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**THOMAS BAREIB**

EU tourism:  
Through the  
crisis and beyond



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POZNAŃSKI**

Towards the true  
Balticness



**MINDAUGAS  
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Emerging role of  
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Corona changes  
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# 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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THOMAS BAREIB

# EU tourism: Through the crisis and beyond

Expert article • 2803

**T**ourism is one of the first and most strongly affected sectors hit by the COVID-19 crisis. It is a key economic factor both in Germany and across the EU. Given its diverse cross-sector linkages along the value chain and its impact on other sectors, tourism constitutes one of the most important economic ecosystems within Europe. Before the crisis, more than 12% of Europe's inhabitants depended on tourism for their livelihood, and 10% of the EU's gross domestic product was directly or indirectly generated by 3 million tourism companies. Travellers from non-EU countries make up roughly 6% of the EU's total exports, forming the fourth largest export category.

However, European tourism is currently facing the worst crisis in its post-war history – the coronavirus pandemic. Companies of all sizes are having severe cash flow problems. Annual turnover in the EU's tourism sector might slump by 86% to 90% this year. Six million jobs – almost a quarter of all tourism-related jobs before the crisis – are at risk. Europe's cities, in particular, are still missing the usual influx of holidaymakers and business travellers.

Thanks to the concerted efforts of EU Member States and the support of the European Commission, the first steps were taken in May towards a gradual revival of the tourism sector. When the EU's internal borders were reopened in mid-June, summer holidays in Europe finally became possible. Also, from 1 July 2020, people from initially 15 third countries were able to travel to the EU again for holidays and visits. Thus, Europe made its comeback as the world's most important travel destination.

The free movement of persons is and will continue to be a valuable asset of the EU that must be preserved. Our efforts therefore remain focused on reducing travel restrictions to a necessary minimum. All measures taken with a view to containing the pandemic need to comply with the principles of proportionality and non-discrimination. Mid-October marked an important moment when the General Affairs Council adopted a recommendation on a coordinated approach among Member States to the restriction of free movement, following a proposal made by the European Commission. The heads of state and government have signalled their support for this approach and intend to agree on further steps of action regularly as the situation evolves.

If tourism is to have any prospects for the future, it is vital to regain trust in safe travel destinations and travel routes, and to restore reliable conditions for planning. This is the only way that Europeans' desire to travel can be revived.

However, ensuring people's safety and protecting their health always remains our top priority.

Therefore, the rapid rise in infection rates we are witnessing at present is making it increasingly difficult for political leaders to strike a balance between containing the pandemic and maintaining economic life. The majority of Member States, including Germany, have again opted to take further drastic action for the time being, imposing severe restrictions on public life and introducing measures that once again

are making themselves particularly felt by the hospitality and travel sectors.

The short-term objective for tourism is to safeguard jobs and businesses in the EU and to protect successful structures.

Both Member States and the European Commission have responded quickly to mitigate the negative economic impact of the crisis. I am grateful that good cooperation among Member States and the involvement of the Commission have permitted close coordination even in these times of crisis. To some extent, Europe has in fact become more united as it continues to cope with the crisis. We have mobilised the available tools for supporting companies and protecting jobs. On 21 July 2020, the heads of state and government of the EU agreed on the next Multiannual Financial Framework and the recovery instrument entitled 'Next Generation EU'. This is a comprehensive package worth some 1,800 billion euros. It is now important to rapidly bring the negotiations with the European Parliament to a successful conclusion so that funding can be paid out quickly to support the recovery process and enhance the resilience of the European economy, including the tourism sector.

It is my profound conviction that people's desire to travel, to discover the world and to experience foreign countries and cultures through personal encounters will be greater than ever once the pandemic has been overcome. Therefore, I am confident that the post-crisis world will hold a lot in store for the travel industry, allowing entrepreneurs and their employees, who will be passionate about receiving guests with great professionalism again, to build on the success of the past." ■



THOMAS BAREIB

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CATHERINE TRAUTMANN

# The EU Green Deal: A call for an ambitious TEN-T policy

Expert article • 2804

**D**uring this year, the Covid-19 crisis has reminded us how vitally we depend on well-functioning transport systems on a daily basis. It has also given us a clear signal that we need to continue to work on the future of Europe's transport system so that it can quickly recover from the impact of this crisis and be more modern, sustainable and smart. The EU needs to set out respective reforms, implement policies and actions to support the transport sector in the twin sustainable and digital transitions, while at the same time boosting its resilience against future shocks. The recovery from the crisis represents a major opportunity for shaping the Europe of the future.

The well-functioning Single Market is a crown jewel of the European Union that needs to be constantly developed and upgraded. We need to address the bottlenecks and missing links in our strategic transport network, the TEN-T, so that the full potential of this common space would be realised. To achieve this, the EU is providing innovative tools and extraordinary financial means to 'react and recover'. Based on the Commission's proposals, the European Council and Parliament agreed on an EU budget of historic nature and scale. It will be the primary tool at the European level to kick-start our economies and drive our recovery towards a more resilient, green and digital Europe through public investments. Member States are called upon to make wise use of this opportunity. Investments in a greener transport system and improved cross-border connectivity should be part of each national recovery plan.

Today the transport and mobility sector is responsible for around 25% of the GHG emissions and over the last years the numbers have rather increased than decreased due to strong demand. If the sector is to grow in the future, it needs to lower its environmental footprint.

Europe has a clear climate ambition and the transport and mobility sector needs to play a part in it. We need a clear path if we want the sector to achieve a 90% reduction in transport-related greenhouse gas emissions by 2050 and help the EU become the first climate neutral continent.

The decarbonisation of transport will require a significant improvement in the efficiency of the overall transport system and a proactive promotion of sustainable alternative fuels as well as rapid uptake of zero- and low-emission vehicles. At the same time, we need to maintain and improve accessibility levels for all regions in Europe.

Infrastructure and mobility is of crucial importance for the wellbeing of societies in Europe and perhaps even more so in the Nordic area, bearing in mind its particular geographic and demographic situation. From the EU perspective, we have established a very clear European policy approach to connectivity in the region through the TEN-T core and comprehensive network, including its strategic core network corridors.

In 2018, the Commission proposed to extend the North Sea-Baltic Corridor and the Scandinavian-Mediterranean Corridor so that they would meet at the end of the Bothnian gulf, as well as adding the

connection from Luleå to Narvik to the Scandinavian-Mediterranean Corridor, thereby providing access to the Arctic Ocean. This will become a reality as of 2021, upon final adoption of the new Connecting Europe Facility.

The Arctic region is growing in importance and there is a need to ensure efficient connections to develop the untapped economic potential of the North, in a responsible manner. Together, the planned investments in the Finnish rail network and their continuation with Rail Baltica in the Baltic States and Poland are paving the way for taking full advantage of the emerging Arctic Corridor.

The European Commission has also started looking at potential changes in transport and mobility patterns that should be reflected in the revised TEN-T policy, to be presented next summer. One of the main goals of the revision will be to bring the TEN-T guidelines in line with the goals of the European Green Deal – to cut greenhouse gas emissions from the transport sector by 90% by 2050.

Based on the Commission's new Strategy for Smart and Sustainable Transport, the revision of the TEN-T guidelines needs to include ambitious measures aimed at significantly reducing CO<sub>2</sub> and pollutant emissions across all modes. It will need to exploit digitalisation and automation, enhancing connectivity to the next level and last, but not least, ensure safety and accessibility.

The Core Network Corridors provide an ideal framework for cooperation on all of these topics across national borders and across the different modes of transport. The Corridors can act as test-beds for new technologies, connecting systems and services, as well as facilitating knowledge exchange and cooperation through living labs. This should be further embedded in the TEN-T policy, which needs to keep abreast with the fast pace of technological developments. In this way, we will be able to show the added value of European cooperation in the most concrete way to our citizens, and refuel their confidence in a better future. ■



**CATHERINE TRAUTMANN**

European Coordinator of the North Sea-Baltic Corridor  
Former Minister and Member of the European Parliament

VILLE TAVIO

# Nordic EU criticism rising

Expert article • 2805

Throughout the second half of 2020, the most important non-COVID-19 topic in European politics has been EU's 750 billion "recovery fund". In carefully crafted rhetorical speeches the fund is justified by the ongoing coronavirus situation, but actually this virus is utilized as an excuse to distribute 390 billion euros as grants and 360 billion in loans. The conditions for getting money from the fund have little to do with the epidemic.

While the coronavirus situation and its financial consequences should of course be taken seriously, one has to wonder this elephant in the room: Transferring 750 billion euros was planned without referendums, and while the very rules of the European Union are stretched to their extreme limits, probably even broken. Why are the member states so silent about all this?

More precisely: Why are the Baltic Sea region countries so silent? The Baltic Sea region countries are financially stable and rather well-to-do members in the European Union, while big receivers of the recovery scheme would include Southern European countries like Italy and Greece. The final and exact numbers for each country remain unclear for now, but the fund was planned to be created by a loan that the Commission would take from markets. Following this, the regular membership payments of the member states would increase and the loan would eventually be paid back from the Union's budget. In overall, the fund plan is turning the EU into a socialist income redistribution union.

The Baltic Sea region could greatly benefit from a real free-trade area, call it EU or something else. Unfortunately, the current situation of the EU is getting closer to socialism than free trade. This is a direction that the Baltic Sea region must oppose for its own prosperity.

The core issues in Italy's economics, for instance, are in the political and societal system, not in the coronavirus. The recovery fund is like having Northern European countries pour water into the dry wells of the South. After a while, another "exceptional" funding will be needed again.

The first bailout of Greece was supposed to be a unique arrangement that will never happen again. The same was said about the bailout of Portugal, the second bailout of Greece, and so on. We already know the script very well. Perhaps that is why the German Finance Minister Olaf Scholz boldly said in August 2020 that the European Union's recovery package is a long-term measure rather than just a short-term coronavirus crisis fix. Although my opinion on the new fund differs from Scholz's, I appreciate his honesty.

One has to wonder if the current Union is what people in the Baltic Sea region wanted and expected when they joined the European Union. Finland and Sweden joined the EU in 1995. Estonia, Latvia, Lithuania and Poland followed in 2004. Denmark has been in the EU since the 1970s and Germany since day one. In 2020s, the time is ripe for asking a fundamental question: Is this the same Union that we joined long ago?

The Union has traditionally been against joint debt, but not anymore. Both the Union and its biggest members have spoken against joint debts, but with the historic 750 billion recovery scheme, leaders have shown green light. This is a turning point for the EU, as important as the Treaty of Lisbon.

