO entry – consequences for higher education

By Irina Novikova

Russia officially joined the World Trade Organization (WTO) on August 22, 2012 as the protocol on its accession to the Marrakesh Agreement, the foundation document for the world trade club, entered into force. This document was signed in Geneva on December 16, 2011 after 18 years of negotiations and made Russia the global trade body's 156th member. Russian President Vladimir Putin signed a federal law that authorizes the protocol on July 21.

Consequences of the WTO entry are the subject of the most heated debates in Russian society. As part of its accession, Russia has initiated a number of measures designed to open up its economy, including tariff reductions on a range of industrial goods and measures to liberalize the Russian services sector, including phased liberalization of the Russian financial and professional services sectors. The World Bank estimates that Russia's WTO membership will boost the country's GDP by 3.3 percent annually for the first three years, with that figure likely to increase later. On the other hand, critics have claimed that Russia's accession to the WTO is detrimental to the country's national sovereignty and security and could ruin entire sectors of the domestic economy.

However, WTO entry is not limited to consequences for the national economy, but it also concerns education sphere, in this case higher education. Nowadays the Russian higher education system is under reform. At the heart of this transformation lies modernisation and internationalisation. For Russian academic institutions internationalisation becomes a sort of «survival» and development tool, a method for adjustment to requirements of innovative economy.

In this connection, Russia's WTO entry creates favorable prerequisites for internationalisation of the national education. It could be identified several positive features, which will appear in the Russian higher education system after Russia's accession to WTO: firstly, boost of the Russian universities' integration into the international education space; secondly, increased opportunities for Russian students and scholars in terms of academic mobility; thirdly, anticipated inflow of foreign investments into the Russian universities. Educational standards will be adjusted to the labor market requirements. Finally, students will get the maximum freedom of choice in their education. Education becomes life-long s and adaptive process: each student is entitled to determine the educational path by his own, depending upon the personal preferences and market requirements.

Some consequences of the Russian entry to WTO could bear both positive and negative character. For example, foreign universities get an opportunity to create its branch offices in Russia. This situation can drive their competition with Russian universities for students' choice. Herein the basic value will be the quality of services provided. Russian state universities, which get used to the state's paternalism, will have to accomodate to new realities and search for the new approaches to attract students. Also the smart marketing policy will bear huge significance for success of university's recruitment policy. One should expect that the commercialisation process in universities will go much more rapidly. New opportunities for investments into the education sphere arise, particularly on the part of foreign business. Private companies will be able to exert more influence on the specialist training, which are on demand on the labor market. Ability to use new information- and communication technologies (e.g. distant learning, on-line courses, research networks, social networking as an education tool) by Russian universities will also play significant role in their competitiveness increase.

In the short-term perspective above mentioned factors could have a negative impact, particularly for regional universities. For example, only leading universities in Russia are ready for a full-fledged integration into the Western education system. Furthermore, the brain drain of the most promising young Russian scientists to foreign research organizations is likely to increase.

Effective forms of overcoming the negative consequences of Russia's WTO entry for the national education system could be the establishment of joint educational programs and strategic alliances between several universities in the joint degree program format. A good example here could be the Barents Cross-Border University (BCBU), established in terms of the cooperation between the universities of Northern Finland and North-Western Russia. The major goal of this project is the creation and development of international multi-disciplinary Master degree programs, whose content reflects the specifics of the «Northern dimension». Another example is the CIS Network University, founded in 2008 with the aim of development and implementation of the Erasmus Mundus program equivalent for the common educational space of CIS member-states.

Generally speaking, accession to the WTO puts before the Russian education system both challenges and opportunities. In the long-term perspective and by means of wise management WTO membership is likely to promote the quality increase for the Russian education.

Irina Novikova

Professor, Dean

School of International Relations

Saint-Petersburg State University

Russia

How to get more boost to the Northern Dimension?

By Jari Jumpponen

The Northern Dimension Policy of the European Union was adopted in 1999 as a new approach and practical tool for cooperation between EU and North-West Russia. In 2001 the Northern Dimension Environmental Partnership (NDEP) was launched, and followed in the next year by the Support Fund, which finances environmental and energy efficiency projects in Northwest Russia and Kaliningrad, and nuclear safety projects in Kola Peninsula. The most significant environmental projects supported by the Fund are flagships of the Northern Dimension – St. Petersburg Southwest Wastewater Treatment Plant and the Neva Program.

The revised Northern Dimension policy in 2006 introduced equal cooperation between the EU, Russia, Norway and Iceland. For sure, this has accelerated Russia's involvement and engagement in the Northern Dimension.

Analyzing the NDEP success reveals also, what the other ND partnerships lack to date: sufficient financing, clear focus, and active participation of all the partners involved. Firstly, the role of EBRD and other IFIs (EIB, NIB and NEFCO) has been crucial in the success, and guaranteed effective management of the NDEP. Also the willingness of the Russian Federation to direct funding through NDEP has been a strong endorsement of its success. Secondly, focusing on wastewater has brought evident results. However, widening activities to energy efficiency has proven to be more demanding. The results of reducing pollutants entering the Baltic Sea are easily measurable and in the interest of all the countries which have shoreline, while reducing CO_2 emissions is global benefit instead. Thirdly, active participation and support from the all parties has been available, because the results have had undeniable benefits to all.

How the NDEP success could be replicated in other spheres?

The Northern Dimension has emphasized the principle of utilizing existing financial instruments as efficiently as possible. The expectations for EU funding have been evident, even though officially "no additional budget line for Northern Dimension has been demanded". Understandably but unfortunately, the North is not the main direction for the EU policy. Thus, EU has wanted to see member state contributions before committing to financing. The focus of Northern Dimension has been rather "all-inclusive" than selective. Or how should one characterize the agreed priority sectors of the Northern Dimension in economic cooperation, which include "promotion of trade, investments, customs, SMEs, business, innovation, well-functioning labour markets, financial services, infrastructure, energy, agriculture, forestry, transport and logistics, telecommunications and information technology"? In principle, it is good not to exclude any important elements of economic cooperation, but for creating new flagships certain focus would be beneficial. In addition, focusing activities could add some passion to the Northern Dimension, which in many ways has been neutral – all participants agree that as a political and practical tool it is harmless, but at the same time achievements seldom spring from neutral atmosphere.

There are currently four partnerships in Northern Dimension, namely aforementioned NDEP, NDPHS (public health and social well-being), NDPTL (transport and logistics), and NDPC (culture). In addition there are stakeholders complementing the cooperation – Northern Dimension Institute as a university network and Northern Dimension Business Council (NDBC) gathering together businesses operating in the ND region. Could the business view bring boost to Northern Dimension? Firstly, NDBC is a platform for interaction, experience-sharing and networking between companies. Secondly, NDBC ensures that the view of business community will be taken into account in developing the Northern Dimension policy. Thirdly, NDBC is a platform for the dialogue between business and government structures. First of all it should be remembered that all the platforms which gather European and Russian companies and decision-makers around the same table are good opportunities for dialogue. Companies do not allocate their time to activities, which do not benefit them. The clear indicator that NDBC is needed is the active participation of the companies in the annual forums; the next takes place in St. Petersburg in April 2013. Moreover, all the platforms where European and Russian companies present their joint statements on how to improve the investment environment of the European North should be carefully taken into consideration by political decision-makers and authorities at federal and regional levels.

The topics arisen by NDBC are often down-to-earth. For example, human capital has become scarce resource for both European as well as domestic companies operating in Russia. During the next decade the number of those entering to the working life will be smaller every year. The attractiveness of the blue-collar work should be increased while labour efficiency has to be improved. Maybe improving training practices and introducing apprenticeship – through European-Russian cooperation – could bring new solutions to the common challenge we face in the European North.

