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**JEAN-CLAUDE JUNCKER**  
Standing by Ukraine



**TARJA HALONEN**  
The future we want for  
the Baltic Sea region



**ALEKSI RANDELL**  
Thinking and acting  
internationally is in  
the DNA of Turku



# BALTIC RIM ECONOMIES

The Pan-European Institute publishes the Baltic Rim Economies (BRE) review which deals with the development of the Baltic Sea region. In the BRE review, public and corporate decision makers, representatives of Academia, as well as several other experts contribute to the discussion.

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## EXPERT ARTICLES

<b>JEAN-CLAUDE JUNCKER</b> Standing by Ukraine	4	<b>AGNÈS MONFRET</b> Interreg Cross-Border Cooperation in the Baltic Sea Region	25	<b>ELINA BJÖRKLUND</b> Digitalizing a traditional product driven company	42
<b>TARJA HALONEN</b> The future we want for the Baltic Sea region	5	<b>EUGENE ETERIS</b> Diplomacy in the Baltics: assisting growth and BSR's development	26	<b>FRANCESCA SPIGARELLI &amp; LV PING</b> Chinese investments in Europe and the case of the renewable energy sector	44
<b>MEVLÜT ÇAVUŞOĞLU</b> Turkey's humanitarian foreign policy	6	<b>VOLKER PERTHES &amp; OLIVER MEIER</b> The Baltic Sea Region: a geopolitical test bed for European Security	28	<b>INGA ČERNIUK</b> GIPL project: interconnector to the European market	45
<b>PETER STENLUND</b> The security situation in the Baltic Sea region	7	<b>JUHA PYYKÖNEN</b> Military balance in the Baltic Sea Region is vital	29	<b>MARGOT A. LOUDON</b> Introducing the internal gas market	47
<b>EMILY O'REILLY</b> Regulating the revolving door between industry and politicians	8	<b>VLADIMIR SAZONOV</b> Russian information aggression in Ukraine	30	<b>ANTTO VIHMA &amp; MIKAEL WIGELL</b> The strategic case against Nord Stream II	48
<b>ANTTI RIIVARI</b> Businesses need knowledge of Intellectual Property Rights	9	<b>HENRIK BREITENBAUCH</b> Russia creates a greater Nordic region	31	<b>ULRICH LISSEK</b> Nord Stream 2: Energy security and cooperation for decades to come	49
<b>SAARA ILVESSALO &amp; HENRIK RINGBOM</b> BALEX – a new legal network for the world's most regulated sea	10	<b>JAMES MASHIRI</b> The icy logic of the Baltic Sea freeze	32	<b>ANDREI SANNIKOV</b> Lessons from Belarus	50
<b>JĀNIS VUCĀNS &amp; BODO BAHR</b> The Baltic Sea Parliamentary Conference	11	<b>BETTINA RENZ</b> What 'hybrid warfare' can and cannot tell us about Russian military strategy	33	<b>ANAÏS MARIN</b> Belarus after the lifting of EU sanctions: a reset on Minsk's terms	51
<b>JOHANNA OJALA-NIEMELÄ</b> Finland's Arctic cooperation has a long tradition	13	<b>HENRI VANHANEN</b> The Baltic Sea Region – seeking stability in a flux	34	<b>JOUNI SAARNI</b> Maritime sector's latest vision: Autonomous shipping – the Baltic Sea aimed to be the first testing area	52
<b>VYGAUDAS UŠACKAS</b> EU-Russia relations: from strategic partnership to strategic challenge	14	<b>ANTTI KASKI</b> The importance of knowledge-based decision-making in a state of flux	35	<b>JUKKA TERÄS &amp; MADS RANDBØLL WOLFF</b> Green transition and regional branding in the Baltic Sea Region	53
<b>GUÐMUNDUR ÁRNI STEFÁNSSON</b> 25 years of cooperation	15	<b>MARK URNOV</b> 827 words about Russia's future	36	<b>TONI LAAKSONEN</b> White-tailed eagle is an indicator for the health of the Baltic Sea ecosystem	54
<b>RENÉ NYBERG</b> On the complexities of this world	16	<b>GRIGORII V. GOLOSOV</b> The state of Russia's party system	37	<b>ANN-MARI SÄTRE</b> Social policy in Russia	55
<b>ALEKSI RANDELL</b> Thinking and acting internationally is in the DNA of Turku	19	<b>ESKO PIHKALA</b> GOP forgot its proud history	38	<b>SEBASTIAN MAGIER</b> Developing strategic youth policies in Baltic Sea Region	56
<b>KALEV HÄRK</b> One city, two states – obstacle or opportunity?	21	<b>MAGNUS RYSTEDT</b> Innovation and green growth as guiding principles	39	<b>ELISA ARO</b> Russian knowledge-driven investments in Finland	57
<b>DENIS STRANDELL</b> Hanko, a small city by the sea, living off the sea	22	<b>PILVI HÄMÄLÄINEN</b> Finnish-Estonian economic cooperation boosted by new e-services	40	<b>KARI LIUHTO</b> Finland's nearly 100-year-old economic relations with Russia	59
<b>ANDREY ERMAK</b> Development of tourism in the Kaliningrad region	23	<b>ANASTASIA SOLOGUB</b> International projects as a basis for restoring relationship between Russia and the European Union	41		
<b>MALGORZATA A. WOZNIAK</b> "Lithuania-Poland-Russia 2007-2014": successful practice of a tripartite Cross-border Cooperation Programme	24				

JEAN-CLAUDE JUNCKER

# Standing by Ukraine

Expert article • 2080

It is now three years since hundreds of thousands of Ukrainians gathered on Independence Square in Kiev to demand a better future for their country. As they did so, they looked towards the European Union to support them on their path back to stable democracy and lasting prosperity. As President of the European Commission, I have made it one of my top priorities to repay that faith.

I am under no illusions about the challenges facing the government in Kiev or the ordinary citizens around the country. The road to reform and stability is a long and difficult one. But the scale and speed of the change in Ukraine in the last three years eclipses the last 20 years put together.

President Poroshenko's reform and anti-corruption agenda are putting the country back on a more stable footing and it is our duty and responsibility to help Ukraine build on that. That is why I made a clear promise in Kiev 18 months ago: If Ukraine keeps reforming, the EU will keep supporting. That was a message I repeated last month at the 18<sup>th</sup> EU-Ukraine Summit in Brussels.

And Ukraine's reforms are making a real difference. The endemic corruption that has drained the economy for decades is now being tackled head on. The independence and integrity of new public institutions such as the National Anti-Corruption Bureau, the Anti-Corruption Prosecution Office and the Asset Recovery Office are vital steps in the right direction. Winning this fight is vital both for the government's legitimacy at home and its credibility with the international community.

That is why the EU must – and will – keep supporting. We have already committed €7 billion to support the government's reform agenda, with a further €5 billion to come before 2020. And we are hopeful that the next €600m tranche of Macro Financial Assistance will be unlocked in early 2017 after Ukraine agreed to meet the remaining reform criteria. This is an investment in the country's transition, and an investment in our continent's stability.

But it is not just about financial support – it is about widening our cooperation, strengthening our economic and social ties and showing our solidarity to the people of Ukraine.

That is why at the start of the year, our 28 Member States backed the provisional entry into force of the Deep and Comprehensive Free-Trade Area. This is not only about cutting tariffs; Ukraine will now align with EU norms and standards in areas such as competition, public procurement, intellectual property rights and trade in energy. As a result, more than half a billion EU and Ukrainian citizens now enjoy new opportunities for business and trade. And we are already seeing the green shoots of a recovery – the Ukrainian economy is now growing again, and exports to the EU have increased by about 5% over the last year.

I have been working closely with European Council President Donald Tusk to ensure that the EU fulfils its geopolitical responsibility to conclude the Association Agreement.

We also share an interest in making it easier for our citizens to visit each other's countries. It is the best way to encourage trade and cooperation but also to deepen the bond between our people. But rights come with responsibilities, and in 2010 the Commission laid down all the reforms that Ukraine would need to deliver to obtain visa-free travel for its citizens. After a thorough and lengthy assessment, we concluded earlier this year that those conditions had been met. We must now keep our side of the bargain. I believe that Ukrainian citizens will be free from the visa obligation in a matter of weeks.

But of course, for as long as the conflict in the east of the country remains unresolved, stability will always be a relative term for Ukraine. We will only solve that conflict through diplomatic means and by ensuring full respect of Ukraine's sovereignty and territorial integrity. That is why the EU insists on full implementation of the Minsk agreements, starting with a full and proper ceasefire.

Looking forward, Ukraine's political leaders now have a responsibility to work together in the national interest to keep up the

reforming momentum that has achieved so much in so little time. On our side we will continue to do everything we can to support this great European nation get back to its feet. Three years ago we embarked together on a new and hopeful path and today the EU stands just as firmly behind the people of Ukraine as we did then. ■

President Poroshenko's reform and anti-corruption agenda are putting the country back on a more stable footing and it is our duty and responsibility to help Ukraine build on that.



JEAN-CLAUDE JUNCKER  
President of the European Commission

TARJA HALONEN

# The future we want for the Baltic Sea region

Expert article • 2081

Looking into the future brings up a question on whether the Baltic Sea region will be passive and affected by future developments or will it proactively shape its own future. A proactive line is one of cooperation at all levels and across sectors involving a multi-stakeholder approach. It means increased accountability by governments and regional bodies, but also other players. It means political commitment that turns into tangible action.

Our region of nine countries and more than 85 million people is very heterogeneous in political, social and economic realities. We have both very densely and very sparsely inhabited areas, hard climate conditions and much agriculture and industry that still pose challenges to the environment. The Baltic Sea is one of the most intensely operated marine areas in the world, but it is also one of the world's most fragile sea areas. The Sea itself is very important for the future of our wellbeing as it provides food and income, a transportation route and leisure space for various activities. The destinies of the people of the region have been and will continue to be very much interlinked.

So one could think that it would be difficult to find consensus in such circumstances among a varied group of stakeholders, but we have managed to come together. The HELCOM governing body is one great example of that and of common shared goals. We have much knowhow and resources, and all the potential to be both the drivers of our own future and global champions of regional cooperation in the implementation of a more sustainable future.

The Agenda 2030 – with 17 Sustainable Development Goals – agreed at the United Nations in September 2015 is a great and necessary framework also for our region as it encompasses and integrates the three vital dimensions of Sustainable Development: the social, economic and ecological. The Agenda even has a specific goal – Goal number 14 – to conserve and sustainably use the oceans, seas and marine resources for sustainable development.

Our challenges are multifaceted and complex despite the relative comfort and prosperity we enjoy. The required solutions are equally complex and the implementation of the SDG Agenda needs integrated and coordinated governance in the Baltic Sea region. Fortunately the region already has a large number of networks and institutions available for cooperation. The European Union Strategy for the Baltic Sea Region (EUSBSR) was the first macro-regional strategy in Europe. The framework supports the much needed joint actions to address common challenges from a regional perspective.

I remember well the Baltic Sea Summit which was held in Helsinki in 2010. The purpose was to strengthen the work of the HELCOM in practice. The Baltic Sea Action Summit gathered a large group of high-level participants in the Finlandia Hall to pledge their commitments for the benefit of the Baltic Sea. Concrete commitments were made by governments, companies and NGOs. The cooperation has since also been praised by the United Nations.

We have experienced a long history of cooperation between

Eastern and Western Europe. There are numerous cooperation networks focusing on specific themes and areas. In global perspective the natural resource base is rich in the region. The share of renewable energy is the highest in the EU and in general increasing. The potential is huge.

Political dynamics change and major powers such as the United States and Russia might at times find it hard to cooperate affecting matters of enduring importance. It is important that we keep coopera-

tion channels open and discussion alive to care for the long-term interests of the entire neighborhood. Experts, the academia and civil society need to stay active and engaged despite high-level political differences that have cooled down some of the official collaboration. The Baltic Sea lives much longer cycles than politics so we need to be responsible and have our sight in the future. ■



TARJA HALONEN

President of Finland 2000–2012

Chair  
International Advisory Board  
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MEVLÜT ÇAVUŞOĞLU

# Turkey's humanitarian foreign policy

Expert article • 2082

In May 2016, the international community convened in Istanbul for the first ever World Humanitarian Summit to address global humanitarian challenges. It concluded with stakeholders pledging to improve humanitarian responses and pragmatic solutions for complex humanitarian challenges.

The Summit was convened in Turkey for a reason: Turkey has established herself as an essential humanitarian actor at a time when the world is facing grave humanitarian challenges. Last year Turkey has contributed 3,2 billion USD in humanitarian aid and became the second largest donor after the US. Turkey is also the world's "most generous" humanitarian actor, in terms of the ratio of its GDP allocated for humanitarian aid.

Upholding the dignity and safety of the millions of women, men and children who are suffering from humanitarian crises is the responsibility of the civilized world. Future generations will judge us by our performance in promoting a humanitarian international future. Our efforts and collaboration on humanitarian issues can help reinvigorate a global commitment to humanity.

Today, Turkey is the biggest refugee-hosting country in the world. The total number of Syrian, Iraqi and Afghan refugees accommodated in Turkey exceeds 3 million.

The ongoing strife in Syria has created one of the worst cases of human suffering since World War II. Turkey has adopted an open door policy with regard to Syrians running for their lives. For over five years since the Syrian crisis began, Turkey has provided protection to more than 2.7 million Syrians regardless of their ethnicities or beliefs. More than 500,000 Syrian children now receive education in Turkey. Turkey has been doing more than its share but international community must do more. Turkey has spent nearly 25 billion USD (including NGOs) on addressing the needs of the Syrians in Turkey while international community only contributed half a billion dollars.

Dealing with humanitarian challenges requires both an immediate and a longer term effort. Turkey's humanitarian diplomacy seeks to identify and mitigate the root causes of humanitarian disasters, and form a nexus between humanitarian and developmental aid. Somalia is an example of this approach. In 2011, Turkish aid organizations in Mogadishu began working hand-in-hand with Somalians in order to prepare suitable living areas for the displaced citizens returning to the capital after decades of civil war. In accordance with the needs of the Somali people, we rehabilitated roads and bridges, and built two hospitals in partnership with the government. To date, almost half a billion dollars have been allocated for supporting the Somali people. Building this critical infrastructure has relieved economic and political pressure on communities and supported efforts in conflict mitigation.

Syria and Somalia are two instances which illustrate how Turkey's foreign policy also complements the EU's efforts. The EU has not succeeded in mobilizing all member nations to respond to the Syrian crisis effectively. The ongoing suffering of Syrian refugees trying to reach Europe trivializes the values of the EU. And those reaching Europe are sometimes exposed to Islamophobia and racism. The recent Turkey-EU Agreement has been effective in preventing the loss of lives in the Aegean. Irregular crossings decreased significantly. So far, 721 irregular migrants have returned to Turkey and 2.159 Syrians have been resettled in the EU. This agreement illustrates what Turkey and the EU can achieve together.

Turkey has always been a credible and valuable interlocutor for the EU. As a staunch member of NATO and a strong supporter of the Partnership for Peace and other outreach programmes, Turkey has significantly contributed to the security of Europe. As a founding member of the Council of Europe, Turkey has also played an active role in establishment of the most advanced commonwealth of human rights. Last but not least, her vibrant economy allowed Turkey to steadily increase her contributions in the humanitarian field, bolstering, in turn, Europe's welfare and peace.

Providing people in distress with decent material living conditions and safety is a top priority. Treating them humanely and defending their dignity are no less important. Unfortunately, much more still remains to be done in this sphere. Today, Turkey's concerns about rising extremism directly affecting migrant communities are shared around the world. Even in numerous democratic states, xenophobia, racism, Islamophobia as well as confrontational diplomacy are dominating the public discourse.

Turkey is working hard to fight such phenomena together with other like-minded countries. In this context, I am happy to note that Turkey and Finland, as responsible members of the international community, have cooperated in the creation of the "Friends of Mediation Group" launched under the UN framework. With 52 members representing all continents and regions, this group has become the leading reference platform for the peaceful resolution of conflicts and especially for mediation. We look forward to continuing our excellent cooperation with Finland across the board. ■

**MEVLÜT ÇAVUŞOĞLU**  
Minister of Foreign Affairs  
Turkey

PETER STENLUND

# The security situation in the Baltic Sea region

Expert article • 2083

**T**he Baltic Sea region has long been characterized by prosperity and cooperation. More recently, the countries and peoples of the region have shared ideas and initiatives to take care of the environmental challenges of the Baltic Sea. All countries of the region have made their contribution for the common good – at the CBSS (Council of the Baltic Sea States), the Helsinki Commission and in other regional and international fora.

However, the security situation in the Baltic Sea region has changed substantially in the past few years. Finland, as other countries of the region, has had to respond to that change. Beyond the Baltic Sea region, the European security system as a whole has been challenged as tensions have come to replace relative calm and stability. Russia has, through its actions in Crimea and Eastern Ukraine, violated the very principles that form the basis of the European security order. Already before the conflict in Ukraine, Russia increased its military activities in the Baltic Sea region. This included not only increased activity and regular exercises – even risky and threatening behavior – in the air and at the sea, and also large-scale offensive exercises. In addition to military activities, the use of hybrid methods including hostile cyber-attacks is contributing to the loss of confidence in the region.

However, there is no direct military threat to Finland. We need common structures; common problems require cooperation. The EU as a security community is very much in Finland's interest. Ideas presented by for example Germany and France, and also by the President of the European Commission Jean-Claude Juncker, are very much in line with thinking in Finland, not least in order to address hybrid threats.

We have to look for ways and means to restore the confidence, in Europe and in the Baltic Sea region. The German initiative to relaunch talks on arms control in Europe is an example of attempt to influence on the negative trends. Finland has been invited to participate in this work on the basis of our long lasting emphasis on disarmament and arms control.

The impact by military activities on the security of civilian aviation has caused well founded concern. Finland is supporting measures and participating in discussions aimed at improving the flight safety in the international air space in the Baltic Sea region. In our view, the discussions related to flight safety should be pursued with broad participation and in a larger format, for example in the auspices of ICAO, OSCE, NATO, and NATO-Russia Council. All the relevant countries should participate.

From Finland's point of view, NATO has a stabilizing influence in the Baltic Sea region. This was emphasized in the Government's White Paper on security in June 2016. At the same time, it is important that NATO leaves the door open for dialogue with Russia. A dual track approach, strengthening defence and deterrence, while continuing appropriate dialogue, is the way to proceed.

The shift of the presidential administration in the United States offers an opportunity to change the negative trend in Russia-US relations. It goes without saying that better relations should be built upon a foundation formed by international law including the OSCE-principles which have served so well since they were agreed upon. The increased tension in the Baltic Sea region has both direct and indirect implications for us in Finland. So would a change to the better have, and not only for Finland but for all countries in the region.

There remain challenges that must be addressed regardless of weak confidence in international relations, such as the environmental state of the Baltic Sea. The CBSS remains an overall political forum for regional inter-governmental cooperation. It has a good record on promoting civil security cooperation through its networks and expert groups. This is further enhanced by the role carried by the CBSS Secretariat as coordinator of the EUSBSR Policy Area Secure.

The present migration crisis in Europe has affected the Baltic Sea countries, too. The CBSS has contributed positively to preventing trafficking in human beings. Existing networks, like the Baltic Sea Task Force on Organized Crime (BSTF) of police authorities and the Baltic Sea Region Border Control Cooperation (BSRBCC), and the Network of National Prosecutors could work together with the CBSS expert groups on Trafficking on Human Beings and Children at Risk also in this field.

The importance of regional stability, dialogue and cooperation grows in times of stress in high politics. The multiple cooperation networks between our regions, businesses, experts and academia, cultural institutions and people to people contacts contribute to regional stability. In sum, Finland stresses the importance of continued cooperation on the regional level and keeping the networks alive. ■



**PETER STENLUND**  
Secretary of State  
Ministry for Foreign Affairs  
Finland

EMILY O'REILLY

# Regulating the revolving door between industry and politicians

Expert article • 2084

**W**hat constitutes integrity and discretion for public officials? EU law requires that ex-Commissioners must act with both principles when considering what posts and benefits to accept after their term in office.

Until recently this particular Article (No. 245) in the EU treaty remained little known beyond the circle of people who have the ethics and transparency of the EU administration as their core business.

That changed over the summer. Jose Manuel Barroso, former European Commission President, announced in July that he had taken a job as an adviser and non-executive chairman at US bank Goldman Sachs.

The reaction was swift. National politicians queried the decision; Members of the European Parliament expressed concern and a petition started by EU staff gathered over 150,000 signatures.

Yet Mr Barroso had not broken the rules on the timeline restrictions. He took up the job 20 months after he left office - two months after the obligatory cooling-off period had expired. So what was the matter? The problem was there was no assessment of the wider requirement to behave with integrity and discretion.

His appointment hit a nerve among a public that is increasingly aware of the importance of regulating the interchange between politicians and business. As Mr Barroso was Commission President for 10 years and as he said he would be advising one of the world's most influential banks on Brexit, the move was seized upon by both supporters and critics of the EU.

Soon after the Barroso revelations, it emerged that former EU Competition Commissioner Neelie Kroes failed to declare links to an offshore firm in the Bahamas while in office.

The outcry caused by the two incidences reveal the shift in public thinking about how politicians and public officials should behave, both at EU and national level. The previous tolerance for not knowing about whether a policy-maker has outside interests or the extent to which there are 'revolving doors' between industry and government has been strongly dented.

There are a couple of reasons for this. It is partly due to social media. We live in the age of instantaneous information. A whole generation is growing up with fully different expectations about acceptable levels of transparency.

Another contributing element was the financial and economic crisis. The destruction this wrought in terms of unemployment and the loss of a sense of security has led people to question those in power in ways that they had not done before.

Such cases undoubtedly cast the EU in a poor light, even though the EU administration has generally higher standards than many national governments. But they also have real-life consequences. The recent election of Donald Trump as US President was partly the result of a swathe of people feeling only negative effects of free trade and

globalisation. When it appears that high-level politics and business are interchangeable, this can compound this sense of alienation. It would be a mistake to think that Europe is immune to such tendencies. Regulating the 'revolving doors' between politics and business is therefore a small but key part of reassuring people that the public administration is working for them.

The positive side to the debate surrounding Mr Barroso's move is that it is likely to prove an important moment for how ethics and transparency are treated at the EU level. European Commission President Jean-Claude Juncker has indicated that the rules governing commissioners' post-office employment are to be tightened.

It no longer appears possible that, as in a previous case where I was looking into the Commission's handling of a former Austrian Commissioner's post-office contract, concerns raised were ignored.

But while high profile cases involving ex-Commissioners tend to steal the limelight, an institution is more than just its political representatives. Strong ethics rules need to apply throughout an administration.

The Commission, following my recommendations on revolving doors, has started to publish the previous duties of the senior official concerned, their new role and the Commission's own assessment of conflicts of interests. I would like all EU institutions to implement such transparency measures. I would also like the assessment process to be made still stronger and will follow up with a strategic inquiry into the issue in 2017.

I have often appealed to pragmatism when I am explaining to the EU institutions why rules countering 'revolving doors' should be so rigorous. There is a purely business case to be made. An institution would not let a person walk in off the street and have access to its top information, so why should it essentially do the same thing by not rigorously enforcing cooling-off periods for its top officials and former Commissioners, allowing them to use their access and knowledge for private influence.

After the events of recent months, I hope that both EU and national institutions see for themselves the importance of introducing high standards of ethics and transparency for the wellbeing of not only the administration but of wider society. ■



**EMILY O'REILLY**  
European Ombudsman

ANTTI RIIVARI

# Businesses need knowledge of Intellectual Property Rights

Expert article • 2085

## The IPR system is here to stay...

Intellectual Property Rights (IPRs) are often criticised for being a set of legal instruments which are difficult to comprehend and thus a cause of additional costs for businesses. Even if this perception is exaggerated to some extent, it is reality for many businesses. Applying for a patent can be costly and it often takes a long time. A company may face legal challenges by legitimate right holders, or sometimes by frivolous competitors who claim that the company has breached their IPR. Legal proceedings can be very costly even if the allegation would turn out to be unfounded.

Some might say that this is unfortunate and we should do away with the whole IPR system. On the contrary, there are good reasons to maintain the IPR system. The formal reason is that the system is embedded in international conventions and treaties. The practical reason is that we need to protect the return from creative work and from the investments in R&D, know-how and design.

## And still growing in importance...

Actually, it seems that the role of IPR is growing. The share of the "intangible" in many product prices is getting higher all the time. A trademark can be worth billions in global markets. Copyright protection is particularly significant in the digital economy. China is joining the global patent system with a huge number of new patents granted in China, and an increasing number of patent applications is filed by Chinese companies in the US and in Europe.

Any company, in particular one operating internationally, needs to know how to deal with IPRs. This does not mean that all companies need to apply for patents, or even register their trademark (even if the latter is actually relatively cheap and thus highly advisable). The crux of the matter is to realise that IPRs exist and to understand how they work in practice. Only then a company can make an informed decision on whether it needs to acquire IPRs, obtain a licence to use IPR of others or should it concentrate on avoiding breaching the rights of others.

## Tackling the challenge of SMEs: Innovation vouchers in Finland

Big businesses can usually take care of their IPRs. For SMEs, tackling the IPR challenge is seldom possible without using external expertise. This is particularly important for businesses that have no previous experience in IPR. Tekes – the Finnish Funding Agency for Innovation – launched this year an innovation voucher. This type of funding can be used for acquiring expert support for innovation activities, including reports and searches related to patents, designs and trademarks, such as novelty searches, patentability reports and freedom to operate reviews, or assistance with the patent application process. The value of the voucher is 5,000 euros (+VAT). The innovation voucher has been a success, and it has genuinely spurred SMEs to start thinking about IPRs. There has been a clear peak in the demand for IPR services provided by patent and trademark agents.

## IP offices in global competition

IP offices are naturally key players in providing IPR services to businesses. In Europe, the European Patent Office has been in operation for 40 years now, and we are on our way to implement the Unitary Patent system for the EU. EUIPO (former OHIM) provides EU trademarks in an efficient manner and produces important information on the various aspects of the IPR system. At the same time, the IPR strategies of multinationals are becoming more and more agile. Big companies seek to optimise globally the way in which they seek IPR protection. Europe is competing with the US, China, Japan and South Korea in how efficiently it can provide IPR services.

## The future role of national IP offices

The role of national IP offices is evolving strongly. The IPR system is becoming more global, and it needs to be as efficient as possible. This development cannot and should not be reversed. The situation is however challenging for most of the Baltic Rim Economies. In order to uphold and increase their IPR capabilities, national IP offices cannot be merely offices distributing IPR information. It is clear that the IP offices need to maintain their substantive role in processing applications and in registering IPRs. This is vital to make sure that we will have competent IPR professionals able to provide services to businesses also in this part of Europe.

## Collaboration with the Baltic Rim Economies is important

IP Offices meet regularly at many forums. We have both European and international meetings. The good thing is that we know each other well. The IP offices of the Nordic countries and the offices of the Baltic states meet regularly for practical co-operation and learning from each other. This is very important as all these countries share the same economic sphere and face the same type of challenges. I am convinced that through this type of collaboration we can best help our businesses to get the IPR service they need. ■



ANTTI RIIVARI

Director  
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SAARA ILVESSALO &amp; HENRIK RINGBOM

# BALEX – a new legal network for the world's most regulated sea

Expert article • 2086

**T**he Baltic Sea is unique in many ways, including the way it is governed. It is often said that the Baltic Sea is the most heavily regulated sea area with up to six layers of regulation applying there at the same time. This aspect of the Baltic Sea has not received much attention so far. BALEX was established to change this.