Financial aid for mainly Southern European countries is advocated as an investment. For Finland, different bailout deals are already our biggest investment after the World War II. When one adds the regular EU membership fees to the calculation, being in the EU is one expensive investment.

Some Baltic Sea region countries are still on the receiving side of EU's internal money circulation, but this may change when the euro crisis goes further on.

The Baltic Sea region countries must speak louder about their own interests. Some of the region's countries are relatively small, but together we can achieve more.

In the recovery scheme negotiations we all noticed an alliance called the Frugal Four. Together those four EU members had more authority and influence in the recovery fund negotiations than they would have had as solo players. If the Baltic Sea region countries form a similar cluster, we can better achieve our national and shared goals in Brussels and Strasbourg. ■



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GRZEGORZ M. POZNAŃSKI

# Towards the true Baltiness

Expert article • 2806

**E**stablished in 1992, the Council of the Baltic Sea States (CBSS – [www.cbss.org](http://www.cbss.org)) is an intergovernmental political forum for cooperation in the Baltic Sea region. Our work is guided by three long-term priorities: regional identity, a sustainable and prosperous region, and a safe and secure region. “*Building cooperation and trust*” is our motto and the way we operate.

Working closely with other regional organizations and platforms - such as Baltic Sea Parliamentary Conference, EU Strategy for the Baltic Sea Region, Northern Dimension Partnerships, HELCOM, VASAB, CPMR-BSR, BSSSC, UBC and many others - to achieve the goals of a region that develops in a sustainable and innovative way, builds resilience of its societies and economies caused by climate change and other crises such as the recent COVID pandemics. All this can only be achieved if we build a proper sense of regional identity or “Baltiness” at different levels - political, social, economic and local.

The very term “Baltic identity” is understood in many ways, sometimes causing confusion. If it is understood that we should all be the same (identical), then of course we fall into a dead-end trap. We are different in our Baltic Sea region. We had different histories, cultures, languages, and despite globalization, we have different economies and even education systems. We often look at supposedly obvious facts from different perspectives, understanding their meaning in different ways. Therefore, in the CBSS, we continue to help our member states learn about the history, culture, and heritage of the Baltic Sea region. Because only through such dialogue can we bring nations closer together.

The real meaning of our Baltic regional identity, “Baltiness” for short, has been mastered over 30 years of regional cooperation. The true Baltic spirit allows us to be practical in working towards achieving our ideals. Our Baltiness also helps us to be innovative not only in terms of technology and economics, but also in creating new organizations and cooperation platforms. The power of the Baltic networking skills cannot be overstated.

But our Baltic character is not only about being pragmatic and innovative, and effective cooperation in building cooperative networks. The real test is our approach to the most vulnerable groups in our societies: children (especially those at risk of violence), the elderly (and their desire to remain an active part of our societies), victims of human trafficking (often at risk of forced labour), economic and social exclusion). In our work at the CBSS, we pay special attention to these challenges with our specialized units and experts: the Children at Risk Unit (CAR) and the Task Force for Preventing Trafficking in Human Beings (TF-THB). Our Sustainable and Region Prosperity team is vigorously working on the Sustainable Working Life project as part of the CBSS Baltic Labour Forum, which aims to improve the employability and working life of older people.

But most importantly, we understand that the better world we are trying to build is for future generations. We strive to make the voice of future generations heard. We also promote the involvement of young people from the Baltic Sea region in discussions and - if possible - in decision-making processes. Through our Baltic Sea Youth Platform (BSYP) and the Baltic Sea Youth Dialogue (BSYD), we want their voice to be strong and meaningful. It is also the best school

of building bridges and cooperation between different shores of the Baltic Sea. Representatives of young people from all CBSS countries - EU countries, Norway, Iceland, and Russia participate in the BSYP meetings. That is why we are investing in the Summer Baltic Sea Universities, the Baltic Sea Science Network and other educational projects - because it is important to embed the Baltic spirit in our education for the future. Through the “ChYResilience” project run by the CBSS Secretariat, we aim to enable children and young people to play an active role in contributing to social resilience and to remove barriers to their active involvement in prevention, preparedness, response and recovery. We are deeply convinced that one day children and young people will build further cooperation and trust and make our region even safer, more prosperous and sustainable. And in the coming decades, let's take our Baltiness to higher levels.

In the CBSS we say: “*water connects us, but culture unites us*”. Let me reformulate this sentence and say: *Baltic Sea connects us, but Baltiness unites us!* ■



GRZEGORZ M. POZNAŃSKI

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DIRK SCHUEBEL

# EU-Belarus relations in full crisis mode

Expert article • 2807

The prospects for EU-Belarus relations looked reasonably good when I took office as Head of the EU Delegation to Belarus in early September 2019. I presented my letter of credentials to President Lukashenko already four days after my arrival. At that time, both sides were engaged in an overall open-minded dialogue, while the EU never ignored the dire situation on the human rights front.

This opening was triggered by the release of the by then last political prisoners in August 2015. The Presidential elections in that year, while far away from being free, fair and democratic, were not accompanied by any violence by the authorities against peaceful demonstrators.

Consequently, the EU lifted most of its sanctions in place, agreed, in the absence of a bilateral agreement between the EU and Belarus, to launch talks on legally non-binding Partnership Priorities, and set up a regular discussion forum called EU-Belarus Coordination Group. Several sectoral dialogues were relaunched. It equally provided active assistance to Belarus' WTO membership application, doubled its bilateral financial assistance to about 30 million Euros per year and opened EIB and EBRD operations to the Belarusian public sector.

The 9 August 2020 Presidential elections and its aftermath put an end to the EU policy of critical engagement. It is not that the EU had not expected any difficulties in these elections but no one could foresee that they would become a turning point in Belarus' short independent history.

The EU was very pro-active: In the run up to the elections, on our initiative, a joint statement by the local EU-US-UK missions was issued in early June outlining what the west would expect from the authorities before, during and after the elections. Unfortunately, our demands were not followed up by the authorities. On the contrary, potential and actual candidates for President were harassed, arrested based on made up allegations or forced to leave the country. OSCE/ODIHR was unable to observe the elections, since no timely invitation was issued to them by the authorities. Half a dozen statements by different levels of EU officials up to President followed to make the authorities aware that the EU closely followed the events.

On Election Day, when the official result of 80% for the incumbent President was published, it became obvious that the elections had been massively falsified. Independent vote counting saw Tikhonovskaya clearly in the lead, with a possible absolute majority of votes, and with Lukashenko trailing behind. Again, the EU reacted with an immediate clear statement by HRVP Borrell condemning the falsifications and outlining it would not recognise the official result of the elections.

However, the worst was still to follow: When many thousand Belarusians took to the streets to protest against the falsifications on election night and the days after, they were met with unprecedented violence by law enforcers; thousands were arrested and hundreds tortured.

Following these dramatic developments, the events in Belarus were discussed at both extraordinary meetings of the EU Foreign Affairs Council and of the European Council in the middle of August. Both Councils condemned the actions by the Belarusian authorities, reiterated that the elections would not be recognised by the EU, demanded an immediate end to the violence against peaceful protesters and the release without delay of all political prisoners as well as the launching of a national dialogue with civil society including the newly established Coordination Council. Given that the violence continued by the authorities, in particular at the by now regular impressive Sunday demonstrations, a first package of sanctions was adopted in September and a second one, which includes Lukashenko, followed in October. 59 officials are on the list by now.

It should be noted, while the EU obviously always hopes that those officials under sanctions will change their behaviour, sanctions are not a means in itself. Sanctions are in the first place for the EU the most adequate means to demonstrate strong disagreement with the actions of certain political players.

What is next? Already at the August informal Gymnich meeting of the EU Foreign Ministers, the Ministers tasked the relevant EU services to carry out a stocktaking exercise of and to revise EU-Belarus relations. By the time of writing, the internal discussions are still ongoing but it can be safely assumed that in the absence of a clear improvement of the human rights situation in the country relations will be considerably downgraded, including on financial cooperation.

However, the EU is also working on an alternative scenario, in case serious democratic reforms will come to fruition in Belarus. The EU will no doubt stand ready to provide considerable political and financial support for such reforms to be a success. ■

*This article reflects the personal views of the author and not of the institution he represents.*



DIRK SCHUEBEL

Ambassador

Head of the EU Delegation to Belarus

THOMAS BEYER

# Wismar – aspiring world heritage city on the Baltic Sea coast

Expert article • 2808

The Hanseatic City of Wismar lies on Germany's Baltic Sea coast, in the federal state of Mecklenburg-Western Pomerania, at the southern end of the Bay of Wismar, which is protected by the island of Poel. With approximately 43,000 inhabitants, it is the sixth-largest city in the federal state of Mecklenburg-Western Pomerania, with an interesting historic centre, and is an important industrial location with an efficient and competitive port.

The first mention of the Port of Wismar in a document took place in 1211, more than 800 years ago, making it a whole 18 years older than the oldest written testimony to the existence of the city of Wismar, from 1229!

This makes clear that the protected Bay of Wismar was ideal for the creation of a port and then for the foundation of a city and that Wismar owes its emergence to the port. The port was there first; only then did the city emerge. Through all the generations, the port was a lifeline of Wismar, important for trade and commerce, for the livelihood and – if not always – the prosperity of the inhabitants.

Through the centuries, the port has constantly changed and has been adapted to the respective needs of the time. However, one thing remained largely unchanged, namely the form and location of the quay in the Old Port, the port that was mentioned for the first time in 1211. Thanks to it also, Wismar (the historic centre with the Old Port) was adopted by UNESCO into the list of world heritage, the heritage of humanity, in 2002.

While today the Old Port is mainly used for outing and leisure shipping as well as fishery, the turnover of goods takes place in the neighbouring, newer port basins of Seehafen Wismar GmbH. Modern facilities have emerged there in the last few years and decades, as always before according to the current needs of maritime transport and Wismar's business and industry.

Without the port, most of the industrial settlements of the last few decades that have brought many jobs and acquisition opportunities to Wismar and the region would not have been able to take place. Thus, the port remains – and no doubt will continue to be – a lifeline of Wismar.

Wismar was an early member of the "Hanse", the federation of German long-distance trading cities, and blossomed in the Late Middle Ages, which is still testified to today by many listed Gothic buildings. After the Thirty Years' War, in 1648 Wismar came under Swedish rule, which lasted until 1803 (de jure 1903). In 1903, Wismar was finally returned to the then Grand Duchy of Mecklenburg-Schwerin, which today is part of the federal state of Mecklenburg-Western Pomerania.