I believe more boost to the Northern Dimension could be got from the grass-root level. Now it is about the time to support the initiatives of various stakeholders, such as universities, research institutes and business by providing them sufficient financing. And one should accept that results might be more global than local of the nature. In the end, it is all about the competitiveness of our common region in the environmentally sustainable way.

Jari Jumpponen

Head of rep. office

East Office
of Finnish Industries

Advisor to Co-Chairman of
the NDBC

Russian higher education reform – designed to approach world top universities

By Katja Novikova and Maija Kuiri

The past five years have been an era of strategic reforms in the Russian higher education sector. The main target of the reforms is to adjust the Russian higher education processes to reach the top level of western universities. The latest economic crisis has shown that under times of uncertainty, new innovative ideas are needed when competing on the global market. Hence, the active involvement of universities and their top scientific research in the development of national economies is crucial.

The Russian university sector was built up during the soviet era and met the requirements of the soviet state-planned economy well. At present, the Russian government faces additional challenges in transforming the national university structure and functions to meet the requirements of the contemporary Russian market-economy driven society. This means, for instance, world-wide international cooperation in science and education, which in the soviet time was not a priority. Other challenges of the Russian university sector, stated also in the new state program "Development of Science and Technology," are insufficient research results, poor business and science cooperation, generation discontinuity due to weakened support to science in the 1990s followed by the withdrawal of the younger generation from universities, and outdated facilities.

However, many reforms in the Russian university sector have been realized during the past five years, such as:

- Establishment of **Russian federal universities**. The federal universities have been created to enhance the development of the higher educational system by optimizing regional educational structures and by adjusting the educational processes in accordance with the economic and social needs of the federal regions. The strategic mission of a federal university is the creation and development of competitive human capital in the federal region by inventing and realizing innovation services. At the same time, each federal university supports all government social and economic programs in the corresponding area. There are currently nine federal universities in addition to two state universities: Lomonosov Moscow State University and St. Petersburg State University.

- Establishment of **national research universities.** The mission of national research universities is to effectively integrate education and research for the application of new technologies in the national economy. Both national research and federal universities aim to be among the world's 20 leading universities and provide the best educational and research practices to the world through innovations and highly cumulative human capital. At the moment, there are altogether 27 national research universities in the different regions of Russia.

- **Development of an innovation infrastructure.** Altogether 57 Russian universities have been selected to be so called "innovation universities". The status is awarded through national competition and means additional funding for improving the innovation infrastructure in these universities. Innovation universities aim to create innovation development processes and cooperate closely with companies to create competitive advantages on both the national and world markets.

- Development of **cooperation between universities and industrial companies**. Russian universities have been allocated additional funding by the government with the target of developing closer cooperation with industry. This is realized through specific scientific and educational projects in order to stimulate innovation activities in the Russian economy.

- **Invitation of the world's top researchers**. The Russian Ministry of Education has special funding for attracting world leading researchers to the most promising Russian universities, i.e. federal, national research or innovation universities.

These five initiatives of the Russian government have been implemented in the national higher educational system and the first results can already be seen in the QS World University Rankings: 14 Russian universities have been included on the list in 2012. The most famous and dynamic Russian university, Lomonosov Moscow State University, is number 116 on the list, being the best Russian university.

The five above-mentioned initiatives were used additionally to other indicators in order to evaluate all Russian higher educational institutions with the target to select the most ineffective ones to be either merged with more developed institutions or be bankrupted in the case of the weakest results. The results of the evaluation were published on 1 November 2012: altogether 136 universities out of 502 institutions did not pass the evaluation. As a result of this, the Russian government will decrease the number of universities and concentrate the best human resources and infrastructure in the best ones, which have already been improved by the five initiatives above.

Lappeenranta University of Technology (LUT) is one of the leading universities with expertise in Russian affairs and therefore constantly follows the development in the Russian educational sector. Accordingly, LUT has created the largest network of Russian universities in Europe. LUT's Russian partners have been selected through careful analysis, paying special attention to the clusters of Finnish companies in the Russian regions. LUT's advantage is its unique combination of business and technology, which enables providing the best expertise and support to Finnish companies in Russia.

Katja Novikova

Director for Russian Affairs

Maija Kuiri

Project Manager

Lappeenranta University of Technology

Finland

Party-system reform in Russia

By Sean P. Roberts

Political parties are considered essential components of democracy. For this reason, it is significant that the Kremlin's relaxation of party registration procedures in the spring of 2012 stimulated, what can only be described as an explosion in party-building. By late 2012, the Ministry of Justice had registered 36 new political parties. But with dozens more seeking registration, the Russian party-system appears to be entering a fluid phase of development.

What were the changes that led to this resurgence? The main drivers were the amendments to the 2001 law 'On Parties' signed by outgoing president Dmitri Medvedev in April 2012, in the wake of significant protests following December's State Duma election. What was surprising was the extent of these changes. The long-standing requirement that new parties have at least 40,000 members to register was quickly reduced to an almost negligible 500 members. How are these changes likely to affect Russian politics? The effects of party-system reform are difficult to gauge at this early stage, but no analysis is possible without an appreciation of what exactly is being reformed: in other words; what kind of party-system emerged in Russia prior to April 2012?

The aforementioned law 'On Parties' passed by the Duma in 2001 formed the basis of, what may be termed, Russia's 'pyramid' party system, with the all-national, pro-Kremlin United Russia party at the apex. In fact, this law was an important component of Vladimir Putin's early centralisation efforts and by establishing control over the party system, the Kremlin was able to promote United Russia and cement the authority of the federal centre over the regions.

Lower down the pyramid or at the next level of importance we have a group of 'soft' opposition parties, namely the socialist A Just Russia, the nationalist Liberal Democratic Party of Russia (LDPR) and the Communist Party of the Russian Federation (CPRF). These parties have parliamentary factions and relatively stable electorates, but they are typically fringe players, collecting the protest vote and occasionally causing an upset in regional elections by beating United Russia into second place. They are 'soft' opposition in the sense that their leadership engages in constructive dialogue with the authorities, although lower-level party activists are typically less complicit. It should be noted that the political system is significantly enhanced by these parties, whose presence confers an air of pluralism to the electoral process.

The bottom of the pyramid is home to a number of minor organisations, such as the nationalist Patriots of Russia and the liberal-leaning Yabloko party. They have an ambiguous relationship with the authorities, but the fact of their registration indicates a relationship none the less. The bottom of the pyramid is also home to a collection of 'hard' opposition groups which struggle to gain registration due to their antagonistic relationship with the authorities. Examples include the liberal-leaning Republican-PARNAS party, which was de-registered in 2007.

Overall, the liberalisation of registration procedures will see an increase in the number of parties at the bottom of the pyramid, as has already happened. 'Hard' opposition parties will also have an opportunity to formally register, compete in elections and even unite like-minded opposition – as with the Republican-PARNAS party, which was finally re-registered in May 2012. However, the net, short-term effect of this party surge will be to bolster parties at the top of the pyramid. United Russia will disproportionally benefit if, as expected, most of these new parties fail to pass the minimum threshold in regional elections and when their votes are subsequently redistributed to those that do. The political flux generated by these new parties will likely enhance United Russia's conservative message among a confused electorate.

As for long-term effects, there are reasons to be sceptical that more parties will translate into more democracy. The problem in Russia is that despite characterising the party system as a pyramid on the basis the power differential that exists between parties, there are grounds to argue that Russia does not have a party-system at all. The combination of formal and informal institutions severely limits the entire representative function to the point where parties cease to be meaningful bridges between society and power.