BALEX (Baltic Area Legal Studies) is an international legal competence cluster, established in Turku, Finland, aimed at filling the current void in legal research and training on Baltic Sea issues. Since the network was established some two years ago it has mainly focused on undertaking legal research through different university-based research projects. The network now seeks to expand its activities to legal training and education and various events that are also available for the public at large.

BALEX was initiated by Åbo Akademi University and University of Turku and has collaborators throughout the Baltic Sea region. The two universities have a long tradition of cooperation in the legal field through the Turku Law School platform and it is hoped that cooperation within the BALEX framework will strengthen the universities' profile on maritime legal issues. Since this fall, BALEX has recruited a coordinator and moved into the premises of Centrum Balticum. The cooperation with Centrum Balticum places BALEX in the centre of activities linked to the Baltic Sea in Finland and strengthens its link to various stakeholders outside the university world.

The on-going research projects of BALEX highlight the interaction and inter-dependency of different levels of norms (public international law at global and regional level, EU law, national, regional and local laws and regulations) in the Baltic Sea throughout a range of legal disciplines. A particular focus for the first years has been maritime transport and environmental protection. To mention some specific research themes, BALEX is currently active in an EU project assessing various methods to monitor compliance with the new sulphur requirements on ships' fuels and in an industry-led project addressing the various challenges linked to automated ship operations and unmanned ships. A more theoretical project which analyses the anatomy of multi-layer regulation in the Baltic Sea in more detail, BaltReg, sponsored by the Academy of Finland, is also underway.

There are few limitations as to what topics can be taken up within BALEX framework, as long as the questions are of legal relevance and of specific importance for the Baltic Sea region. BALEX is accordingly open for cooperation in a very broad range of fields; including but not limited to natural resources, law of the sea, energy, business, human rights and minorities, cultural heritage, fisheries, borders and security. BALEX is constantly looking for new research themes and projects and is also willing to offer the legal expertise of its collaborators and to participate with a legal perspective in on-going research projects.

BALEX aims to be the internationally leading legal competence cluster in Baltic Sea region issues, and that is why the network is now investing in interdisciplinary academic training programs for students and vocational training for lawyers, civil servants and officials. For instance, an international research seminar in Baltic Sea Area law is being prepared, something which will hopefully lead to an established training program in the long term. BALEX will also happily offer its assistance to law and other students who are interested in studying topics within BALEX interest areas, for example by identifying relevant Baltic-Sea-related topics for their Master's Theses. In addition, traineeships and practical training periods will be offered for law students.

BALEX also wishes to reach out beyond the academic community by organizing guest-lectures, conferences and workshops on topical themes. The network wants to raise awareness of the legal questions related to the Baltic Sea region through organizing events open for public. Such an event with the theme "Who rules the Baltic Sea" is under preparation for the jubilee year of the 100-year-old Finland. BALEX is also contributing to several Baltic-Sea-Region-themed events of its partner organizations. The network seeks to be a hub connecting researchers and experts in Baltic Sea area legal matters with the concrete needs of the region; its countries, regions and cities, students, officials, NGOs and other stakeholders. BALEX is constantly looking for new associates, scientific partners and other partners in cooperation.

From now on, for the first time, Baltic Sea stakeholders who wish to develop the legal aspects of their activities have someone to turn to. Feel free to contact us for further information! ■



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JĀNIS VUCĀNS &amp; BODO BAHR

# The Baltic Sea Parliamentary Conference

Expert article • 2087

**T**he 25<sup>th</sup> Baltic Sea Parliamentary Conference in Riga, Latvia, 29 to 31 August 2016 has clearly demonstrated: In the 25<sup>th</sup> year of its existence, the Baltic Sea Parliamentary Conference is more vital than ever before. Riga was the ideal place for this Silver Jubilee: Some days after the celebration of 25 years of independence in Estonia and Latvia the conference underlined that the BSPC remained tireless to work on the ideals and visions of the BSPC founders at the beginning of the 1990s:

“To strengthen the common identity of the Baltic Sea region by means of close cooperation between national and regional parliaments on the basis of equality, to initiate political activities in the region, endowing them with additional democratic legitimacy, and to improve dialogue between governments, parliaments and civil society.”

The annual conferences of the BSPC have gained an increasing political importance over the last few years. In comparison to former more expert oriented conferences nowadays Presidents, European Commissioners as well as numerous national Ministers and Vice Ministers of the Baltic countries are speakers and guests.

The 25<sup>th</sup> conference in Riga can be seen as a best practice example for this recent development:

The conference was opened by H.E. Mr Raimonds Vējonis and the Speaker of the Latvian Parliament H.E. Ināra Mūrniece. Speakers were inter alia the Vice President of the European Commission and former Latvian Minister-president Mr Valdis Dombrovskis, and a series of respective ministers and vice ministers.

Throughout the past 25 years the BSPC has step-by-step also gained more and more autonomy.

The resolutions, which are political tools that enable the BSPC to take and to support political initiatives, and so approach the governments and regional organisations on issues of common interest are adopted unanimously at the annual conferences. They are of increasing importance, especially since many parliaments have started to submit these resolutions to the governments for reporting about the implementation of the calls for action or, going beyond this, to endorse the resolutions and to call on the governments to implement political objectives pursued by the resolutions. The feedback from the governments to the annual resolutions has become increasingly comprehensive. The BSPC is seen as the main parliamentary body in the Baltic Sea Region.

The calls for action of the BSPC and its resolutions have contributed to positive developments in the region over the past 25 years. This covers inter alia the safety and security in the Baltic Sea region, the good ecological status of the Baltic Marine environment, stricter emission regulations, stricter controls on eutrophication, the Baltic Sea as a particularly sensitive Sea Area, the European Strategy for the Baltic Sea region and the Strategy of the Socio-Economic Development of the North-West Federal District, the foundation of the Baltic Sea Labour Forum, youth unemployment in Europe as well as measures on innovation in social and healthcare.

In the 1<sup>st</sup> decade the conference has primarily dealt with topics such as the democratic stabilisation of the region and improving the critical environmental situation in the Baltic Sea. Later on priority issues have covered all the core issues of the Baltic Sea Cooperation. This included maritime safety and maritime policy, climate change, green growth, energy efficiency, labour market and social welfare, trafficking in human beings, youth policy, the situation of minorities, security and traffic.

In the last 2 years the conferences focused - apart from the topic of Cooperation in the Baltic Sea area - on one main policy issue. This was 2015 in Rostock “Innovation in Social and Health Care” and this year in Riga “High Quality Education and Labour - The Future of the Baltic Sea Region”.

Bullet points of our this year's resolution were inter alia

- measures to link education and labour market,
- implement the Baltic Sea region as a leading learning region,
- working towards the creation of a joint, collaborative labour market in the Baltic Sea region,
- foster cooperation in the field of research and innovation towards more competitive and sustainable region,
- facilitate continuous dialogue and collaboration in science, research, innovation and higher education using existing political and regional formats and initiatives;
- provide vocational training and skills development opportunities to young people;
- strengthen the contacts between schools, universities and business in order to make sure that university education and vocational education and training are closely and concretely oriented towards labour market and to identify as well as to prevent labour market mismatches;
- support business and education cooperation for sustainable economic area in the Baltic Sea region, especially systematic exchange of expertise in the labour market and education sectors;
- improve transparency and comparability of qualifications, and thereby to further develop the mutual recognition of formal qualifications.

But the BSPC also dealt with the main challenges of the current international and European policy: The refugee and migration crisis as well as the topic of terrorism. The BSPC pointed out the need,

- to closely work together in coping with the ongoing challenges connected with the refugees in the region and to continue to ensure the decent treatment of and the right to save asylum for these refugees in the countries of the Baltic Sea region and
- to foster closer cooperation and, as far as necessary, following the respectively UN declarations in tackling illegal and irregular migration.

Furthermore the parliamentarians of the 25<sup>th</sup> BSPC explicitly condemned terrorism in all its forms as a common threat for citizens and our shared values.

The BSPC also expressed the crucial need for the joint fight against this main threat to our societies and to uphold our democratic values, while stressing that this fight has to respect the rule of law and civil and human rights and that the BSPC is convinced that respecting the rights of minorities would provide a benefit for all regions in the Baltic Sea.

During the current Hamburg Presidency the priority issues of the BSPC are democracy and participation also in connection with youth exchange as well as science and research. Additionally BSPC runs a two-year-working group on sustainable tourism that will end up reporting in next year's conference.

Even if the BSPC has undergone a lot of changes since its foundation in 1991 its mission is still to remain the Baltic Sea as a sea of peace.

In the current period of time, cooperation at parliamentary level across the entire Baltic Sea region is of paramount importance, as it is based on long-standing cooperation and established structures.

A dialogue at all levels is essential during times of crisis and diverting fundamental views about foreign policy issues. Furthermore, parliamentary cooperation across the entire Baltic Sea region has intrinsic value because this cooperation involves the elected representatives of the citizens of all participating countries. For this reason, parliamentary cooperation usually has a stronger political impact than the various forms of cooperation in the context of a wide range of specialised administrative bodies and thus helps in a very special way to confer fundamental democratic legitimacy to this cooperation. Being aware of this, the BSPC is also closely linked with the other parliamentary cooperation institutions in the Baltic Sea region and beyond i.e. the Nordic Council and the Baltic Assembly, the Southern Baltic Sea Parliamentary Forum, the Baltic Sea States Subregional Cooperation, the Arctic Council, the Parliamentary Assembly of the Black Sea Economic Cooperation and the Parliamentary Assembly of the Council of Europe as well as the Inter-Parliamentary Assembly of Member Nations of the Commonwealth of Independent States. Presidents of the Nordic Council and of the Baltic Assembly were already also Presidents of the BSPC, many members of the Standing Committee of the BSPC are at the same time members of the Presidium of the Nordic Council or the Baltic Assembly.

The BSPC has still the same main vision as in 1991, especially since we are again after more than 20 years in a tense - may be in an inflamed - situation: A Baltic Sea Area in peace and freedom. In the current times it is more important than ever to follow our guidelines, to follow our principal basis: And this basis is dialogue to overwhelm critical and tense situation.

And we have maintained this political dialogue in difficult times at our meetings and conferences. The BSPC is the Baltic Sea wide institution, which did not interrupt the institutional dialogue on the political top level.

Even if we had hard discussions, even if he had painful discussions: we had at least discussions on the parliamentary level.

A cold conflict is always worse than a hot conflict. It's necessary to keep on the dialogue. It's necessary to find peaceful solutions.

Parliamentarians are responsible for the well-being in the countries, for the well-being of the population, for the well-being of the citizens around the Baltic Sea Area.

BSPC wants to have freedom. BSPC wants to have peace, BSPC wants to have a peaceful cooperation on a democratic fundament.

BSPC wants to have prosperous development of the whole Baltic Sea Region, to have equal living conditions. Maybe not today, maybe not tomorrow, but it is of crucial importance to go on working on the realization of these objectives during the next 25 years, in close cooperation, with all energy, with all commitment, with all competence. ■



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JOHANNA OJALA-NIEMELÄ

# Finland's Arctic cooperation has a long tradition

Expert article • 2088

**A**lready 140 years ago, the Finnish-Swedish scientist Adolf Erik Nordenskiöld sailed up to the Yenisei River in order to find a new sea route from Europe to Asia. During his two expeditions to Siberia, Nordenskiöld became convinced that it was possible to navigate along the northern coast of Russia far into the arctic seas. He wrote in the diary, "Every mile beyond the mouth of the Yenisei is a step forward to a complete knowledge of our globe".

Only two years later, in 1878, Nordenskiöld became the first European seafarer to sail the Northeast Passage from Norway to the Bering Strait. Although Nordenskiöld is rightfully renowned for his expeditions, his true passion laid in science. Apart from navigating the Northeast Passage, Nordenskiöld explored this huge, previously unknown sea area. He switched his enthusiasm and attention to the region's plantlike organisms, for example, algae and to the fossils of the extinct species like mammoths. In addition, Nordenskiöld researched geology, paleontology and meteorology as well as their impacts on temperature, air-pressure and wind conditions. His aim was to develop a deeper insight of the world and to push the boundaries of knowledge further ahead.

Thanks to hardships suffered and lessons learned by A.E. Nordenskiöld and other scientists, we have been able to increase our knowledge of the Arctic. However, the new era has brought along manifold challenges, too. Climate change is faster and more severe in the Arctic than in most of the rest of the world and the Arctic is warming up at almost twice the rate of the global average. Therefore, gaining and sharing information should be brought back into focus. Important subjects to be discussed are "What are the influences of climate change on the Arctic?", "How is marine environment changing?" and "What are the consequences of warming sea temperatures?"

Today's scientists need comprehensive information to observe the causes and consequences of multiple phenomena. Equally important is that the latest research is available for decision makers and politicians. All conclusions, concerning both the preservation and the development of the Arctic, have to be based on reliable information and balanced analyses. Without proper understanding, leaders are unable to see the far-reaching impacts of their decisions.

The prerequisite for gaining knowledge is cooperation, especially, on the state level. This has been the case for many years; for example, the world's leading powers the United States and Russia have succeeded in finding mutual goals on the field of science. Furthermore, the main forum for the multilateral Arctic cooperation, the Arctic Council, has proved to be a success story. All member countries of the Council have been involved in preserving nature and improving the lives of people living in the area, which is a most positive signal also to the indigenous peoples.

The fruitful Arctic consensus has however faced unnerving confrontations. A lack of constructive dialogue between the western countries and Russia arises deep concerns in the northern region. Both the crisis in eastern Ukraine, with the consequent sanctions against Russia, and the Syrian war inevitably present new challenges for the mutual cooperation. A fragile trust has to be nurtured to prevent disagreement in the present political climate from escalating. A strong engagement in the mutual cooperation is more beneficial to all member states than short-term gains for a few.

Dedication and experiences of A.E. Nordenskiöld and his crew - who perceived that in the Arctic no one will succeed solely by relying on his own capabilities - offer excellent inspiration also for our upcoming cooperation. Discovering the Northern Sea Route actually came true with the funds provided by Swedish philanthropists and a Russian merchant. In addition to fund raising, Nordenskiöld carefully studied the previous expeditions by Russian, Danish and Norwegian explorers and used this information as a pillar for his own voyages.

Ongoing cooperation and open communication are Finland's priorities, too. Already in 1989, Finland took the initiative in introducing a cooperative working method for the other eight Arctic countries in order to protect the region's environment. A few years later, we had the pleasure to organize the Ministerial Conference in Rovaniemi. One of the main targets of Finland, holding the next chairmanship of the Arctic Council, is to further advance cooperation and understanding of the special features in the northern regions.

Knowledge gained by Nordenskiöld's Vega expedition in 1878 - 1879 prove that obstacles are won and great victories achieved by working together. It would not have been possible for A.E. Nordenskiöld to pass the Northern Sea Route without other seafarers' help. This holds true still today. To survive and succeed in the harsh conditions of the Arctic, we have to be able to rely on each other. ■



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VYGAUDAS UŠACKAS

# EU-Russia relations: from strategic partnership to strategic challenge

Expert article • 2089

**F**or a number of years, the EU and Russia had assumed the existence of a strategic partnership, based on the convergence of values, economic integration and increasingly open markets and a modernisation agenda for society. Our agenda was positive and ambitious.

Breaking point on the path of building even closer relations was 2014. The events in Ukraine – illegal annexation of Crimea and destabilisation in Eastern Ukraine – have shaken the foundations of European security and created a European security crisis. From that moment, differences and confrontations proliferated; trust decreased and for the EU side managing the relationship with Russia currently represents a key strategic challenge. It is an irrefutable and at the same time regrettable fact.

Politically, we differ over Ukraine. Russia claims it has “nothing to return” and positions itself as a mediator rather than a party to the conflict in Eastern Ukraine while, in reality, Russia remains heavily involved by providing military security as well as funding for nearly all civil structures in the rebel-held territory. We differ over Syria as well in particular over the escalating violence and consequent humanitarian crisis which is causing untold civilian suffering. EU’s profound position on this conflict is that there is no military solution to this conflict, and every new escalation only prolongs the suffering of all Syrian people. We see things differently over the Eastern Partnership. Russia recognizes this EU’s initiative as a geopolitical project, interfering with a perceived legitimate Russian sphere of interests rather than a foreign policy instrument to promote democracy, stability and prosperity of neighbouring region.

Economically, Russia has started to turn its back on open market and competition even before the events of 2014 and ensuing EU’s imposed restrictive measures. It has promoted insulation, self-sufficiency and import-substitution ever since its accession to the WTO in 2012. Furthermore, trade restrictions are used as foreign policy tools, what has become obvious from the examples of Ukraine and Moldova when their trade agreement with the EU entered into force. Yet, despite the irritants, the EU remains the largest trading partner for Russia while Russia is amongst the top four EU’s, regardless of the fact that since 2012 our overall trade turnover has been declining (dropped by 40% since 2012). The EU is by far the largest source of Foreign Direct Investment in Russia, flows of which has been reducing and currently have fallen to 2002-low. In addition, in the area of energy 40% of EU’s gas imports and 30% of oil imports come from Russia which affects that almost 50% of the Russian budget relies on income from sales of gas and oil.

The EU and Russia also differently accept the role of political opposition, civil society and of promotion of human rights. Political competition is a source of instability and disorder while the civil society and human rights defenders tend to be perceived as a threat to the political regime and not as an essential component of a democratic and healthy society.

Some of enlisted differences can be softened, but some are likely to remain irreconcilable in the foreseeable future.

At the same time Russia and the EU remain of strategic importance to each other and have a number of overlapping interests. Be it antiterrorism, migration, climate change, maritime security, Middle East in general or Afghanistan, interdependence in the international arena certainly is one of them. The Iranian nuclear talks remain a good example, where our joint efforts managed to produce a landmark agreement.

Thus, the challenge for both sides is to avoid clashes, due to reduced scope of communication channels, and to navigate differences in ways that serve the interest of each of the sides.

The EU has set how to manoeuvre them when in March this year unanimously and transparently endorsed and announced five guiding principles of bilateral relations with Russia. From its side, Moscow is seeking to restore relations on its own terms – it is actively enforcing policy of bilateralization of relations with EU Member States; proposes creation of a zone of economic and humanitarian cooperation between the Atlantic and Pacific oceans, while forgetting this zone passes over the Dnieper river, and advocates the harmonisation of the European and Eurasian integration processes.

Although it is difficult to foresee anything, especially considering the last events on the international political scene, no changes should be expected in Russia’s policies before the presidential elections due in 2018. For the EU, a consistent and united approach must remain the cornerstone of its policy toward Russia. However, at some point the EU will need to elaborate an inclusive long-term vision for how Russia could be engaged – but firmly on the grounds of international rules and its principles and values. ■



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GUÐMUNDUR ÁRNI STEFÁNSSON

# 25 years of cooperation

Expert article • 2090

Iceland took over the Presidency of the Council of the Baltic Sea States (CBSS) from Poland on 1 July this year and will preside over the Council for one year. We take this task seriously and aim to contribute, in particular in our areas of expertise. During our Presidency, Iceland is focusing on children, equality and democracy, which underpins the three CBSS long-term strategies for a stronger regional identity, a prosperous and sustainable region and a safe and secure region.

Iceland has a strong political and historical connection to the Baltic and despite the geographical distance, continued cooperation with the region is high on the foreign affairs agenda. Iceland views the CBSS as a crucial link to the Baltic region and provides a platform for enhanced cooperation and mutual understanding. There are substantial benefits from the broad practical cooperation that takes place under the auspices of the CBSS, including in the area of human trafficking, civil protection and protecting children at risk. In yet other areas, we can find further synergies with other organizations in the region, close gaps and remove duplication. The before mentioned priorities of the CBSS Icelandic Presidency 2016-2017 form the foundation for a shared, sustainable and secure future for the region and its people.

## Children

Children hold the key to our future and their well-being are at the heart of the Icelandic Presidency. Upholding children's rights is the obligation of all CBSS states and ensuring their safety and well-being will create a healthier and safer society in the future. The rights of the child is one of the core pillars of the safety and security priority of the CBSS.

Through the CBSS, Iceland continues to lead initiatives that focus on a holistic approach to protect children from all forms of violence, with particular emphasis on preventing sexual abuse and exploitation, including trafficking. Promotion of child-friendly and multidisciplinary responses to child abuse, preventing re-victimisation and providing comprehensive services to child victims should be the guiding principle of activities in this field.

In light of the current situation in the region, asylum-seeking children and unaccompanied children deserve a special focus. Prioritizing the cooperation among different authorities and across sectors is crucial in preventing abuse and trafficking of children.

## Equality

Equality and respect for human rights remains a cornerstone of Icelandic foreign policy and is surely a shared vision of the CBSS Member States. From its initiation, the CBSS has had a role to play in promoting human rights in the region and its long-term priorities will only be achieved through further work in this field.

Equal opportunity for all citizens, equal rights and the elimination of any kind of discrimination based on ethnicity, age, gender, sexual orientation or other factors, is fundamental to the well-being of all our citizens.

Only through the active participation of both women and men on an equal footing, can we ensure the prosperity and sustainability of the region. This year the CBSS Member States have started implementing the United Nations 2030 Agenda for Sustainable Development, which all of our leaders have agreed to. Goal 5 of the 2030 Agenda aims to ensure gender equality and the empowerment of women, which is also a cross-cutting issue throughout the Agenda and its 17 Global Goals.

Gender is also a key factor in ensuring a safe and secure region. Gender-based violence is a persistent problem in all societies and must be addressed in this context. Furthermore, the legal and economic empowerment of women has been shown to lead to more stable and secure societies.

Although a lot of progress has been made, more work is needed. During its Presidency, Iceland is actively working to engage men and boys in the gender equality discussion, as only through the participation of all, can we achieve our goals.

## Democracy

An open, democratic discourse is even more important now, during times of increasing instability. The number of displaced people has not been greater since WWII, terrorist acts threaten citizens in Europe and all over the world, and extremist and xenophobic discourse have become a part of a new political reality in Europe. Such challenges require a firm response in defence of our common values of democracy and human rights, our common humanity. It is the right way to address the difficulties we are confronted with, both within and among states.

The democratic ideal is a founding vision of the CBSS, which some 25 years ago formalized the cooperation of old and newly established democracies in the region. With the oldest parliament in the world, Iceland has a strong democratic tradition, and the Icelandic Presidency is highlighting how democracy reshaped and made the Baltic Sea area stronger and more peaceful than before. At challenging times, there is a great need for CBSS members to form a dialogue on the importance of upholding democratic values. ■



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RENÉ NYBERG

# On the complexities of this world

Expert article • 2091

“The central question in Russian political history is one of succession.”<sup>1</sup>

Probably nothing has offended President Putin more than President Obama's disparaging view that Russia is only a regional power, because the real challenge for the United States is China. True, Russia is no longer the superpower the Soviet Union once was, but Russia is still **the other** nuclear power in our world. It is this status that defines and explains much of what Russia is doing and what it aspires to. The craving to be recognized as an equal player, as a power that cannot be ignored, as a voice to be listened to, is Putin's Russia in a nutshell.

This was clearly demonstrated by the recent move of the Kremlin to suspend the bilateral plutonium disposal agreement with the United States to turn weapons-grade plutonium into nuclear fuel. This might sound technical or even trivial, but it is highly symbolic and brought to a halt sixteen years of cooperation. This downturn threatens to unravel a series of nuclear disarmament agreements stretching back to the Cold War.

At no time since the Cuban Missile Crisis in 1962 has there been a situation where the two nuclear superpowers have suspended their dialog on arms control and the safety of nuclear material. Let me just note that the Head of *Rosatom*, formerly *Minatom* (Ministry for Nuclear Energy) is the counterpart of the US Secretary of Energy. Both carry the responsibility for nuclear energy and the nuclear weapons programs.

This move to sever cooperation in the nuclear field and an across-the-board deadlock in arms control negotiations underscores how low American-Russian relations have fallen. We see it in the dead-end in Syria. We see it in Ukraine. And we see it in the flippancy and loose talk about nukes that has emerged as a new psychological tool in Russian politics.

This is striking.

Nuclear weapons were an absolute taboo in Soviet times. Any off-the-cuff remark about nuclear weapons would have resulted in “fifteen years of Magadan,” a Russian euphemism for imprisonment in the Gulag. It seems that a measured dose of faux insanity is being used in an atmosphere of mobilization. And it is being cunningly exploited in a psychological offensive to intimidate.

As the human suffering in Aleppo demonstrates, this is heartless. It seems highly unlikely that the Middle East will come to peace any time soon. The centuries-old Sunni-Shia conflict will not go away. On the contrary, the antagonism and enmity between revolutionary Iran and the Shiite militias it supports on one side, and the Sunni world and Saudi Arabia on the other, seem implacable.

The question for Russia, however, is simpler and more urgent. Having returned to the Middle East and established itself as major player in the region, Russia must answer the fundamental problem of how it extracts itself from the many-sided Syrian conflict. This will not

be solved with the fall of Aleppo. And if Russia does manage to wind down its military involvement, how does it remain a power in the region? Both the Russians and the Americans remember that the Soviet Union was cut down to size in the Middle East as a result of the Yom Kippur War in October 1973.

Russia is currently bogged down in two military conflicts, the smoldering hostilities in Ukraine and the hot war in Syria. The likelihood of a decisive victory in either war that would bring the boys home by Christmas is very low.

Bringing the Second Chechen campaign to an end and restoring peace in the region through the *chechenizing* of Chechnya and withdrawal of federal troops from North Caucasus was one of President Putin's first decisive moves as the new leader. Pacifying Chechnya by giving up control of Chechnya looked like a brilliant move, but it is now coming back to haunt the Kremlin. North Caucasus has been pacified, but it continues to fester. Thousands of fighters from the region have left the country and joined the ranks of ISIS. Syria and the Middle East are not far away. To present the splendid reconstruction of the war ravaged city of Grozny as an example for the future of Aleppo is cruel and callous.

Putin's Russia is both stable and unstable. The president has established himself as irreplaceable. The country is ruled by a man, not by law. The economy is in a precarious state, although there is no risk of sudden collapse. The bellicose rhetoric and an atmosphere of mobilization are not conducive to reforms. Moreover the political failure of the authoritarian system to enact structural reforms ensures that the economic situation will continue to deteriorate.

The central question in Russian political history is one of succession. The lack of a system of succession remains Russia's Achilles heel. Its military prowess and ability to project and use military force is a fact, but the risk of overstretch also looms large due to its faltering economy.

If the relationship with the United States is at an all-time low since the Cold war, Russia's rapport with Europe and the EU is hardly better. The carnage in Aleppo concerns Europe directly. The human misery leads to an increased flow of refugees. In this sense, Syria and Iraq have become the Balkans of our age. The massacre in Aleppo is happening on our doorstep and we ignore it at our peril.

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The complexity of the world situation is all too evident. The EU is in the midst of a major crisis. Brexit – hard or soft – will force the EU to redefine itself, and, to put it briefly, find a new equilibrium between free-traders and protectionists, between the North and the South. The most worrying development remains the stability of the core of the EU. The assumption has been that as long as there is no daylight between Berlin and Paris, and between Berlin and Warsaw, the EU will remain stable and able to weather any storm. The corollary assumption, of course, is that any fissure in this construct is likely to derail the EU decision-making abilities.