In the Second World War, the city was hit by several bomb attacks, which particularly affected the Gothic Quarter with the main churches of St Mary and St George as well as the Old School. The damage was great, but not destructive. In 2002, the historic centre, together with the historic centre of Stralsund, was adopted into the UNESCO world heritage list as the "Historic Centres of Stralsund and Wismar". The

Historic Centres are prime examples of the developed Hanseatic city from the heyday of the League of Towns in the 14th century.

The industrialisation of the city particularly began in the second half of the 19th century, when machine and vehicle construction businesses were established. These were joined, in particular, by aeroplane construction in the 1930s, which ended again in 1945. Then, after the Second World War, the industrial focus shifted to shipbuilding. Today, shipbuilding, machine construction and plant construction continue to play a major role. However, since the 1990s they have been complemented by large wood-processing businesses. These wood-processing businesses, in particular, make considerable use of the Port of Wismar to receive their raw materials (trunk wood) and ship their products.

As the southernmost German Baltic Sea port, the Port of Wismar possesses an ideal location for the goods flows in the Baltic Sea, Germany and throughout Europe. Here, the north-south traffic between Scandinavia, the Baltic States, Russia and Central Europe find excellent connections for transportation by road, rail and sea. To this end, the port has 17 berths with 2,830 metres of quay length and 23.6 km of its own trackage, with a total surface area of around 66 ha. Across all modes of transport (ship, rail and road), approximately 8 million tonnes of goods are turned over each year.

In the last 15 years or so, Wismar has also developed into a small but sophisticated destination for cruise ships. Wismar has its own berth for cruise ships, from which the passengers can reach the nearby historic centre on foot.

In 2011, Wismar celebrated the 800th birthday of its port; in 2029, the city's 800th anniversary will be celebrated. The people of Wismar have always shaped the development and future of their city, as they continue to do today. Wismar, an aspiring world heritage city on the Baltic Sea coast. ■

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MARC OZAWA

# Biden's response to Russia

Expert article • 2809

On January 20th Joe Biden will be sworn in as the forty-sixth president of the United States, and US-Russia relations will be in the spotlight of both international and domestic politics once again. Having focused on securing a second term for Donald Trump during the campaign, Russian covert operations will be targeting social and political divides to sow as much discord as possible during the final months of Trump's presidency. Inflicting the maximum damage will be aimed at stoking chaos, rendering the Biden presidency ineffective, and inhibiting the ability of the United States to play a leadership role on the world stage. Given the multiple congressional reports and testimonies by FBI and Homeland Security directors, this should come as no surprise to the incoming administration. However, there will be a temptation particularly in the first few months for Biden to retaliate with haste, and this would set the trajectory of US-Russia relations for years to come. President-elect Biden has said as much in his campaign that "my message to Vladimir Putin is that if I get elected, I'm coming."

It will not be the first time that a Russian-attacked, democratically elected head-of-state will have to decide which penalties to inflict for election meddling. There are multiple examples in Europe, but none that have the geopolitical ripple effects comparable to the United States. Therefore, it will be all the more important for the president-elect to carefully calibrate the right response. Despite Russia's actions, a measured and nuanced policy will be imperative, one that not only protects the US and allies from further election attacks but also deals with the international developments that are currently undermining cohesion in the transatlantic alliance. Biden's policy on Russia needs to address three levels simultaneously – bilateral relations with Russia, the international environment, and the domestic arena. At the international level, the driving factors will be NATO, relations with the EU, and China. A balanced policy will be critical because a new administration presents the opportunity to introduce a degree of stability into the geopolitical environment, which has been critically lacking in recent years, to Russia's advantage no less. Likewise, the Biden presidency will allow the US to resume a leadership role even while dealing with the multiple domestic challenges that the new president will face on day one.

Experience has shown that the United States and Russia are capable of cooperating even in times of high tension, this ability being born from the constraints of Mutually Assured Destruction and fine-tuned in the final decades of the Cold War. No doubt that Biden will be under immense pressure from politicians on both sides of the aisle and a large segment of the US population, to retaliate in kind – for "a breach of sovereignty" in the case of the former and as payback for the perceived excesses of the Trump presidency for the latter. The challenge will be in identifying an approach that invokes a sufficient penalty on Russia thereby addressing calls for retribution while not irrevocably damaging future prospects for cooperation or threatening military escalation. Strengthening sanctions is a starting point, which Russian leadership will no doubt be expecting. In light of the previous round of sanctions for the annexation of Crimea, it is clear that sanctions are at least painful enough for the Kremlin to mount a campaign to have them removed both out in the open and covertly. Targeting Russian interests in other regions such as Syria in

the Middle East, or denying Russia access to markets and financial platforms critical to its economy is another option. This could include expanding limitations to investment financing in the energy sector and putting pressure on Russia's arms customers to look for alternatives to Russia. Biden may also turn to the intelligence community to explore appropriate responses for Russia's covert-hybrid attacks. It will be important throughout this process to keep communication channels open, preferably beyond the spotlight of political theater, in order to reduce the risk of misunderstandings.

Domestically, a comprehensive Russia policy would also need to account for the protection of socio-political institutions. For this there are lessons to be learned in Europe especially from Russia's neighbors in the Baltic region. Countries such as Estonia, Latvia, and Lithuania not to mention Poland and even Finland, have been dealing with Russian election meddling and other forms of hybrid aggression for decades. Their experience demonstrates the importance of societal resilience and the need for interagency cooperation and public-private partnerships. Although this may not come as new information to the US defense and security community, relevant agencies will likely be more empowered to act on recommendations from experts and the intelligence community, certainly more so than in recent years.

Despite concerns leveled by some European leaders toward the Trump administration, there is reason to believe that allies will rally around US leadership under Biden. In all likelihood, the Biden administration will not be hampered down by a 'Russian cloud' of investigations like President Trump. Biden will have more options at his disposal to deal with Russia, and his views on US-Russia relations will probably be more in tune with mainstream thinking in Washington and in many NATO capitals. Even in the highly partisan political environment of the United States Senate, since President Trump's inauguration one of the few issues in which there has been overwhelming bipartisan agreement is in support for NATO. This all bodes well for formulating and implementing policies because, as recent experience has shown, it is difficult if not impossible for the American president to direct US policy towards Russia without the support of Congress. Despite President Trump's desire to reset US-Russia relations, he has run into a wall at every turn. The challenge for President-elect Biden will be in exercising restraint in light of the options available to him, a dilemma that Trump never faced. ■

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# A revival of transatlantic relations under Biden?

Expert article • 2810

**L**ike most European countries, the German government welcomed the outcome of the U.S. election and a new administration under Joe Biden. There are hopes in Berlin that transatlantic relations will see a revival and that multilateralism will be strengthened during the upcoming legislative term.

After Donald Trump has sold out a vast spectrum of multilateral activities and affronted NATO allies more than once, EU states are hoping for better relations and a reinvigoration of the Alliance. Hopes span from a revitalization of arms control to an enhanced US engagement in Eastern Europe where we have seen a brutal escalation of the latent Nagorno Karabakh conflict and months of protest in Belarus. Also, the US' withdrawal from the Paris Climate Agreement is something European states would prefer to be undone under Biden, just as they would like to see a renewed US commitment to the World Trade Organisation (WTO). But is a quick revitalisation of the transatlantic community realistic and what is the fallout of the damage already done by Trump that cannot be reversed?

## The US have sold out multilateralism

Looking at arms control and non-proliferation agreements gives us a pretty good sense of the US's recent disrespect for multilateralism. Under the past US administration, a number of arms control agreements have been unravelled, including the Intermediate-range Nuclear Forces treaty (INF), the nuclear deal with Iran (JCPOA) as well as the Open Skies Treaty (OST) which the US have formally left on November 22. Another landmark treaty, the New Strategic Arms Reduction Treaty (New START), once negotiated by the Obama administration, is under threat and it remains uncertain whether in the remaining time until the expiration date on 5 February, the incoming administration will be able to extend the existing treaty with Russia, or start negotiations on a successor agreement.

For European partners, all of these agreements and treaties affect their security either immediately or indirectly. However, their possibilities to influence a desirable direction of arms control between the US and Russia is very limited, even in the case of the INF treaty whose end bears a risk of serious security implications for Europe. The OST on the other hand has not only served as a possibility for the US to make military overflights over Russia, including the Kaliningrad exclave, and for Russia to overfly US military installations. It has also served the purpose of providing those European countries, who do not possess their own satellite capabilities, with high-resolution imagery. Through their exit from the treaty, the US have shown little respect for the security needs of those governments, while Russia might at some point use the US withdrawal as a justification to leave the treaty itself, especially as Europeans are unlikely to submit to Russian claims for further allowance to overfly US military installations.

## What's next for transatlantic relations?

NATO partners are currently struggling with picking up the pieces of a reckless US foreign policy in the past four years. Intra-Alliance controversies over arms control and the cohesion among partners have distracted NATO's attention from emerging threats like China. Now that Beijing has shown its strength not least in dealing with the COVID-19 pandemic much more effectively than Western states through implementing an autocratic leadership style, it's ridiculously late for NATO to start grappling with this challenge. As an economic, systemic and strategic competitor, China has consolidated its new role as a global power that has the potential to further destabilize world order.

In a sense, the Trump presidency has, at first glance, damaged relations with Russia in the military field, and was systematically rocking the boat of already fragile NATO unity. But more importantly, dealing with Washington's erratic decision has prevented the West to adequately prepare themselves for countering the Chinese challenge, considering the future of world trade relations, and dealing with the rapidly growing threat of global warming.

No doubt, Joe Biden's election is the only way how transatlantic relations, now in a brittle state, can recover, but it would be illusionary for Europeans to hope for a quick fix of some of the most pressing issues. Beijing will almost certainly keep the US too occupied to do more for Europe than the minimum. Their engagement in Eastern Europe and the Caucasus remains thus more than uncertain. Also, apart from New START where there is a small chance that Moscow and Washington will find a way forward, the US will not come back to other arms control agreements like OST and JCPOA. Europeans therefore have to invest more in their own strategic thinking and must decisively consider a way of caring for their own defence and security and their relations with Russia, without confronting the US and without further damaging NATO cohesion, especially through strengthening the European pillar in the Alliance. ■

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# Enhancing military confidence between NATO and Russia

Expert article • 2811

Since the annexation of Crimea in March 2014 and the beginning of armed conflict in parts of Donbass, questions of military confidence-building between NATO and Russia have once again moved centre stage. In contrast to the Cold War, the focus of military confidence-building (and arms control more generally) today aims much less at the prevention of possible large-scale offensives for territorial gain or surprise attacks. Instead, potential escalation scenarios result from miscommunication, risky maneuvers, and a lack of transparency in military exercises in sub-regional contexts.