In formal terms, the 1993 Constitution affords so much power to the President that parliament represents, at best, a mild check on power – that was before United Russia came to dominate the State Duma, Federation Council and most regional assemblies. But United Russia, despite its undoubted pre-eminence at the top of the pyramid, is not a ruling party in any meaningful sense of the term. While United Russia has party members and 'supporters' in federal government and the presidential administration, the party is strictly subordinate, possessing little, if any, independence as an organisation. Russia persists with a so-called 'professional government', so the ability of any party to aggregate societal interests and translate votes into real power is largely absent.

By the end of 2012, political reform has led to new parties and new choices for voters. But, in Russia's post-Soviet political-system, it is the President that remains the unrivalled leader who resides above and beyond the party pyramid. No amount of party reform will change this fact.

Sean P. Roberts

Dr, Researcher

The Finnish Institute of International Affairs

Finland

Russia and migration in the light of the demographic crises

By Roger Roffey

Russia's population had continued to fall from 149 million 1995 to just over 143.2 million 2012 and UN projections indicate a serious population decline in the next 10-20 years. Russia's potential workforce, 15-64 years of age, is estimated to decrease faster than other groups by 1.0-1.2 million per year, by as much as 18-19 million by 2025. Characteristic for Russia is the very high mortality rate for males in working ages with a life expectancy 2011 for males of only 64 years. The severity of Russia's population decline has been masked somewhat by an influx of immigrants from the former Soviet republics[1].

It is difficult to get reliable migration data in Russia and most of the data is not very reliable. During the period 1981–2009 a total of 17.8 million immigrants (many ethnic Russians) were estimated to have arrived in Russia. The figure for emigration under the same period was 11.6 million. It is estimated that in 2010 more than 12 million residents in Russia were born abroad[2]. There were two types of immigrants ethnic Russians or economic migration, which now dominates, 90 per cent from former Soviet republics.

The number of migrant workers in Russia has rapidly increased 2005 – 2010 from 1-10 per cent of employees. A large part is illegal immigration. The number of migrants in Russia also depends on how the term migrant is officially used and in 2011 it was anyone who came to Russia for longer than nine months.

Migrants including internal migrants are concentrating in the largest cities and their vicinities, particularly in Moscow or St. Petersburg. A large share will be there illegally and Russian officials have not been able or willing to regulate this flow adequately as many businesses depend on them for cheap labour. A significant proportion of those immigrants come from Central Asia and the Caucasus, causing public concern in cities due to anti-immigrant feelings. There is also a fear of mass immigration of Chinese into Siberia and the Russian Far East. Estimates range from a modest 200 000 to 400 000 Chinese working in Russia[3]. The numbers are not well documented, frequently exaggerated and the issue is highly politicized.

The scale of internal migration fell by over 50 per cent from 1989 to 2007, leaving Russia with one of the least mobile populations among advanced countries. There has been a trend of a ‘western drift’ of migrants to the European parts from eastern regions like Siberia and the Russian Far East accelerating population decrease there. It will become increasingly difficult to keep up economic development and secure control over natural resources in these areas if the population continues to decrease and this is seen as a national security issue.

Russia has faced emigration, including a so-called brain drain, since 1991. Some experts claim that 100 000 persons with academic degrees left between 1991 and 2011 and there are no reasons to expect an end to this. Emigration has not so far taken place on a large scale in recent years, but can become a serious problem in the coming years.

Anti-immigrant sentiments

The influxes of immigrants have already caused strong anti-immigrant and nationalistic feelings in Russia not least in major cities. Nationalist rallies and inter-ethnic clashes in 2010 has not helped. Despite the introduction of various new initiatives there are many ambiguous political messages being voiced that increase ethnic tensions. This ethnic polarization can become a potentially serious problem. How the government can handle large increases in immigrants will become a sensitive political issue in Russia for the next five years. Politicians and media have for a long time sown resentment against non-Russian immigrants from the Caucasus, Central Asia or from China.

Immigration policies

The *Concept for Demographic Policy* was introduced 2007 to boost Russia’s population to 145 million and increase the birth rate by 50 per cent in relation to 2006. It assumed a life expectancy of 75 years by 2025 and a total birth rate of 2.0 children per women. There was a goal of migratory gains of 200 000 person per year in 2016 and more than 300 000 persons per year in 2025[4].

The new migration laws 2007 defined quotas for migrant-sending CIS countries and high penalties for employing immigrants illegally, resulting in increased legal immigration. Russian experts were also encouraged to return but with very limited success. Russian immigration policies need to achieve a balance between the economic need for migrant labour and the widespread xenophobia in the society. In June 2012 President Vladimir Putin endorsed the new concept of national migration policy for the Russian Federation until 2025. Russia is to become more open to immigrants and it aims to alleviate the negative effects of Russia’s demographic decline and to fill the gaps in its domestic labour force. Can promoting immigration be combined with a political leadership that at the same time seem to promote nationalist feelings?

Conclusions

An efficient solution to the demographic crises in Russia, though controversial, would be to increase immigration, 25 million needed for the next 20 years, so as to compensate for the working age population shrinkage and to supply the labour market with the workforce it needs. This will probably not be achievable. The required high numbers of immigrants will be accompanied by increasing socio-political and ethno-cultural tensions that are already well known in Russia. Demographic projections indicate a continuing decrease in population. It will be difficult for Russia to support high economic growth while the population, especially in working-age groups continues to decrease. It has been proposed, though unpopular, to raise the retirement age to 62 years (now 60 for males and 55 for women) that would lead to decreased numbers of pensioners from 36 to 30 million by 2025, thus increasing the domestic working force and keeping the pension system solvent.

It is a serious problem for the government how to overcome the widespread anti-immigrant sentiment, xenophobia that remains very strong, not only among the general population but also among politicians.

Roger Roffey

Senior Scientist

Division
of Defence Analysis

The Swedish Defence
Research Agency FOI

Sweden

1 Roffey Roger (2012) *The Russian Demographic and Health Situation: Consequences and policy dilemmas*, Report FOI-R-3396-SE, Stockholm, Swedish Defence Research Agency, FOI.

2 Ioffe, Grigory and Zhanna Zayonchkovskaya (2010) *Immigration to Russia: Why It Is Inevitable, and How Large It May Have to Be to Provide the Workforce Russia Needs* (Washington, D.C., The National Council for Eurasian and East European Research), January, p. 1.

3 Repnikova M. and H. Balzer (2009) Chinese Migration to Russia: Missed Opportunities, Eurasian Migration Papers, No. 3, Woodrow Wilson International Center for Scholars, Washington D.C.

4 Vishnevsky, Anatoly G. et al. (2009) *The National Human Development Report 2008 for the Russian Federation: Russia Facing Demographic Challenges* (Moscow, UNDP).

Euroregion Baltic – tool to tackle common challenges in the South Baltic area

By Roland Gustbée

Euroregion Baltic (ERB) is a platform involving local and regional authorities in Denmark (Bornholm), Lithuania (Klaipeda County), Poland (Pomorskie voivodeship, Warmińsko-Mazurskie voivodeship), Russia (Kaliningrad oblast) and Sweden (Blekinge län, Kalmar län and Kronoberg län). ERB was established in 1998 and was the first Euroregion to have formally involved Russian partners.

ERB initiates joint activities contributing to the development of the whole Baltic Sea Region and with particular attention to the South Baltic area. The significance of the cooperation has been reflected by joint political initiatives resulting, among others, in the attraction of funds to support the cooperation area, implemented strategic projects based on the ERB Joint Development Programme, and improved intercultural dialogue benefitting the integration processes in Europe.