<sup>1</sup> Arkady Ostrovsky: *The Invention of Russia*, 2015, p. 219.

Both France and Germany hold general elections next year. The outcome of the French presidential and parliamentary elections in April is a major question for Europe. The formidable populist challenge by Marine Le Pen is a challenge beyond the Hexagon because of her fundamentalist rejection of European integration. The fact that Marine Le Pen has received financial support from Moscow underscores the stakes in the French election. The likely outcome still remains the repetition of the two preceding presidential elections. The Eurosceptic and nativist Marine Le Pen will be defeated in the second round by an opponent who rallies both traditional center-right voters and the socialist left.

The German *Bundestag* elections in September are expected to be less spectacular than the French elections. The German party landscape has developed from being a system dominated by two major *Volksparteien*, that is, parties solidly anchored in the population, into a multiparty system. Prior to German reunification, the conservative CDU/CSU and the Social Democrats together were able to prevent any party to their right or to their left from entering the *Bundestag*. This changed when the *Linke* emerged from the ruins of the GDR. Even so, no party challenging the CDU from the right has yet made it across the five-percent threshold needed to win a seat in the *Bundestag*. After its recent success in regional elections, the *Alternative für Deutschland* now appears poised to enter politics at the federal level.

Were Angela Merkel to lead the CDU in the general elections of 2017 and succeed in forming the next coalition, she could draw even with Helmut Kohl who served four terms for a total of sixteen years as Federal Chancellor. Her decision at the latest is expected in December at the party conference of the CDU. Nobody is irreplaceable, but at present nobody is challenging Angela Merkel despite views on immigration that conflict with those of the CDU's Bavarian sister party CSU, which is worried about losing its absolute majority in the Bavarian *Landtag*.

The outcome of the general elections point to a likely continuation of the present grand coalition of the CDU/CSU and the Social Democrats, although there is growing sympathy in the CDU for a coalition with the Greens if the numbers allow it.

Without going too deep into German politics, it is enough to note that the German Greens have developed into a new kind of bourgeois party offering. The German Greens solidly support Mrs. Merkel's policy on Russia, including sanctions, making them very different from, say, the French or Swedish Greens, which are both still more like leftist movements than political parties with established track records in government. The development of the Finnish Greens is in this sense very similar to their German brothers and sisters.

The about-face of Polish politics to a provincial, nationalist, anti-liberal and anti-EU direction has strained Warsaw's relationship with Brussels. It threatens a long and strong bond with Berlin that has flourished on all levels. The major disagreements concern immigration and societal values. Quite important, however, is that they do not extend to EU-Russia relations. On this issue, there is a clear difference with the three other Visegrad countries (the Czech Republic, Slovakia and Hungary), which have been wavering in their support of Merkel's tough line. On immigration policy, Poland tends to agree with the rest of the Visegrad group.

There is an eerie feeling that despite having joined the European Union more than ten years ago and greatly profited from membership, some of these countries have not managed to arrive. A residue of old thinking has resurfaced in these new member states. Surprisingly, the same sentiments have even cropped up in the Eastern *Länder* of reunited Germany.

The war in Ukraine forced Germany and Angela Merkel to assume a leadership role not seen before. It is safe to claim that the firmness of her personal conviction formed the basis of EU policy. Changing borders by force is unacceptable. It dovetailed with the position of the Obama administration, for example, in the policy of providing only "non-lethal" aid to Ukraine. The task of negotiating with President Putin was essentially outsourced by President Obama to Chancellor Merkel and President Hollande.

The dramatic change caused by the war in Ukraine was a harsh awakening for the Germans. A relapse to a confrontation with Russia is highly unpopular. This is part of the phenomenon of "German Angst," which might be described as a mix of pacifism, neutralism (dream of a larger Switzerland), and anti-Americanism. By challenging the Kremlin on Ukraine, the German Chancellor took on a fight that touches a host of deep-rooted sentiments in her country.

Both Foreign Minister Steinmeier and Chancellor Merkel are torn by forces close to their political base. In the case of the Foreign Minister, it is paying homage to the *Ostpolitik* legacy and the immediate need for a realistic appraisal of the situation. In the case of the Chancellor, it is dealing simultaneously with public sentiment wary of any confrontation with Russia and the hawkish positions of Germany's allies. Ultimate, these positions may not be as hard to reconcile as they appear at first glance. Still, the critics of Angela Merkel in her own party and in Bavaria deny the credit for her *Realpolitik* achievements with Turkey. As a continuation of her strategy to stem the flow of refugees, it should be noted that the lead theme for Germany's G-20 presidency in 2017 will be Africa.

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The annexation of Crimea and the war in Eastern Ukraine dramatically changed the relationship between Moscow and the European Union. I will leave it to the historians to assess the role of the EU's Eastern Partnership Program and the negotiations with Kiev and Moscow in the development of events in Ukraine that led to regime change in Kiev.

The annexation and change of borders by force in Crimea remains a glaring transgression of international law and post-Cold War agreements. The use of force by Russia in Eastern Ukraine and the denying of Russia's involvement also resulted in the tragic downing of a Malaysian airliner over Eastern Ukraine in 2014. The war in Ukraine remains a "simmering," rather than "frozen," conflict. No grand bargaining is to be expected. The sanctions imposed by the EU and the United States are not based on a misunderstanding. Sanctions have logic. While the imposition of further sanctions on Russia because of Aleppo is unsure, it is apparent that the carnage has hardened the position in the EU and the roll-over of existing sanctions seem likely.

The core of the conflict remains Russia's claim to a right of a privileged zone of influence in the post-Soviet sphere, excluding the Baltic States, now members of both the EU and NATO. Losing Ukraine could not be accepted and this became the red line for the Kremlin. But lose it Moscow did. It also lost the Ukrainians. Trade relations with the West have been put on a back-burner, only further increasing Russia's isolation. Sanctions especially affect Russia's ability to borrow on international financial markets. Thus, even if Russia pivots to the East, China cannot replace Europe as a partner for modernization.

The increased tension in other parts of Europe and unprecedented military activity in the Baltic Sea is a reflection of the war in Ukraine. The Baltic Sea is not a new front, but a kind of a side show of the war in Ukraine. Still massive military exercises, airspace violations and again nuclear saber-rattling have unnerved Northern Europe. This has led to an increased NATO troop presence to ensure the Baltic States and Poland. It has also triggered a debate in Finland and Sweden about NATO membership.

In any case, neutrality is a thing of the past. As an EU member, Finland is not neutral; it is just not militarily allied. Indeed, what started with joining NATO's Partnership for Peace in 1994 has become an integral part of Finland's security policy. The Finnish armed forces today are fully compatible with NATO. There is no blueprint for accession, but the stated policy remains not to forsake the possibility of applying for membership.

Simultaneously, Finland and Sweden, which form a common strategic space, have deepened their defense cooperation in an unprecedented way. Much like Sweden, Finland has concluded a bilateral cooperation agreement with the UK and the United States. These agreements are technical, but their significance cannot be denied as military maneuvers with NATO and US forces demonstrate.

The line in the sand for Russia remains NATO membership. Any enlargement of NATO would be a political defeat for the Kremlin, especially in the case of a country bordering Russia. Crossing that line would trigger a Russian response and induce a severe crisis or even a break in relations with Moscow.

This is well understood in Finland because there is no final solution – no *finalité* -- to the security dilemma of Finland. As an expert group assessing the possible effects of Finnish NATO membership concluded last April, "the possibility to apply for membership remains a tool to master the geopolitical dilemma posed by an unpredictable neighbor." ■

### RENÉ NYBERG

Former Finnish Ambassador to  
Moscow and Berlin

ALEKSI RANDELL

# Thinking and acting internationally is in the DNA of Turku

Expert article • 2092

**M**easured by the number of inhabitants, the Turku region with its 300.000-400.000 inhabitants, is no giant, even in the context of the Baltic Sea Region, not to speak of wider Europe.

However, Turku is known not only as Finland's hub of Baltic Sea cooperation but also recognized as one of the most dynamic centers in the North of Europe, a "*small giant of Baltic Sea cooperation*", as some commentators have called it.

Sometimes people ask why this is so. The reasons are multiple.

Due to Turku's central geographic location at the crossroads of the Baltic Sea where shipbuilding, the harbor and trade have shaped the way of life, Turku has since its birth nearly 800 years ago been an international city.

Its historic role as Finland's gateway to the world, as its first capital and role as key economic, cultural, educational and spiritual center have shaped the city and its life. The European Union has recognized this when nominating Turku as the European Capital of Culture in 2011.

No surprise then, that the City of Turku, and the surrounding region Varsinais-Suomi – literally translated "Finland Proper" but usually known in English as Southwest Finland – see themselves as integral parts of the wider Baltic Sea region. It is fair to say that thinking and acting internationally is in the DNA of Turku.

However, history only partly explains our active role. There are other crucial reasons as well – and they pertain to the realities and needs of today – and tomorrow.

Ships built in Turku have for centuries sailed the seas of the world. Today, Turku is the maritime capital of Finland, giving directly or indirectly employment to tens of thousands.

The Meyer Turku shipyard and its network of hundreds of sub-contractors is the vibrant heart of our maritime cluster. They design and build the largest, most advanced and environmentally progressive cruise ships in the world. The latest orders include four giant cruise ships – two for the Carnival Cruise Lines and two for the Royal Caribbean Cruises – which are LNG powered and with a number of other new innovations. "*With Icon class, we begin the journey to take the smoke out of our smokestacks*", says Richard Fain, Chairman and CEO of Royal Caribbean Cruises.

Around this maritime cluster, a versatile environment of other maritime activities has developed. Turku and its region are home to a top class "*knowledge bank*" with hundreds of experts in all fields of life linked to the Sea and maritime issues. The Turku-based science universities – the University of Turku and the Åbo Akademi University – as well as the University of Applied Sciences, together with the Turku Science Park work closely with the local and regional authorities and the business sector. Cooperation is further promoted by the Centrum Balticum Foundation – Finland's think-tank on BSR issues.

No wonder then, that Turku is actively participating in the development of policies linked to the maritime and regional issues, on national, regional and European levels. Turku organized in May 2016 the largest annual European maritime event, the European Maritime Day, jointly with the Government of Finland and the European Commission. Likewise, in 2014, Turku hosted with the same partners a "*Baltic Sea Week*". Each of these brought well over a thousand of decision makers and experts to Turku.

Currently, experts from Turku are actively involved in the processes to update the Finnish Government policies on Baltic Sea issues and to formulate an Integrated Maritime Policy for Finland, as well as the drive to work out an implementation program for the European Commission's Blue Growth Strategy of the Baltic Sea Region.

The European Union Strategy for the Baltic Sea Region (EUSBSR), adopted in 2009, has already brought much added value to regional cooperation. It creates a joint framework with common goals, defined responsibilities and a governance structure that recognizes and emphasizes "*local ownership*" and participation of all interested stakeholders such as cities, regions, universities and research institutions, businesses – in addition to governments and political decision makers.

From the beginning, the City of Turku has actively participated in the development and implementation of the EUSBSR and its Action Plan. Today, Turku is a key player in the Strategy, having been assigned by the EU Member States the responsibility as Horizontal Action (HA) coordinator in two different issues.

The "*HA Neighbours*", which Turku coordinates together with the Secretariat of the Council of Baltic Sea States (CBSS) aims at ensuring close cooperation between EU Member States and stakeholders in the Russian Federation, Belarus, Norway and Iceland.

As coordinator of the "*HA Capacity*", on behalf of the Union of Baltic Cities (UBC) and together with the Swedish Institute and Baltic Sea NGO Network, we work to ensure that local stakeholders – including cities and regions – are actively participating in the Baltic Sea cooperation.

Both of these important roles – which we see as appreciation to our work but also as challenge we must take seriously – build on long-term and fruitful twin city links with St. Petersburg and other key cities in the region, and on the "*Turku Process*" which emphasize the central role of cities and regions in BSR cooperation.

Turku's active role in EUSBSR is augmented by the recent decision to nominate the Centrum Balticum Foundation as the lead partner in "*Lets communicate*" –project aiming at informing interested stakeholders in all BSR countries about possibilities to join various concrete project. The newly established international advisory board of the Centrum Balticum, chaired by the former President of Finland Tarja Halonen, is a valuable support mechanism in these efforts.

Expert article • 2092

When we add, that Turku is one of the most active cities in the UBC, the leading regional city network of almost a hundred cities, and hosts its highly appreciated "*Sustainable Cities Commission*", as well as many other activities promoting regional cooperation, it is fair to say that Turku has a high and versatile profile in Baltic Sea cooperation.

However, there are still major unutilized possibilities. The City of Turku will continue to promote cooperation on national and international levels. Actually, these dimensions are in today's world intertwined.

A good example of this is our key development goal, the one-hour train connection between Turku and Helsinki. Nationally crucial, it also is an integral part of a broader international Northern Growth Zone (Stockholm-Turku-Helsinki-St. Petersburg), which links organically with the Scandinavian – Mediterranean core TEN-T Network (Trans European Transport Network).

Today's political climate is challenged by strong tendencies of "*turning inwards*", questioning the value of regional and international cooperation.

However, we know that our big common challenges, such as saving the Baltic Sea, countering climate change and global warming and promoting decent life for all require that we work together. Turku wants to be an active partner in this cooperation. ■

**ALEKSI RANDELL**

Mayor  
City of Turku

Chairman  
Executive Board  
Centrum Balticum Foundation  
Turku, Finland

Pan-European Institute

# BALTIC RIM ECONOMIES

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KALEV HÄRK

# One city, two states – obstacle or opportunity?

Expert article • 2093

**T**ry to imagine that on a nice day the town you live in is divided into two administrative units – each of them in different countries with dissimilar legislation and distinct languages. Unfortunately, the place where you are living now is on the one side but your workplace happens to be on the other side of state border. Therefore, your child's kindergarten and your mother's hospital are now on different sides as your favourite shops or public transport hubs are as well. Is it a bit scary or on the contrary rather exiting?

It was almost a hundred years ago that the newly established Estonia and Latvia made use of the Russian Revolution to proclaim their national independence. The former ethnically mixed town of Walk was divided by a national borderline, the eastern part of the town became the Estonian Valga, and the western part is known as the Latvian Valka.

In 2015, a European Commission online public consultation on overcoming obstacles in border regions was carried through. The results clearly point out difficulties linked to labour cross-border mobility, taxation and accessibility to services that are fundamental aspects of life in border areas and are often negatively affected by presence of legal and/or administrative obstacles.<sup>1</sup> In case of Valga/Valka, cross-border accessibility to medical services and need for more flexible solutions of collecting/using tax money are the most important. For example, if you live in Valka (Latvia) and work in Valga (Estonia) you are never automatically granted with health insurance allowing you to visit medical specialists in Valga hospital. Meanwhile, the local government of Valka loses taxation money because a non-Estonian resident working in Valga pays his income tax to the Estonian national budget without any chance for the local governments of Valka and Valga to get a share. Such border commuters residing in Valka (Latvia) often solve the problem by registering their official place of residence in Valga (Estonia) instead of Valka. For Latvian citizens, it is rather simple. Still, it solves the problem of an individual giving him/her faster access to medical services or even lower taxes. Nevertheless, it also distorts reality and makes the situation more complicated for local governments in respect to planning of public services and the budget. Free cross-border movement of people including labour, goods, services, and capital are fundamental freedoms of the single market of the European Union. Things have improved a great deal concerning the private sector. The most complicated seem to be the issues concerning public services. Services offered by the private sector cross the borders rather well while national borders are rather rigid with bureaucratic barriers for public sector services.

<sup>1</sup> „Overcoming obstacles in border regions”, European Commission, Directorate-General for Regional and Urban Policy, April 2016

In order to fight these obstacles, both local and regional authorities should create corrective systems if discrepancies cannot be avoided. There should be such tax compensation systems that are both national and cross-border. National governments of Estonia and Latvia should recognise Valga and Valka as one socio-economic unit. People living and working here need stable and steady growth even close to a national administrative border running through their hometown. A bilateral national agreement recognising the situation of Valga/Valka would grant this feeling of stability for residents on either sides of the border.

Knowing the neighbour's language provides also a key to more detailed information of the other side of the border and understanding the background. There is a strong need for citizens and organisations to promote language learning and encourage cultural exchanges creating more and more occasions to meet the neighbours in all fields: students exchange, joint vocational training, leisure and common public celebrations, etc. Local authorities in cooperation with NGOs can be main initiators and actors. For example, Valga and Valka established a common art school, a youth dance and music studio and a basketball team playing simultaneously in the premier leagues of both Estonia and Latvia. There is also common Latvian-Estonian Institute exchanging information about cultural and other events on both sides of the border.

Despite border obstacles, there are positive developments in Valga/Valka. We have several politicians and representatives of business community who can see the border also as a possibility. Valga-Valka gives good opportunities to provide products and services for both sides. A good example is the Norstat data mining company hiring workers from both sides of the border and making use of people knowing even three languages. There are also enterprises and people benefiting from taxation differences on services or products on the other side.

In conclusion, border regions and divided cities like Valga/Valka are good indicators on how open and united the European Union really is. Seamless borders in cityscape, in bureaucracy and in our minds allow using multicultural and economical potential of border areas and people who live there. ■

**KALEV HÄRK**  
Mayor  
City of Valga  
Estonia

DENIS STRANDELL

# Hanko, a small city by the sea, living off the sea

Expert article • 2094

**H**anko has been a natural port and anchoring site for centuries for ships sailing in the Northern Baltic and the Gulf of Finland. Located on the tip of a long sandy peninsula plunging into the Baltic Sea, Hanko is the southernmost city of Finland. Therefore it is the place in Finland where the sea freezes last and it is the first to be freely operated again after the winter. Thus it was quite natural that it was decided in 1873 to establish a port mainly to take care of the winter traffic to and from Finland. At that time it was estimated that every second winter it would be possible to use the port throughout the winter and in between some part of the winter. As a consequence the city itself was established in 1874.

Although the port was the first to be established, a lot of Baltic Sea related activities kept the city's wheels rolling. Shipping, Piloting, Fishing and the fish industry has always played an important role and there have been boatbuilders in Hanko up until today. The latest classic yacht left a Hanko based boatyard in 2006.

At the beginning of the 19<sup>th</sup> century the port mainly operated in the winter and not much happened during the summertime. Thus the city needed some additional activity during summertime, and because Hanko is surrounded by the sea on three sides and has more than 30 km of sandy beaches it was natural to establish the city as a bathing city. In 1879 the newly built spa opened its doors. This again started to attract the society from St. Petersburg, Helsinki and Turku who came to Hanko for the summer and enjoyed the spa, beach life, tennis and sailing. In the coming years a vast number of big and fancy seaside villas were built for these guests and many of them still stand today and are in excellent condition.

Hundreds of years before the port was established, the strategic location of Hanko was recognised by the military. It is known that the Swedish Navy became interested in Hanko already in the 16th century and they patrolled in the area frequently and drew up their first plans of fortifications. The Russian Navy had recognised the same strategic importance so it was not a very big surprise that the two rival navies clashed in the battle of Riga in 1714. The naval battle was the first major victory for the Russian Navy over The Swedish Navy in the Baltic and the day is still celebrated in the Russian Navy as its anniversary.

The actual fortification of the city and the islands outside Hanko started around 1790 and was carried on until the beginning of the 19th century although it was never completed. After 1809 when Sweden lost Finland to Russia the Russians continued the fortifications. Hanko was again a war-scene during the Crimean war in 1854 when the French-English Navy sailed into the Baltic and attacked Hanko, but they were fought back.

Between 1880 – 1930 Hanko was the main port of emigration from Finland, mainly to the USA and Canada, with more than 400.000 people emigrating. The peak was in 1906 when 30755 people left to seek their fortune. By coincidence this is close to the number of immigrants received in Finland 109 years later. At the same time the export of butter, mainly to Denmark and the UK was lively and Hanko was the main port for that too.

After the Independence of Finland in 1917 the civil war broke between socialists (the Reds) and non-socialists (the Whites) and in April 1918 help came by sea when the Imperial German Baltic Division landed in Hanko and marched towards Helsinki. The same year Hanko became a Coast Artillery Fort and in that role fought back a Soviet Naval attack during the first days of the Winter War in 1939. This time the threat came by sea.

During the prohibition relief came by sea when a lot of small boats smuggled alcohol to the thirsty Finns in the archipelago.

After the Winter War, Hanko, in accordance with the peace treaty, was handed over to the Soviet as a naval base. The strategic location had once again paid its toll. For the people of Hanko it was a shock to have to leave their beloved homes in just 10 days. The Soviets held the base for 1 year and 9 months, completely surrounded by Finnish forces and Swedish volunteers. Thus Hanko again was a war scene and the Russians' only supply came from the sea. During the autumn of 1941 the Russians evacuated the base and on 4th of December the same year Hanko was free again. Hanko is celebrating the 75-year celebration of this in December 2016. During the evacuation by sea Russian casualties were high mainly because of the mine fields in the Gulf of Finland.

After the war the city had to be rebuilt, some 60% of the buildings were damaged and 30% totally destroyed. Now the city industrialized fast and grew significantly. Today the city of Hanko's economy stands on three legs, the Harbour, Tourism and Industry. The harbour is the fastest growing in Finland, with 4 mil. tons carried in 2015 and a growth of 14% in 2016. Tourism annually brings around 350.000 people to Hanko and many come for the sun, the sea and the fine beaches. In 2017 Hanko will again have a spa and thus a more than 100-year-old tradition continues. So for Hanko the Baltic Sea has been a possibility, a threat, a strength and a weakness throughout the centuries. Today we regard it as a strength and an opportunity, and we are very keen to do our best to protect our common sea so that coming generations can enjoy it and possibly even get a living from it. ■

DENIS STRANDELL

Mayor  
City of Hanko  
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ANDREY ERMAK

# Development of tourism in the Kaliningrad region

Expert article • 2095

**D**uring the recent years the tourists' interest for the Kaliningrad region is actively growing as evidenced by the annual growth of the income tourist flow for 15-20%. Such results are achieved through development of the event tourism in the region.

Implementation and promotion of vivid, interesting events in business, cultural and sport life of the Kaliningrad region became one of the priorities of the regional authorities' activities. Resulted from this strategy multiple festivals, forums, celebrations attract thousands of tourists from Russia and abroad. 30 events, implemented within the territory of the region, were included into the Russian National calendar of events for 2016. One of the most demonstrative examples of the strategy is implementation of the World Championship of fireworks held in Zelenogradsk (the Kaliningrad region) during all weekends of September, 2016. The world's best pyrotechnical shows presented by the most famous fireworks showmen were demonstrated to the guests of the festival. The teams from China, Italy, Germany, France, Belarus, Czech Republic, Poland, Mexico took part in the Championship. The final day of the event was marked by the grand firework carried out by the Kaliningrad firework center "Khan", which became the prize winner of the World Championship of fireworks in Moscow in 2015. About 200 000 people visited the Championship in Zelenogradsk. This large scale event was mostly intended for visitors from other regions of Russia as well as foreign guests. Taking into consideration successful experience of 2016, the Championship will be held annually.

The Kaliningrad region offers the wide range of opportunities for business activities. The majority of the hotels provide conditions for business meetings, conferences and corporate events. The hospitality bed availability in the region is about 8000 rooms. Due to the coming FIFA World Football Cup 2018 this index is constantly growing.

In May, 2016 the First International tourism fair "PRO TOURISM", which is the most important region event in the sphere of tourism, was carried out in Svetlogorsk (the Kaliningrad region). The fair was implemented under the motto "Kaliningrad region as a center of cultural, educational and health improving leisure, where European service meets Russian hospitality".

The organizers established the unique multifunctional united business platform where new tourism products and tourism services were successfully presented by the local tour operators. The fair proved the most sufficient instrument for building mutually beneficial business relations. The event was officially supported by the Federal Agency for tourism; the General partner was the Government of the Kaliningrad region. More than 70 companies of the region presented their offers and opportunities within the fair. The experts from Russia, Belarus,

Poland, China visited the event in order to establish business contacts. The program of the fair also included the 1st all-Russian conference of tourism informational centers, thematic conferences, plenary sessions, round tables, promotional tours for mass media representatives and professionals of the sphere, presentations of the municipalities of the region, souvenir fairs, concerts, street food festivals, etc.

The regional authorities pay special attention to participation in international projects. Within the Program of cross-border cooperation Poland-Russia 2014-2020 the implementation of the large scale project "Cross-border cycle routes for promotion and sustainable use of cultural heritage" is planned. The main activity of the large scale project is construction of the 1st stage of the cycle route in the territory of Primorskaya recreation zone of the Kaliningrad region along the Baltic coastline 33,96 km long.

The construction of the rout is planned for the period 2018-2021. For the purpose of integration of the Kaliningrad region's territory into the EuroVelo infrastructure the project "From the Spit to the Spit" was elaborated. The project aims at development of the cycle route in the territory of the coastal recreational zone along the Baltic coast as well as complex development of the surrounding area. Within the framework of the project the scheme of the cross-border routes in the Programme area will be elaborated, the experience of development of cycle routes will be learned and applied, the international fair of cycle routes will be held, the advertising and informational tours devoted to the existing and newly created routes will be carried out in both participating countries, the 3D guide on cycle routes of the Kaliningrad region will be created as well as the number of maps, catalogues and guidebooks both in Russian, Polish and English. ■

ANDREY ERMAK

Acting Minister of Culture and Tourism  
The Kaliningrad region  
Russia

MALGORZATA A. WOZNIAK

# “Lithuania-Poland-Russia 2007-2014”: successful practice of a tripartite Cross-border Cooperation Programme

Expert article • 2096

**T**he life cycle of the Lithuania-Poland-Russia ENPI Cross-border Cooperation Programme 2007-2013 has come to an end, and it is high time to look back at the programme's performance with a view to evaluating its results and sharing broader learning about the implementation of cross-border programmes.

The Lithuania-Poland-Russia 2007-2014 Programme was realised within the European Neighbourhood and Partnership Instrument (ENPI), which financed joint programmes, bringing together regions of Member States and partner countries sharing a common border. Our programme was designed to meet strategic needs of a very specific region, which covers the border areas of Poland and Lithuania, and the Kaliningrad oblast – Russia's exclave on the Baltic Sea. This region is featured by a peripheral character from both the European and national perspectives, on the one hand, and considerable development potential, on the other. A detailed socio-economic analysis, which was performed at the preparatory stage, demonstrated a strong need for uniting efforts in combating common problems (especially, in environmental protection and transport accessibility improvement) and facilitating social, economic and spatial development across the entire region (particularly, by means of developing human potential and social capital, tourism, entrepreneurship and innovativeness). Apart from helping to remove development barriers in the region, the programme was aimed at fostering mutual understanding and trust between the EU and Russia.

The development and implementation of the programme required high level leadership which was provided by the national authorities of the participating countries and the established joint structures, with the Polish Ministry of Economic Development being designated as the programme's Joint Managing Authority. The budget of the programme amounted to almost 146 million EUR, including more than 124 million EUR from the EU and 22 million EUR from the Russian Federation. The programme provided up to 90% co-financing of a project budget to a total of 60 joint projects, including 7 large scale strategic projects and 53 regular projects selected for funding within an open call for proposals. Together, the teams of these 60 projects – committed and enthusiastic people representing various professional fields and sectors of society – did their best to deliver the positive changes their projects were intended to bring about.