Existing confidence- and security-building measures (CSBM) are in need of reform, however. For example, many provisions of the Vienna Document have remained unchanged for more than 20 years. Currently, military exercises involving 9,000 troops or more must be announced in writing 42 days in advance. If the number of participants reaches 13,000 troops, the states involved are required to allow third parties to observe the military activities. Since the end of the Cold War, these thresholds have rarely been reached, however. In addition, notifications and observation visits are required only if the activities have been announced in advance to the troops involved and are conducted under a unified command in the zone of application, that is, within the whole of Europe.

From NATO's perspective, Russia purposefully subverts the spirit of the Vienna Document by organizing frequent "snap exercises" on short notice and by deliberately splitting up large-scale strategic exercises with tens of thousands of participants. At the same time, Russia's interest in updating the agreement is increasingly waning. At the last meeting that tabled the revision of the Vienna Document in 2016, Moscow firmly rejected the proposal and justified its position with reference to NATO's policy of deterrence. Moscow argued that a modernization of the Vienna Document could only take place if Russian interests were respected and relations returned to the status quo ante 2014. This position also reveals a fundamental difference between the West and Russia. While most NATO members seek to stabilize political relations by means of technical solutions, Russia insists on a political solution first, as a precondition for progress on the technical implementation of CSBM.

Nevertheless, NATO and Russia could still take a number of practical steps to defuse a potentially escalating situation. For example, it should be possible to find agreement on reciprocal measures of military constraints. In addition, bilateral agreements that allow additional evaluation visits on the top of those provided for by the Vienna Document, such as the one between Russia and Lithuania that was in place until the annexation of Crimea, could be revised. Given the perception of great power competition and enduring strategic disagreements, such military confidence-building and transparency measures are no silver bullet, but they can help stabilize the security situation.

The Open Skies Treaty is a case in point. The treaty allows its members to conduct unarmed observation flights over each other's territory according to fixed quotas and with standardized technical equipment. During overflights, representatives of both the observing state and the observed state sit together in one aircraft. In this sense, the treaty provides an opportunity for military officers from different states, particularly from NATO and Russia, to engage with each other on a regular basis.

For most European member states, the Open Skies Treaty also has a practical purpose that goes beyond military trust- and confidence-building. They do not have sufficient reconnaissance satellite capabilities, so the data collected through overflights are a welcome, affordable alternative that provide independence, particularly because every member state can receive copies of all imageries. Besides, the imageries generated by satellites and sensors on aircraft are not of the same kind. Aircraft are more flexible than satellites; they can fly below cloud formations, and overflights for specific missions can be arranged at relatively short notice. Since Open Skies imagery is subject to lower levels of classification, they are also accessible for diplomatic purposes.

The withdrawal of the United States from the Treaty on 22 November 2020 puts its future at risk. Without the possibility of conducting overflights in U.S. airspace, Russian participation becomes uncertain as well. Moscow suspects that NATO member states will provide Washington with data collected during overflights over Russia, while restricting Russian flights over U.S. military facilities in Europe. To alleviate these concerns, Moscow expects written, legally binding assurances. However, by signing the Treaty, member states have already committed themselves to the non-proliferation of imagery and to full territorial access. A reaffirmation of these commitments will also not mitigate the lack of trust between the parties. Should Moscow continue to insist on this additional pledge, the treaty might fail, undermining European security further. ■

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# European security after Trump: Germany at the crossroads

Expert article • 2812

The outcome of the November 2020 elections in the United States is both good and bad news for Europe.

The Democrats' success in taking the White House is a major step towards restoring a spirit of cooperation in the transatlantic alliance. The US will remain committed to European defense through NATO, backed by its military presence on the continent. In stark contrast to the outgoing president, Donald J. Trump, it will in all likelihood work more closely with allies.

The bad news is that the Trump era has left a permanent mark on America's global role. In the elections, more than 70 million American voters endorsed his political agenda. It rests on a narrowly defined understanding of US interests in the world.

Furthermore, the societal forces that put Trump into power in 2016 have not shown any signs of weakening. A radical form of nationalist, populist and even isolationist Republicanism has taken root in American politics.

While Joe Biden's victory eases the pressures in transatlantic relations in the short term, the continuing possibility of American disengagement and disregard for the interests of its allies causes concern. Europeans have to step up their efforts to strengthen their voice in world affairs and provide for their security by their own means.

Throughout the past two decades, Europeans have witnessed a gradual shift in US behavior, but have been slow to respond to the changing circumstances. In their Saint-Malo declaration in 1998, France and the United Kingdom took the lead to advance a European security and defense policy and strengthen the EU's capacity for autonomous military action.

Rapid progress followed in the 2000s, including a significant broadening of Europe's security agenda to issues such as civilian crisis management and human security. This development culminated in the Lisbon Treaty's provisions for a more effective EU foreign policy in 2009.

Then things began to slow down. President Barack Obama's prioritization of Asia over Europe in its global engagement in the early 2010s, the well-known pivot to Asia, was not followed by a corresponding shift in the policies on the European side. Mired in internal crises in the 2010s, the EU missed the momentum to advance its actorness as a global heavyweight and increase its strategic autonomy.

This was due to the dysfunction of the EU's all-important Franco-German partnership. While progress was made in the joint management of the euro-crisis and EU's other internal challenges, its foreign and defense policies did not receive the kind of attention they would have deserved. France's President Emmanuel Macron's call for a "Relaunch of a Europe of Defense" in 2017 fell flat with Angela Merkel's government and resulted only with modest progress in the so-called Permanent Structural Cooperation (PESCO).

Until Germany decides how it wants to respond to France's repeated calls for deeper European cooperation and the changing

global geopolitical landscape, Europe's strategic autonomy remains a distant dream.

The rest of the EU cannot do much more than wait for Germany to make up its mind. With Britain's exit from the EU, France has lost its traditional partner to develop a joint EU approach to security issues. A corollary to this is that Britain, a strong voice for the primacy of the transatlantic alliance, is no longer a cog in the wheel preventing a full-blown Europeanization of defense. While the views of the other EU countries should not be discounted, the most important stumbling block that remains is Germany.

Germany's reluctance is due to a variety of factors, including the weight of history going back to the eras of German expansionism, nazism and world wars. However gradual and painful its process of coping with the past, or *vergangenheitsbewältigung*, may have been, the shadows of the past have gradually withered away and made room for new thinking about facing up aggressive external actors and how and when use force against them.

Nowhere has this been more visible than in Germany's attitude towards Russia after its annexation of Crimea in 2014. For long Germany has sought to find a balance between punishing Russia for its behavior with economic sanctions and its long-term economic engagement, symbolized with the Nordstream pipeline project in the Baltic Sea. However, the poisoning of the opposition leader Alexei Navalny in August 2020 sparked an unusually strong diplomatic response from Berlin.

However, an even deeper change in German security thinking may be necessary. German reluctance to respond to France's call is rooted not only in contemporary assessments of what should be done, but in its own strategic culture dictating what can be done. That culture has long put severe limitations on the use of military force and a heavy emphasis on the preservation of its alliance with the United States.

A change may be coming. With the end of Merkel's chancellorship in sight, the next moment of decision will be in the 2021 federal elections. The German people will then have a say if they want a geopolitically more capable and assertive EU or not, and how they want Europe to respond to the unfortunate weakening of the bonds across the Atlantic. ■



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# The Baltic Sea in Russia's maritime Strategy

Expert article • 2813

**M**ilitary and economic affairs are closely intertwined in Russia's maritime domain. Moscow's global strategy, often mistaken for being improvisational and ad hoc, is instead well-articulated and forward looking, particularly regarding maritime issues. Overall, in the maritime domain, it prioritizes economic development, military security, and diplomatic influence with foreign countries. Moscow views U.S. unipolarity as a threat to global security, and seeks to establish Russia as a global power alternative to what it views as a dangerous United States. It sees the economic opportunity and global linkages offered by the maritime domain as a critical component in its effort to achieve this goal. The Baltic Sea provides an excellent example of how Russia's economic and military interests overlap, and of how the Baltic Fleet contributes to Russia's maritime efforts to establish Russia as a global power alternative.

Russia's current Maritime Doctrine prioritizes economic and naval activities in the Baltic Sea. Port, pipeline, and logistics infrastructure improvement receive particular emphasis. Since 2015, Baltic port modernization and pipeline construction has grown steadily, and large-scale infrastructure improvements have improved cargo turnover and profitability at ports such as Ust Luga and Primorsk. At the same time, such improvements have lowered profitability at Baltic Republic ports that are losing throughput as a result of these improvements. Likewise, construction of the Nordstream 2 pipeline, considered a critical component of Russia's economic future, continues despite strong resistance from the United States.

As this maritime economic infrastructure grows, so do Russian concerns about its security. Russian strategists hold that in wartime, the U.S. will target critical military, communications, and economic targets. Because Moscow views its port and pipeline infrastructure as vital to the nation's overall economic health and national survival, it has attempted to build up its Baltic Fleet and strategic Aerospace Defense Forces in an effort to reduce the vulnerability of this infrastructure, in effect tying military activities to economic activities in the region. While this militarization of the Baltic maritime frontier is largely defensive, it does not preclude the possibility of Russian preemptive offensive operations, or, as Chief of the General Staff Gerasimov has put it, "active defense."

Russian wartime strategy views strikes on adversary critical infrastructure as a key part of an effort to force opponents to sue for peace. It looks in part to a navy equipped with Kalibr long-range land-attack cruise missiles to do so. To this end, the Baltic Fleet has been slowly upgrading to become a "Kalibred" force. While its modernization has proceeded slowly, especially because resources have had to be diverted to the Black Sea since 2014, it is still an improving force. Among many other warships, the Baltic Fleet currently has four Kalibr-capable corvettes, smaller vessels that are nonetheless each able to launch land attack missiles some 1600 kilometers. The Navy hopes to add at least six more to the Baltic

Fleet, and has yet-unspecified plans to add Kalibr-capable Kilo-class diesel submarines as well.

Deterrence and warfighting are not the Baltic Fleet's only tasks. While the fleet is well-known as a testing and training ground, it also plays a notable, but underappreciated role in Russia's global presence missions and maritime diplomacy. Navy Commander-in-Chief Nikolai Evmenov has called out the Baltic Fleet's role in this effort. Its ships regularly deploy to the Atlantic and beyond on "long-distance missions." The frigate Yaroslav Mudry has been a stalwart in this regard, deploying several times to the Mediterranean, Gulf of Aden, and Indian Ocean. During high-level arms talks between Indonesia and Russia, it even made a diplomatic port call in Jakarta in 2016. Perhaps most remarkable is the fleet's oceanographic research vessel Admiral Vladimirsky, which has circumnavigated the globe multiple times, including stopping for research in Antarctica.