ERB stakeholders believe that added value of their cooperation is reflected it by the two factors: ERB is a tool to tackle common challenges observed by its members, as well as a strengthened political leverage in the cross-border cooperation of the Baltic Sea Region. Joint activities carefully designed in the rolling biannual action plans, are streamlined into the three strategic focus areas: lobbying activities, strategic actions, and exchange initiatives.

Cooperation areas

As a lobbying platform ERB takes an active role in the shaping of EU policies which include, but are not limited to, EU Cohesion Policy, EU Strategy for the Baltic Sea Region (EUSBSR), Europe 2020 Strategy, and TEN-T Policy. The ERB Executive Board has initiated a number of discussions, seminars and joint lobby activities promoting European Territorial Cooperation, arguing for the Motorways of the Sea in the Baltic, proposing to improve transport accessibility to peripheral and maritime areas and calling for multi-level governance in the EUSBSR implementation. ERB has coordinated joint lobbying efforts with BDF, BSSSC, B7, CPMR, and UBC and directed them at the European Commission, European Parliament, Committee of the Regions, and national governments.

Strategic initiatives within ERB serve a multi-fold function. By enabling networking among a variety of partners and providing complementarity with the regional development strategies, such actions upgrade added value of the cooperation. By inviting high political representatives of the regions and involving other important stakeholders, such actions strengthen the vitality of the cooperation. Today, a focused coordination of joint strategic objectives within ERB concerns the implementation of the ERB Joint Development Programme (joint projects like MOMENT and DISKE), accomplishment of prioritised institutional activities (investigation of a possible legal status), and development of platforms supporting other forms of cooperation and actors in the ERB area (enhancing cooperation between businesses, improving labour mobility, promoting investment in transport corridors and improving ferry and air links, promoting people-to-people cooperation).

The stakeholders of the ERB cooperation are strongly convinced that significant progress in innovation and in operational efficiency can be successfully generated when knowledge is exchanged. Therefore, they commit themselves to exchange activities in belief that collaborative approach to common challenges by local and regional politicians, decision-makers, experts and practitioners will lead to deepened relations between the ERB member regions and strengthened cooperation. Such exchange initiatives also result in the development and improvement of competence and skills of everyone engaged and provide an integrating stimulus to the organisation.

South Baltic CBC Programme

ERB actively promotes a greater role of the European Territorial Cooperation within the EU Cohesion Policy, advocating for the equal importance of cross-border cooperation along maritime borders to that along land borders. ERB was a key actor in the establishment of the South Baltic Cross-Border Cooperation Programme in 2007 and since then has actively participated in its implementation, both as a partner in projects co-financed by the Programme, and as a member in the Steering, Monitoring and Joint Programming Committees.

ERB supports the continuation of the South Baltic Cross-Border Cooperation Programme in the new financial perspective, including all the ERB member regions (with all NUTS 3 level regions involved in the current programme), thus enabling the whole Pomorskie and Warmińsko-Mazurskie voivodships in Poland, Kronoberg county in Sweden and Kaliningrad oblast of the Russian Federation to take full part in the programme implementation. The inclusion of the whole ERB area will reinforce the strategic programming and effectiveness of the programme, and hereby strengthen the performance and added value of the projects to be implemented.

Taking part in the current discussions on the future of the Programme, ERB stresses the need for an open dialogue involving local and regional actors in order to define a specific profile of the programme. Such a profile should address well the most urgent joint challenges within the programme area and be enforced by carefully selected thematic priorities with a strong and clear focus. These thematic priorities should include: protecting the environment and promoting resource efficiency, as well as enhancing the competitiveness of small and medium-sized enterprises.

Roland Gustbée

President

Euroregion Baltic

Borders and foreign labor – the importance of foreign labor at the Danish-German land border

By Torben Dall Schmidt

Introduction

”They steal our jobs”. When talking about foreign labor, this may be a first response. As foreign labor enters the Danish labor market, one may expect this to result in crowding-out native employment. On the other hand, foreign labor may have positive effects on native employment. Finding out about the nature of effects to be expected from including foreign labor into the Danish labor market is therefore of interest from two perspectives. The present crises has increased unemployment and thereby strengthened a negative assessment of foreign labor. Further, the ageing society puts emphasis of solving bottlenecks in labor markets potentially through foreign labor.

Taking a point of departure in the Danish region of Southern Denmark including the Danish-German border makes such considerations of particular interest. The Danish part of the border region is geographically close to labor market resources not having a Danish background. The issues relating to foreign labor will in the following be pursued in three steps:

1.Is cross-border commuting of importance at the Danish-German land border?

2.Does foreign labor represent a positive effect on regional employment?

3.Are networks important in recruiting foreign labor and does this point an importance of path dependence?

Foreign labor: Why positive or why negative?

What arguments may be presented pointing to positive effects of foreign labor on native employment and what arguments may be presented pointing to negative effects? A nearby possibility is the employing a person with a foreign background gets a person with a native background fired, because the person with a foreign background is in some way preferred. This preference for persons with a foreign background may arrive from many sources such as lower wage demands or more flexibility. Such sources are often mentioned in the public debate. This would lead to a crowding-out of native labor. Without any other effects of foreign labor, this may lead to a substitution between native labor having a Danish background and foreign labor.

Another possibility is that employing labor with a foreign background leads to some competitive advantage for firms leading to even more native employment. This implies a complementarity between foreign and native labor. This may be rooted in particular competences embedded in foreign labor that increases productivity or that it solves for bottlenecks on the labor market which could have damaged productivity.

While this in a stylized manner represents some of the arguments concerning foreign labor, the three steps pointed out in the introduction, will be dealt with next.

Step 1: Cross-border commuting of importance at Danish-German land border?

Cross-border commuters in the Danish-German border region represent an immediate source of labor with a foreign background. Limiting this to nearby sources, a focus is set on German or Danish citizenships. Danish backgrounds are included, as Danes may have moved to Germany, while maintaining their job in Denmark. Over the period 1998 to 2005, the number of cross-border commuters with either German or Danish background to the Danish regional labor market at the Danish-German land border increased from 1,013 persons to 2,589.

This reflects an increase in the use of labor with a German background increasing from 55.9 per cent in 1998 to 70.3 per cent in 2005. While one may argue that a total of 2,589 persons is moderate, it represents about 2.2 per cent of total Danish regional employment at the Danish-German land border. For a comparison, cross-border commuting from Sweden to the municipalities of Frederiksberg and Copenhagen represents 1.1 per cent of total employment in the two municipalities. Step 1 therefore clearly suggests that foreign labor is of importance at the Danish-German land border.

Step 2: Is foreign labor positive for regional employment?

Does native employment increase as more foreign labor is employed? This has been analysed using employment data for 15 Danish counties in the period 1997 to 2006. A set of model specifications have been applied to control for different regional business cycles and characteristics of regional labor markets.

The results indicate that employing a person with foreign background increases native employment. The size of the effect depends on the specification of the model varying from a moderate positive effect around 1.43 persons to a larger effect of around 2.90 persons. As such, the results do not support a strong crowding-out effects on native employment from foreign labor.

Step 3: Network effects and path dependence using foreign labor

Are networks important for the recruitment of foreign labor? If so, this may expectedly lead to important path dependencies. A survey among 971 firms in the region of Southern Denmark concerning the recruitment of foreign labor for the period August 2006 to July 2007 offers the following insights.