It is difficult to enumerate all the initiatives which the projects were focused on: they varied from construction of bridges to insulation of school buildings to organisation of national cuisine festivals. The highest impact and long-term effects have been produced by the projects with large investments in public infrastructure. The constructed

facilities – several wastewater treatment plants and water supply networks in the three countries, sections of road infrastructure leading to national border crossing points, a modern stadium in the Lithuanian town of Palanga, to name just a few – have raised the regional residents' life standards environmentally, economically and socially. Other joint actions, which often involved the purchase of specialized vehicles and equipment, have led to new and better ways of organizing their everyday life, for example, in delivering ambulance services, ensuring fire safety, integrating people with disabilities into society, improving access to public services, conducting customs control procedures, etc. The transfer of good practices took place among Lithuanian, Polish and Russian doctors, kindergarten and school teachers, academics, public and municipal servants, librarians, sportsmen, construction workers, environmental engineers, customs officers and many other professionals. The activities built around tourism development (e.g. renovation of museums and historic monuments, creation of cross-border tourism routes, etc.) have contributed to promoting the region as an attractive tourist destination. On the whole, working on a collaborative, cross-border basis has resulted in greater territorial cohesion, more sustainable regional development and closer relations between people living on each side of the border, which is of key importance.

A way from the start of the Lithuania-Poland-Russia 2007-2013 Programme to its successful finish was long, sometimes hard and unpredictable. But in the end, after almost ten years of common intensive work, we came to only one conclusion: it was worth it! The programme demonstrated that joint commitment and active involvement of the interested parties can ensure copying with all implementation challenges and achieving the desired outcomes.

At the moment, a number of new cross-border cooperation programmes are being launched for the 2014-2020 period within the European Neighbourhood Instrument (ENI), which will take cross-border cooperation work forward and support the ongoing cooperation process along the EU's external borders. ■



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AGNÈS MONFRET

# Interreg Cross-Border Cooperation in the Baltic Sea Region

Expert article • 2097

**T**he Interreg initiative was launched in 1990 as a measure accompanying the European single market with the idea of alleviating the border effects thwarting European integration and the optimal development of border regions.

26 years after, under the fifth generation of Interreg programmes, what concrete achievements can we boast in the Baltic Sea region?

**6 cross-border cooperation programmes** total some EUR 650 million public funding, of which 520 million European contribution from the European Regional Development Fund for 2014-2020: Interreg V-A South Baltic between Poland-Denmark-Germany-Lithuania-Sweden, Interreg V-A Central Baltic between Finland-Estonia-Latvia-Sweden, Interreg V-A Germany (Mecklenburg-Western Pomerania-Brandenburg)-Poland, Interreg V-A Estonia-Latvia, Interreg V-A Latvia-Lithuania and Interreg V-A Germany-Denmark. Their thematic objectives are clearly focussed on **sustainable growth** (almost half of the allocation), followed in equal proportion by smart growth, inclusive growth and administrative capacity building including dialog between citizens and administrations. This concentration reflects the objectives of the European Union Strategy for the Baltic Sea Region: 'Save the Sea', 'Connect the Region' and 'Increase Prosperity'.

It is too early to take stock of 2014-2020 funded projects, but the previous programming period (2007-2013) offers hundreds of projects that made a difference in the lives of the 80 million inhabitants living in the Baltic Sea region (16% of the European Union population).

The **KEEP data base** set-up by the interregional programme Interact records them all, but 2015 was the occasion to capture the essence of Interreg achievements across the diversity of so many small local projects via a simple picture more telling than a long speech, that of a 25<sup>th</sup> anniversary cake made up of 5 layers: TRUST, as the foundation for any cooperation between neighbours and in several cases between historical enemies, CONNECTION without which cooperation cannot happen, HEALTH and an healthy environment as people's number one priority, SAFETY and SECURITY as people's second priority and finally GROWTH and JOBS as the ultimate aim of regional development to bring prosperity in the different EU regions.

Here are a few illustrations of these 5 key achievements taken from the Interreg IV-A programmes in the Baltic Sea Regions.

Interreg has helped build trust between **Latvian and Estonian border people** by cofinancing a dictionary helping them communicate directly other than in Russian (for the older generation) and in English (for the younger generation). Another example taken from the same programme is the project MEDIA Literacy – 21st Century Approach to Education, which has increased the youngsters interest in local issues, their pride in their native area (Tartu and Madona) and their ability to relate them through the media.

Interreg has also improved transport **connections between South Baltic regions**, as illustrated by the successive INTERFACE projects, which now offer multimodal passenger transport (Bus/ferry/bus) from Rostock to Nykøbing with single ticketing and real time information to users.

Health is one of the hallmarks of Interreg achievements, as illustrated by the VIRTU project, which has helped improve the lives for elderly people with dedicated services in the **Baltic islands of Finland, Åland and Estonia** or the Beltsamariter project which recruited and trained health and care volunteers in the Fehmarn Belt region across the **German and Danish border**.

Safety is at the core of the **Central Baltic MIMIC** project to minimise risks of maritime oil transport in the Baltic Sea as much security of passengers is at the heart of the Safe Baltic Cruises project. Finally projects promoting growth and jobs in the Baltic region are often associated with high-tech development, such as the Innoreg project financed by the Central Baltic programme, which raised the scientific-technical potential of the region between **Southern Finland and Estonia** with a new innovation centre in Tallinn and a measurement centre in Turku.

Despite these many concrete achievements on the ground, the people living in the border regions around the Baltic sea, particularly the youth, tend to be less aware of Interreg funding than the 31% average inhabitants of EU border regions (2015 Eurobarometer flash-survey #422).

Improved communication on the results delivered and on the impact on the ground is therefore the challenge ahead. The delivery of 2014-2020 targets will be made updated online each year on the dedicated **ESIF open data platform**, whilst 2007-2013 success stories may already be relayed- by order of importance for optimal awareness raising- via television, national and regional newspapers and lastly internet and the social media. ■



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# Diplomacy in the Baltics: assisting growth and BSR's development

Expert article • 2098

**T**he Baltic States are successfully proceeding along paths of growth after last years' jubilees: 25th anniversary of restored independence with re-opening the Nordic-Baltic diplomatic relations and flourishing of various diplomacy facets, in general. Three Baltic States' ambassadors in Denmark specified the importance of their work in Nordic-Baltic relations.

However conservative, diplomatic service goes hand-in-hand with the global trends and challenges. As a general denominator could suggest, embassies' roles have not changed sufficiently since the adoption of **Vienna Convention on Diplomatic Relations in 1961** (in force since April 1964). Moderate functions' description adopted more than 60 years ago definitely apply in full to modern diplomacy.

Suffice it to mention a small extract from the **Convention**, which describes the functions of a diplomatic mission, inter alia, in **protecting in the receiving State the interests of the sending State; negotiating with the Government of the receiving State; promoting friendly relations** between the sending State and the receiving State, and **developing their economic, cultural and scientific relations**. (art. 3)

However, some "adaptive sings" can be depicted through contemporary international relations challenging traditional diplomacy: for example, digital services, reduction in staff (though not in efficiency), increasing commercial, cultural and security functions, to name a few. Numerous global and European challenges and socio-economic factors undoubtedly "re-direct" traditional diplomacy instigated by public attention to modern diplomacy as an important factor in international relations around the Baltic Sea Area.

The Nordic embassies played decisive role in restoring the Baltic States' independence; Denmark, e.g. played particularly significant role along the Baltic States' "path to freedom". Thus, Baltic information offices were opened in the Danish capital already in December 1990; next year, on 28 August Denmark and Latvia re-established diplomatic relations; just two days before, Iceland established diplomatic ties with Latvia. As soon as Denmark never recognized the Baltic States' "occupation", it just "re-opened" diplomatic contacts with the newly independent countries.

The restoration of independence process was really swift: already by 18 September 1991- during about 3 weeks – some 80 nations globally recognized the three Baltic States' sovereignty.

See: [http://www.baltic-course.com/eng/analytics/?doc=124347&ins\\_print](http://www.baltic-course.com/eng/analytics/?doc=124347&ins_print);

## Changes in the air...

Contemporary diplomatic services are being split into several "sectors": economic, cultural, military, popular, etc. However, regardless of modern challenges/changes, most Nordic ambassadors in Latvia (Danish, Swedish, Finnish and Norwegian) think that they have as a major task to promote Nordic-Baltic socio-economic development and provide due assistance to it.

Thus, Danish Ambassador to Latvia, **Hans Brask** underlines his four main competences: political relations between two states; promoting trade and facilitating investment; activate public diplomacy (through promotion of Nordic values) and, finally, perform some consular and military assistance's functions. However, the Danish embassy work is "more complicated" than others as it works on behalf of the whole Kingdom, including Greenland and Faroe Islands.

See: Nordic diplomacy: promoting Latvian socio-economic development, in:

[http://www.baltic-course.com/eng/analytics/?doc=125259&ins\\_print](http://www.baltic-course.com/eng/analytics/?doc=125259&ins_print)

## Economic diplomacy

Differences in wellbeing among the BSA' states are still quite sufficient; but even within the three Baltic States present differences abound. Thus, on all major socio-economic accounts (e.g. GDP per capita, unemployment, minimum wages, trade balance, etc.), Estonia is a leader with about €15,6 thousand per capita GDP compared to about €12,7 thousand in Lithuania and €12 thousand in Latvia. Estonian ambassador in Denmark, **Märt Volmer**, thinks that his country's "leadership" is due to people striving for "modernity": it's in our "national DNA to believe that we could do better", he argued.

The Soviet time' legacy was not so easy to overcome in the Baltic States: in particular in Latvia, where industrial sector was most developed among the three states. Latvian ambassador, **Kaspars Ozoliņš** argues that this was probably the main reason behind the initial critical development strategies in Latvia: obsolete industries have been demolished, while creating new would need time... However, he is optimistic: Latvia has already developed strong and competitive sectors, at least within the EU's market. He mentioned, among others, such sectors as ICT, bio-agro, even education, which attracts thousands foreign students from around the world. Even the old-aged wood-forest sector, Kaspars Ozoliņš added, "could be a perspective and competitive industry sector with the use of ICT".

Lithuanian ambassador, **Gintė Damušis**, argued that facilitating country's competitive advantage in Europe and worldwide should be the primary aim of her diplomatic efforts. The country can easily compete in the global biotechnology field and in producing cutting-edge laser technology and applications. And of course, manufacturing is important: Lithuania ranks 4th worldwide as a "high growth location" for investment in manufacturing, which is "dispersed" around the country's various regions.

Financial "injections" from the EU's funds make economic diplomacy little easier: since joining the EU, the Baltic States have acquired significant support. Compared to the Baltic States' contribution to EU's budget (which is at the level of 1% of countries' GNI), the Union's share in the Baltics' economies has been at the level of 3.5% of GDP in Estonia, 4.5% in Latvia and about 5.4% in Lithuania.

Numerous infrastructure projects have been realized in these states, including those in transportation, environment, waste processing and regional planning.

Thus, Estonian ambassador in Denmark underlined that his “support” for country’s business was “channeled” through establishing local contracts and direct links with the Danish business community, mainly to instigate investments. “Frankly speaking, he adds, I am an Estonian spin-doctor, trying to sell my country’s image”.

According to **Gintė Damušis**, main spheres of Lithuanian embassy’s “economic diplomacy” lies along the most important national economy sectors: wholesale and retail trade, transport, accommodation and food services (32.7 %), industry (23.6 %) and public administration, defence, education, human health and social work activities (13.9 %). See: [http://europa.eu/european-union/about-eu/countries/member-countries/lithuania\\_en](http://europa.eu/european-union/about-eu/countries/member-countries/lithuania_en)

Accordingly, the Latvian embassy in Denmark is successfully promoting country’s economic interests both in Denmark and the Nordic states. Thus **Kaspars Ozoliņš** thinks that additional value in Latvian economy could be made through developing industrial and manufacturing sectors, keeping in mind the EU’s task on “industrial renaissance” to increase the share in industrial sector in the EU states to 20% of GDP.

### Changing diplomatic work

The ambassadors are unanimous in the opinion about the changes that occurred in their work due ICT involvement. If previously, **Märt Volmer** mentioned, the diplomatic staff’s work was, generally, concentrated on information exchange (e.g. to inform Danish community on what’s going on in Estonia), then presently this work is mainly done through the web-net. He added that he is more like “a salesman and image promoter forming direct connections”. Besides, he says, making good allies and friends helps in security.

However, the ambassadors’ role is “to represent his/her country –politically, economically and culturally”. Thus, **Kaspars Ozoliņš** underlined that “the embassy’s work is to excel Latvia’ image”. Of course, all directions are important, he added but mostly economic and cultural: for example, ambassador is working closely with Latvian Diaspora in Denmark, which accounts for about 5.2 thousand, NGOs and several social media platforms.

Besides promoting trade and investment, the ambassadors’ task is to support promotion of culture and heritage. The Baltics’ ambassadors are unanimous: one of their main aims is to “promoting national identity, languages and “national pride”, says Lithuanian ambassador in Denmark. **Gintė Damušis** (who headed her Foreign Ministry’s Diaspora Department before being posted to Copenhagen), believes that bilateral relations can benefit from the ties and networks of diaspora communities and professionals. She thinks that “new ambassador’s work should include using social media as an instrument of communication and outreach”. There is a lot of untapped potential that can contribute to strengthening contacts and cooperation between countries –and not just between national public and private institutions, but between regions and people, she added.

### United we stand...

The Baltic States can reach and deliver much more for citizens (and for the rest of the world) acting united than being fragmented. This is the general Ambassadors’ conclusion voiced by **Märt Volmer**: “the three Baltic States can work together; and even so the Nordic and Baltic States, but only if we are good”.

The states are not losing sovereignty when acting together: actually, they are “regaining sovereignty” at the EU’s level because in the modern world the only way in effectively exercising sovereignty is being together. Thus, the Baltic States will be much stronger regionally and internally while working together in the interest of the citizens. Baltic Development Forum called the Baltic Sea region (with eight states) recently “the top of Europe” ([www.bdforum.org](http://www.bdforum.org)).

With the present EU enlargement difficulties, the EU’s policy pursuing a one-size-fits-all super-state approach can no longer function. But differences among states shall not hamper sub-regional specifics. Nordic influence is great both in Europe and around the world. For example, German chancellor Merkel came back from G20 convinced that outsiders now view Europe as old, weak and failing. Her goal and that of the EU leaders is to find Europe’s “wow-factor” and to find a replacement for the EU’s British ally when it comes to dealing with France and southern European states after Brexit. The replacement could be the Northern Dimension and more active role of the Nordic and Baltic States. That could and should be the ambassadors’ noble task in the years to come. ■



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VOLKER PERTHES &amp; OLIVER MEIER

# The Baltic Sea Region: a geopolitical test bed for European Security

Expert article • 2099

**T**he Baltic Sea Region has become a geopolitical microcosm of developments in the larger European space and its neighborhood. The Sea connects or divides, pending political decisions and security trends. It constitutes a common security space for Russia and NATO and non-NATO members, EU as well as non-EU states. Today, there are no territorial disputes in the region; but mistrust between the EU members around the Sea and Russia has increased, particularly since Russia's annexation of Crimea.

EU and NATO states have to find the right balance between meaningful reassurance for its own Baltic and Central European members and deterrence vis-à-vis Russia on one hand, and continued cooperation and dialogue with Russia on the other. In this sense, the Baltic Sea region is not only a microcosm but it can also be a test bed for political strategies to overcome the divisions in Europe-at-large.

Dialogue, to be sure, is not only a soft-policy instrument in such fields as trade, societal exchanges, environmental, educational or urban cooperation. Dialogue is also an essential dimension of a security policy that looks beyond deterrence. In the summer of 2016, the German and the Lithuanian foreign ministers, among others, openly differed about the wisdom of calling for a conversation with Russia about possible arms control measures.

While we aren't there for the time being, we can certainly say that the kind of arms control dialogue proposed by the German Foreign Minister would not undermine recent steps by the Western alliance to reassure its Baltic members – part of which is the rotating presence of four NATO battalions in the Baltic States and Poland, including the one led by Germany in Lithuania. NATO has always considered deterrence and arms control as two pillars of a strategy aimed at maintaining stability in Europe. Any arms control process would not start with unilateral troop reductions – particularly reductions of limited military deployments that have an important trip-wire function.

One major dimension of arms control has always been transparency. An actor with a defensive conventional force posture, such as NATO in the Baltic region, will generally benefit from increased transparency: Ambiguity is an advantage for the aggressor. Concealment and secrecy are hallmarks of the short-of-war tactics which we refer to as "hybrid". Since the Russian intervention in Ukraine, these threat scenarios figure prominently in the Baltic and Central European states. And given the conventional superiority of Russia in the region, the Baltic States would certainly not have to fear a loss of security from any new talks about possible force reductions or limitations.

A new arms control dialogue should focus, among other things, on increasing transparency with regard to military capabilities relevant for unconventional warfare, and aim to provide early warning mechanisms against destabilizing moves below the threshold of war. The Deep Cuts Commission, a trilateral group of German, Russian and

U.S. arms control experts, recently made some concrete proposals to tackle these problems. These include arrangements for the notification of movements and exercises of military units, and measures to avoid unintended military incidents and accidents. NATO members should also take up Russia's proposal to reach an agreement on the activation of transponders of all aircraft, particularly during flights over the Baltic region.

It would also be useful to launch a regional dialogue on military strategies among the Baltic Sea states. Such a conversation should be convened by think tanks, ideally in neutral Finland or Sweden, rather than in an official format.

None of this would undermine deterrence but rather strengthen reassurance and help avoid misunderstandings and unintended military escalation. Neither would such a regional dialogue need to aim at establishing the parameters for a new comprehensive security system for Europe. A pan-European agreement – like the Treaty on Conventional Armed Forces in Europe (CFE) – would cover a larger region. The Baltic rim, however, could be a test bed for some of the measures and instruments that might at a later stage be applied in Europe as a whole.

Arms control, after all, is not an arrangement for sunny days, or a reward for reassuring behavior but an instrument to build or rebuild predictability and trust between adversaries. It includes the difficult task of intellectually understanding the thinking, fears and apprehensions of the other side. Experiences have shown that even semi-official conversations can help to test the intentions of the respective counterpart. Thus, if Russia intends to rely on military surprises in the future, it will not be interested in a dialogue about, for example, unconventional capabilities or transparency measures in the Baltic in the first place. Even failure of such talks can help to better understand the other side. ■

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# Military balance in the Baltic Sea Region is vital

Expert article • 2100

Since the Cold war, two trends have been eroding military security in Europe. The first trend is the drawdown of military capabilities, both expeditionary and territorial, in all European armed forces. The second trend is the diminishing US political will and military capabilities to defend Europe, regardless of the recent and planned reinforcements. These two trends have been exacerbated by the increasing military strength of Russia. In addition, and since the short war between Russia and Georgia in 2008, Russia has expressed a strong political will to play the military card to promote its national interests. It also operates successfully in the information and cyber domains. All these trends prevail in the Baltic Sea region resulting in military imbalance between the NATO allied nations and Russia. Militarily non-allied partners of NATO, Finland and Sweden, are a part of the equation.

Consequently, the emerging defence posture, shared by every state in the region, could be described as 'defending one's own territory'. In short, there are two ways to do this. First, one's territory can be defended through a sufficient military capability thus preventing the aggressor to achieve its goals (*deterrence by denial*). This applies to Russia, Poland and, apart from land forces, Finland. Second, a defender's capability would make it far too expensive for the aggressor to conduct an offensive (*deterrence by punishment*). In other words, the aggressor may win a territory, but it would be a victory costing more than it is worth. This applies to the Baltic States and Sweden. For allied nations, the territorial defence posture of NATO requires a highly visible military presence to make the deterrence credible enough. In other words, more exercises and further cooperation are necessary in order for NATO to ensure an effective deterrence.

In response to the regional military imbalance, NATO has accelerated its operational planning, elevated readiness and increased its military presence. This has materialized in the form of new defence plans for the Eastern member states of NATO, rotating military units, updating rapid response capabilities to meet higher readiness and establishing a reassurance policy. Furthermore, cooperation with the Nordic partners, Finland and Sweden, is enhanced in decision-making exercises, through elevated situational awareness and host nation support arrangements as well as working together in relevant headquarters of the NATO command and force structures.

Since the occupation of Crimea and on-going military conflict between Russia and Ukraine, NATO has refocused on the collective defence of allied nations, citizens and territory. This focus could also be deemed as supportive of the Finnish defence posture. The rationale stems from the commonalities between the renewed focus of NATO, namely collective territorial defence, and the main task of the Finnish Defence Forces at large, territorial defence. As a result of this rapprochement, NATO's future plans and capability requirements could

become more similar in comparison to the Finnish national defence posture. This congruence would add to the current set of similar threat scenarios and shared understanding of the security situation.

With regard to Sweden and its focus on international crisis management capabilities since the early 2000s, rapprochement with NATO would be obvious in the event that the Swedish armed forces refocus towards a sufficient level of national defence, as indicated in the most recent defence policy decisions. In short, both Sweden and NATO are re-orientating towards a defence posture of an 'adequate' territorial deterrence, thus approaching the Finnish traditional defence posture (*deterrence by denial*). This congruence could lower the threshold of deeper defence cooperation between the two Nordic partners, allied nations and NATO in the region. This could happen regardless of the fact that neither Nordic partner has expressed very much interest in joining the Alliance lately.

The main finding is that this rapprochement of defence postures would bring NATO allied nations and all Nordic countries closer towards each other. Consequently, this would add to the emerging military balance between Russia and its counterparts in the region. Ultimately, emerging military balance will add to the overall security and prosperity of all the nations in the Baltic Sea region, including Russia. ■



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# Russian information aggression in Ukraine

Expert article • 2101

**K**remlin's aggressive rhetoric and propaganda

In recent years, Moscow has increased aggressive rhetoric towards the Baltic states, Ukraine and the West more generally. Russia is producing propaganda to influence people in Russia and abroad. The domestic audience of Russia receives from propaganda channels (dis)information about the supposed immorality of the West; stoking up fear of migrants and refugees and other narratives. Equally, in the sphere of strategic communications, Russia has been preparing for possible military conflict with Ukraine for some years; several Ukrainian experts agree that a more aggressive wave of Russian information campaigns against Ukraine began already in 2013, approximately a year before the annexation of Crimea. The takeover process indicates that this was a well-prepared action. The Russian side was ready to start these operations in the Donbass region and in Crimea. Indeed, Russian information activity in Ukraine began as early as the beginning of the 1990s.

The author recently took part in a research project with Igor Kopõtin and Kristiina Mõür, interviewing different Ukrainian experts in the field of strategic communication, the media and political science, as well as officials from governmental organisations. These interviews revealed that Russian informational activities in Ukraine are situational in nature and use a wide variety of information tools. Each case is approached individually. If one narrative is not effective enough, then it is immediately revised or replaced by another narrative or idea that is expected to produce better results. The propaganda machine of Russia is quite flexible and quickly adapts to new situations. Although many information campaigns are often spontaneous, they are clearly derived from an existing strategic plan.

## Annexation of Crimea and Russian information operations

The local population of Crimea had already been exposed to Russian propaganda channels long before 2014. Russians use a wide variety of methods, techniques and approaches in their informational and psychological operations with the purpose of influencing the people of Crimea. If we briefly take a look, for example, at the Ukrainian conflict and Russian informational campaigns in Crimea before 2014 and in 2014, we can see that they take place in Crimea at all levels: local people are interviewed on streets; pro-Russian meetings and gatherings are conducted; flyers, posters, brochures are distributed. It is important to note here that the majority of Ukrainian mobile telephone operators (e.g., KyivStar) are under the control of the Russian capital. Russian and pro-Russian media were working with one general aim: to influence local people, to put them under Vladimir Putin's ideological influence and spread amongst them mistrust, panic and hate against the Ukrainian government. The most influential weapon of Russian propaganda in Crimea were Russian TV channels.

## Russian information operation in Eastern Ukraine 2014-2015

Russian information and psychological operations in 2014 and 2015 in Eastern Ukraine were carried out in parallel with military operations, often integrated to support each other. For example, at the start of one of the larger military offensives conducted by Ukraine, fierce fighting fronts were set up at Debaltseve, Mariupol, Ilovaysk, and the Donetsk Airport. Information campaigns were also employed to respond to

preparations for further mobilisation of the Ukrainian army. In addition to Russian media and trolls in social media, the Federal Security Service of the Russian Federation and the Main Intelligence Directorate, their agents active in Eastern Ukraine, and a myriad of recruited separatist activists played an active role in information campaigns. One technique is distribution of panic stories, which were also largely distributed on the frontlines. Local population and social media messages also played an important role in distributing such rumours and stories. As a result, Ukrainians were compelled to abandon a number of towns and villages without a fight.

These are only some examples of the Moscow's information operations and its techniques in Ukraine. But Russia's propaganda arsenal is much wider.

It is important to understand that the Russian propaganda machine is dangerous and powerful; it is always directed at different target audiences. For that reason we should acquire our knowledge and competence in strategic communications and develop it. We should inform our people what kind of threats they can face and how they can recognise disinformation from the Russian side. Development of critical thinking of our people in this sphere is essential. No doubt, we should be ready to use adequate and effective counter-measures against possible Russian information and psychological campaigns in the Baltic states. We must learn what Russia has done in Ukraine; how Russia used information operations to influence people, which narratives and techniques were launched and which countermeasures were taken by the Ukrainian side and were effective in the information war with Russia.

There are many threats for the Baltic States from Russia in the information sphere. Firstly, Russia's governmental TV channels like NTV, RTR, Rossiya 24, different Russian newspapers and even a few Baltic Russian-language channels from time to time transmit information in line with Vladimir Putin's policies. They often produce lies, disinformation, even sometimes fake information. Secondly, threats could come also from Russian-speaking social media. Thirdly, in February 2016 the Russian propaganda channel, the so-called news agency 'Sputnik' (sputniknews.com) opened a branch in Estonia, which immediately started to publish fake news and propaganda messages. Fourthly, several pro-Russian organisations are also worthy of attention, because of their anti-governmental actions.

The current article was written as a smaller part of the project 'Information operations of Russian Federation 2014–2015 on examples of Ukraine crisis: Influences on Ukrainian Defence Forces'. We are currently in the process of publishing an issue *The Crisis in Ukraine and Information Operations of the Russian Federation* (Estonian National Defence College, Tartu 2016).

The author writes here strictly in a personal capacity. ■

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HENRIK BREITENBAUCH

# Russia creates a greater Nordic region

Expert article • 2102

Russia's new geopolitical assertiveness is shaping security perceptions across the Nordic-Baltic space – provoking not only new security cooperation, but also a renewed sense of political community. In short, Russia's actions have deeper political consequences beyond the immediate security policy reactions: it furthers the development of a Nordic-Baltic region.

## The greater Nordic security space

In geopolitical terms, the Nordic-Baltic region only exists outside in, as a result of external, greater powers' involvement. For centuries, the traditional great powers of Northern Europe – Great Britain, Germany, and Russia – left between them a dynamically evolving zone, the 'greater Nordic space'.