Russia's Baltic Region is a microcosm of its larger global maritime interests. Expanding investments in port and commercial infrastructure are defended by a modernizing military on the maritime frontier. The logic of Russian strategic thought drives its military to maintain a high state of forward readiness, which in turn, particularly after 2014, generates tremendous concern in the region. Moreover, the Baltic Fleet itself plays a critical role in Russia's regional and global strategy, defending economic interests and asserting security interests around the world. While Russia's overall progress with these various priorities is often halting and sometimes painful, it is nevertheless moving out on a clear maritime strategy, and its Baltic efforts reflect that strategy.

*\*The views expressed here are the author's own.*



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CHRISTIAN BLUTH

# The EU and weaponised economic interdependence

Expert article • 2814

**T**he character of globalization is changing fast. Liberal institutions are undermined or eroded, instead economic ties are increasingly determined by geoeconomics considerations. This has implications for the EU's trade policy as well as its foreign policy. The Baltic region is particularly exposed to geoeconomics warfare and should drive the EU's agenda in this regard.

When Ursula von der Leyen took office as Commission President in 2019, she labelled her Commission the "Geopolitical Commission". Her aim is to increase the role of the EU in the world by establishing more streamlined decision-making mechanisms and facilitating more strategic interaction with third countries.

Since an overhaul of the EU's foreign and security policy in the near future is not very likely, one can expect that the von der Leyen Commission will in turn to those areas which already lie within the competency of the Commission to implement geopolitical aspirations. Among these areas, trade is particularly prominent as the EU is one of the world's most active trade powers and this economic power is an important source of the EU's political power. For this reason, the geopolitical commission may in fact turn out to be a geoeconomic commission. Given the more active role of geoeconomic policymaking by other trading powers, it is to be welcomed if the EU is improving its capabilities in this area.

Geoeconomics is one the rise across the board. The recourse to the concept of "weaponised interdependence" in economic relations can be observed more and more. Weaponised interdependence means that players occupy central nodes or hubs in a network which enable them to monitor the actions of other, smaller, players and, if necessary, to exert pressure on these other players. Weaponised interdependence can be used most successfully if the relations between the two players are asymmetric, i.e. one player depends on the other more than vice versa.

For example, China's Belt and Road Initiative can be interpreted as an attempt to occupy a more dominant position in a network and be able to exert political and economic pressure on the participating countries. Also, the actions of the Trump administration to deny Chinese companies, in particular Huawei, access to state-of-the-art US chip and software technology fits the description of weaponised interdependence.

For the Baltic region, dealing with weaponised interdependence in the area of geoeconomics is nothing new. The attempts of Russia to use economic levers at its disposition are well known and hence the countries in the Baltic region are experienced in monitoring possible dependencies and reacting to them. This knowledge can be an asset for the Union as a whole when scrutinising its dependencies on third players. At the same time, it is also vital to understand the dependencies that may arise through complex global value chains. While most Baltic economies do not have too much direct exposure to China, they might provide intermediate goods to other countries – such as Germany – which are destined to the Chinese market.

How should the EU react to the geoeconomics threat of other economic players? Increased use of geoeconomics has the potential to poison economic relationships. If any commercial engagement must be reviewed suspiciously whether this might create a critical dependency, this may undermine the trust that is necessary for liberal globalisation to work. The EU as a whole is one of the largest beneficiaries of globalisation, its business model depends to a large degree on its close trade relations with third countries. Therefore, it makes sense that EU reassures its trading partners that it will not make aggressive use of its possible geoeconomic capabilities unless attacked. The EU should remain a pillar of a rules-based liberal trade order and act as a trustworthy and reliable trading partner.

At the same time, the EU cannot afford to be naïve. The response to geoeconomics globalisation should therefore be threefold: First, the EU should avoid dependence on one single player. That does not mean reshoring of production, more effective would be a global diversification of critical value chains. Second, it needs to develop a defensive arsenal of geoeconomics retaliation that it can use if attacked. This should act as a deterrent and thus contribute to more stable economic relations. Third, it makes sense to continue to reform EU decision making mechanisms, so that such defensive capabilities can be deployed quickly and credibly – otherwise the deterrent will not be effective. ■



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# The Baltic Sea region in another period of great power competition

Expert article • 2815

More than six years ago the beginning of the war in Ukraine, along with the Russian annexation of the Crimean peninsula, led to a caesura in Europe, eventually catapulting the awareness of national and allied defence in particular back on the security policy agenda of its capitals. The consequences for the Baltic Sea region are apparent foremost by the NATO re-insurance for its eastern allies (e.g. through the *Enhanced Forward Presence*, *EFP*) or the grown attention for naval-focused manoeuvres like *BALTOPS* (Baltic Operations) – conducted also during the current pandemic. The bigger picture of strategic considerations in the Baltic Sea region, however, includes more than “simply” securing the supply channels overland (e.g. via the *Suwalki-Gap*, the 65 km narrow border of Poland and Lithuania) or through the Baltic Sea (via *sea lanes of communication*, *SLOCs*) to Klaipeda, Riga, and Tallinn. In the recent years, additional significant developments have their effect on the inter-regional security policy. Most importantly, the return of a global great power competition, in this case between the United States and the Russian Federation, has to be highlighted. Three examples:

1. During the summer of 2019, the US terminated the *INF Treaty* (*Intermediate Range Nuclear Forces*) due to allegations saying the Russian counterpart would be in breach of the contract. The treaty, entered into force in 1988, had the aim to eliminate ground-based cruise missiles of short and intermediate range (between 500 and 5.500 km) of both parties. The United States claim the Russian *Iskander-K* system (type 9M729) is incompatible with the agreement.
2. In May 2020, the US announced to resign from the *Open Skies Treaty*, leading to a contractually defined exit six months from then. Referred to as an “open sky from Vancouver to Wladiwostok” this treaty is considered as one of the most relevant confidence-building measures between NATO and the (former) Warsaw Pact states. It contained the contractors’ permission to maintain overflights and create aerial photographs of their mutual territories. Likewise, the accusations against Russia led to the withdrawal by the United States.
3. Eventually, the end of *New START* (*Strategic Arms Reduction Treaty*) is an open question. The agreement, entered into force in 2011, represents a nuclear arms reduction treaty to restrict the number of strategic nuclear missile launchers and nuclear warheads of both nations. As the successor of *START I & II* it should be extended in 2021 for five more years. Unfortunately, the current stances of the US and Russia do not seem to allow a common agreement for such continuation.

These three cases exemplify the great power competition of both states and how its impact casts its shadow on Europe and the Baltic Sea region, immediately. Besides today’s technical alternatives, e.g.

via satellites, the end of *Open Skies* marks an immense loss of trust and communication. Cancelling both other arrangements brought up, on the other hand, leads to concrete military risks for the region. The terminated *INF Treaty* allows Russian military forces to station legally weapon systems on the ground, which can reach far into Central and Western Europe. A potential end of *New START* in turn *could* lead to a new arms race in regard of nuclear weapons in Europe.

Alongside the mentioned developments, the policies framed by a renewed great power competition have effects also on other spheres. As an example, the build-up of the Nord Stream 2 pipeline is a matter of arguments for several years already. Allies and partners seem confused considering Germany’s adherence on the pipeline as an “absolute economical” bilateral project. The likely Russian intention to avoid Ukraine in regard of its gas transits towards Europe, and the US threatening Germany with economic sanctions over the pipeline project, prove that such affirmations are escapist.

While examining questions of security policy in the Baltic Sea region, such issues are in need of consideration, as well. The Baltic area does not merely represent a separate operational sphere without any external influence. Quite the contrast, it becomes apparent that the global great power competition bears on the European security architecture. For Europe, and therefore the European pillar of NATO, acknowledging this framework is crucial. Recognizing the Baltic Sea region’s strategic relevance as part of a broad Northern Flank, close meshed from the Baltic States, Scandinavia, the Norwegian Sea to the upper North Atlantic, should be the next step. ■



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BEN HODGES

# Preventing great power conflict in the Black Sea region

Expert article • 2816

In response to Russia's invasion of Ukraine and the illegal annexation of Crimea in 2014, NATO prioritized the Baltic Sea region, where several NATO Allies share a border with Russia, deploying "enhanced Forward Presence" (eFP) Battle Groups in Estonia, Latvia, Lithuania, and Poland. NATO chose "tailored Forward Presence" (tFP) as its response in the Black Sea region, a tiered approach to deterrence which, in effect, yielded the initiative there to the Kremlin.

However, the Black Sea region is likely of greater strategic value to Moscow than the Baltic Sea region. The Black Sea is Russia's "launching pad" for its destabilizing operations in Syria, the eastern Mediterranean, Libya as well as the Caucasus and the Balkans. Most of this would not be possible without the Kremlin's invasion of Ukraine and illegal annexation/occupation of Crimea.

The Kremlin has, in effect, drawn a new "Iron Curtain" across the Black Sea...using force against Ukraine and Georgia, and occupying Transnistria and parts of the Caucasus with "Piece-keepers" while avoiding direct military contact with NATO Members. It flaunts international law with illegitimate claims to broader territorial waters around Crimea and an increased Exclusive Economic Zone (EEZ) that threatens Romania's legitimate interests.

The Alliance is still capable of effective deterrence in the region, if it chooses to do so. NATO's combined militaries of 30 Allies plus Partners in Europe represent significant potential combat power that, if trained and ready to operate in multinational formations and organizations, are a key component of effective deterrence. Unfortunately, NATO has not placed a high enough priority on the Black Sea region as reflected in the paucity of NATO actions and resources there.

Several vulnerabilities potentially undermine NATO deterrence in the Black Sea region, including: (1) a perceived lack of interest which could lead to miscalculation by the Kremlin; (2) inadequate integration of air and missile defense; (3) shortfalls in military mobility, (4) lack of joint mission command that is focused specifically on the Black Sea region, and (5) lack of intelligence sharing and cooperation amongst the Black Sea nations (NATO and non-NATO).

**Policy Recommendations:** Successfully deterring Kremlin aggression in this region requires raising the priority of the Black Sea Region and developing a strategy that puts the Black Sea in the middle of the geostrategic map, and declaring all capabilities across the Eastern Flank as "Forward Presence" vs "enhanced" and "tailored".