Networks are the dominating mode of recruiting foreign labor among firms, being used by 41.4 per cent. Regions with large shares of foreign labor in employment would constitute stronger networks, which may lead to path dependence. Regions with a large number of foreign labor employed will recruit even more foreign labor, which enhances the network still more. The analysis reveals that a relatively larger share of foreign employment in a given region in 1997 will lead to a relatively larger increase in foreign employment between 1997 and 2006 indicating path dependence.

Discussion

The importance of foreign labor through cross-border commuting at the Danish-German border is clear. Based on estimation results for all Danish regions, the use of foreign labor appear to increase job opportunities for native workers. The employment of cross-border commuters may therefore constitute a special type of growth potential at the Danish-German land border. Furthermore, networks are particularly important for the recruitment of foreign labor, which leads to a path dependence. Having a long history of increasing cross-border commuting, this may be taken to show a building stronghold in terms of extensive networks among employed with a foreign background from which further recruitment can be lubricated.

*Torben Dall Schmidt**

Professor in Regional Economics

Department of Border Region Studies

University of Southern Denmark

Denmark

* The research has partially been undertaken through funding received from the Employment Region Southern Denmark and EURES Sønderjylland-Schleswig. It represents joint work partly together with Associate Professor Peter Sandholt Jensen, Department of Business and Economics, University of Southern Denmark and partly together with Professor Annekatrin Niebuhr and Dr. Tanja Buch at IAB Nord in Kiel.

The Swedish Institute's role in Baltic Sea cooperation

By Robert Hall

Parallel to and in the wake of its bilateral development assistance, Sweden created a number of non-ODA instruments to promote mutually beneficial regional cooperation with its neighbours over the past 15 years. The academic and scholastic Visby programme (1998), Sida Baltic Sea Unit (2005) addressing common regional challenges, and the business leadership Management Programme (2008) were created and operated independent of each other. However as a result of the Swedish Government decision of 14 July 2011, Sweden has now consolidated its state support to Baltic Sea cooperation within the Swedish Institute. While the government decision clarified that the EU Baltic Sea Strategy (EUSBSR) was a central focus for SI's new assignment, it was not the only one. Alongside the EUSBSR, the Swedish Government assigned the Swedish Institute as well to facilitate the regional cooperation component of EU Eastern Partnership (EaP). On top of this, the Swedish Institute with the same funds should support the EU-Russia Partnership. Thus the EU Cohesion Policy's pilot test with a macro-regional strategy should be facilitated parallel to two policies within EU external relations and its overarching Neighbourhood Policy. This equated well with the broader geographic focus the Visby and Management Programmes had always had.

The government assignment, while admittedly complicated, is the logical result of various foreign policy processes. Sweden and Poland were behind the initiative of the EU Eastern Partnership. Initially the EU-Russia Partnership for Modernisation had given high hopes of a new progressive relationship with the largest Baltic Sea country which was not included into the EUSBSR. But any quick replacement of the EU Russia Common Spaces agreement has been elusive. Sweden has however long seen the role of Russia as key to the success of Baltic Sea cooperation, even if it proved impossible to combine Russia's participation in the then highly experimental concept of a European macro-regional strategy. Therefore Sweden has seen its support for including EaP and Russian actors into Baltic Sea cooperation as mutual beneficial for both EU Cohesion and Neighbourhood Policies.

Sweden is thus actively facilitating multilateral cross-border cooperation from the north-eastern Northern Dimension area to the south-eastern corner of the Eastern Partnership, including all the EUSBSR. What is unique is that the Swedish facilitation promotes cooperation across the EU's external borders between EU Member States and the EU's eastern neighbours. It does this at the same time as it stimulates internal cohesion among the Member States. The logic of this unusual combination is two-fold. Solving problems of the EU Baltic Sea Region require neighbour country involvement. EU policies towards the eastern side of the EU's ”Outer Edge” need well-functioning Member State cooperation on the western side in order to be able to attract our eastern neighbours to productive collaboration and when possible deeper integration. Increasing cross-border interaction between the EUSBSR countries and eastern neighbours within the drainage basin thus benefits both EU Cohesion Policy and Neighbourhood Policy.

More specifically, the Swedish Institute focuses on international cooperation in the broad fields of environment and energy, governance and civil security as well as business development. These are issues found in the Europe 2020 strategy as well as in the geographically-specific policies such as the EUSBSR, EaP and the EU-Russia Partnership for Modernisation, PfM. SI utilises a palette of different instruments to stimulate cooperation, including educational scholarships, financial grants to network start-up and cooperation projects, training programmes in leadership, advisory services to project initiators, journalist study visits, communications initiatives and SI participation in strategic partnerships and events. To do this the Swedish Government annually allocates over 13 MEUR to the Swedish Institute and SI employs over 20 persons at its Visby and Stockholm offices to execute these Baltic Sea operations.

Some key features of the Swedish Institute operations is a combination of bottom-up and top-down initiatives, an SI demand in most cases of mutual cost sharing to ensure ”ownership” and lasting relations. The Swedish Institute relies heavily on the interest and enthusiasm of actors all around the Baltic Sea, but more so, on the Swedish actors which in most cases are the applicants for support. Actors involved in the work are individuals in the case of scholarships, leadership programmes and networks, but more often are organisations, state and local authorities, universities and research centres, NGOs and branch organisations, and in some cases private companies.

Sweden has seen that in today's interdependent world our success is intricately connected with the success of our neighbours. Facilitating new thinking and innovative behaviour regionally is socioeconomically beneficial to Sweden as well as to our neighbours. During the current economic downturn, investing in efficient problem-solving and result-oriented cross-border cooperation on shared opportunities and concerns should be a preferred approach to handling macro-regional challenges we all face.

Robert Hall

Head of Baltic Sea Unit

Swedish Institute

Sweden

www.si.se

Estonia and Finland diverge over Europe, but cherish Nordic-Baltic ties

By Kristi Raik

During a recent visit of Estonian Prime Minister Andrus Ansip to Finland, the question of differences between the two countries' EU approach rose to the fore in the Finnish public debate. There was a good reason for that: over the past years, Estonia has become increasingly pro-integrationist and Finland increasingly reserved about the Union. As a consequence, for the first time since the 1990s, Finland seems to have become more Eurosceptic than its southern brother. Emboldened by its triple-A credit rating, it has pursued a tough line in addressing the eurocrisis, aptly described by the Finnish EU commissioner Olli Rehn as a position of "ei, ei, ja ei" in Finnish – that is, "no, no and no". The mainstream political parties have adjusted their rhetoric to a more EU critical tone in response to the spectacular rise of the "Finns" party.

By contrast, the Estonian leaders nowadays talk about the need to be at the core of the EU, quite like former Finnish Premier Paavo Lipponen did years ago. And according to the latest Eurobarometer survey published in spring 2012, the Estonians display one of the highest levels of trust in the EU in comparison to the other Member States.

The leadership of both countries downplays the differences, stressing that Estonia and Finland remain close partners in the EU and continue to agree on many things. It is quite simply not in the interest of either Estonian or Finnish political leaders to highlight the opposite trends in the two countries' EU policies. Yet noting the differences is not just a matter of academic exercise, but can have significant political implications for the future role of these countries in Europe.

At the same time, the Nordic countries remain a key reference group for both Finland and Estonia, no matter what happens to the crisis-ridden EU. Estonian President Toomas Ilves declared back in the 1990s that Estonia aimed to become another "boring Nordic country". It is unlikely that the deep social and economic differences between the Nordic and Baltic countries will disappear any time soon. In spite of the differences, traditional Nordic cooperation has been increasingly extended to the three Baltic countries, and the label of "Nordic-Baltic" has been elevated by new patterns of collaboration.