To understand this Nordic space we need two concepts of what a 'region' is: A 'security region', which is shaped by external power relations and represents an exogenously given possibility for internal, regional cooperation and a 'political region', which in contrast, is the exploitation of such a possibility and the space provided by a security region. The 'political region' consists in the endogenously developed relations among states in a web of practices that, if sufficiently extensive, will amount to what is called in common language 'a region'.

Russia's intervention in Ukraine and other actions in particular over and near the Baltic Sea have changed security perceptions in the countries in the greater Nordic space. This, in turn, creates conditions for renewed political integration and the further development of a greater Nordic region.

In 2008, Russia launched a wide-ranging and well-funded military reform. The reforms were relatively quickly perceived as a success in spite of challenges to implementation. Russian modernization of its armed forces as well as the practical training of the resulting capabilities in major exercises is a major change in the material facts of the greater Nordic space. Because of the wars in Georgia and Ukraine, former Soviet states are vulnerable to Russian intervention, especially those that like the Baltic States have large Russian minorities.

## Increasing common Nordic problem perception

As an expression of renewed and shared threat perception among the states in the greater Nordic region, a number of multilateral meetings between countries from the greater Nordic region have been held in recent years. In November 2014 high-level representatives from twelve countries including eight Ministers of Defense (from Denmark, Estonia, Finland, Latvia, Lithuania, Norway, Sweden and Great Britain) joined up in Oslo, in order to 'stand together for stability in the

Northern Europe' and they agreed to 'further develop our training and exercise cooperation with Sweden and Finland', including opening up the weekly cross-border training among Norwegian, Swedish and Finnish fighter squadrons to the 'entire Nordic airspace'. Interestingly, the national airspaces – including the two non-NATO-members Sweden and Finland – are in this way being subsumed under the regional category as an almost natural unit, the Nordic airspace.

In April 2015, as outcome of a regular series of meetings of Nordic defense ministers, the five representatives together authored an op-ed in the Norwegian newspaper *Aftenposten*. The ministers also announced progress on deepening defense cooperation among the Nordic countries, grounded specifically in the externally generated changes to the greater Nordic space. The same sentiment was echoed at the 2016 Nordic Council Summit in Copenhagen where the gathered heads of state and government from seven Nordic and Baltic nations together expressed concern about Russia's undue assertiveness.

## Political possibilities

These joint declarations are interesting not only for what is being said, but also by who it is being said. By virtue of literally and symbolically standing together, the heads of state and government gathered in Copenhagen also made an important point about them as a group. Faced with the Russian problem their joint reaction of concern clearly underscored how convergent security perceptions result in an increased 'security regionality' of the greater Nordic space.

Following the conceptual mechanism outlined above, the solidification of such a security region gives rise to new political possibilities. While the configuration of external forces is the limiting factor to begin with, the small states inside the security region have a certain amount of leeway to influence the agenda and to shift the logic, character, and scope of the subsequent cooperation – potentially to construct more of a political Greater Nordic region.

In the end, Russia's actions to impose its will has brought renewed attention to a greater Nordic security region, resulting in more convergent security perceptions among leaders in the greater Nordic space. Russian actions thus create the conditions for further political integration among these states. ■

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JAMES MASHIRI

# The icy logic of the Baltic Sea freeze

Expert article • 2103

**R**ussia will continue to build up its military power in the Baltic Sea in order to exert its own or contest its potential adversaries' control of the area. Understanding how the Baltic Sea has changed from a Russian point of view is crucial, when weighing the risks of a military build-up in the area and forging the new mechanisms for sustainable de-escalation.

Beginning in 2007, Russia has made major reforms of its armed forces, military equipment and military-industrial complex. The Russian military reform and retuned security and defence policy were explicit in the 2010 military doctrine and the State Armaments Programme to 2020.

The post-Crimean update of the Russian military doctrine of December 2014, approved by president Putin, adopted an adversarial view of global and regional competition, tension, struggle and rivalry. The revamped military doctrine elevates any military exercises in countries with adjacent territories to Russia or its allies to acute military threats notwithstanding the nature of those exercises.

Fundamentally, from a Russian perspective, this reflects a response to the changed security environment that has been evident for more than two decades. During the Cold War the Soviet Union had all but uncontested access to the Baltic Sea. The collapse of the Soviet Union left Russia with an area where the control of flows of goods, information and people had suddenly been snatched from the bear's paws. The new-born Soviet successor, once capable of projecting power along most of the Baltic Sea coastline had with the exception of Kaliningrad been pushed back to the farthest corner of the Gulf of Finland with its adversaries assuming control and creating choke points.

A key factor to regaining freedom of movement and action, both military and merchant, in the maritime domain is control of the air-space and sea. Russia's forward positioning of strategic missile and air defence systems and focus on anti-access and area denial in the Kaliningrad enclave should be viewed against this background. The appearance of strategic bombers in the Baltic Sea and nuclear strike exercises are signals of the desire to again change the security balance. To be able to exert control of the flow of information, goods and people Russia is now retuning its armed forces with a focus on the Baltic Sea, especially the choke points of the Danish straits, Gotland – now rearmed – and the narrow Gulf of Finland that has become a crucial breaching point for the Russian armed forces.

The militarily non-aligned Baltic Sea countries Finland and Sweden face a catch-22 situation. Increasing military cooperation with NATO, especially in the domains of information exchange and operations, intelligence sharing and essential warfare capability development, will increase the risk potential without a commensurate increase in security guarantees. Abstaining from military cooperation, maintaining interdependencies with Russia and unilateral actions of de-escalation, will in turn keep the countries exposed to Russian military coercion as their capability to maintain territorial integrity is diminished.

Finland and Sweden walk the tightrope in very similar manners. The "hand-in-hand" approach is that both countries gradually increase their mutual defence cooperation in order to develop shared operational capabilities, whereas the sovereign approach is that the countries enter defence cooperation agreements with the major NATO member states. Nonetheless, the speed of change in the fraught Baltic security environment is catching up on both countries.

Russia, with its adversarial stance, will remain focused on the Baltic Sea region in the near future. The military efforts of NATO to strengthen the Alliance's defence and military power projection capabilities into the region, though minuscule in proportion to Russian exercises and deployments, will increase Russia's commitment to fulfilling its State Armaments Programmes and military reforms faster than scheduled.

The mechanisms for détente, or a thawing of the ice forming on the Baltic Sea, are not to be found within the military and information domains, unless the non-aligned states make sharp U-turns in their security policies. Economic growth, increased trade and interaction with mutual benefits that creates interdependent value chains, are still the main components of peace and stability in the region. Though somewhat effective in the short term, sanctions and other actions that dissolve Russian-Western interdependencies are detrimental to the security in the region as they empower the Russian adversarial stance and create a deadlock for non-aligned states. Conflict resolution – an earnest mutual commitment to increase economic stability and interdependency however requires the sharpest of U-turns in Russian policy. Such changes are not conceivable, as the Russian policy and actions aiming to reclaim superpower status are generously rewarded by inaction or thwarted by decision-making inertia. ■



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# What 'hybrid warfare' can and cannot tell us about Russian military strategy

Expert article • 2104

Russia's annexation of Crimea and its intervention in Syria prompted a debate in the West about Russia's military revival. The Crimea operation and events in East Ukraine revealed that the Russian armed forces had strengthened their capabilities in several areas, including improved deployability, better command and control and advances in coordination. The air campaign over Syria, moreover, showed that Russia now had the capabilities to engage in limited out-of-area operations beyond the area of the former Soviet Union for the first time. The perception of Russia's military revival, however, has been based not only on the augmentation of conventional capabilities. What caught the attention of observers of the Crimea operation above all was the heightened sophistication in strategic and operational planning and conceptual development, denoted by the deployment of what has been described since then as 'hybrid' warfare. It is the development of such 'new' approaches to warfare that are now widely seen as the most immediate potential threat to Russia's neighbours and to the West.

The concept of 'hybrid warfare' first gained traction as it seemed to offer a good explanation for how Russia achieved its swift and almost bloodless victory in the Crimea operation. However, if Crimea is considered the 'gold standard' of Russian 'hybrid warfare', its relevance for the analysis of other Russian military interventions is questionable. It is often argued that the ongoing fighting in East Ukraine is the extension of an ongoing Russian 'hybrid war' against Ukraine. In fact, apart from Russia's involvement, there is very little similarity, from a strategic point of view, between the Crimea operation and the fighting in Donbas. Russia used a war-shortening approach in Crimea, where surprise, tempo and superior information was used to conclude the conflict before major battle could even start. In contrast, in Donbas Russia pursued a war-lengthening approach, drawing the civilian population into the conflict and relying on a mix of 'proxy fighters' and Russian military personnel. Unlike Crimea, the war in Donbas has been far from swift or bloodless. The conflict continued into 2016, resulting in over one million internally displaced persons. The death toll approached 10,000 casualties, most of them civilians, by the summer of that year. Even if long-term destabilisation of the region was the desired objective, there have been doubts about the degree of Moscow's control over the fighting. Moreover, there have been costly unintended consequences of the 'hybrid approach' pursued in Donbas, such as the downing of the Malaysian airliner MH17. Although some element of the war in East Ukraine can be described as 'hybrid' inasmuch as it involved a mix of conventional and 'irregular' tactics, it certainly did not support the idea that such an approach is universally successful.

Russia's involvement and intervention in the Syrian civil war has also been described by some observers as 'hybrid warfare'. This is particularly puzzling, as it is hard to see significant similarities between the approaches pursued there and in Ukraine. In contrast to the 'contactless' war in Crimea, Russia's Syria intervention in terms of tactics and technology took the form of a conventional air campaign

not dissimilar to Western air-only operations pursued over the past two decades. Russian air operations in Syria have also been far from 'bloodless' and showed little concern for civilian casualties. Russia's intervention in Syria has been described as 'hybrid' as it has been fought using a combination of military, diplomatic and media capabilities to achieve its goals. This stretches the concept too far as such an approach is, in fact, basic grand strategy – the level of war where all instruments of power at a state's disposal are routinely combined towards the achievement of political objectives. A combination of diplomacy, information, intelligence, and economic tools have traditionally been used in most wars and as such it is not an expression of 'hybridity'. The success of Russian information aimed at influencing international opinion on its involvement in the Syria conflict is also questionable. It is one thing to observe that Russia is using information tools, such as political statements and official state media, to convey a specific Russian portrayal of events. It is quite another thing for such a narrative to have traction amongst audiences outside of Russia and in the West. The widespread coverage of civilian atrocities caused by Russian airstrikes in the Western media and accusations of Russian war crimes at the highest level, including in the UN, imply that the international influence of the official Russian narratives is at best severely limited, if not counterproductive.

The concept of 'hybrid warfare' has been useful inasmuch as it highlighted a number of new capabilities Russia had demonstrated in Crimea and it showed that Russian military thinking was not as stuck in Cold War thinking as previously assumed. However, there is a tendency for such concepts to turn into a dogma that can be counterproductive, rather than helpful, to decision-making and strategic planning in the longer term. Russia's operations in Crimea and Syria showed that its military planners have improved their abilities to fine-tune tactics to the circumstances of military operations of various scope and intensity. However, Russia has not found a new key to military victory in the form of 'hybrid warfare'. As is the case for all states, the success of Russian military strategy continues being subject to the effects of chance, uncertainty and the 'fog of war'. ■

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# The Baltic Sea Region – seeking stability in a flux

Expert article • 2105

**T**he Greek philosopher Heraclitus of Ephesus was known for his doctrine of change being central to the universe and one of his famous quotes was “all is flux, nothing is stationary”. During the last few years leading Finnish policy makers and scholars have talked about the changing nature of Finland’s operational environment and have insisted upon the need to respond to the emerging security challenges in the Baltic Sea region flux.

Amid the great turmoil of European politics the task of providing a sense of security has maintained as one of the key functions of the state. However, it has become obvious that in recent years this task has become more challenging and Finland’s threat perception requires new standards as our operational environment is being evaluated among exceptionally difficult and global crises. The many layers between internal and external security are under re-evaluation as the conceptions of interdependence and comprehensive security have become major factors in providing security.

The most relevant question in Finland’s security planning concerns the question *what threatens us*. The return of power politics as an active tool of foreign policy has unfortunately reminded us of the fact that military threats need to be taken into account. At the same time we are facing new challenges in the field of security. A modern society’s performance and economy are dependent on digital capabilities which underscores the importance of wider security. We are facing a growing demand to secure the society’s decision making capability and resilience which are directly linked to the control of cyber and information space.

Change brings new opportunities and challenges but does not itself automatically equal a threat. For example, the post-Cold War change from a bipolar international order into globalization has meant allocation of national resources to deal with global challenges such as the climate change, the pursuit of universal human rights and ending poverty.

The conflict in Ukraine showed us the ugly side of change. The gap between Russia and the West and its rapid widening sent us in the middle of an uncertain and changing security environment. The decision to join the EU in 1995 incorporated Finland to the western security architecture and through EU sanctions and public statements Finland is undisputedly a part of the West. Hence the traditional Finnish rhetoric regarding the roles of a doctor and a judge in respect to European security have become incoherent which has meant a new position for Finland in its Russia policy.

As the need to increase internal cohesion in both Russia and the West has become a priority, the space between polarized world views has become narrow: it seems the phrase “*NATO membership is up to the Finns to decide*” can be heard more often outside Helsinki. Due to

circumstances the European security tensions have reflected on our domestic debate as pressure to make a decisive stand is increasing. The negative effect of this development is the denouncing tone and misuse of history in our current debate. At the end of the day these features only hurt us since focusing on the wrong issues deteriorate the level of our analysis and at worst locks our argumentation in the past.

One of the main challenges when dealing with change is the ability to detect it and draw necessary conclusions. This on the other hand requires the capability to evaluate both the short and long term sustainability of our choices. In security policy terms the difficult position for Finland means making choices somewhere between stagnation and the speed of light: the traditional and history backed foreign policy might not prove to be the most successful choice while at the same time sudden moves can cause unforeseen consequences in a rapidly changing environment.

During the last turmoil years of the Cold War the problem between stability and change was characteristic for Finland’s foreign policy. Max Jakobson described the problem simplistically by stating that changes were not detected because we simply did not want any. The collapse of the Soviet Union was seen as something that might lead Europe to an era of chaos and instability. Today, a stable Baltic Sea region remains as the key idea of Finland’s security policy. President Sauli Niinistö’s *pillar approach* has gained wide popular support and it seems justified to conclude that Finns appreciate foreign policy aiming towards stability and peace and that our differences lie in the means instead of the ends.

However, it should also be notified that foreign policy does not recognize an unconditional mindset. Wise foreign policy is prepared and looks into the future – and a little beyond that. By doing this we guarantee that our approach remains proactive and that the tools of our current foreign policy serve our best interests. This is the only way to pursue the control of Heraclitus’s continuous flux, tied to the problem of change and stability. ■



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# The importance of knowledge-based decision-making in a state of flux

Expert article • 2106

**T**he operating environment of foreign and security policy is changing rapidly. Globally, factors such as the expanding interdependence of the networked world, the growing influence of geopolitics, and values being ever more contested are reshaping the playing field. In recent years, the international security situation has deteriorated, also in the Baltic Sea Region.

In a state of flux, decision-making becomes ever more demanding. Do we have the right understanding of the complex situation? Are we able to make the right strategic choices in a changing environment? Are we able to make informed decisions in a hybrid setting characterised by contradicting facts?

Informed policies demand a solid knowledge base. Academic research and research-based analyses offer important support for policy-makers. Here, the role of research is three-fold: first, it offers reliable, peer-reviewed background information as well as analytical tools that help understanding the situation. Second, it increases our understanding of strategic options and thus supports long-term and mid-term planning. Third, research may clarify decision-makers what options they have available in a particular case.

## Government funds research related to its strategic objectives

In addition to the funding proper of academic research, the Finnish Government allocates yearly some 65 million euros to research, analysis and assessments that are to support the decision-making related to its joint strategic objectives. A bigger part of this (55m) is allocated to longer-term strategic research for which the Government defines a few broad themes. More detailed descriptions are drafted of short-term needs (for which the remaining 10m is used). Although the Government identifies its needs for research-based information, importantly, the research, analysis and possible recommendations are fully independent and based only on academic ethics and criteria.

Not surprisingly, many research needs identified in the field of foreign and security policy are related to the neighbouring region and therein Russia, the major player. In recent years, the Government has commissioned studies, for example, on the different aspects of Russia's changing role in Finland's neighbourhood and hybrid warfare as one of the tools in Russia's foreign and security policy. A recent study asked to what extent the academic research in Finland helps understanding Russia's security policy. Naturally, there is a host of other studies and analyses funded through the same instrument with topics ranging from the effects of robotisation to Finland's national economy to innovative fish farming techniques.

For 2017, the Finnish Government opened a tender for research proposals (which closed on 16 November 2016), among other topics, on the role of the United States in European security, the new trends and challenges in international conflicts and their management, and the prospects of Nordic foreign policy cooperation - needless to say, all important topics for Finland's foreign and security policy. It is important to bear in mind that although all information-needs are related to the Government's strategic priorities, not all of these set priorities equally require new research.

The 3-year-old joint Government funding instrument is not the only avenue for ministries and other agencies to research-based knowledge in support of their decision-making. All government agencies also fund directly projects on topics more specific to their particular area of responsibility. As the purely academic research – where the research fields and questions are formed within the academic community – is the base for all other production of knowledge, it also, both directly and indirectly, supports good governance. It is crucial also for the Government that not all research topics are stipulated by funders – otherwise new emerging issues and critical points would not enter policy planning.

Perhaps the most important factor in a critical, independent and evidence-based work of the bureaucracy is the high academic education of government officials. After all, they are the ones that prepare the decisions their political masters take.

## The important but delicate relationship between the Government and the Academia

Why don't the Government ministries produce all background information themselves? In addition to the obvious answers related to the special expertise and human and financial resources, the research institutes and think tanks have also other advantages. Collaborating with various research institutes and think tanks in Finland and abroad gives a broader picture of any situation at hand. The think tanks, in particular, are able to react rapidly to changing situations. Although their policy papers may sometimes be less academically founded than the articles published in peer-reviewed journals, they are able to raise pertinent questions and topics relevant today.

Especially in highly political themes such as security policy the role of both the academician and the politician needs to be clear – especially in the current era of changing realities and competing 'truths'. The Government may commission a report from an independent expert on a specific topic, but the production and conclusions must be done independently without outside interference. Otherwise the government money would be wasted: what is the use of a report that would not bring any new insights? Forging a quasi-independent report to support a political line would simply be bad governance – as well as a fraud.

Similarly to the independent role of the academician, the official and the politician are expected to keep their integrity. Academic research is best to be left to the researchers, and the political decision-making to the democratically elected politicians. ■



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# 827 words about Russia's future

Expert article • 2107

**T**he question whether Russia eventually will be put in her rightful place among world leading powers has recently become in the country one of the most popular subjects of political discourse. The main reason why the issue is so extensively discussed is essentially clear. For more than five hundred years, a belief that Russia is or has to be a great power was one of the key aspects of Russian national identity. Therefore, the loss of this component of self-perception, which coincided with the collapse of the Soviet Union, deeply hurt the Russian elite as well as mass consciousness.

Over the 1990s a restoration of the lost position was generally viewed as a complicated and lengthy process, which would require profound economic and political reforms. However, the surge in world oil prices from 2000 through 2014 (with a short break in 2009-2011), accompanied by a powerful influx of dollars to the country, made many representatives of the Russian elite reassess the situation. It seemed to them that the temporary advantageous position of the oil and gas exporters was a fundamental characteristic of world economy in the 21st century, and this would give Russia an opportunity to quickly return to world powers' "VIP Club".

The new economic trends which began to unfold in 2015 destroyed these optimistic illusions, and the more recent official forecasts reflect the changed perception of the situation. According to the government, over the next twenty years the growth rate of Russian economy will be about one and a half times lower than the world average. This means an inevitable twenty-year-long period of stagnation and a widening economic gap between Russia and the leading world powers.

Present-day official estimates look more pessimistic than the ones calculated before 2015. At the same time, they are still more optimistic than the real state of things suggests. The point is that to overcome long-term effects of the key factors of stagnation, faced by Russian economy today, Russia will need a period of time much longer than the mere twenty years, mentioned in official documents.

Some of these factors are:

- A stable decrease in the size of the population, accompanied by its ageing and depopulation of Russian Far East.
- Poor health of the population, combined with an extremely low quality of medical service, and a culture which is not healthy-lifestyle-oriented.
- Authoritarian complex that at present dominates over the elite and mass consciousness and precludes orientation towards risk taking and innovations.
- The weakening of the "oil and gas arguments" in world politics.

Due to these circumstances, by the 2050s the existing gap between the economic potential of Russia and that of world leading powers is likely to increase. Consequentially, the key components of Russian hard and soft power capabilities will be weaker than those of the United States, Western Europe, China, India, and, possibly, of Japan and Brazil too. Because of these developments, Russia's loss of its current alleged status of a great power by the middle of the century seems unavoidable. The possession of nuclear weapons is not enough to maintain a status of a great power, but it will certainly make Russia's status of "not a great power" somewhat atypical.

If this assertion is correct, the number of possible positions of Russia in the world by the end of the four decades can be reduced to the following three:

- A regional power, which exists in its present-day borders and is deemed by its citizens a country comfortable to live in (the best option).
- An ordinary country with no impact on its neighbors to speak about, in control of its present-day or a slightly smaller territory (an interim version).
- A country with an uncertain future, which has undergone or is still undergoing, de jure or de facto, territorial disintegration (the worst scenario).

For those possessed by the fervor of Great Power chauvinism acquiring the position described above as "the best option" would be too insignificant an aim. Nonetheless it is not easy to achieve, and the first necessary step that the Russian political elite should take is to learn not to act on the basis of myths and illusions but to proceed from a clear understanding of realities. Among other things, the objective appraisal of the situation presupposes awareness that modern Russia is unable on its own to solve its economic, social, demographic and other age-old problems; that in order to do so Russia will need strategic allies; that these can be found only among countries with a similar culture, and that among Russia's immediate neighbors – China, the Islamic states and the West – only the West can play the role of such an ally.

If we compare this vision with views predominant in Russia today, we have to admit that coming to grips with it implies drastic and most likely painful changes in one's mindset. Only the future will show whether the Russian elite will be ready for that.

Therefore let us wait. ■

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# The state of Russia's party system

Expert article • 2108

Political parties have always played a modest role in post-Communist Russian politics. The constitutional order established in Russia in 1993 concentrates most of the power in the hands of the presidency and its agencies, including the presidential administration, and the government. Neither Vladimir Putin nor most influential members of the presidential administration are party members. As a rule, ministers in the federal government avoid party politics. Some of the high-ranking officials do join the major pro-Putin party, United Russia, which is the case with its formal leader, prime-minister Dmitry Medvedev, and many regional governors. The reason for joining is that they campaign for the party in national legislative elections. However, their participation does not help United Russia influence the executive. Quite the reverse, the executive fully controls United Russia and to a great extent, other parliamentary parties as well.

The main reason for the existence of Russia's political parties is that they play an important role within the lower chamber of Russia's parliament, the Duma, and regional legislatures, thus providing the executive with a convenient tool of adopting laws. The convenience of this tool is ensured by the fact that starting with 2004, United Russia has continuously held legislative majorities. As a result of the September 2016 elections, the party holds a constitutional majority of 343 seats in the 450-member legislature, which enables Putin to change Russia's constitution at any time he wishes, and provides for smooth passing of any laws originating from the executive.

Other parties represented in the Duma are the Communist Party of the Russian Federation (KPRF, 42 seats), the Liberal Democratic Party of Russia (LDPR, 39 seats) and A Just Russia (SR, 23 seats). A successor to the ruling party of the former communist regime, the KPRF occasionally criticizes the economic policies of the government. At the same time, it ardently supports Vladimir Putin's foreign policy and targets its propaganda against the west to a much greater extent than against the authorities. Two other parties are firmly pro-Putin. The main source of the appeal of the misleadingly labeled LDPR is the nationalistic rhetoric and the eccentric personal style of its leader, Vladimir Zhirinovskiy. The SR, a leftish party once created to split the communist vote, is led by Putin's friend and loyal supporter, Sergey Mironov. None of these parties can be realistically described as a truly opposition party. They are dependent on and largely controlled by the presidential administration.

More than 50 other parties are listed on the official registry of Russia's Ministry of Justice as eligible to participate in elections. Most of them are non-entities created by aspiring political entrepreneurs but lacking any significant resources or even minimum name recognition in the country, and some have been purposefully masterminded by the presidential administration in order to enhance United Russia's

seat share by splitting other parties' vote. Few of these parties participate in elections, and if they do, the main rationale for their participation is taking some votes from the main participants. This applies to such groups as the Communists of Russia, the Russian Party of Pensioners for Justice, the Motherland party, and the Party of Growth. In the recent Duma elections, these parties jointly took about 7% of the vote, but none of them managed to pass a 5% threshold of representation.

The current conditions of pro-democracy parties are grim. For most important of them, Yabloko, a combination of pressures from the authorities and the declining political appeal of its long-standing de facto leader, Grigory Yavlinsky, resulted in a heavy defeat in the 2016 elections, as the list of Yabloko received only 1.99% of the vote. The performance of another pro-democracy party, the PAPNAS, was even poorer (0.73%), partly because of the low personal popularity of its leader, the former prime-minister Mikhail Kasyanov. Russia's authorities make every effort to ensure that pro-democracy leaders who possess a potential for mobilizing popular support do not enter the electoral arena. This applies, in particular, to the most prominent leader of the 2011-2012 post-election protest, Aleksey Navalny, whose numerous attempts to register a political party went in vain.

Thus Russia's party system is highly centered on the pro-government party and thereby controlled by the political executive. The remaining part of the party spectrum is heavily fractured. It consists mostly of parties with dubious opposition credentials, with their electoral appeal confined to small sectors of the electorate. Of course, such party systems are not unusual by international standards. They are quite typical for electoral authoritarian regimes. ■



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# GOP forgot its proud history

Expert article • 2109

**F**or reasons rooted deep in the history of the United States everyone should have great respect for the Republican party. This party of Abraham Lincoln and Theodore Roosevelt has a lot to be proud of. It saved the Union, abolished slavery, gave birth to the first modern market economy in the world, enacted anti-trust legislation and turned great wilderness areas into national parks. Back in the days, when the Democratic party was seen as the keeper of the racist establishment of the South and as the corrupt political machine of great foreign-born immigrant flocks in the cities, the Republican party was the genuinely American option of the two and, quite frankly, the moral backbone of the country. As a token of respect, the Americans widely refer to the Republicans even today with the acronym GOP, Grand Old Party. On the international arena, the Republicans have become known as hard-boiled protectors of smaller, well-behaving democracies. After the traumatic times of the 1960's and -70's, this fight for democracy got transformed into a mythic battle between good and evil, when Ronald Reagan, the last great Republican president, gave the country back its sense of grandeur in the 1980's by taking it on a crusade against the Soviet Union, "the evil empire", and defeated it for the benefit of the free world.