**Specific recommendations to strengthen NATO capability, readiness and deterrence:**

1. **Gain the initiative in the Black Sea Region.** This requires improvements in mission command, intelligence sharing, and physical presence. Specific steps could include: (a) establish permanent capability presence in Georgia and Ukraine; (b) get an approved NATO Graduated Defense Plan for the region, similar to what was just approved for the Baltic region; (c) establish a joint, three-star NATO headquarters that wakes up every morning smelling Black Sea air and which would have the

responsibility for fusing Intelligence from all sources, improving Situational Awareness, and enhancing "speed of recognition" in the Black Sea region; (d) strengthen the defense of the western Black Sea with unmanned maritime systems and ground-based systems, including anti-ship missiles, drones, and rotary wing attack aviation; (e) conduct maritime policing missions (similar to NATO Air Policing) with a non-littoral NATO naval presence every day of the year; and (e) make the Commander of the Black Sea Fleet feel vulnerable in his own illegal port of Sevastopol by deploying long-range capabilities, land as well as maritime, that can range his homeport.

2. **Enhance and Integrate Air and Missile Defenses (AMD).** Increase AMD capabilities (mission command, sensors, and "shooters" (air, ground, and sea-based platforms) that are layered and which are fully integrated. Conduct an annual theater-wide AMD exercise with CPX and live exercises in alternating years.
3. **Enable Supreme Allied Commander Europe's (SACEUR) Area of Responsibility (AOR).** Harmonize the operational space and rear area with greater investment in transcontinental transportation infrastructure, more frequent logistical and deployment exercises, and improved military mobility. Improving the Cyber protection of this transportation and mission command infrastructure are essential to rapid reinforcement. This requires major upgrades to transportation networks in Romania. Ensure the capabilities required to "set the theater" in the Black Sea region (commo, mission command, transportation, intel, air/missile defense, fuel, ammo storage, assembly areas) are trained and in place.
4. **Support NATO Partners, Ukraine and Georgia: Invite Georgia into NATO immediately.** Provide more support to Ukraine's navy. European nations should ban all Russian naval and merchant vessels that sail from any Crimean ports from entering any ports in EU or NATO nations. NATO should intensify cooperation with Georgia under existing initiatives and support modernization and infrastructure improvements at Vaziani military airfield.

In conclusion, NATO needs coherence across its entire Eastern Flank, including the Baltic and Black Sea regions, with a balance of capabilities that present a united, unassailable front against Kremlin aggression. Given the great-power challenges of China and Russia and the lack of capacity of the US to deal effectively with all of these alone, a cohesive NATO is essential to protect the strategic interests of all of us. This means increasing reliance on a strong European pillar...especially in the Black Sea region...we cannot afford a European pillow. ■

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KURT-CHRISTIAN SCHEEL

# Automotive industry – challenged on three fronts

Expert article • 2817

The Corona crisis hit the economies of the industrialized countries just after an approximately one-year phase of declining economic activity and at a time when the first shimmers of economic recovery had become visible again at the start of 2020. The measures taken to stem the spread of infection, which culminated in a lockdown in Germany between the end of March and the beginning of May, not only led to a 9.8% quarter-on-quarter slump in economic output in the second quarter of 2020, but also led to a correspondingly strong positive rebound during the third quarter (+8.2%). Yet for the year as a whole, Germany's GDP is expected to decline by around 5.5%.

The lockdown affected the various economic sectors to varying degrees, however. According to a study by Germany's ifo Institute, during the lockdown the vehicle manufacturing sector suffered by far the biggest drop in economic output of all industrial sectors compared with the pre-crisis level. In April, automobile production in Germany almost came to a halt. We recorded a year-on-year decline of 97% in car production nationwide. The German automotive industry has been working its way up from this low point ever since. In October, the deficit compared with the previous year was "only" 3%, but cumulatively for the first 10 months of the year, it was still 30%. We currently expect passenger car production in 2020 as a whole to fall by 25% year-on-year, to a level of 3.5 million cars. According to current estimates, we will not return to pre-crisis levels until early 2022 at best.

The German government reacted quickly to the crisis and initiated crucial measures to stabilize the economy by using the two economic stimulus packages of March and June. In particular, more flexible and expanded reduced work time allowances, liquidity assistance for companies, and the reduction in value-added tax by 2 and 3 percentage points respectively up to the end of the year were important in cushioning the economic impact to some extent.

In the run-up to the decisions on the economic stimulus packages, the VDA proposed a purchase premium for new cars as an instrument for stimulating demand. This instrument had already provided a strong boost to demand for passenger cars during the 2009 economic crisis. Such an instrument serves well beyond the automotive industry. Because this industry has a very complex network of intermediate inputs, demand for passenger cars also triggers noticeable demand signals to all its upstream sectors, and in turn their suppliers. Such a premium could also have been graded according to CO2 emissions. However, politicians decided to limit the purchasing incentives to pure e-cars and plug-in hybrids only. This provided this car segment a noticeable market boost. However, since these vehicles account for only 11% (July) and 16% (September) of new registrations in Germany, the economic impact of the purchase premium remains limited.

Overcoming the corona crisis is not the only challenge the automotive industry faces at present. The digital transformation and, above all, compliance with CO2 regulations are also important. As in

the case of the corona crisis, the automotive industry is more severely impacted by this than other industrial sector because it not only has to reduce the CO2 emissions of its production, but also those of its products. Policymakers have set extremely ambitious targets for this. The automotive industry is committed to the goal of climate-neutral transport in 2050, but it has always warned that the interim target for 2030 (-37.5% for cars and light commercial vehicles) which the EU adopted in April 2019 can only be achieved if policymakers also accept their responsibility and make their contribution in return. This applies even more so now that the EU tightened its targets again in October.

What we need now

- For 2030 the rapid ramp-up of electric mobility has the clear priority. For this there is a need for a widespread expansion of the charging infrastructure.
- At the same time, work must be done to ensure as early as possible that vehicles can also be powered by hydrogen and e-fuels.
- Here, appropriate regulatory framework conditions and a needs-based support of infrastructure and research are needed.

This is a joint effort because nobody can have an interest in seeing the country's most important industry, which currently employs over 800,000 people, suffer damage. ■



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# EU state-aid – A hidden capital market anomaly

Expert article • 2818

**E**U Commission has made it clear in its working document “Overview of the State aid rules and Public Service rules applicable to the maritime sector during the COVID-19 pandemic”, that “Any public intervention in the transport sector should be **designed to avoid undue distortions of competition during and after the crisis**” and, moreover, “**In the interest of the EU economy and consumers, Member States should design their measures on a non-discriminatory basis and in a way which preserves the pre-crisis market structures and paves the way for a speedy economic recovery**”.

Unfortunately, these principles are not respected by many authorities, on the contrary, the latest initiatives of some national authorities contradict of the above principles. In some member states, authorities have laid down specific restrictive rules for receiving State-aid, which are: 1) distortive, 2) inefficient, and 3) discriminatory.

Firstly, authorities have not investigated the pre-crisis market structures e.g. in maritime transport sector, the competitive effects of aid to other companies where the aid is granted only to few operators, have not been investigated. According to EU Commission the distortive aid must be minimised. To this end, aid schemes targeted to few operators only e.g. via restrictive terms, through which, many maritime transport operators are excluded, should be avoided. Secondly, aid cannot be granted on selective and discriminatory grounds. Instead, support measures that take into account all operators are preferred by Commission rather than individual measures which are, *per se*, more distortive and discriminatory. Aid schemes that allow all operators to preserve their pre-existing position in the market are to be preferred over aid measures that benefit single operators, even if inefficient, at the expense of others.

The COVID-19 struck certain segments in global economy with severe consequences, and its depth and severity left governments and politicians with no choice but to step in. EU has for several years revived EU economy with monetary policy where central banks have intervened into capital markets and central banks' balance sheets have exploded during the past three-four years.

A global pandemic has shifted our basic understanding of the role of capital and capital market. Regardless of the distressed economy, the Governments and politicians have forgotten to consider the role of capital markets in their state-aid schemes. They have failed to observe the fact that both the stock market and the bond market has functioned properly and efficiently throughout the pandemic. Rather than transfer tax-payers' money to distressed companies, they should combine and incentivise the utilisation of the capital market along any state-aid scheme. This means that the form of state-aid should be either in the form of share capital or in the form of debt capital, whereas other forms of intervention should have a residual application, if any.

Why is this? Because, the shareholders/bondholders have invested money in form of share capital/debt capital into the company

with an expectation to receive a certain return either in the form of dividends or in the form higher share price, or in case of debt certificate, in the form of interest income. Normally, shareholders and debtholders are receiving dividends and interest income or benefit from capital gains, but currently, tax-payers' cash investment into these distressed companies is used without any expectation to receive a certain return either in the form of dividends or in the form higher share price or in the form of interest income. That return can only be received, if the tax-payers receive, in exchange to their cash investment, either shares or debt certificates.

The emergence of huge EU state-aid schemes has created an anomaly in the capital markets, since some corporates are now receiving huge support packages which are financed by the tax-payers who do not get any securities, neither in the form of shares nor in the form of debt certificate. The only way to correct this gratuitous cash investment is to change the terms of all existing and future EU state-aid to be given either in the form of equity or in the form of debt (or debt guarantees with guarantee fee). Tax-payers' money is as valuable money as institutional and private investors' money and should be given a chance to earn the same rate of returns as capital market investors earn. This should apply also in case of aid to support SGEI providers, as EU rules guarantee a reasonable return on invested capital also for public service purposes. Over the years, investors, corporates, advisors, policymakers, regulators, etc. have built strong and well-functioning capital markets with reasonable expectations for risks and returns over any time frame, 1- to 30-year time frames and even longer. Tax-payers of EU member states, whose funds are transferred to the distressed corporates, are not allowed to harvest any acceptable return, not to mention, receiving an equity stake or a bond in exchange of their cash investment. Currently, many EU member States' authorities do not value their citizens' money that way, in turn, the authorities have introduced a new asset class, which does not have any share or debt characteristics, any return expectation or any pay back obligation – this new “*tax-payers' asset class*” is a hidden capital market anomaly. ■



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# Innovation in Germany: Strengths and challenges

Expert article • 2819

Germany remains one of the world's most innovative economies. The GDP share of German gross expenditures on R&D (GERD) has equalled about 2.5 percent since the 2000s, which is well above OECD average. The private sector supplies almost two-thirds of R&D expenditures with industrial contributions to GERD that reflect the general pattern of Germany's industrial specialization in automotive, mechanical engineering, and machine tools, among others. In the medium-tech setting of Germany's manufacturing-based production regime, newly emerging science-based high-tech industries such as biotechnology remain comparatively underrepresented despite recent advances in this field. Basic research accounts only for 20 percent in the overall R&D profile, which is below the OECD average. At the same time, technological innovation in Germany proceeds primarily in gradual terms, quite in line with the competitive advantages of the manufacturing industries with a common pattern of high-skill and high-quality production.