Since the accession of the three Baltic countries to the EU and NATO in 2004, the relationship has become more balanced and equal in comparison to the 1990s when the Balts were the target of assistance and advice from the Nordic big brothers. For example, the six Nordic and Baltic members of the EU have developed regular practices of coordinating their positions in the Union. The habit of coordination has not led to increasing convergence of positions, but it does help to create trust and promote joint interests whenever they exist.

Another fresh example of practical cooperation extended from the Nordic to the Baltic group is co-location arrangements of diplomatic missions. The Nordic countries are sharing diplomatic premises abroad in close to thirty locations (in different configurations, in most cases among two countries), and new arrangements are being planned. A framework agreement for diplomatic co-locations was signed by the eight Nordic and Baltic countries in 2011. For instance, since September 2012, a Finnish diplomat has been working in the Estonian embassy in Tbilisi, where Finland does not have a diplomatic representation. Such arrangements require and reinforce a certain level of trust and common identity.

Hence, the differences between Finland and Estonia, and more broadly within the Nordic-Baltic group, regarding EU policies and many foreign and security policy matters have not prevented the countries from enhancing practical cooperation and coordination. There is nothing extraordinary about the Nordic-Baltic group diverging over issues such as the EU's proposal for a financial transaction tax, for example. However, the differences mean that the Nordic-Baltic cooperation tends to run into difficulties whenever it tries to go beyond the safely boring level of low politics (a recent case being the debate over monitoring Iceland's air space by Finland and Sweden). It remains hard to deepen substantial foreign and security policy cooperation, even though regional and global uncertainties may have made the Nordic and Baltic countries increasingly inclined to work together.

Kristi Raik

Researcher

Finnish Institute of International Affairs

Finland

Slow recovery of Latvian labour market – shaped by lack of demand, not by labour market institutions

By Anna Zasova

During the 2008-2009 recession Latvia experienced the world's largest GDP contraction, unemployment rate more than tripled reaching 20%, employment losses exceeded 20%, in some sectors being as large as 30%-50%. Labour market started to gradually recover in 2010, though the pace of recovery has been modest - by the 3rd quarter of 2012, unemployment rate declined only by about 6 percentage points in seasonally adjusted terms. This persistence raises concerns about the increase in the unemployment rate being structural, which implies that the future pace of reduction can remain slow. What determines the speed of adjustment of the labour market?

Academic literature in this field suggests that the pace of labour market adjustment is determined by labour market institutions, or the rules stipulated in legislation. First, the speed of adjustment of aggregate employment depends on how costly it is for an employer to fire a worker in a recession: if the costs are small (e.g., a short notice period, a low severance pay), employers are less reluctant to hire workers in the periods when the economy is growing. Another channel through which the employment protection legislation (EPL) affects labour market recovery is the speed of adjustment in wages. If the firing is costly, employed workers have a stronger bargaining power in wage negotiations, which limits adjustment in the aggregate wage level and thus constrains employment recovery.

The index which is perhaps most extensively used to assess strictness of EPL is the index compounded by the OECD, by aggregating various norms embedded in national legislation[1]. This index suggests that EPL in Latvia is less flexible than in EU-15 on average (which on the world scale is classified as rigid), being particularly strict with respect to collective dismissals. But to what extent the strictness of the legislation affects employers' behaviour? Another widely used index, estimated by the World Economic Forum, is based on the employers' subjective opinion about the ease of firing workers and, according to this index, Latvian employers' flexibility in determining hiring and firing is much higher than in most EU member states. This suggests that the incidence of circumventing the formal rules in Latvia might be quite high. High degree of flexibility in firing workers is in line with what happened in Latvia at the outset of the recession – unemployment increased very rapidly, moreover, flows from the private sector initially accounted for a larger part of the increase. Thus, one inference is that it is not the strictness of EPL which creates barriers to a more rapid labour market recovery.

Another dimension of the impact of labour market institutions on the pace of recovery is through its effect on the job match quality. A standard result in the literature is that generous unemployment benefits create disincentives for job search activities and increase the reservation wage of the unemployed, thus reducing flows from unemployment to employment. An initial unemployment benefit which an unemployed person in Latvia is entitled to is relatively high, however, the initial amount tapers off quite quickly and the maximum duration of the benefit is short. In 2009, to alleviate the consequences of the crisis, the maximum duration of the benefit was temporarily raised to 9 months for all unemployed, but for those with a shorter length of service a fixed amount of 64 EUR was paid in the last several months. As of 2012, the maximum duration of the unemployment benefit is 4 to 9 months, depending on the length of service.

After the end of the unemployment benefit entitlement, an unemployed can be eligible for means tested social assistance benefits. Yet the size of the benefits is rather modest – despite the share of severely materially deprived population in Latvia is one of the highest in the EU, per capita budget expenditures on social assistance are one of the lowest in PPP adjusted terms.

Accordingly this suggests that unemployment support scheme is not likely to create major disincentives for job search activities and is not to be blamed for a slow reduction in unemployment. This inference is also in line with recent dynamics of the vacancy rate, which, although has increased slightly, still remains very low at 0.4% (the lowest among the EU states for whom the Eurostat has data), pointing to weak demand.

To conclude, the considered labour market institutions are not likely to have delayed recovery of the Latvian labour market. This result, together with the stagnant vacancy rate suggest that the observed persistency in unemployment is a consequence of insufficient demand, rather than a result of disincentives created by stringent employment protection legislation or a generous unemployment benefit scheme. Thus the future speed of labour market adjustment will depend on the pace of economic growth.

Anna Zasova

Research Fellow

Baltic International Centre for Economic Policy Studies

Latvia

[1] For some non-OECD countries, including Latvia, this index was calculated by Alexander Muravyev, a senior research fellow at the Institute for the Study of Labour (IZA).

What is the WOW of your region?

By Jessica Ålgars-Åkerholm

What is the wow-factor of your region? Find it and be a winner!

Regions in Europe are competing to attract inhabitants, tourists, students and investments. To get attention it´s not enough to be green, family friendly or cultural – you must be unique. At the same time the branding must be based on truth, not fairytales.

The last few years all the 28 municipalities in Southwest Finland together have promoted the strengths of this region. And there are lots of strengths: Southwest Finland has the oldest history in Finland, a rich urban culture, culture and education in Finnish and Swedish - including three universities - great nature and excellent living conditions.

But above all these there is one strength, which is special worldwide: the sea and the archipelago.

The Archipelago Trail leads to wild nature

The archipelago of Southwest Finland with its 20 000 islands is the largest archipelago in the world. When starting branding Southwest Finland we asked 2000 people, what the strength of this region is. The answer was clear: the archipelago. In a time when many people seek unique experiences and stillness, the potential of the archipelago is enormous. Here you can enjoy nature by for example sailing, canooing, birdwatching or fishing. You can even find an island of your own. Feel free to camp or pick berries - in Finland we have something called everyman´s right, which allows anyone to enjoy nature.

Wild nature and silence are resources that are harder and harder to find, but sitting on a cliff by the Baltic Sea you can find peace of mind. A popular way to visit the archipelago is by travelling the 200 km long Archipelago Trail. The trail attracts 20 000 tourists every summer and was named "Finnish touristattraction of the year" in 2011. The Regional council of Southwest Finland is proud to tell, that the Archipelago Trail was started with project-money granted by the regional council. It is one of the most successful projects we have ever financed. The route goes through idyllic landscapes, it passes historical buildings, ruins and boathouses and leads over small bridges. On most ferries you travel for free, for example by car or bike. In wintertime the archipelago-experience is as unforgettable; would you ever forget going swimming through a hole in the ice from the sauna, or skiing on the frozen sea from one island to another?