The great victory in the Cold War, however, came with a seed of destruction in it. The Republicans got intoxicated by the excellence of America's social order and, as a consequence, allowed their worldview to get too egocentric. To Republicans, America was the world's only super power and perfect as such. Hence the party, that had fought for reform in the Lincoln and Roosevelt days, became an enemy of reform. No matter what legislative bills the Democrats have put forth in recent years in order to modernize American society, the Republicans have constantly portrayed these bills either as socialism or as something very un-American. The more egocentric the Republicans have gotten, the louder American media has become in its criticism of the party. The Republicans would have done wisely, had they listened to these political commentators. A grand old party has a grand old party's pride, however, which has led to a situation, where many Republicans currently do not even spit in the direction of quality newspapers like the New York Times. Instead the country has seen the rise of new media outlets in which the news are being reported from an assuredly conservative point of view. Large Republican audiences are being entertained by, for example, Fox News, the reports of which were being studied and analysed during the Iraq war in Finnish universities by journalism students as examples of propaganda. From this informational background, the Republicans have in recent years found themselves defending stands that are, quite simply, indefensible. Many Congressional Republicans deny climate change and many in the party base deny evolution. The party is against gun law restrictions, even as Americans are dropping each other like flies. The Bush administration, for its part, used every shred of its imagination to argue that the U.S. government has the right to torture people. Yet the Republicans never cease to wonder, why the country's media is biased enough to criticise the party.

In a bi-party system, where both parties with their supporters believe only in the news of their own choosing and, as a consequence, operate with a different set of facts, one will see a total paralysis of political decision-making and one unworthy spectacle after another. The results of Barack Obama's presidency have been disappointing partly because the Congressional Republicans have simply refused to co-operate with the democratically elected President. In the heat of all the agitation, radicals of different sort have gained influence inside the Republican party, making it impossible for moderate Republicans to reach out to the Democrats. And when reasonable people on both sides of the aisle lose their capability to co-operate across party lines, the populists will come and fill the void. The presidential campaign of Donald Trump, the billionaire bully, was a sad comment on the current state of the Republican party. Sadder still, the Republicans undeservingly won the elections, which will effectively prevent the party from reforming itself or from appreciating its own infamy. The biggest problem with the Republican party is, that it does not seem to know its own history. When the United States experienced serious working-class riots in the economically difficult years of the 1890's, the Progressive movement that worked its influence inside the Republican party recognized the flaws of capitalist economy and forced the party to fix the growing injustices of industrial society. Present-day Republicans, however, do not seem to have the decency to admit that the country's economic system, which seems to be working mainly for the benefit of the richest one per cent of the population, could somehow be flawed. The party has been taken hostage by people obsessed with an egocentric notion, that the United States of America does not have, and never has had, any problems of American origin. Only ones of alien origin. ■

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# Innovation and green growth as guiding principles

Expert article • 2110

**T**he cleantech industry in the Baltic Sea region is once again on the up. According to *the global cleantech innovation index*, around USD 41 billion has been invested in share capital in cleantech start-ups over the last five years. The same index placed Finland, Denmark and Sweden on the global top ten list of countries that have the best working environment for founding, running and developing cleantech companies.

Green growth is no longer a marginal business of only a few entrepreneurs and enthusiasts. The Nordic cleantech cluster already creates terms and conditions for corporate life in a number of sectors throughout the Nordic countries. The countries best at producing clean, environmentally friendly technology which reduces the consumption of raw materials, natural resources and energy will also be able to hold their own with the international competition.

At the Nordic Environment Finance Corporation (NEFCO), we have noticed this development trend in many different ways. We receive an increasing number of applications and queries from companies selling environmental innovations, looking for new market outlets for their cleantech products and services. As a consequence, we have been involved in the financing of alternative low-sulphur marine fuels, projects that rely on pyrolysis in agriculture, as well as streamlined reuse of raw materials in the industry, and investments that utilise waste heat from manufacturing, just to give some current examples.

There is a deep-rooted preparedness to test new environmental technology in the countries where we operate. We have invested in a long line of different biogas projects directly linked to livestock farming, or at landfill sites in a number of eastern European countries. We have also been involved in several communal energy-efficiency projects where LED lights are used in street lighting or renewing the production and distribution of heat thanks to upgraded pumping stations fitted with frequency converters. A number of cooperation partners have chosen to invest in solar thermal collectors and PV panels installed onto communal buildings. Even if NEFCO as a rule does not finance research & development projects, we are dependent on new environmental technology to be able to maximise the emission reductions that are of interest to our owners – the Nordic countries. To facilitate the testing of Nordic environmental innovations, NEFCO can provide financial support to the internationalisation of Nordic cleantech companies. Our Nopef-fund finances feasibility studies related to green growth and sustainable development in countries outside EU and Efta.

There must be dramatic levels of investment, primarily in the energy sector, if we are to mitigate climate change and support a successive shift over to renewable energy. Investments in wind power at present are gaining traction in a number of countries around the Baltic Sea. In September this year, the largest wind farm in the Baltic region was opened in Šilutė, Lithuania – which was partly financed by NEFCO. In Latvia we have been involved in financing the expansion of biogas and upgraded small-scale hydroelectric plants, and in Estonia, we have made significant investment in energy efficiency, wind power and biogas. The time is also ripe for investment in solar power on a larger scale. According to a research team at Oxford University, the price of solar cells will reduce by around 10% per year, which paves the way for key investment in solar energy. The research report *How predictable is technological progress?* states that around 20% of the world's energy needs could be provided using solar energy. Reinventions can change the world, as pricing structures become rearranged and profitability calculations appear in a new light. NEFCO is a valuable cooperation partner to include in these equations. ■



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PILVI HÄMÄLÄINEN

# Finnish-Estonian economic cooperation boosted by new e-services

Expert article • 2111

**T**he Estonian e-Residency program is celebrating its second anniversary and it is truly a thing to recognize. Throughout its history, Estonia has made the right decisions regarding its IT strategy. Offering the ID-card and e-service system globally to people not living in Estonia was a smart thing to do. Not only does it make foreign entrepreneurs' life easier by giving them access to the e-services that the Estonians use daily, but it has also played an important role in tightening Estonia's economic relationships with its closest neighbors.

It is safe to say that e-Estonia has been a great success story. Over 98% of interactions between the government and individuals are done online and every Estonian has an ID card that contains a unique digital identifier. In Estonia, almost all public spaces are covered by free Wi-Fi and you can use the e-services anywhere. E-solutions are used not only in public administration but in business and the everyday life of citizens.

Thanks to e-Residency, the same solutions can now be used to manage daily business operations from anywhere in the world. E-residents can register an Estonian company online, sign documents digitally and declare taxes online. Starting from January 2017, it is also possible to open an Estonian bank account online, without even visiting Estonia.

The economic relations between Finland and Estonia have always been very close due to the geographical proximity and cultural similarities. Since the 1990s, Finland has been the second largest foreign investor in Estonia with almost 5000 Finnish companies operating in Estonia. Since the launch of e-Residency in December 2014, Estonia has gained over 14 000 e-residents. Finnish entrepreneurs were early adopters of the system and understood its benefits quickly, thus around 20% of e-Residency applications come from Finland and interest is growing.

The ability for Finnish entrepreneurs to benefit from this hassle-free and transparent Estonian business environment has strengthened our economic relations and it has also been the foundation of creating the Finnish-Estonian economic zone.

Digital society, efficient and transparent public services, low corruption and political stability are key factors in attracting investments to Finland and Estonia. It is mutually beneficial for both countries to attract companies looking for new markets and opportunities to the region. The whole Baltic Sea Region will benefit from the synergy by combining the strengths of both countries.

The use of Estonian e-services in Finland has given Finns insight and knowledge about how to develop their own e-services. Estonia is the leading e-service provider globally and is an example for many countries such as Finland.

Finland is already following Estonia's example when building its own e-service platform. For instance, the Estonian X-road is being used in Finland. X-road is the backbone of e-Estonia, the crucial environment that allows the nation's various e-service databases, both in the public and private sector, to link up and operate. Once Finland adopts the X-road into use and builds its own system successfully, Finland and Estonia can have closer cooperation for example in system development.

Doing business and collaboration with foreign partners is crucial for Estonian and Finnish economies. E-Residency was created to encourage business growth by offering services and opportunities globally. E-Residency program is increasing the attractiveness of Estonia for foreign entrepreneurs and the reputation of Estonia as a digitally advanced country has grown in Finland as well.

Estonian ICT companies are selling their services and the export is growing. Finland is one of the Estonia's main export partners. For Finnish companies Estonia is the place to test new innovative solutions. You can find qualified workers in both countries, as well as growing start-up community and strong ICT infrastructure. I personally encourage Estonian and Finland to collaborate more together. Both countries are benefiting from this development.

Finland is innovation-driven, has a very strong ICT sector and invests a lot in research and development. Estonia, on the other hand is the world's most digitalized country. Stronger partnership and applying innovative solutions together will help bring investment and increase trade in the whole region.

We need to study, discuss and enhance the Estonian-Finnish economic partnership now more than ever. It is crucial to include all important parties into the collaboration. With Rail Baltic and the Helsinki-Tallinn tunnel opportunity, the Baltic Sea region as a whole has huge potential. These projects combined with the most advanced e-services portfolio in the world can turn the Baltic Sea Area into the most advanced and desirable place for investments and business. ■

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ANASTASIA SOLOGUB

# International projects as a basis for restoring relationship between Russia and the European Union

Expert article • 2112

Cooperation projects of international regional organisations are quite underestimated in the current political studies. Projects draw a picture of region describing problems and hot points and setting goals. Projects are perceived as one of the most effective and efficient ways to promote cooperation and solve common problems. In addition, support for projects became one of the key performance indicators for cooperation organisations.

This type of actions gains a considerable prevalence in the Baltic Sea region. A number of projects implemented in the BSR is huge. Their participants are authorities of all levels, networks, business, science and education institutions, NGOs, financial institutions etc. The spheres of their activities are also numerous: spatial planning, sustainable development, human resources, IT, transport, health, innovation, nuclear safety, tourism, culture, etc.

Quantitative analysis of approved by different BSR international organisations shows that more attention to vulnerable groups is needed. Environment activities are too scattered, there is a strong need to concentrate efforts. Tourism, labor, internal security may have more attention. Economically competitive democratic development should become the result of cooperation.

Projects are not trouble-free form of cooperation. Now, they often demonstrate difficulties in project management, lack of proper qualifications, poor planning, lack of understanding between the project participants on goals and allocation of responsibilities, etc. There is an urgent need for information and consultation with potential applicants. However, these problems are technical and insurmountable. At the same time, positive effect is obvious. We can say that to support project activities on cross-border issues is to give a man a fishing rod instead of fish. If the Baltic Sea Region is a laboratory of cooperation, projects are experiments in the laboratory. Many of them may be unfortunate, but those that have been successful, could have a significant positive impact on the development of the region.

Nowadays, despite the crisis in relations between Russia and the EU, some organisations continue to demonstrate its cooperative attitude and support to interaction with Russia. A number of projects with Russian participation was approved in the framework of the project call of CBSS Project Support Facility. Also Russian partners are now able to participate in the Interreg Programme "Baltic Sea region 2014-2020" as full-fledged partners, which wasn't the case for the previous period.

Development of project collaborations with the EU and its member-states will be the most efficient way for Russia. Particular projects are the best way to overcome the political crisis. At the same time the need to eliminate duplication of various cooperation structure, often declared by different politicians, in fact, is not so necessary. Although many politicians say that now in the region may even be too many theoretical and practical forms of international cooperation, it can be argued that these various structures provide different trajectories and opportunities, although they overlap sometimes. Every form of cooperation has its own specifics and priorities. A variety of tools can compensate shortcomings of the system. With eliminating duplicate structures, some important channel for addressing local communities' problems could be missed.

Project work is very important for smaller participants of cooperation, those who cooperates in a "bottom-up" way. There is evidence that without proper support, which can only public authorities and international organizations provide, all international activities of the bottom level will be reduced to participation in fairs and small conferences at the local level. For every international projects participant, each of these projects is a small success. But this success will be impossible without decision-making at the international level, political will and the availability of sufficient financing. Project activity is the search tool for a compromise between the high politics and the needs of people, it is able to harmonize them through the obligation to cooperate for the top, but at the same time, the ability to set the "rules of the game", as well as through the diversification of possibilities for the lower level to address their trans-border problems.

Increase in the number of projects and the areas in which these projects are implemented, will contribute to the gradual strengthening of trust between the parties, and will allow solving constructively more complex and acute problems in the relationships between Russia and the EU-members in the Baltic Sea Region. ■

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# Digitalizing a traditional product driven company

Expert article • 2113

**D**igitalization is referred to as one of the largest change in our society. But what does it mean to a 72 years old kids wear company? At Reima, we are transforming the traditional product driven company into more consumer driven, branded international company and digitalization has been in the heart of the strategy since 2012.

## Vision, commitment and WHY?

Reima's mission is to guarantee kids the freedom to be active in any weather. We believe that an active kid is a happy kid who sleeps and learns better. Our objective is to help parents to raise their children with changing needs and encourage their kids to be active, no matter the weather. Our solution must be right for the planet, too, so easy-wear, easy-care but also ease of mind.

Equally important as the decision to digitalize, is to ask why digitalize? We said back in 2012 not only that "Online is our home base" but more importantly that digitalizing must support Reima's mission and strengthen our basic business where our competitive edge lies.

### Why 1: The market place goes digital – use this to grow

Our first hypothesis was that the whole market place goes digital. This is simply about convenience; shopping from home or mobile saves time and effort. On the other hand, companies get easily access to a wide audience. As kids wear is not as sensitive to fittings, we concluded that this can be among the first physical categories to prosper in digital. So, the most important reason to digitalize was to make buying more convenient and to reach more new consumers i.e. to grow. However, we believe that physical trade will not disappear; some people will always want to touch and feel the product before purchasing.

### Why 2: Get closer to the consumer and be more relevant

Our second hypothesis behind the digital strategy was that by using digital technology, we can get closer to our consumers and learn directly from them. For example, we widely use a concept called "Test Patrol": families apply for our Test Patrol, test certain new features of clothing and report their feedback to our product development using social media platforms. Digital allows us to more easily learn about our consumers' lives, everyday needs and preferences, and also purchasing habits.

### Why 3: Transparent data makes brings efficiency

Thirdly, it was defined that digitalization should bring Reima efficiencies, throughout the whole value chain. With more transparency, the speed of decision making increases and we can respond to changing market and consumer needs. The digital journey started from the front end of our business but was soon followed by initiatives to digitalize the back end, too. The first step in the back end has been ERP system renewal, setting up proper product information management systems, and changing the processes. The next step is to further strengthen

the analytics capability, in order to make better decisions based on accurate real-time data. Digital also helps us in our endeavors of co-operating more closely with our partners in terms of sustainability.

### Why 4: Digital enhances communication and empowers people

The last, but not the least "why" in digitalizing has been communication. We've started using new digital communication platforms for employee, consumer and other external communication. This change has been part of creating an open and transparent corporate culture. Digital real-time communication has improved information flows inside the company. Two-way digital dialogue with loyal consumers allows us to learn and, in exchange, provide our experience of the 72 years of history to them: how to dress your child in different ages and changing weather conditions. With third party customers, digital has been used in e.g. learning platforms, where we provide real-time and accurate education about our collection, product features, novelties and the brand.

## Vision, commitment and HOW?

It is easy to say why and what, but the true challenge is of course to really make it happen. A more detailed digital vision, road map and targets for Digital Reima were prepared in 2014. The consumer experience was set in the center of all digital development and simultaneously we pictured a clear vision about how a successful digital company looks.

### How 1: Agile organization with commitment

The first thing is that the whole company lives and breathes this reality. Digital cannot be the privilege of a small digital team, with the rest working in old ways and dealing with "old business". This, in turn, means that you can change only as fast as we people change and adapt new technology and new ways to work. Needless to say, this all needed to start from the board of directors and leadership team, their commitments to lead the change.

We needed to secure that the whole Reima personnel understands the digital vision and sees it as part of the company mission and everyday work. It has been important to emphasize that we digitalize only to fulfill our mission, to enable kids to be active in any weather. In this sense, digitalization could be compared to electricity: it is not important in itself but enables businesses to grow, be more efficient and so competitive.

Additionally, it has been important to secure that we work in ways benefiting from the digital tools and methods they allow. Starting from us old-school practitioners, some habits had to die. We have been forced out of comfort zones, sometimes admitting that we don't know but are able and willing to learn new. Here an open attitude has been the key. In today's world, it seems your authority is not only based on organizational rankings, but true heroes are the ones who can navigate between the functional teams and make them work towards one common target.

#### How 2: Network of partners

Secondly, it was clear that not everything could be done in-house but we needed to create a network of trusted partners to assist us in our transformation. This meant that in parallel we also needed to build in-house competence and capabilities to be able to manage the network of partners. Critical ability is still execution, not just bringing partners on board.

#### How 3: Balance speed to market with cost and risk

The third and crucial element in digital transformation has been to balance the speed of digital development to cost and risk. You can invest in this area endlessly, but understand that resource constraints come not only from people's and organization's ability to change, but self-evidently also from time and monetary resources to transform your systems architecture and processes. Thirdly, the existing stakeholders', e.g. suppliers', ability to change with you is crucial. Today's competition is not about company against company or brand against brand, but network of partners against network of partners. Your preparedness to change is as good as the weakest link in your chain.

If digitalization is compared to electricity, the leadership of the company cannot be given to your best electric engineers, in this case, to young digital natives. It is crucial to understand the industry's laws, processes, and the competitive landscape. But, having said that, it has been as crucial to create the culture of bringing the experienced corporate leaders and the young agile digital natives to work together.

Today, a good 10% of Reima's net sales come through own digital channels and we operate own web store in 9 countries. Digital is the strongest growing channel and an integral part of our international omni-channel strategy. Our first digital product, ReimaGO, the world's first activity sensor attached to children's clothing was launched in cooperation with Suunto in autumn 2016. This product reflects and embodies the core of Reima's digital strategy well: it supports our mission of getting kids active by encouraging them to move. Going forward, we believe that the success lies in extending digital into bundling of services to our products. We aim to provide our consumers the right solution in the right place and in right time, so that they can use their precious time on more value-adding activities. Ultimately, also by digitalizing, we aim to guarantee all kids in the world the freedom to be active in any weather. ■



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## BALTIC RIM ECONOMIES

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FRANCESCA SPIGARELLI &amp; LV PING

# Chinese investments in Europe and the case of the renewable energy sector

Expert article • 2114

Chinese foreign direct investment (OFDI) has become a major trend, gaining the attention of economist, policy makers and media. International value chains as well as international political relationships are affected by booming flows of investments from China to the world. Since 2005, Chinese OFDI have been growing at an average rate of 15% per year. China is now among top three global investor countries, with stock worth more than \$1 trillion by 2015.

Europe has been a minor destination for Chinese firms, for many years, as numbers show: 0.5% of stock of inward FDI to Europe was Chinese in 2014. Anyway, the situation is changing rapidly: in 2015 only, China invested \$23 billion in Europe.

Within the booming flows of Chinese investments in Europe, the case of renewable energy (RE) sector offers some interesting food for thought, being one of the most targeted sectors for Chinese greenfield and non greenfield initiatives in the EU.

The potential reason for targeting Europe is clear. Market access and technological spillovers are easy to get, also as a result of the financial crisis. In the last decades, European industry became highly competitive with major players in the production of RE products and solutions. The Renewable Energy Directive (2009/28/EC) and Europe 2020 targets stimulated consumption-driven supportive measures, which made Europe one of the largest sales market for RE products.

In the same period, China became the biggest global investor in the RE, mostly in installation of capacity of wind and solar photovoltaic power.

The Chinese rush for a greener energy mix was supported by the combined effect of: internal selective supportive policies; international cooperation and diplomatic relations; and global acquisition of technology and expertise.

Recent Five-Year Plans included specific measures to reduce carbon dioxide emissions and other pollutants for the health and safety of population, making "sustainable and green growth" a priority. Production-oriented subsidies stimulated the growth of a national competitive RE industry, mostly in the wind and solar panel fields, but – at the same time – led to over production capacity. This fact created the ground to leverage the opportunities brought by the Chinese *Go Global* strategy, driving Chinese firms expansion abroad.

In the light of those trends, it is interesting to see what happened recently in Europe as main destination of Chinese RE firms. Based on authors' calculation on MofCom database, 208 investment initiatives were promoted by 135 Chinese firms, from 2004 to 2013 into Europe. Investors were mostly private, and entered EU countries with greenfield modes (192 cases), rather than acquisitions.

Home and host locations for investments were very concentrated: more than 40% of investments were located in Germany, where 91% of investor declared to carryout are sales and services activities. Other popular host country destinations were Bulgaria, Luxembourg and Italy. Chinese investors were located in 19 provinces, but around 30% of them were from Jiangsu.

Prevailing motivations of Chinese RE firms investing in Europe are interesting to analyze. The key driver is the need to find new outlet market. This is quite obvious, considering that Chinese firms have acquired and consolidated a good competitive advantage, as well as overcapacity, at home. They are therefore looking for customers (in the B2B and B2C segments) for their production in mature western locations. On the other hand, R&D seems to be a less important motivator for investing in Europe, especially in the solar industry. This is consistent with recent studies, highlighting the fact that China has reached high knowledge and expertise level in several RE industry.

The broad analysis we performed allows us to point out some policy implications of the growing flow of Chinese investments in Europe, in terms of EU-China relations.

While Europe is very weak in attracting international investment flows, China's willingness to invest in Europe could become an opportunity, especially to support key industries. This is also the case of RE sector that was particularly affected by financial crisis and by the downsizing of supportive government measures. Of course, Europe needs to play an active role compared to China, especially in terms of impact, sustainability, and reciprocity of investment. Current negotiations of EU-China Bilateral Investment treaty should consider the impact on local industrial areas (regional clusters) of the growing integration of Chinese investors. Relations with stakeholders, connections with local sub suppliers, impact on local labor market, and contribution to local development are examples of items to be considered. At the same time, it is clear that partnering with Chinese investors could result in a reverse internationalization opportunity for European firms, in terms of an easier and immediate penetration of the Chinese market of green technologies and products. ■

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# GIPL project: interconnector to the European market

Expert article • 2115

**Goals of the Project**  
 The gas market in the Baltic States region long time was characterized by a dependency on a single gas source, limiting its competition in gas supply and trade. Lack of interconnectors with the 'outside world', predominance

of one supplier which also controlled infrastructure as well as minor interest of business in the Baltic markets caused the state of energy isolation for the countries of the region. Situation has started to change at the end of 2014 when LNG terminal in Lithuania started its operations. But new investment in the gas infrastructure enabling integration between the countries in the region and with the European gas market is still needed.

The Gas Interconnector Poland-Lithuania (GIPL) is the optimal response for this need since it provides a missing link between Poland and Lithuania and thus enables the integration of both markets (including Latvia and Estonia) as well as enabling a diversification of gas supply sources and routes for Poland and Baltic States. The Project would significantly contribute to the security of gas supplies for the customers as well as the development of competitive gas markets not only in Lithuania and to some extent in Poland, but also as a part of BEMIP the Project will also have an impact on the entire Baltic region, including Latvia, Estonia and Finland when Balticconnector is constructed.

The GIPL is aimed at the integration of the isolated gas markets of the Baltic States into the EU gas grid by introducing an alternative gas supply route to the Baltic States. Implementation of the project is an important element for achieving one of the key EU energy policy goals – completion of the EU internal energy market. GIPL project will increase diversification and security of supplies, which is of particular urgency for the region. This interconnection would serve for the enhancement of competition in the gas market of the Baltic States. From a long-term perspective, it may also be used for importing shale-gas from Poland if production achieves large scale level. For the Polish market players, GIPL will provide the opportunity of using Latvian Inčukalna UGS and potential importing gas via import routes in Baltic States.

The GIPL is aimed at the integration of the isolated gas markets of the Baltic States into the EU gas grid by introducing an alternative gas supply route to the Baltic States.

The GIPL project is aimed at providing transmission systems assuring transmission capacity of 2.4 bcm/y for the needs of the Baltic States. The reverse technical capacity of at least 1 bcm/y would be provided from Lithuanian to Polish gas transmission system (potentially technical reverse capacity using existing infrastructure could be up to 2.0 bcm/y). Depending on the market signals, the capacities of GIPL project may be extended by further expansion of its transmission capacity in the future.

Construction of GIPL is in compliance with all EU policies, strategies and action plans, including the Regulation (EU) 347/2013 and the recent EU Energy Security Strategy, as it integrates currently isolated Member States into common EU gas market and is key project for improving diversification of natural gas routes and sources as well as regional gas market development. GIPL constitutes

a solution for key issues related to the gas market in the Baltic countries. Moreover, the Project has been identified by the EC as one of the key security of supply infrastructure projects critical for EU's energy security in the short and medium terms.

The Project would contribute to:

- creating well-integrated route of gas supply from the new sources to the isolated region of the Baltic States,
- efficient connection with the European Union gas network and LNG supply,
- enabling competition in the energy sector in the Baltic States,
- further economic development of the impacted countries,
- increasing the security of gas supplies to the Baltic States,
- completion of the EU internal energy market.

All activities aimed at diversification of sources and routes of gas supplies in the region would contribute to the development of the integrated internal gas market and increase the security of supply. The supreme aim of the Project is to establish a well-integrated gas network allowing the creation of a market with diversified supplies.

### Progress of the project

In August 2014, Polish and Lithuanian gas transmission system operators both submitted applications for EU support for the project. In May 2015, the European Union granted financial assistance to the Spatial Planning and Engineering Design Works of the GIPL project. Under the agreement signed by Lithuania's TSO AB Amber Grid and Poland's Gaz-System, the European Union's Innovation Network Executive Agency (INEA) granted 10.6 million euro under the Connecting Europe Facility (CEF). In October 2015 the grant agreement on the GIPL was signed.

At the occasion of the signature of the joint declaration, President Juncker said: *"Today's signature is about European solidarity. It is about leaders taking responsible decisions to increase our security and strengthen our resilience. Today we have done much more than bringing the energy isolation of the Baltic States to an end. We have brought the region further together. Today we have agreed on European infrastructure that will unite us, instead of dividing us."*

The construction works were planned to start in 2016 and to be finished by 2019. On April 2016 was launched a tender through negotiated procedure on carrying out the construction works of the Gas Interconnection Poland-Lithuania (GIPL) in the territory of the Republic of Lithuania and the procurement of the pipes necessary for the gas transmission pipeline's construction.

With regard to the changes in the route of the gas pipeline suggested by Poland, the completion date of the GIPL project has been shifted from the end of 2019 to December 2021. Changes in the GIPL project were suggested by Poland. According to the new plan, the pipeline is to be shorter – it will connect Holowczyc compressor station and the Lithuanian–Polish border. The pipelines' connection point at the border remains unchanged, no changes in the territory of

Lithuania are planned. These technical changes will possibly result in a decrease of the price of the GIPL project in the Polish territory; therefore, Lithuanian, Latvian and Estonian expenses are also likely to decrease. Furthermore, as a result of the updated project, GIPL capacity from Lithuania to Poland is predicted to increase by approximately 10 per cent allowing a more effective use of the capacities of the Klaipėda LNG terminal. AB Amber Grid, the company implementing the GIPL project in Lithuania, has so far carried out all works in accordance with the originally set schedule. On 26 September, the Government of Lithuania approved a newly set date for the completion of the construction of the gas pipeline that will connect the Polish and Lithuanian gas transmission systems (Gas Interconnection Poland–Lithuania, GIPL). ■



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MARGOT A. LOUDON

# Introducing the internal gas market

Expert article • 2116

The isolation of the Baltic Rim countries from the rest of the EU gas network is coming to an end. The last months have seen progress in realized and planned physical connections between them and with other EU Member States and soon their disadvantaged status as “energy islands” will belong in the past. Putting these physical links in place, however, is only a first stage in the process to integrate these markets in the internal gas market. The infrastructure projects are the hardware that contribute to a more integrated market, and they enable more gas flow opportunities but these must be complemented by progress in applying the rules of the Third Energy Package in gas, the so-called software of the internal market.