The German innovation system draws on a core of manufacturing firms, research institutes, and financial organizations. This involves not only multinational enterprises as global players, but also a unique diversity of business organizations, including the "hidden champions" of the Mittelstand in a wide range from suppliers in large manufacturers' supply chains to hi-tech firms. This setting also maintains an industrial reliance on credits loaned by banks with a long-term perspective. This long-term approach to innovation is underpinned by an emphasis on vocational, technical, and post-secondary education with a wide availability of training programmes. Consistent investment of the private sector in R&D activities is paralleled by the local diffusion of technological knowledge through the national network of Fraunhofer Institutes that specialize in applied industrial technologies. At the same time, German firms have been increasingly engaged in foreign direct investment, involving attempts at tapping international knowledge pools.

Despite these strengths, the Germany economy faces various innovation-related challenges, especially regarding the impact of disruptive technologies on the established production model. Critical issues are the lack of specialized human resources, entrepreneurial start-ups, and academic spin-offs. Most pressing is the undersupply of venture capital. Corresponding technological deficits point to science-based fields such as biotechnology and artificial intelligence.

One response to the challenge of disruptive innovation is the new initiative *Industrie 4.0*, which aims at integrating digital technologies into the manufacturing industries. Nine technological fields delineate *Industrie 4.0*: big data and analytics; autonomous robots; simulation; horizontal and vertical system integration; the industrial internet of things; cybersecurity; the Cloud; additive manufacturing; and augmented reality. Main goals of *Industrie 4.0* are to upgrade capital markets for SMEs and start-ups in ICT-related industries, to improve the corresponding business networks, and to modernize the

educational system. The strategic aim of the digitalization of complete value chains involves a comprehensive reshaping of inter-industrial and inter-sectoral relations. In effect, smart production is set to become the new competitive norm. Labour unions and works councils are key actors in these efforts, reflecting their corporatist role in safeguarding industrial competitiveness. However, also transnational alliances between US-American hi-tech enterprises and German manufacturing firms are meant to contribute to the digitalization of the manufacturing base of the German economy.

A second response to the challenges of disruptive innovation is the new National Industry Strategy 2030, which openly addresses a neo-mercantilist agenda confronting the United States and China as dominant powers of the 21st century. Only recently, the Federation of German Industries lobbied for policy instruments against unfair foreign competition. Accordingly, the National Industrial Strategy 2030 aims to regain international competitiveness and global technological leadership by pinpointing key areas of manufacturing for policy intervention. In addressing industry clusters, the Strategy states that maintaining closed value chains allows for a more resilient competitive edge. Also, selected large enterprises are meant to emerge as "national and European champions", particularly in telecommunication and digital technologies. It remains to be seen, however, whether this German adaptation of traditional French industrial policy will reap the kind of benefits that have been largely absent in the latter's case. ■



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# Germany's international competitiveness - economy and innovation

Expert article • 2820

Germany is the largest national economy in the European Union, and the fourth largest in the world after the US, China and Japan. The German economy owes its competitiveness and global connections to great innovation and a strong export orientation. Export accounts for more than half of all turnover in industries such as the production of cars, machinery and equipment, as well as in the chemical industry and medical technology. Germany invests each year 92 billion euros in research and development. Many companies are on the way to the implementation of the program "Industry 4.0", which in particular accelerates the process of digitization in production and logistics.

Germany is a highly industrialized and export oriented country. They are also characterized by strong international connections and dynamically functioning export sector. After China and the US are regularly included in the three countries in the world with the largest exports. Germany is strongly integrated into the global economy. As a result, they benefit from free trade and open markets. It is estimated that every second euro in Germany is obtained from interests carried out abroad. In turn, almost every fourth workplace depends on exports. In industry even every second. The scale of this phenomenon is confirmed by the fact that more than one million enterprises engage in foreign trade.

Germany is one of the industrialized countries with one of the most sustainable development in the world. This is due to, among others from an international comparative study that was conducted in 34 OECD member countries. The implementation of 17 UN sustainable development goals was examined using 34 indicators, including environmental protection, economic growth and the quality of social systems. Germany was sixth in this study. They got points primarily for economic growth, employment and social security.

In addition, more and more companies in Germany already recognize their own social responsibility. They treat it as an element of sustainable management. The concept of corporate social responsibility refers primarily to the main area of activity of enterprises, which through globalization affects economic and social conditions and the natural environment.

Germany's economic strength is largely based on the potential of industry and its innovation. The automotive industry is considered to be the most important branch of the German industry, employing 775,000 employees and based on six strong brands such as Volkswagen, BMW, Daimler, Audi and Porsche belonging to Volkswagen and Opel belonging to Groupe PSA. This results in being one of the leaders in the global automotive industry. Businesses spend billions of dollars in research and development to secure their competitiveness. In addition to the automotive industry, other strong sectors of the economy can also be distinguished, such as the construction of industrial facilities and machinery as well as the chemical industry. The industry in

Germany specializes in the development and production of complex goods, primarily investment goods and innovative production technologies. The innovation of the economy is considered to be the driving force of Germany's economic potential. The intensification of research and development efforts since 2007 has been positive. Both the economy and the public sector have contributed to this. A decisive role was played here the German government strategy on modern technologies.

The German economy has been shaped for a long time mainly large corporations as well as medium and small enterprises. Around the year 2005, a new branch has been developing in parallel, which is gaining more and more importance and creating jobs. These are startups from the digital industry. The process of establishing this type of enterprise has a very important role for the economic development of Germany, because newly established enterprises are a place where innovations are born, where jobs are created. The idea of competition is developed in this way. Germany, with good business models, good funding and infrastructure, is now a globally recognized location for startups. Many international founders also value good market conditions in Germany. ■

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# Active RDI in Baltic Sea region – Case TUAS

Expert article • 2821

Since 2014 altogether 134 different projects have been funded from the Central Baltic Programme (CBP) and Finns have been involved in 120 of those. During this period, the total funding to Finland is over 85 million euro. Actors in South-West Finland have worked in 31% of all Finnish CBP projects. Turku University of Applied Sciences (TUAS) has been the most active actor in South-West Finland being coordinator or partner in 13 different CBS projects. Our projects have focused on CBP priorities P2 Sustainable Use of Common Resources, P3 Well-connected region, and P4 Skilled and socially inclusive region.

Turku University of Applied Sciences is one of the biggest universities of applied sciences in Finland. We have four major fields in education: engineering, business, health care and arts. The total number of students is around 11 000 at Bachelor and Master level. In addition to education, our second main task is applied research, development and innovation. We are a successful collaborator in several Horizon 2020 projects and an acknowledged expert in the coordination of Erasmus+ funded projects. Our RDI is tailored specifically to benefit the working life and cooperation with companies, public sector and communities is an essential part in our RDI activities. Our RDI is orchestrated in over 20 research groups that work in active collaboration with our regional, national and international networks. TUAS has defined the Baltic Sea region and the North Sea region as our key areas in international activities. In the following sections examples of our different RDI activities funded through CBP area are provided.

The **DefenceArch** project is a good example of priority 2 Sustainable use of common resources. The Baltic Sea archipelago of Stockholm, Åland and Turku is known as a nature tourism area. However, accessibility is still considered weak, cultural heritage, insular way of life and digital technology have not been utilized enough when creating valuable experiences for visitors. The overall objective in the project is to develop existing defence historical resources of Gålö seal farm, Bomarsund fortress, southern cape of Örö and Korpoström into appealing and sustainable destinations by increasing the awareness and experience value. In the end, the four attractions will form a themed tourism attraction highlighting the history.

Another example of a project in priority 2 is **Heawater**. The main idea is to achieve healthier water quality in the urban small rivers of the Baltic Sea catchment by the restoration of water bodies and preventing of nutrients and hazardous substances inflow from watersheds. The project is working on verifying and implementing most effective technological solutions that help to reduce pollution loads from/to small urban rivers in Tallinn (EE), Turku (FI) and Söderhamn (SE). Implemented methods will help to restore water quality and biota of the rivers and reduce pollution.

For priority 3, Well-connected region, the **Baltic Loop** project is an interesting example. The project focuses on developing solutions to transportation bottlenecks along the East-West corridors to smoothen

the transportation flows. The Baltic loop consists of three separate gateways between: Örebro, St. Petersburg either via Turku, Tallinn or Riga. Bottlenecks are solved by tackling cross-border challenges and focusing on the sea and harbour development. Furthermore, business models for sustainable intermodal transport are created and good governance and stakeholder dialogue is linked. The activities aim to cut travel times, by easing the access from the local traffic system to the gateway, develop the modal shift of goods specifically from harbours to roads and the last mile simultaneously also decreasing the emissions.

Finally, **OnBoard Med** is an example for the priority 4 Skilled and socially inclusive region. The shipping industry has become multinational, therefore recognizing problems in education cannot easily be solved on a national level. The overall objective of the project is to harmonize and develop courses in maritime emergency management, medical treatment and occupational safety. Innovative learning methods, e-Learning and simulation, will be utilized in building the courses. The expected improvements in education and maritime safety are significant and will hopefully become the standard in the field.

The selected examples above show a small portion of the wide variety of RDI activities TUAS is doing. These examples underline the strong connection to working life and our commitment to Baltic. Our applied RDI is solving real challenges and creating usable solutions today. TUAS will continue this work for better tomorrow and future. ■



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# AI-automated energy markets and the EU Green Deal

Expert article • 2822

In October, as debate heated up in Germany about the European Union 'Green Deal', the Nobel Prize in Economics was awarded to auction theorists Paul Milgrom and Robert Wilson. Though not related, the timing of the two news items was quite coincidental.

At first glance, the viability of the European Union's 'Green Deal' doesn't seem dependent upon a robust auction infrastructure. In reality, a successful Green Deal will require the use of artificial-intelligence-supported auctions to coordinate large-scale EU and German energy policy with the billions of daily energy transactions in an increasingly supply-driven energy market.

During the recent annual conference of the Institute of Energy Economics at the University of Cologne, the *Energetagung*, one of the hot topics was whether industry can possibly reach the Green Deal targets of 50-55% carbon reduction by 2030 compared to 1990 levels. Another was the ambitious North Rhine Westphalia state government's new hydrogen strategy. Herculean efforts like these will be necessary if the planet is to come close to the 1.5 degree IPCC 'best-case' scenario. But they threaten energy reliability.

Replacing fossil fuels with wind and solar means cleaner energy and also an increase in electricity-based energy use. In many cases, even without climate-saving motivation, wind and solar are already economically competitive and outpacing development of fossil-fuel-based generation capacity. But solar and wind are weather-dependent. Their generation varies from moment to moment, day to day, and month to month. Since solar and wind capacity is distributed through the grid differently than centralized power plants, renewables also cause more variation in electricity distribution throughout the grid. All that variation means volatility and unpredictability of supply.