Good IT-connections make distance work possible

There are people who don´t just visit the archipelago, but live there all the time. In Finland 60 000 people live permanently on islands, 27 000 of them in Åland. Even the Finnish president lives on an island in summertime, on Luonnonmaa in Naantali. In Southwest Finland there are three municipalities on islands: Pargas, Kimito Island and Kustavi. 4 500 people live on islands without road-connections.

In the archipelago good connections by ferries and wireless internet –networks are essential. The Regional Council supports building IT-networks, so that people can live on islands and business prevail. Good IT-connections also make distance work possible. After all, the time-distances are huge in the archipelago. In Pargas with 5 500 km of coastline, it takes two hours to go from Pargas city center to the island Houtskär. If you want to go to Utö from Pargas, it takes six hours! On the mainland you travel through half of Finland in six hours… And these villages are all part of the town of Pargas.

For many people the dream scenario would be to live by the sea and work from there. Pargas has the largest amount of summer cottages in Finland and many summer inhabitants want to live in their summer houses half the year. Making distance work possible would enable this and keep the archipelago alive. There are families who take a "time out" from their lives on the mainland and move to Utö, the southernmost island of the Archipelago Sea. Besides a lovely lighthouse there is a Finnish school on Utö, founded in 1884. Here it is possible to distance work, because one of Finland´s fastest netcables leads from Sweden to Utö. Far from the urban life the family members finally have time to be together.

Independent persons who take care of themselves

"There is something about going to sea. A little bit of discipline, self-discipline and humility are required." The words spoken by Prince Andrew, British Duke of York, also tell something about people living by the sea. The European Union supports regional development that is built on the regions own cultural originality. In the archipelago of Southwest Finland the people are part of the regions cultural heritage and strength.

People who live by and from the sea are usually independent and used to taking care of themselves, often in harsh conditions. They don´t have all the comforts of the city, but are satisfied with what they have. The sea is part of their mental structure, it is loved and respected and it also means connections to the outside world. At the same time everybody on the island is depending on each other. You find a large amount of tolerance; people are judged by what they do and how things work – not how they look. The balance between strong individuals, who take care of themselves, and communities where everybody depends on each other seems to work.

Here you find strong individuals who manage their own lives, but know that in times of trouble nobody is left alone. Maybe this is the true wow-factor of the archipelago of Southwest Finland.

Jessica Ålgars-Åkerholm

Communications Manager

Regional Council of Southwest Finland

Finland

www.varsinais-suomi.fi

Important meetings and passion since 1229

By Sari Ruusumo

Turku is the oldest city in Finland, already mentioned in literature in the year 1229. Like many other me-dieval cities, Turku was never founded, but it was a natural location to live in. The archipelago of some 20 000 islands and the delta of the river Aura formed a protected region for the first Finnish people to live and trade in. Today, the same Scandinavian Islands still form a beautiful route to the Åland Islands and Stockholm, Sweden. It no longer takes a week to sail to Sweden. Nowadays, one can even organize an international conference of 200 delegates while watching the most beautiful scenery in the Nordic coun-tries.

Today, Turku is the second most popular city of international congresses in Finland. The congresses are a vital and a well-organized part of the academic life in Turku. There are approximately 40 000 scientists and specialists working in the universities and the University of Applied Sciences. In a city of 178 000 inhabitants and a region of 300 000 people, this is quite remarkable.

Finland placed 21st on the list of the world's top international meeting organizers in 2011, according to an annual survey conducted by the Union of International Associations (UIA). A number of 183 countries were listed in the survey. Helsinki placed 25th on the most popular international conference cities list. The Nordic rivals Copenhagen and Stockholm reached the top 15. Oslo placed at 22nd and Turku placed at 99th position.

How are such results accomplished? How is this simply possible for a small city of under 200 000 inhab-itants and a country of five million people? My explanation is determination and passion. International congresses are basically several day meetings organized by scientific specialists. However, there are many types of specialists. Some love their own privacy and solitude. Some tend to work in groups and are members of a scientific associations just to share information and to learn from others.

Finnish success in international congress statistics is due to the fact that the Finns genuinely believe in working in groups and networks. If a Finnish leading specialist is a member of an international associa-tion, he also believes that the success of the association is in his personal interest. Therefore it is very common to meet a Finn who is responsible for the association, working as the president or the chair of the association. It is natural to trust a Finn: we are rational, calm and reliable people who have a passion for our work.

The University of Turku is an internationally acknowledged, multidisciplinary scientific university. With over 21 000 students and 3500 employees, it is one of the major universities in Finland. Åbo Akademi University offers both undergraduate and graduate studies and extensive research opportunities to some 7000 students on three campuses.

Turku region has had a multitude of connections to the Nordic countries, especially during the six hundred years when Finland was a part of the Swedish empire. Åbo Akademi University is still the only Swedish-speaking university outside of Sweden. The strong Nordic connections and an active Swedish-speaking community give congress city Turku a particular advantage in bidding for the Nordic congresses. Having reliable Nordic colleagues is an advantage also when competing for the globally circulating congresses. Nordic colleagues often agree in advance that it is for example Turku's turn to bid for the congress. And there you are, well prepared and believing in the same Nordic goal: having already all the Scandinavian votes when the board starts to vote for the next congress destination. This is not a game for a solo artist.

Organizing congresses is a perfect example of teamwork as well. The City of Turku granted its Congress 2012 Award to Professor Juhani Knuuti and the Working Group of Turku PET Centre. The Award is granted for long-term commitment in organizing the PET Symposium over the course of three decades. The PET Symposium has been organized 12 times since 1977. During the past decade the Symposium has brought 1400 international congress delegates to Turku. In the past decade the estimated value of tourism revenue from PET Centre international meetings is approximately 24 million euros. Juhani Knuuti is a Professor of Medicine and the head of Turku PET Centre, a Finnish National Research Institute for the use of short-lived positron emitting isotopes. The core functions of Turku PET Centre are based on the agreement between University of Turku, Abo Akademi University and Turku University Hospital. The PET Symposium is famous for always having a sauna party. These evenings are something to remember: everybody takes part in warming up the sauna, carrying water from the well and serving food. The Symposium is nowadays better known as the Sauna Symposium. This is passion, if something.

Sari Ruusumo

Convention Director

City of Turku

Turku Touring

Southwest Finland Tourist and Convention Bureau

Finland

The Hanseatic League – past and present

By Mika Kallioinen

In the Middle Ages, the Baltic Sea was a border between several spheres of influence, where overseas trade was regulated by different kinds of privileges. From early on, the Hanseatic League used to be the supreme power in the Baltic Sea region. The most important aspect of the formation of the Hansa was that it was able to control, from the thirteenth century onwards, the commercial axis between Novgorod, Tallinn, Lübeck, Hamburg, Bruges, and London. This main stream of trade connecting the East and the West remained the foundation of the Hansa all through the Middle Ages. This axis was fed by the Finnish foreign trade as a tributary stream, too.

The organization of the Hansatic League was not self-evident. As a matter of fact, its definition was a problem already in its time. According to a widely held opinion, the Hansa was a community of North German towns whose merchants participated in the Hanseatic privileges abroad. One might have expected the Hansa to take the trouble to draw up an official list of member towns and keep it carefully up to date, but nothing of the sort can be traced. Nevertheless, despite the loose organization, contemporary foreign merchants recognized their Hanseatic competitors as belonging to a group sharing exclusive privileges they themselves would have liked to share.

For many generations of historians the Hansa had the image of a huge trading empire, a false interpretation to which even nowadays observers still are sticking to. Yet in spite of its structural weaknesses and the "virtual" characteristics of its organization, the Hansa survived nearly 500 years, until the seventeenth century. It is extraordinary that so many towns, so different and so remote from one another, should for such a long period of time have been able to engage in so many corporate activities, and remain so loyal to a community of which they were only voluntary members.