The markets of the four Baltic Rim countries, until relatively recently wholly dependent on Russian supplies, developed separately. Finland has the highest consumption (27.4 mtoe) the largest part of which goes to industry and power plants. Across the region, the share of residential and commercial consumption is less significant, but district heating is long established in all four countries, and therefore the relevance of gas in the household sector is more important than at first glance. For various reasons gas demand is falling.

In all four countries wholesale prices in the first quarter of 2016 have been estimated recently by the European Commission to be amongst the highest in the EU<sup>1</sup>. In large part, this is the legacy of their isolation and total dependence on Russian imports. Gas price estimates for households were lower than the EU average but prices are regulated and so these are not yet a consequence of a functioning market.

EU internal gas market legislation introduced customer choice, necessitating a new market structure facilitating non-discriminatory access and use of gas infrastructure by companies and traders across borders. “Unbundling,” i.e. the separation of sales and transmission interests, is mandatory. Rules have been developed to optimise system use. Storage and LNG terminals have also been subject to more market disciplines. These new market dynamics have underpinned the growth of trading places, with important hubs emerging in North West Europe. Until recently because of their isolation, Finland and the other Baltic Rim Member States have been exempt from the main thrust of these proposals and the benefits they have brought. The end to their isolation removes the justification for their exemptions and ushers in a panoply of rules, that will drive changes in all the markets.

The changes have already begun. In Estonia, the Third Energy Package has been fully transposed including the unbundling of the national incumbent and by 2020 it is expected that in the other three markets the bases of the Third Package will be in place. The GET Baltic Exchange in Latvia already involves neighbouring countries and is expected to develop as a regional gas exchange. Furthermore, end-user prices will be progressively deregulated.

<sup>1</sup> In Finland, however, the calculation is only based on a monthly analysis of the Finnish gas exchange. A main in-depth analysis would yield lower estimates.

It will be a challenge to implement all the detailed rules in a timely and correct manner. There is an ambition to establish a regional gas market, a single market zone. Achieving this, however, is some way off. The establishment of a market zone, such as exists today between Belgium and Luxembourg would be complex. Rigorous cost-benefit analyses would first be needed. The four countries would likely have very different perspectives. Meanwhile, other considerations attach to the new market status of the region. The infrastructure now being put in place or planned will boost liquidity and enhance supply security but it involves significant costs. There could also be questions in future about the financing of the huge Inčukalna storage in Latvia, when it is subject to market access rules and has to compete with other supply flexibility tools. At a time when demand for gas is falling and for climate change reasons, policies are incentivising the move from natural gas to renewables energies, including renewable gases, the impacts of socialising infrastructure costs across falling customer numbers should be considered, especially as these customers include households for whom regulated prices should be progressively phased out.

All categories of customers will be able to switch away from their incumbent suppliers to take advantage of the opportunities of a competitive market and, if the pattern seen elsewhere in Europe is repeated, large users who make up a significant percentage of customer portfolios will be the first to move adding to the challenges companies will face.

Therefore, although it is very positive that the Baltics will soon be integrated in the European Internal Market, in hardware as well as software, and it will bring market and supply security benefits, the path to the internal market will bring new issues to be addressed. ■

The author is Deputy Secretary General of the European Association EUROGAS but the views set out in this article are her own.



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# The strategic case against Nord Stream II

Expert article • 2117

Several analysts have rightfully argued that the EU has recently become more resilient to gas cut offs. The relative increase in competition and connectivity in gas markets has, or so the story goes, domesticated the threat of Russia using its natural gas supplies for political purposes. Some also sing the old interdependency song about Gazprom, the supplier, actually being the dependent one in the equation. However, the relation of natural gas and foreign policy power is not quite as neat and limited as the optimist framing above suggests. Nord Stream II has the potential to undercut Germany's new leadership role in EU foreign policy, erode general solidarity within the EU, and create substantial policy incoherence for the EU vis-à-vis Ukraine.

When investigating the security implications of energy, analysts should pay due attention to the easily de-politicized "carrot", and not only to the potential energy security "stick". The carrots, such as price cuts for energy or unprofitable investments, loans, side payments, and asset swaps, are easier to portray as solely commercial activity. However, they may be just as effective in dividing the target and even producing classical command-obedience relationships.

Russia has been clever in using energy geoeconomics when pursuing its strategic objectives in Europe. Typical of such geoeconomics, is that the strategic aims are masked under the guise of commercial, seemingly apolitical activities. With its carrots and sticks, winners and losers, Russia's energy politics has been producing centrifugal forces in the EU and member states alike. Not only is geoeconomics easier to conceal than traditional geopolitics, but the former actively creates interest groups, such as corporate stakeholders, that campaign for it – with depoliticization as a central, recurring theme.

Fostering this depoliticization is challenging under current conditions, as many countries and constituencies are acutely aware of Russia's current efforts to influence European unity by various means, including information campaigning, cyber activity, financial support to anti-EU parties and so forth. But carving a political vacuum, in which energy issues are taken as long-term business relations that *are not* and *should not* be used for power politics, may well succeed, especially if Russia tones down its geopolitical campaign in Ukraine. EU Member States with deep economic ties and a longstanding tradition of cultivating a special relationship with Russia, such as Finland and Germany, may be particularly inclined to portray energy cooperation, as purely a commercial or technical issue, despite its geostrategic implications.

In the context of a possible de-escalation in Syria in 2017, Russia may have the opportunity to revert to its previous – and remarkably successful – geoeconomic strategy, which employed economic means to keep the EU weak and divided in its dealings with Russia. Herein, Nord Stream II is arguably the weightiest and most consequential project. Its wedging element can undercut what has been one of Putin's greatest challenges in recent years: a joint Western front opposing his plans to bring Ukraine back under his control, with

Germany and Angela Merkel at the helm. With the Nord Stream II pipeline in place, Germany would be seen as a country that enjoys its privileged relationship with Russia, is driven by economic self-interest, and when push comes to shove, is insensitive to the EU's collective security, diplomatic efforts and energy policy objectives. In the meantime, Germany and the EU would end up weakening Ukraine's position as a transit state, which is, as recently noted by Maroš Šefčovič, also a strategic issue.

Russia will also do what it can to get the EU to drop the economic sanctions when they come up for reviews in 2017. As all EU member states must approve the extension of the sanctions, Russia will offer a host of inducements to selected countries so as to encourage disalignments. This task, among others, will be made easier if the decision to build the Nord Stream II pipeline is taken. Why would other EU countries not follow the new German example and let their constituencies maximize economic interests with Russia as they wish?

In the coming years, the economic relations between the EU and Russia may well develop into a more balanced relationship, in which all parties are on the same page regarding what is commercial and what is strategic. In the meantime, in order to handle the current, confrontational EU-Russia relations in strategic economic sectors, an increased awareness of geoeconomics in general, and a mixture of commercial and strategic motivations in particular, is needed. The EU and Germany now need to put the Nord Stream II pipeline project on hold, calibrate their sanctions against Russia smartly, and signal clearly that they will not be prepared to drop them altogether as long as Russia continues to interfere in Ukraine and use risky geopolitical manoeuvres in the neighbourhood, for example in the Baltic Sea region. ■



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# Nord Stream 2: Energy security and cooperation for decades to come

Expert article • 2118

**T**he EU has three main objectives for its energy policy: security of supply, sustainability, affordability. It will not be possible to pursue all objectives simultaneously without a sufficient supply of natural gas.

The environmental and economic benefits of gas are obvious: replacing coal with gas in electricity generation is the cheapest and quickest way to cut carbon emissions by 50%. In the electricity mix of the EU, coal occupies 26%, while gas amounts to only 15%. Therefore, Europe needs affordable gas to replace coal.

Renewable energy sources must be backed up by reliable base-load, especially in electricity generation. Gas is perfect for this purpose while providing a secure power supply at competitive prices.

To ensure both the security of gas supply and the affordability of prices the consumers in the EU need access to abundant resources. Currently, most of the demand is still supplied by gas production inside the internal market (EU and Norway). However, our domestic gas reserves are depleting rapidly while Russia holds the world's largest proven reserves of natural gas.

It is an enormous advantage for employment, competitiveness and prosperity to have such reserves in the EU's immediate neighbourhood. To make use of this advantage for many decades to come the EU's internal market needs new import capacities for new import volumes.

Nord Stream 2 will only cover about one third of the EU's need for additional import capacity. Two-thirds will still have to be covered by other new import routes, leaving ample room for diversifying sources. The import of liquefied natural gas (LNG) is often mentioned. It will play a role, especially to provide additional volumes to cover demand peaks at short notice.

However, the process of liquefaction and regasification typically consumes up to a quarter of the energy content. Furthermore, the transportation by ship involves higher average costs per unit and there are also questions about its environmental impact and maritime safety. This is especially relevant in the Baltic Sea region.

It makes sense to rely on imports of natural gas via pipelines because they are structurally competitive. But while Norway's resources are depleting, North Africa and the so called Southern Corridor from the Caspian region cannot provide all the additional imports that the internal market needs.

Some commentators have argued that the additional import capacity of Nord Stream 2 makes the EU too dependent on gas from Russia. There have been claims that it would make the EU vulnerable to political pressure.

However, such assertions ignore how the internal market functions in reality. The average share of Russian gas in the EU is about 30 %. This is about 6 % of the overall energy consumption, far from an overwhelming dependency.

Of course, some EU countries have higher shares of gas supplies from Russia than others, e.g. in the Baltic region. But due to investments in infrastructure (interconnectors, reverse-flow capacities and LNG terminals), one-sided dependencies on one source and one supplier are diminishing.

Once gas has arrived in the internal market it can be freely traded and delivered to virtually all consumers inside the EU. Most recently, the European Commission announced substantial investments in the Balticconnector pipeline that will connect Finland via the Baltic States and Poland to the networks of Central and Western Europe.

Furthermore, in today's internal market gas from any supplier is not only competing against gas from other suppliers – it is also competing against other energy sources, especially in electricity supply. In the Baltic region, a growing number of submarine power cables are connecting and integrating the electricity markets of the Nordic countries and the Baltic States with Central and Western Europe, e.g. this year with the commissioning of the NordBalt cable between Sweden and Lithuania.

It is therefore not even a theoretically realistic scenario for today's internal market that a third country could abuse energy supply to exercise political pressure over the EU. But on the contrary, it is in the best interest of consumers in the EU to increase the number of supply routes to the internal market in order to ensure maximum supply options and capacities – especially when such projects are commercially financed, like Nord Stream 2, without using any public subsidies.

Nord Stream 2 will be implemented in full compliance with all applicable international conventions, EU laws and national legislation – the same comprehensive set of rules that applies to all other European pipelines that transport gas from a third country to the internal market. It will go ahead only once it has received construction permits from the competent authorities.

The best solutions for security of supply and affordable prices are abundant liquidity of gas supplies and sufficient interconnections inside the internal market. Nord Stream 2 will make a significant contribution to this end.

But there is also a greater dimension to large-scale projects like Nord Stream 2: they lay the foundations of cooperation between countries for decades to come. Nord Stream 2 is supported by six major energy companies from Western Europe and Russia. For the Baltic region it is more important than any in other region in Europe to nurture common interests that will withstand political turbulences in the long run. ■



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# Lessons from Belarus

Expert article • 2119

**T**his month, December 2016, marks 25 years of the collapse of the Soviet Union. It happened on the territory of Belarus in a place called Viskuli in the forest of Belovezha where the leaders of Belarus, Russia and Ukraine signed the agreement by which the USSR ceased to exist as "a subject of international law" and as a "geopolitical reality".

Two years before an essay with a prophetic title "The End of History?" was published. Its now renowned author Francis Fukuyama announced that the great ideological battles between East and West were over, and that western liberal democracy had prevailed.

The future then looked promising especially since one of the major security threats coming from "the evil empire" was at least neutralized. Nuclear and conventional disarmament between former adversaries - the USSR and the US, as well as NATO and the Warsaw Pact - was going forward full speed. Nuclear and conventional armaments potential in Europe was being dismantled and confidence building measures reinforced. Warsaw Pact was dissolved and NATO and the European Union were getting ready to welcome new members from the former Soviet block.

Today the situation in Europe and the world is far less optimistic. Security challenges are such that it is justly called the most dangerous crisis since the end of the Cold War. Europe is almost surrounded by an arc of instability.

It didn't happen overnight. The security crisis was preceded by a whole chain of political, military and information developments on the territory of the former USSR that were mostly ignored or not paid due attention to.

Here is where Belarus and what's happening in Belarus is important.

After regaining its independence in 1991 Belarus was a net contributor to European security and democracy advancement. It has taken a position of principle on disarmament issues, contributed to the substantial reduction of all the offensive capability of the Soviet Union against the West and in security area led the way for the former Soviet republics, quite often together with Ukraine. It was the first to apply for the membership in the Council of Europe (ironically today it is the only country in Europe not member of this important European democracy body).

It was also the only former Soviet republic that has initially chosen a parliamentary form of governance. The problems started with the introduction of a presidential post and the first presidential elections in Belarus when Lukashenka was elected as its president. Very soon after his election he started to build a totalitarian system in Belarus and strengthen his personal power. He broke every domestic law and violated every international obligation of the country to achieve his ends. His rule is rightfully called "the last dictatorship in Europe".

Shortly after the notorious referendum of 1996 that was used by Lukashenko to usurp power the European Union defined its policy of critical engagement with Belarus in 1997. Since that time, the EU

has tried several strategies towards Belarus, never finding an effective model of relations with blossoming dictatorship at its doorsteps. Periods of mild sanctions, mostly travel bans against officials, were followed by periods of normalisation of relationship, mostly used by the regime to get Western money for the ailing economy.

What was missing - an understanding of an impact that Lukashenka's rule produced on the post-Soviet space and especially on Russia. What was lacking - a realization of the dangers of such a model for a much wider area. Kremlin started to use Lukashenka's model in preparation for a major offensive on values when Putin came to power. Every method of infringement on human rights and basic freedoms tested by Lukashenka was studied carefully and then exported to Russia.

Absence of adequate reaction of the West to the atrocities of Lukashenka's regime in Belarus and lack of soft power to prevent further attacks on human rights contributed to Kremlin's decision to start its world-wide campaign against values. Because that's what it is - an attempt to destroy democratic values and institutions designed to protect these values: free elections, separation of powers, independent judiciary, free press.

So far the West has limited itself to the position of reacting to aggressive policies of dictators. It's time for strategic thinking to save the values of democracy. There cannot be any difference in how to treat dictators, be it Putin or Lukashenko. It's time for principles.

Belarus was a case of missed opportunities for democracy. It can become a case of democracy advancement if the democratic world recognizes its importance both for aggravating the current crisis or for finding the solutions.

Belarus is crucially important for the strategy of freedom, for defending freedom and bringing freedom to the region. And it's not the dictator but freedom fighters, democratic movements, civil societies and free media which are partners in such an enterprise. ■



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# Belarus after the lifting of EU sanctions: a reset on Minsk's terms

Expert article • 2120

**T**he regional context of Belarus' relations with the West has radically changed these past two years. The fact that Minsk refrained from siding with Moscow in the ongoing military conflict in Eastern Ukraine has affected the way the EU sees the regime. Eurasian geopolitics and the economic crisis brought about a paradigm shift in EU-Belarus relations. After almost two decades of coercive diplomacy – except a short-lived thaw between 2008 and 2010, EU sanctions have been in force since 1996 – the EU lifted most of its restrictive measures against Belarusian officials in February 2016.

The decision did not come out of the blue. Since 2012 informal talks were held through various channels seeking an honourable way for both sides to break the deadlock. Foreign Minister Uladzimir Makei was “de-blacklisted”, emissaries went to Minsk, and initiatives were taken, but it took the war in Ukraine for the Belarusian regime to consider making a step towards meeting Western conditions. Demands were partially met in August 2015 with the release of the remaining six political prisoners. Even though none were rehabilitated, Minsk expected compensation for the gesture.

## When geopolitics leads to pragmatism

Not that the Belarusian regime has become less repressive or more democratic. Rather, it succeeded in convincing EU countries to turn from “critical” to “constructive” engagement, based on common interests rather than allegedly shared values. Europe understood that president Lukashenka's room for geopolitical manoeuvring (and bargaining) is limited, as he faces a recession at home as well as sustained integration pressures along the Eurasian vector.

Although it did not assess the October 2015 presidential elections as free and fair, the OSCE did note some progress, and the fact that there was no ensuing protest or crackdown was enough for the EU to suspend sanctions for four months. In February 2016, it lifted them altogether. This has been interpreted as rewarding the regime for its non-aligned stance in the Russian–Ukrainian conflict, and Lukashenka personally for his good offices in the Minsk and Normandy format talks. The thaw with Brussels appears to be on Minsk's terms: Lukashenka can claim the forthcoming normalising of relations as a victory, and ignore the rest of the EU's wish-list (regarding death penalty for example).

Yet the *amount* of EU reengagement will depend on the regime's concrete ability to deliver on economic reforms too. This is a condition dictated by necessity (and the IMF) – not the EU. Foreign investors are still unlikely to rush into Belarus until a liberalisation occurs. Pursuant to its revised Neighbourhood Policy and Global Security Strategy, the EU is more interested in a stable, resilient Belarus, *compatible* with EU markets and norms, than in democratic *convergence*. This pragmatic shift is good news for the Belarusian regime and for business players alike. The political opposition is losing the most from the new state of affairs, and civil society organisations might be side-lined too now that the EU found other interlocutors to deal with in Minsk.

## Terms and effects of renewed dialogue with Brussels

Bilateral dialogue between official Minsk and the European Commission was resumed in various formats over the past year and significantly progressed on a number of sectoral issues. In 2016, several EU foreign ministers and EEAS officials came to Minsk, and Lukashenka went on his first official visit to an EU capital in years (Rome, where he also met with Pope Francis). Cooperation with the EU picked up on lowest-common-denominator issues of interest, such as trade, customs, migration, SME development, education, health, etc. Negotiations over a visa facilitation and readmission agreement accelerated and the EU unfroze financial assistance for state projects; EBRD loans should follow.

The EU–Belarus relationship is now one of give and take. In the September 2016 legislative elections, two opposition candidates made it into Parliament. This is the result of efficient election management, not democratisation. Yet this semblance of improvement forces national EU parliaments and the European Parliament to consider recognising their Belarusian counterpart. Even joining the Council of Europe is back on the agenda.

For relations with the West to normalise and a partnership with the EU to be institutionalised, however, the Belarusian regime will have to commit to more. Remaining neutral, containing its repressive urges and making cosmetic changes to the electoral law is only a starting point for cooperation. The current thaw, should it last – sanctions will likely be reintroduced if the human rights situation deteriorates again – allows Belarus to counter-balance its dependence on Russia. In the long run, however, it will not prevent the regime from falling deeper into recession, unless structural reforms are launched. The ball is, once again, in Lukashenka's camp. ■



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# Maritime sector's latest vision: Autonomous shipping – the Baltic Sea aimed to be the first testing area

Expert article • 2121

**T**he maritime sector isn't often included to be among the very high-tech industries but that may be changing. As an average lifetime of a ship is something like 20-30 years, changes are not adopted that frequently. However the maritime sector can't avoid digitalization megatrend that affects the all kinds of industries today. Interest towards IoT and robotization have now influenced and generated a clear ambitious goal for the maritime sector: autonomous shipping.

The basic idea of autonomous or unmanned shipping has existed already since the 1980s. Already before that for example engine rooms have become automated. In Finland first mentions known of the idea are from the middle of 1990s. Since then ships have become more computerized and communications have developed. In an EU level one of the first widely known project was called MUNIN, which was started in 2013. During 2014 Rolls-Royce Marine, maritime systems integrator, expressed first time in public its vision about autonomous shipping and it's potential. This led to AAWA – Advanced Autonomous Waterborne Applications Initiative, a large Tekes project which began in Finland in 2015. Project partners Rolls-Royce, Napa, Deltamarin and DNV GL. The research is carried out by several Finnish universities.

The AAWA –project has a multidisciplinary approach combining technology, safety, legal and business aspects. General approach for the project is that many technologies have progressed so far that technologies for an autonomous ships exist. They just need to be tailored for the maritime use. A vast source for these technologies is the automotive sector, which the self-driving car is pursued eagerly. There are many similarities like sensor fusion which is a key research area. In the maritime context different kinds of cameras and radars would be combined together. Also the project's approach is that autonomous ship will use both of remote-controlled operations and autonomous algorithms.

From the safety perspective an autonomous ship should be at least as safe as current ships. Research includes for example risk management studies. This work is also very important for legal estimations. Legal perspective in AAWA includes both the law of the sea and product liability issues. The former part includes analyses of the autonomous concept within the maritime regulation frameworks. The latter part examines the liability questions of suppliers in autonomous shipping scenarios.

The business perspective examines the introduction of autonomous technologies into the maritime sector as an innovation. A theoretical framework called sociotechnical transition explains that innovation will be tried out in a special market niches which start to accumulate into a market. Many non-technical aspects like institutions, regulation, networks, infrastructure or critical events affect a lot how the innovation is adopted. The business research covers factors related to this by gathering knowledge from within the project partners and as well different maritime stakeholders.

The idea of autonomous shipping opens up some interesting scenarios. A captain in a remote-control center could supervise for example from five to ten ships at a same time. Or they could sail in convoys with a manned ship as their leader and autonomous ships would follow it. Connectivity to different systems would allow a full awareness of for example maintenance needs aboard a vessel. These kind of visions are long-term goals but also in the shorter term the autonomous technologies could improve safety and reliability and optimize operations. There's yet not clear answers how these ideas will be implemented into practice. But it has been confirmed that digitalized and autonomous solutions will be one of the most promising and largest targets for the maritime sector's R&D work and inputs.

Recently there have been other new openings. In September 2016 the Finnish DIMECC innovation platform announced that it will organize an Autonomous Ships Ecosystem in Finland. This initiative is jointly supported by several maritime system providers and also ICT companies are involved. This consortium's objective is to create the world's first autonomous marine transport system to the Baltic Sea in 2025. A month later the Finnish Transport Agency announced that it will start testing of intelligent fairways in the Finnish coast and support testing of autonomous vessels. Norway has begun similar initiatives and discussions have also started in Denmark and Sweden also.

The Baltic Sea is a natural choice for this development. Cold climate and busy traffic will make tasks demanding. If the technologies can be harnessed reliably and safely on the Baltic then the same can be done elsewhere as well. The Nordic countries have high skill base both for maritime and ICT technologies which probably will speed up the development. Maritime companies have now recognized that this could open up a new competitive advantage for the 2020s. ■

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# Green transition and regional branding in the Baltic Sea Region

Expert article • 2122

*In this article, we discuss branding of regions in the Baltic Sea Region from the viewpoint of green growth and green transition. The unique characteristics, resources, and the potential of the regions related to green transition need to be taken into account in designing and implementing regional branding strategies.*

Since the Baltic Sea Region re-established itself more than 25 years ago, an impressive development has taken place. The co-operation has been driven by high political and economic ambitions. In the recent years, there has been an increased focus and attention to the necessary green transition. An important contribution to this development stems from the Nordic Cooperation and the initiatives by Nordic Council of Ministers and its institutions, especially regarding bioeconomic transformation in the Baltic Sea region.

Place marketing and branding have drawn much attention both in the literature and in practice especially in the 1990s and 2000s. Place branding is a process that aims at establishing a fair reputation and building brand equity within the frame of place management. A place brand may exist even in the absence of branding campaigns, simply because of the accumulation of perceptions, meanings and values linked to a place. The use of nicknames e.g. "Silicon Valley" is often part of the place branding in the regions.

Green growth and transition to bio-based economy is a hot topic and prioritized on the national political agendas. Bioeconomy, for example, is seen as a "silver bullet", able to avert threats to our societies such as economic and demographic decline in rural areas, joblessness, and the climate crises. The Baltic Sea Region contains a multitude of natural resources especially from marine environments, forests, and from agriculture - and not to forget - from organic waste from our societies. Some regions have acted as forerunners with regard to regional branding of green transition. Let us introduce some examples of branding of regions.

Värmland in Central Sweden promotes the region as "Paper Province". The business history in Värmland is strongly influenced by the region's natural resources, especially the forest resources. At the end of the 1990s, the pulp and paper industry was facing severe structural challenges. To overcome the challenges, the leading companies, together with Karlstad county and other public bodies, formed the Paper Province cluster organization. The systematic and intensive regional branding activities have been an essential part of the Paper Province cluster in its successful transition to a modern bio-based actor.

Kalundborg in Denmark is a "classic" case of Industrial Symbiosis in which waste for one actor becomes a resource for another actor. The forerunning cooperation between actors in Kalundborg began already in 1961. The term "industrial symbiosis", as essential part of regional branding, was introduced in Kalundborg in 1989. Numerous delegations from Denmark and abroad visit Kalundborg to learn about the Industrial Symbiosis and to study the possibilities to locate activities in Kalundborg.

The island of Bornholm in Denmark promotes their green growth activities with the Bright Green Island (BGI) vision, formulated by local people representing different parts of the society. The vision sees Bornholm becoming a 100 % sustainable and CO<sub>2</sub> neutral society by 2025. Today, several examples of local businesses working towards

more sustainable practices can be identified. For example, enterprises are concerned with strategic energy planning, sustainable food production, climate-friendly fashion production, circular waste management and green construction.

The Baltic Sea Region is currently taking significant steps towards greener economy. Besides the Nordic examples above, regional branding of green transition is not yet much utilised in the Baltic Sea Region. How should one promote regional branding as part of regional strategies in the Baltic Sea Region?

Firstly, regional branding should be ambitious - but based on real opportunities. We may aim for the stars - but we are often only in the beginning of our journey to the success in the region. Therefore, we should not claim (unless we have proper evidence) that we are the best but rather claim that we are on our way to success. However, regarding regional branding of green transition, it should be highlighted that the Baltic Sea Region possesses many of the key elements for green growth and green transition. We have agriculture, fisheries and forestry, we have waste handling systems, and many of our regions have infrastructure, knowledge and a great portion of research and development skills needed to develop a prosperous bioeconomy.

Secondly, regional branding should take into account the diversity of natural resources and innovation potential not only between the regions but also within regions. For example, a region may have a centre without any large-scale industry that utilises natural resources, and more peripheral areas with natural resources but not necessarily a critical mass of knowledge-intensive actors and experts.