The community's long existence resulted, in the first place, from the favorable geographical situation of the Hansa towns between North-East and North-West Europe, forming a line of communication and trade between the regions. Secondly, the common interests bound the mixed collection of towns together. The Hansa succeeded in, more often than not, satisfying the desire of the merchants of the North German towns for mutual aid and support in the protection and advancement of their interests abroad. The league remained viable as long as the solidarity based on the interdependence of the member towns continued, keeping in check the mutual disagreements and disputes. The weaknesses became more apparent in the later Middle Ages, both because of internal conflicts and the external rivals (Holland, England), including the rise of the new national states (Denmark, Sweden, Russia).

In the later Middle Ages, regulation became the Hanseatics' most important way to fight back. Although never systematized, regulations dealt especially with three points: the exclusion of all non-Hanseatics from sharing the Hanseatic privileges, the limitation of the activity of non-Hanseatics in Germany by various measures that together were labeled as the "guest law" (*Gästerecht*), and the strengthening of the Hanseatic *Kontor* in Bruges in order to hinder the Dutch trade. Several measures to defend Hanseatic interests were intended to clarify the distinction between the Hanseatics and the non-Hanseatics. In 1434, for example, the enjoyment of the privileges was restricted to citizens by birth only. These prohibitions show clearly that the aim of the legal measures was to prevent foreigners and foreign capital from reaping the benefit of the Hanseatic privileges, fundamentally that of the monopoly of trade of the commercial axis connecting the Russian markets to Western Europe.

Thus, because of its monopolistic, protective, and exclusive nature, the Hansa can hardly be considered as a model for today's cooperation in the Baltic Sea region. As a matter fact, medieval and pre-modern trade in the Baltic was similar to later colonialism, because the regions outside the Hansa, including Finland and Sweden, produced mainly raw materials and the West more advanced "industrial" products. There was also a considerable difference in the stages of economic progress: Finland was a peripheral and underdeveloped region compared to the much more advanced Northern Germany.

In the grass root level, however, the Hansa was able to introduce forms of cooperation that have had a deep impact on later development. Due to the close trade connections alone, many urban activities, town plans, and daily life were to a great extent identical on all shores of the Baltic Sea. Whether it was Turku, Stockholm, or Tallinn, the same Low German language was heard in the streets. Although politically scattered, it was this cultural and linguistic homogeneity that made the Baltic Sea a relatively uniform trading region. The frequency of spontaneous partnerships and agency relations between the Hanseatic and the Nordic merchants shows that mutual, personal interests knit together merchants residing in distant towns. More importantly, the Hansa established economic institutions that provided security and enhanced trust when trading crossed the geographical, cultural, and political boundaries that separated town communities. The so called inter-communal conciliation mechanism, for example, successfully secured contracts and property rights, encouraged cooperation and enhanced trust between merchants, and thus promoted trade. The legacy of the former Hanseatic League in the present day Baltic Sea region is above all based on these informal mechanisms of interaction at the local level, rather than on any model for political integration of the Baltic Sea region.

Mika Kallioinen

Lecturer of Finnish History

University of Turku

Finland

Pharmaceutical retail as a part of healthcare provision in the future

By Anna Karhu

The healthcare sector is going through changes due to the growing demand, high costs, and opportunities created by scientific and technological advancements. Health-care expenditures, on average within OECD countries in 2010, comprises of inpatient care (31 %), outpatient care (30 %), medical goods (23 %), long-term care (10 %) and collective services (6 %). There is a common need in all these areas to reduce costs and yet offer widely accessible and high quality services. Current health care processes and applications must be developed further to be able to provide healthcare services efficiently to those in need in long term.

Pharmaceutical expenditure has a complex relationship with other healthcare expenditure. Increasing costs in pharmaceutical expenditure may reduce the costs in other areas, as more diseases are treated with pharmaceuticals and the need for costly hospitalisations decreases. Thus, the increase of pharmaceutical consumption during the past decade both in terms of expenditure and in terms of the quantity of medicines is not necessarily negative development in health care cost perspective. In closer examination the growth of pharmaceutical consumption has focused on emerging markets and this trend is expected to continue. According to IMS Health report on global use of medicines, Russia is one of the future markets for pharmaceuticals. The growth of total spending on pharmaceuticals is expected to increase around 10 % in Russia by 2016. The ageing population and growing income level are a basis for future market opportunities in these fast developing countries. Also the impact of growing availability of generic drugs will have impact on the positive growth of spending in emerging economies.

Most countries within the Baltic Sea Region are facing tightening governmental budgets and thus need to cut costs also in health care sector. The impact of the economic crisis has been significant on pharmaceutical spending: the average annual growth in EU member states was 3.2 % between 2000 and 2009, and decreased to close to 0 % in 2010. The slow or even declining growth in EU countries is expected to continue. Also important markets like US and Japan are facing slow growth rates due to the expiring patents for a number of significant brand-name drugs, slower increases in spending on branded products, and increased cost control measures by payers.

To respond to the challenges of tightening budgets and retaining accessibility and high quality of healthcare services co-operation between different parties is necessary. Currently the healthcare sector seems to be divided into separate sub-sectors: one focusing on delivering pharmaceuticals, second delivering medical devices, and third delivering healthcare services. A possible future avenue would be stronger co-operation between these processes or even integration in some extent. This would enable more holistic management of healthcare service delivery and would create possibilities for cost reductions and increase the quality of the service for patients. Already currently the trends towards prevention rather than just treating diseases and encouraging patients to take a more active role in managing their own care are evident. Both these trends will continue as better and more specific medicines will be available to larger amount of patients. Many diseases currently treated in hospital could be treated at home in the future.

These possible future changes will also change the role of pharmacies in healthcare systems. Pharmacies are, in most European countries and in all Baltic Sea Region countries, the most widely distributed healthcare facility and the most frequent contact point with patients. As the pharmaceutical treatment of diseases increases and, thus becomes more complex, the professional guidance for patients in medicine usage and the management of use of multiple medications can be provided by pharmacies. This would emphasise the role of pharmacies as a crucial part of healthcare delivery and support the active role of patients in managing their own care. Also, in the case of rural areas the current relatively thigh pharmacy networks will ease out the availability and accessibility of healthcare.

Issues currently under discussion include increasing commercialisation in the sector and reducing the public health regulations. These decisions will have important consequences for healthcare system quality and costs. Pharmaceutical Group of European Union (PGEU) calls for wider discussion on the future opportunities of developing the role and operations of pharmacies, which would bring further efficiency to patient care. Pharmacies need to be able to operate economically sustainably and the changes in factors impacting the sustainability of pharmacies should be carefully considered.

Within Baltic Sea Region, healthcare systems and regulations vary. In case of pharmacies, the operational environment varies from the tightest regulations in Finland to more liberal in Norway. However, the common interest for all the countries in the region is to improve the accessibility and quality of health care at affordable costs. In an attempt to control pharmaceutical expenses, discussions on a mix of price and volume controls and deregulations have taken place in many Baltic Sea Region countries. The region could co-operate in larger extent to create common vision for the future of healthcare provision and take advantage of the different experiences and backgrounds, as the Baltic Sea Region shares also other common interests to develop the area and jointly solve common problems.

Anna Karhu

Doctoral Student

Department of Marketing and International Business

Turku School of Economics

University of Turku

Finland

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

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

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

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

Turun yliopisto
University of Turku

Turun kauppakorkeakoulu • Turku School of Economics