Thirdly, regional branding needs national and/or macro-regional branding to support and complement the green transition. Throughout the BSR macro-region, governments are working with national plans and strategies, and on sub-national level, regions, counties and municipalities are working with local strategies and initiatives on green transition and bioeconomy. The various strategies should support each other - also in branding and promoting regions and their green transition. ■



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# White-tailed eagle is an indicator for the health of the Baltic Sea ecosystem

Expert article • 2123

**T**he recovery of the white-tailed eagle *Haliaeetus albicilla* (also known as sea eagle) at the Baltic Sea is a success story in environmental conservation. The species was strongly persecuted in the 1800's and early 1900's. It disappeared from many European countries and the Baltic Sea population declined to very small and endangered. Protection by legislation enabled a slow recovery, but population growth was restricted by environmental pollution in the 1950's – 1970's, in particular via the negative effects of the pesticide DDT on reproduction. While this was harmful for the birds, we owe them a great deal for revealing and warning us about the devastating effects of DDT and other major contaminants on the environment and human health.

The white-tailed eagle population has regained in numbers during the last decades, which can be attributed to the ban of DDT, ceasing of persecution and many intensive conservation measures. It has been a surprise for most people how fast the growth of the eagle population in the Baltic Sea coast has been. For example, in the Finnish coast it has increased from only a few nesting pairs in 1972 to nearly 400 known active territories. The eagles are now a fairly common sight almost anywhere near the coastline. It may thus seem that there is no need for any further conservation actions. However, it must be remembered how quickly both the physical and political environment may change, and how vulnerable species such as eagles are for such changes.

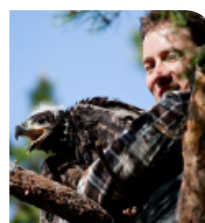
The Baltic Sea is one of the most polluted aquatic environments in the world, hosting still high concentrations of known major persistent contaminants as well as a plethora of emerging and yet unidentified pollutants. These pollutants typically enrich towards the top of the food chain, and therefore pose a risk of negative health effects on the white-tailed eagle and other species. Thus the indicator value of the eagles remains important in the future, too.

An acute current problem for the eagles is lead poisoning. One third of the white-tailed eagles found dead in Finland have died of lead, which they most likely get from lead ammunition in previously wounded prey individuals or in carcasses and gut piles that are left in nature after hunting. Even if the eagle population is growing, death from lead intoxication is traumatic and painful, and thus the issue is not only about conservation of the population but also animal welfare. Another typical cause of death are collisions with man-made structures such as power lines, traffic or wind turbines, which are increasing in numbers. Careful planning and preventive measures should be used as much as possible to avoid unnecessary collisions.

The political climate for the recovery of the white-tailed eagle population has generally been favourable. There are, however, concerns about how the increasing numbers of eagles affect their prey species. For example, the common eider *Somateria mollissima* populations have declined dramatically in the barren shores of the outer Finnish archipelago and the eagles have without a doubt played a role in this decline. This has raised mixed feelings among people that had gotten used to, and that would still favour, a high eider population. One thing to remember is that the white-tailed eagle is a natural predator in this area, and that the eider population increased manifold during the decades that the eagles were absent. Their population was thus at a level that they probably would have never reached had the eagles been present all the time.

On the other side of the coin, predation by white-tailed eagles may also have consequences that many local people are eagerly waiting for. They are the main natural enemy of the great cormorant *Phalacrocorax carbo*, which has had a very rapid population growth in the Baltic Sea that many stakeholders disapprove. It took a while before white-tailed eagle predation in cormorant colonies accelerated, but in 2016 already more than 20 eagles at once were seen in several cormorant colonies along the Finnish coast. Some have called the cormorant colonies "the McDonald's" of the eagles due to the apparent ease of feeding on cormorant chicks. Future will show how much the eagles will influence the development of the cormorant population.

The future of the white-tailed eagles is in our hands. Their existence and well-being are mostly decided by our attitudes and actions. As a top predator the white-tailed eagle will affect its prey species and potentially these effects cascade down the food chain. We should acknowledge that this is natural in a healthy food web even if some of the consequences may in some way be undesired. At the same time the top predator status ensures that the white-tailed eagle is a valuable indicator for the health status of the Baltic Sea ecosystem. ■



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# Social policy in Russia

Expert article • 2124

**A**cross Russia, the sudden emergence of large-scale poverty in the 1990s was exacerbated by the fact that the social welfare programmes inherited from the Soviet Union were inadequately focused on deprivation. The notion of 'targeting' state financial resources to individuals on the basis of material need was unfamiliar, and existing welfare programmes thus could not cushion shocks to income and well-being during the 1990s. Furthermore, since that time Russia has confronted the challenge of reforming its social protection systems in conditions of limited budgetary resources. Considerable resistance to change has also appeared from a range of stakeholders: public protests broke out across Russia in 2005 when the Government attempted to replace a range of subsidies and free benefits for pensioners, veterans and other groups with cash payments.

Russia has used budgetary reserves amassed from natural resources to raise pensions and social payments at regular intervals. Profits from oil and gas were deposited into a stabilisation fund, established in 2004. The fund, the value of which increased rapidly, was split into a Reserve Fund and a National Welfare Fund in 2008. In 2005, the Government launched national programmes on healthcare, housing, education and agriculture, to be implemented by the regional governors. Regions and individuals have to apply to take part in them.

The main elements of this policy were to regain and keep control over the oil resources and then redistribute a substantial part of the oil profits for socio-economic development. Regardless of their employment status, all individuals are eligible by law for a basic pension and free health care. This principle of universal coverage of the provisions is, however, accompanied with a low level of provision. Welfare has been financed by oil and gas revenues rather than tax revenues. This means that access to welfare services is not conditional upon formal employment and personal contributions. This also implies that individual taxpayers are alienated from the state and that government bureaucrats are not accountable to taxpayers. An additional problem is wide use of illegal workers, who are outside of social programmes.

A considerable part of social transfers, both regular and one-off payments, has gone to benefits for families without recognition of 'needs'. Until 2012, expenditures on social policy in Russia was adjusted for inflation. During 2013–2015 such adjustments were not made, despite an increase in inflation rates. Nevertheless, despite GDP falling in 2015, leading to considerable cuts in most budget expenditures, the budget for social policy was increased in nominal terms.

The formal conditions and procedures regulate who has the right to access social services. The financial distribution of social benefits has been the main means of regulating poverty. Resources allocated to poverty relief have generally, however, been insufficient, in as much as social benefits' payments fail to cover basic expenditures. It appears that social policy has not been primarily devoted to combating poverty, either at times of economic growth, or during times of crisis; instead, social support is regarded as a form of compensation for

increased costs. Although the National Priority Programmes included resources for social policies in Russia, they were not really aimed at improving the situation of the poor.

However, poverty has been affected in indirect ways. The 'maternity capital' reform, incorporating incentives for second and third children, is one of the most important ingredients. This programme was to be ended by the end of 2016, but president Putin subsequently announced the programme's extension until 2018. Federal programmes have also improved housing. Building activity has experienced a boost in many small localities, including family houses, as well as larger buildings for veterans and workers among others. Roads and pavements have also been repaired, and schools and houses of culture have received their share of increased state funding.

The foster family programme has enabled many married couples to take foster children and to earn a moderate income, making it possible to renovate and often extend their home. Kindergartens are also being built again in small towns and villages, after a 20 year break. Differences exist between communities, as some programmes, for example, the programme for young families, require participation and even co-funding from local authorities, and their activity varies from one community to another.

Transfers were rather stable in monetary terms during 2013–15. In 2015, 60 % of the Russian Reserve Fund was to be used to finance the budget deficit. The temporary solution of financing social policy through the Reserve Fund appears to provide a warning, however, that there will be further cuts in social expenditures to come, and that this could be harmful to parts of the Russian population. ■



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SEBASTIAN MAGIER

# Developing strategic youth policies in Baltic Sea Region

Expert article • 2125

Since its establishment in 1998 Euroregion Baltic (ERB) has been actively supporting and implementing projects and activities which targeted children and youth in a variety of cooperation areas in the Baltic Sea Region e.g. education and exchange activities. Youth issues in relation to cross-border cooperation have also been of high priority in most of the ERB member regions which therefore agreed that support to youth cooperation and creating a formal youth structure within Euroregion Baltic.

Created in 2008 the ERB Youth Board gives young people from all ERB member organisations a possibility to act through an internationally recognised cooperation platform, to use joint ERB financial resources and to participate in all ERB decision making processes. As such the Youth Board can not only promote youth perspectives across all ERB activities but also brings youth policies to the attention of ERB and all of its stakeholders, thus making it horizontal, cross-cutting elements in all ERB activities.

Thanks to the implementation of the Region Blekinge led YC3 – Youth Cross-border Cooperation and Communication project between 2009-2011 within the South Baltic Programme, the Youth Board became an effective platform for the youth cooperation within ERB and generated a number of positive results, e.g. facilitating intercultural dialogue, friendship, non-formal learning around 7 strategically selected themes, experience exchange, and personal development. Based on this success since 2013 the ERB has been working with new concepts that would better engage and empower youth as active stakeholders responsible for creating and implementing relevant policies on local, regional and macro-regional level.

These activities continued under the current Russian presidency in ERB held by the Kaliningrad Region, and led to the implementation of the CaSYPoT project – Capacity Building for Strategic Youth Policies and Transnational Cooperation currently being implemented in the Interreg South Baltic Programme, and CaSYPoT-RU which uses Swedish Institute funding for third countries to directly included Russian partners from Kaliningrad in all project activities. Both projects are led by the Regional Council in Kalmar County which will assume the ERB leadership in 2017.

The project employs the Swedish tool called LUPP (a local follow-up of youth policy), which is a survey that enables municipalities, urban districts or regions to gather knowledge on the living situation of young people in their area, as well as information on their experiences and opinions. The survey has become the core of a model for following up and developing a knowledge-based municipal youth policy. Aided by the knowledge from the survey, politicians and officials are able to set up measurable targets for municipal activities.

In Euroregion Baltic we have decided to use Lupp on the cross-border level to investigate if it might be used in the future as an effective input to the youth policy on a wider scale. In the project we would like to use the Lupp as a tool on the international level to include young people as a resource in creating of youth policy. Furthermore, the project will work as a capacity building instrument for municipalities, regions, cross-border networks and other relevant actors to allow them to create and develop similar initiatives on cross-border level in the Baltic Sea Region.

Our goal is to extend this strategic concept beyond ERB. After completing pilot surveys in Lithuanian, Polish, Russian and Swedish municipalities and analysing their results together with leading regional universities of Kant, Linnaeus, Gdańsk and Klaipėda, we will undertake to create a one integrated youth strategy for the entire ERB.

Parallel to this, the ERB has engaged in a strategic dialogue with two important Baltic organisations - Baltic Sea States Subregional Cooperation (BSSSC) and Union of the Baltic Cities (UBC), to develop a joint initiative that would allow to have an impact the entire Baltic Sea Region empowering youth and giving them real tools to change their future. An important result of this was the organisation of a BSSSC led youth seminar during the Annual EUSBSR Forum in Stockholm on 8<sup>th</sup> Nov 2016 entitled *Nothing About Us Without Us*, where young people urged political representatives to be directly involved in all fields of decision-making not just youth affairs. In an official joint statement after the seminar, young representatives of BSSSC, UBC and ERB demanded real inclusion of the youth and to be treated as a partner and not only a subject of complex policy tools on different levels of governance.

ERB hopes that both the project and seminars initiated this year will lead to more concrete actions and results next year, thus giving the youth a chance to shape their own future in the Baltic Sea Region. ■



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# Russian knowledge-driven investments in Finland

Expert article • 2126

**F**oreign direct investments (FDI) have a crucial role in present day economy in boosting economic growth. By the end of 2014, the value of Finland's inward FDI was €75.8 billion while the Russian FDI to Finland amounted to €1.2 billion representing less than 2% of the Finnish total inward FDI stock<sup>1</sup>. Looking at the Russian investments from the Russian perspective, the Russian FDI stock in Finland accounted for approximately 0.3% of the Russian total outward FDI stock<sup>2</sup>. Both percentages show that Russian FDI in Finland remains modest. Nevertheless, Russian companies have shown an interest in investing in Finland despite the sanctions on Russia (for instance, RosAtom's and United Shipbuilding Corporation's investment in 2014).

Russian direct investments have traditionally been related to natural resource industries in Finland, but some recent cases provide examples of more knowledge-driven investments. However, the amount of research on the topic is still limited. Therefore, in a recent publication, the Pan-European Institute studied Russian knowledge-intensive investment in Finland: the direct investment of the United Shipbuilding Corporation (USC) in the Arctech Helsinki Shipyard<sup>3</sup>. The main objective was to analyze the internationalization of knowledge-intensive Russian enterprises. Five sub-objectives of the study were based on the OLI paradigm<sup>4</sup> and its extension<sup>5</sup> aiming at responding the following five questions: 1) why (motives), 2) where (location), 3) how (mode), 4) who (capability), and 5) when (timing).

The main findings of the case study indicate that the motivation for the Russian investment was to acquire Arctic shipbuilding expertise, and the motivation, thus, was related to a strategic asset or capability-seeking motive. The location of the target country, Finland, did not have a major impact on the investment decision, instead it was the sudden investment opportunity that determined the location of the Russian investment. The investment occurred through a two-phased process: firstly, in December 2010, USC engaged in a joint venture with STX Finland, a subsidiary of the Korean owned STX Europe. Secondly, in 2014, USC bought the remaining shares from STX Finland and the enterprise Arctech Helsinki Shipyard turned

into a wholly-owned company of USC. The investment of USC demonstrated that the company's capability to engage in the foreign investment was good, and the joint venture agreement could be quickly signed. After the joint venture agreement was signed, the financial situation of STX Finland deteriorated, and its interest in continuing shipbuilding in Europe decreased. Consequently, the time was convenient also for STX Finland to sell the remaining shares. Furthermore, the investment timing was ideal at that time as Arctic business was experiencing rapid growth. The timing would probably be more problematic at present due to changes in the political climate and falling oil prices, among other things.

Referring to the earlier mentioned FDI figures from Russia to Finland, there are also investments not included in the figures. One example is the investment of the Russian technology company, Yandex, which runs the largest search engine in Russia. Yandex began the construction of a data center in Mäntsälä, Finland in 2013. The reason why this investment is not included in the figures is that Yandex invested in Finland through its Dutch subsidiary. Therefore, the investment is not regarded as FDI, but as an indirect investment. However, this investment is significant for the Finnish economy as its value is estimated in the media at approximately €80 million<sup>6</sup>.

All in all, Finland is an attractive country for data center investments. In addition to Yandex various global large enterprises have built data centers in Finland (for instance, Google, Microsoft). Global enterprises benefit from Finland's convenient location owing to its climate (low temperature and stable climate conditions) and position between Asia and other European countries. Furthermore, a reliable power grid and electricity supply, low electricity rates, fast and reliable Internet connections, high education as well as know-how in technology are considered advantages<sup>7</sup>. One may ask whether 'Yandex' investment is a knowledge-driven investment or whether it is more of a resource-seeking investment capitalizing on location advantages. In fact, it has characteristics of both. Certainly, the good infrastructure, stable climate conditions and cold weather as well as low-cost electricity play a large role in attracting investments, but also technological know-how is needed in operating data centers.

<sup>1</sup> Official Statistics of Finland (2015): Statistics Finland's PX-Web databases, [http://pxnet2.stat.fi/PXWeb/pxweb/en/StatFin/StatFin\\_\\_yri\\_\\_ssij/?tablelist=true](http://pxnet2.stat.fi/PXWeb/pxweb/en/StatFin/StatFin__yri__ssij/?tablelist=true).

<sup>2</sup> The Central Bank of the Russian Federation (2016): External Sector Statistics, <https://www.cbr.ru/Eng/statistics/?PrId=svs>.

<sup>3</sup> Liuhto, K. & Aro, E. (2017): Russian Direct Investment in Finland: Empirical Evidence from a Knowledge-Driven Investment, in *The Russian Economy and Foreign Direct Investment*, K. Liuhto, S. Sutyrin & J-M F. Blanchard (eds.), Routledge, New York.

<sup>4</sup> Dunning, J. (1977): Trade, Location of Economic Activity and the Multinational Enterprise: A search for an eclectic approach, Macmillan, London.

<sup>5</sup> Eden, L. (2003): A critical reflection and some conclusions on OLI, in *International Business and the Eclectic Paradigm: Developing the OLI framework*, J. Cantwell & R. Narula (eds.), Routledge, London.

<sup>6</sup> Sinervä, J. (2014): Datakeskuksen hukkalämpö lämmittää jopa koko Mäntsälän, [yle.fi 24.10.2014, http://yle.fi/uutiset/3-7550739](http://yle.fi/uutiset/3-7550739), retrieved 14.12.2016.

<sup>7</sup> Invest in Finland: A proven haven for safe Data Centers, <http://www.investinfinland.fi/data-centers>, retrieved 14.12.2016.

Expert article • 2126

The mentioned two cases, the Arctech Helsinki Shipyard and Yandex, show that Russian investments in Finland have diversified, expanding from investments based on natural resource industries to more knowledge-driven investments in various sectors. Furthermore, the Yandex investment indicates that foreign indirect investments also constitute an important aspect of Russian knowledge-driven investments in Finland. Nevertheless, research on Russian indirect investments is scarce and should be studied in more detail in future researches. ■

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A more comprehensive discussion on Russian knowledge-driven investments is available in the new book *The Russian Economy and Foreign Direct Investment* edited by K. Liuhto, S. Sutyrin, J-M F. Blanchard. For more information, please visit: <https://www.routledge.com/The-Russian-Economy-and-Foreign-Direct-Investment/Liuhto-Sutyrin-Blanchard/p/book/9781138121263>

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**BALTIC RIM  
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KARI LIUHTO

# Finland's nearly 100-year-old economic relations with Russia

Expert article • 2127

**O**n the 6<sup>th</sup> of December 2017, Finland celebrates its 100-year independence. During these 100 years, Finland's economic relations with its eastern neighbour have experienced ups and downs. After the First World War, the share of Russia in Finland's trade plummeted. The reason for such a catastrophic fall was the First World War, which ended the traditional trade relations of Finland with western countries and forced Finland to focus on trading with the Russian mainland instead. After the October Revolution in 1917 and the Russian Civil War that Communism and the socialist revolution brought about, Finnish trade with Russia collapsed. Russia adopted the New Economic Policy (NEP) at the beginning of the 1920s, which help Finland to increase its trade with the Soviet Union for nearly a decade. The introduction of the centrally planned economy on the eve of the 1930s and the economic autarky policy the USSR adopted pushed Finnish-Soviet trade into a decline once again (see the graph after the text).

Approximately three months after the Molotov-Ribbentrop Pact was signed in August 1939, the Soviet artillery fired on its own troops in the town of Mainila near the Soviet-Finnish border, and hence Stalin got his excuse to start a war against Finland a few days later<sup>1</sup>. After Finland's war against the Soviet Union finally ended in 1944, Finland was forced to pay financial compensation for the war to the USSR in order to secure its independence and to avoid the fate of the Baltic States, which were occupied by the Soviet Union after the war. The war indemnity was the main reason why the Soviet share of Finnish foreign trade jumped so dramatically immediately after the war. The last payment of Finland's war reparations to the USSR was made in 1952. It is worth observing that the Soviet share of Finnish foreign trade began to increase after the war indemnity, the main reason for the increase being the introduction of the clearing trade system between the USSR and Finland in 1950. The Soviet share of Finnish foreign trade remained somewhat stable until the Perestroika era in the mid-1980s, when Fenno-Soviet trade relations began to shrink due to a shaky Soviet system.

Finnish-Russian trade recovered rather fast from the collapse of the clearing trade in 1990 and of the Soviet Union a year later. In approximately 15 years from the collapse, Russia already accounted for more than 10 percent in both imports and exports of Finland. In fact, Russia's share in the Finnish imports reached nearly 20 percent due to high oil prices in the beginning of this decade. In turn, the Russian share in Finnish exports started to decline already in the spring of 2013. If one excludes the monthly growth in December 2013 (+0.48%), one can conclude that Finnish exports to Russia constantly declined from April 2013 to August 2016, when a modest growth of 2 percent emerged. The growth does not seem to be solid yet, as September brought a decline of 3 percent in the Finnish exports to Russia.

<sup>1</sup> The Soviet aggression towards Finland began without a formal declaration of war. As a consequence of the unjustified war, the USSR was dismissed from the League of Nations two weeks later. Russia's learned historians, citizens and politicians nowadays acknowledge the true historic path which caused the war between Finland and the Soviet Union.

A slight growth in the number of nights spent by the Russian tourists in Finnish hotels could be observed in September 2016 for the first time after the introduction of the Western sanctions on Russia and Russia's countersanctions on the West. Even if the sanctions do not play any role in determining the travel choices of normal Russians abroad, one should acknowledge the fact that the price of oil has dropped simultaneously with the sanctions, and as a consequence the exchange rate of the Russian rouble has declined, making the foreign travel by Russians far more expensive than prior to the Ukrainian crisis.

As some deliberately misleading reporting on Finland's economic dependency on Russia and Finland's attitudes to the EU sanctions on Russia can be found, a few words are needed about the real state of Finnish-Russian economic relations in order to correct any possible misunderstandings ([https://www.researchgate.net/publication/310466129\\_Russia%27s\\_changing\\_economic\\_interaction\\_with\\_the\\_Baltic\\_Sea\\_region\\_after\\_the\\_escalation\\_of\\_the\\_Ukrainian\\_crisis\\_pp\\_139-161](https://www.researchgate.net/publication/310466129_Russia%27s_changing_economic_interaction_with_the_Baltic_Sea_region_after_the_escalation_of_the_Ukrainian_crisis_pp_139-161)).

In September 2016, just 5.5% of Finland's exports went to Russia. In other words, countries such as Germany (13.6%), Sweden (10.7%), the USA (7.5%) and the Netherlands (6.4%) are ahead of Russia in Finnish exports. In terms of imports, Russia represents a little more than 10% of Finland's goods deliveries from abroad. When estimating Finnish dependency on the Russian imports, one should not forget that Finland imported nearly 15 million tonnes of crude oil and oil products last year. In this context, one should also keep in mind that Finland's own oil product exports reached nearly 7 million tonnes, though Finland is not an oil producer, but refines Russian crude oil instead. While having stated the aforementioned, one should acknowledge that approximately 80% of the crude oil utilised in Finland originates from Russia, 100% of the country's natural gas comes through one double trunk line from Russia, a third of the uranium consumed by Finnish nuclear power stations and a significant proportion of the coal imported to Finland arrives from Russia. As a whole, Russia is a strategic energy provider to Finland, and remains so, despite the Balticconnector gas pipeline to be completed by the end of this decade. When assessing the importance of Russia as future energy supplier to Finland, one should not forget that the Fennovoima nuclear power station is planned to be constructed by the mid-2020s and that Russia's state-owned Rosatom owns a third of the project.

Even if Russia is a strategic energy partner for Finland, Russia is not a significant source of foreign capital for Finland or major destination of Finnish investments. Less than 2% of Finland's inward and outward foreign direct investment stocks are linked with Russia. Although Russia is not a significant investment partner for Finland, Finland is one of the major destinations for Russian tourists abroad. According to the Federal Agency of Tourism of the Russian Federation, approximately 3 million Russian tourists visited Finland in 2015, equalling nearly 10% of all the Russian tourist trips abroad.

The Russian tourists are even more important to Finland than to Russia, as the Russian tourists are responsible for a half of the tax-free shopping in Finland.

Finland's external economic relations have experienced several turbulent periods during the past 100 years. Turbulence has always led to a collapse of the Finnish trade with Russia. On the other hand, the bilateral trade has flourished during peaceful and predictable years. Unfortunately, however, the unlawful annexation of Crimea to Russia reveals that the even close bilateral economic relations do not prevent Russia from exercising its aggressive foreign policies towards a country if the Kremlin chooses to do so. On the contrary, Russia may use close bilateral economic ties, i.e. the economic dependency on Russia, as a foreign policy tool even against "a brotherly nation". Therefore, Finland should not trust too much on the influence of the bilateral trade and investment ties with Russia as being a guarantee of peace and stability. While having expressed my reservations on power of economic interdependency, Finland should definitely maintain its active dialogue with Russia through university cooperation, environmental cooperation, city cooperation, medium-sized enterprise cooperation and tourism cooperation.

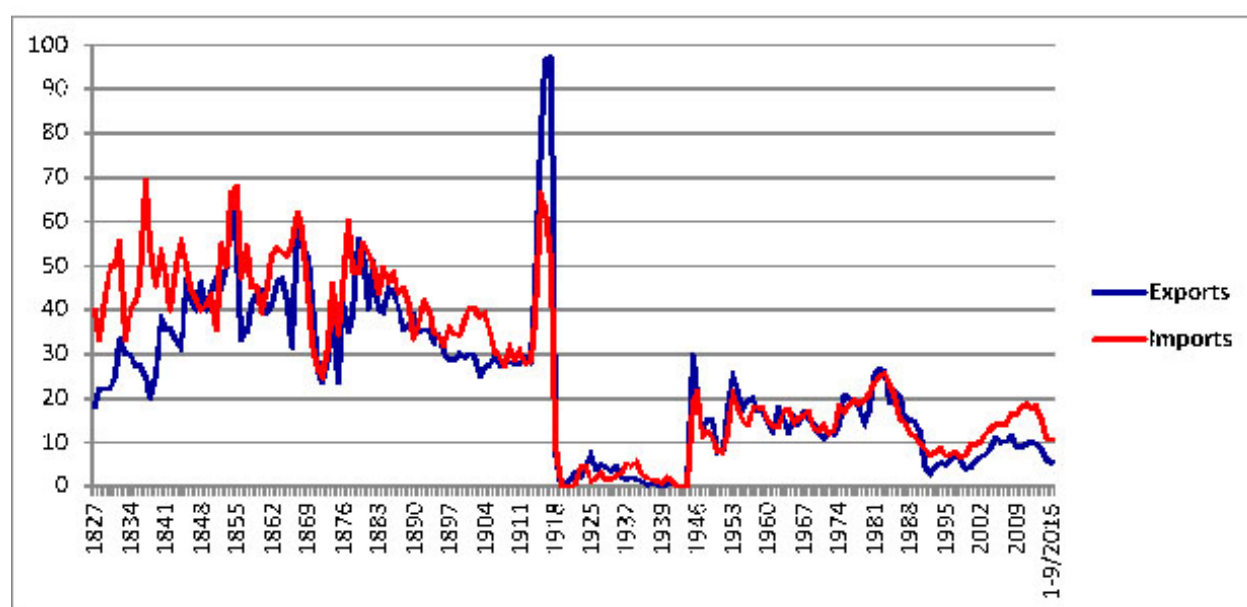
Although Finland should base its future relations with Russia on dialogue and cooperation, the increase in Russia's military budget since the year 2000, the recent holding of several major military exercises in Russia and the reinforcement of military units in the proximity of the EU-Russia border all increase uncertainty concerning Russia's future plans. Therefore, Finland together with all the other Baltic Sea states ought to invest more in its defence capabilities, and Finland should soon make up its mind whether it is better off alone or as a member of NATO. Theodore Roosevelt, president of the United States from 1901 to 1909, once said: *"In any moment of decision, the best thing you can do is the right thing, the next best thing is the wrong thing, and the worst thing you can do is nothing"*. ■

A new book on foreign investment to/from Russia published by Routledge.  
<https://www.routledge.com/The-Russian-Economy-and-Foreign-Direct-Investment/Liuhto-Sutyin-Blanchard/p/book/9781138121263>

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Share of Russia/the Soviet Union in Finland's external trade since 1827



Sources: ETLA, Customs Finland



# BALTIC RIM ECONOMIES

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