Supply volatility constitutes a threat to energy security. Electricity grids aren't like water pipes - the electricity doesn't just sit there in the wires waiting for you to use it. Grid infrastructure needs to have the same amount of electricity going into the grid as coming out of it at any given moment, otherwise it can falter or even collapse. Until now, grid operators have balanced supply and demand by adjusting the supply. They ramp central power plants up or down - but slowly. A faster response has traditionally required quick-ramping gas turbines when demand increases faster than larger central plants can address. This fast balancing mechanism is effective but problematic. Quick-ramping gas turbines are expensive and polluting. Increasing variability and unpredictability of demand and supply - due in part to increasing renewable energy capacity - means more expense and pollution if gas turbines are used to close the gap.

Germany - and the whole EU - needs to stimulate and coordinate clean and cost efficient balancing mechanisms now in order to ensure energy security in the future. Curtailing wind farm production isn't easy. Ramping up renewables isn't possible - you can't change the availability of wind or sun. As we add them to the grid, we need

to prepare for a switch from a demand- to supply-driven energy landscape. We need to invest in both short term and seasonal storage capacity. Plans are well underway to develop hydrogen as seasonal storage. 'Virtual Power Plants' (VPPs) such as electric vehicle fleets can be used for short term storage, but they need automated support to address imbalance in real time. Balancing mechanisms like VPPs can encourage 'demand responsiveness' to variations in supply.

A market for demand-balancing mechanisms like storage and demand responsiveness, so that their value can be traded, would encourage a faster and smoother transition to sustainable energy. That's where auctions come in - lightning-fast, retail 'balancing market' auctions held across multiple distribution networks all tied together to one big transmission network. When there's too much electricity in the grid, perhaps on a surprisingly sunny day, we need price signals that encourage businesses and consumers to use electricity. Conversely, when there isn't enough electricity in the grid, say, when half the electric vehicle owners in a neighbourhood all plug-in at the same time, we need price signals that encourage people to use less.

Demand response in consumer and business electricity use will require AI-assisted decision-making and large-scale automation of retail markets. This is where artificial intelligence comes in. Humans have better things to do than to constantly monitor electricity prices. Think of Herbert Simon's 'bounded rationality'. 'Intelligent agents' - artificial intelligence learning agents - can learn our goals and preferences, monitor the market, and either support our decision-making (for more important decisions) or simply act on our behalf. For example, if your 'agent' knows your schedule and usual practices, it can charge your electric vehicle for you at the time when electricity is least expensive (usually late at night) while planning the charging timing to ensure enough range in the morning to satisfy your needs for the day.

The complexities inherent in the transition to renewable energy will only grow as the share of renewables grows, so we need to start the hard work of coordinating macro-policy with low-level automation of decision making now. It won't be long before hydrogen becomes a viable storage option for overproduction. Batteries (already a viable short term option), pumped hydro, and compressed air are existing storage options that arbitrage energy prices. With an endless supply of storage, we wouldn't need AI to automate decision making in a demand-responsive market. But storage comes with a cost. Batteries also come with environmental consequences. We can either build enormous storage capacity to create energy reliability, or we can build a reasonable amount of storage capacity and have that capacity compete in a market for balancing resources alongside demand response options. The management of highly distributed generation and storage capacity with markets that are nimble enough to meet the peculiarities of an increasingly energy-diverse German landscape

Expert article • 2822

will require levels of sophistication and automation that only AI can create.

We need high-level coordination on a high level - EU policy - to increase the contribution of renewables and to reduce emissions and control emissions pricing. But we need that high level policy to be tied to an independent, lower-level coordination of businesses and consumers so the transition to sustainable energy is *itself* sustainable.

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JULIA KUSZNIR &amp; KAREN SMITH STEGEN

# The European Green Deal's hydrogen strategy and EU energy issues

Expert article • 2823

In December 2019, the European Commission (hereinafter as the Commission) presented the European Green Deal – a growth strategy designed to make the European Union (EU) climate neutral by 2050. This initiative aims to increase climate and environmental protection and to decouple the EU from fossil fuel sources of energy. If successful, the Green Deal, and its “Hydrogen Strategy” component, would enhance the ability of EU companies to be world leaders in clean technologies. The Green Deal, as portrayed by Commission President Ursula von der Leyen, is “Europe’s man on the moon moment”. But, as we discuss below, the Hydrogen Strategy will pose challenges, particularly for EU Member States that have been slow in building out renewable energies.

The Hydrogen Strategy, launched in July 2020, immediately captured wide-spread attention and, within a few months, prompted expert roundtables and meetings. Hydrogen is attractive because it emits no carbon when burned and, if produced from electricity generated by renewables, can be “clean” or “green” in its entire life cycle. Hydrogen also offers great flexibility, for example, it can serve as a fuel, as storage, and as an energy carrier, supplementing electricity networks. Because it can be transported like oil and gas, it could help decarbonize heavy polluting industries that are difficult to power with electricity (such as steel plants). In the transport sector, hydrogen could fuel heavier vehicles and vessels, including trucks, trains and boats. If clean hydrogen is produced in sufficiently large quantities, it could also have trade and geopolitical implications by reducing EU dependence on fossil fuel imports.

At the moment, most hydrogen is produced with fossil fuels and does not contribute to climate goals. Thus, the Commission seeks to incentivize clean hydrogen production and decarbonize fossil-based hydrogen processes. In the short term, this would require using carbon capture technologies and favoring natural gas over coal feedstocks. These strategies are considered transitional. The long-term goal is the wide-scale use of clean hydrogen to significantly reduce the EU’s emissions. Unfortunately, “clean” hydrogen is still substantially costlier than fossil-based hydrogen and many clean hydrogen technologies are not yet scalable.

The Commission recognizes that integrating hydrogen—regardless of how it is produced—into Europe’s energy mix will be a challenge and has enumerated policy strategies. However, the Commission seems to have overlooked the additional challenge posed by the varying degrees with which Member States have embraced the transition to renewable energies and their related divergent views on energy security. Indeed, recent research posits that a multi-speed energy transition is underway, resulting from each country’s national energy preferences and endowments, dependencies in the energy supply as well as existing energy market dysfunctionalities. Unfortunately, this multi-speed transition follows a geographic east-west line.

While many western European states coordinate their steps in the energy sector and aim at greater integration of renewables into

their systems, many eastern European states implement protective strategies and favor ‘traditional’ energy sources, such as nuclear or domestically mined coal. Additionally, eastern European states tend to frame traditional energy sources as an indispensable part of society and critical for energy security. In contrast, western European states view renewables as enhancing energy security and increasing the competitiveness of their companies in clean technology markets.

The Hydrogen Strategy could inadvertently further the differences between the “old” and “new” Member States. Western European states, which have more quickly adopted renewables, are likely to pursue clean hydrogen. Eastern European states, with their abundant coal reserves, might tend towards and lock themselves into the fossil-based transitional forms of hydrogen. The Commission should be particularly sensitive to the differences between Member States and expend extra effort to entice the eastern states to build out renewable energies and produce clean hydrogen.

In sum, achieving the Hydrogen Strategy’s ambitious goals will require massive financial support for technological innovation and diffusion as well infrastructure development. Meanwhile, China is way ahead of the EU in its hydrogen research and development efforts. If EU companies are going to be competitive, no time should be wasted. As one renowned hydrogen physicist interviewed for this article stated: “It’s all about the money”. Additionally, clear definitions of goals and scopes in energy security, new governance mechanisms and practical solutions will be needed to overcome the existing dysfunctionalities and divergences in the EU and to push the Hydrogen Strategy forward. ■

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# Germany's Coal Exit Law: Too late and too expansive

Expert article • 2824

**G**ermany passed its Coal Exit Law in the summer of 2020. The therein agreed phase-out by 2035-38, however, is outdated and implies breaking internationally ratified climate protection targets. In addition, it does not resolve the social conflict over coal, payments for coal mine and power plant operators and regions are too high, and incentives for the needed (energy) system transformation insufficient.

## Unambitious and slow energy and climate policies

When the "Coal Commission", which was established to come up with a coal phase-out plan, began its work in 2018, lignite and hard coal together still accounted for almost 40 percent of the German electricity mix. However, in the last two years this share has already fallen by half - even before the Commission's recommendations were implemented. This was due to purely economic factors, such as the increased price of CO<sub>2</sub>, low natural gas prices and the increase of renewable electricity. This meant that coal-fired power plants were only running fewer hours a day, if at all, not being able to recover their operating costs.

Renewable energies are now significantly cheaper than coal and nuclear power (not only in Germany but globally, as the newest IEA report shows), and already supplied more than 55 percent of the German electricity mix on average in the first half of 2020. Numerous studies show that for Germany, in addition to the impending phase-out of nuclear power, a coal phase-out by 2030 is technically and economically feasible, and necessary from a climate policy perspective. However, the rapid expansion of solar and wind energy required for this, has so far been slowed down by the federal government's hesitant energy and climate policy.

## High compensation payments create false incentives

The coal phase-out is accompanied by too high compensation payments: The lignite operators alone are compensated with 4.35 billion euros. The opaque and outdated calculation bases for the compensations can be criticized in particular. They were based on hypothetical profits on the basis of operator statements, which would not have existed anyway under the current market situation. Operators of hard coal units will be compensated based on an auctioning system with comparably lower payments in the range of 165,000 to 89,000 €/MW (depending on the number of bids and the shutdown date 2020 - 2027). Additionally, a coal replacement bonus for retrofitting power plants, not only to renewables but also to fossil gas will be paid. Such schemes promote fossil gas, which - depending on upstream emissions and the efficiency level of the power plants - is as harmful to the climate as a coal-fired power plant. Any investment in fossil gas is therefore not compatible with the declared goal of climate neutrality by 2050 at the latest, and must not be subsidized by tax money.

## Prevailing social conflict over coal

In contrast to ongoing developments, a Coal Exit Law based on the recommendations of the "Coal Commission" could ideally have ensured not only a swift but also a predictable, and, thus, more socially acceptable coal exit. Adjustment funds of five billion euros are earmarked for those directly employed in the coal industry, and lignite regions will receive 40 billion euros in structural aid. However, the interests of the residents living near the opencast mines are largely ignored: Although the preservation of the Hambach Forest and some villages in Lusatia has been achieved, uncertainty still prevails regarding the destruction of five villages close to the Garzweiler II open-cast mine, and further settlements in Lusatia as well as the Central German mining district.

## Conclusion: Well-meant is not well done

The German coal phase-out law falls short from an ecological, economic and social perspective of what would have been possible and necessary to enable a just and timely coal phase-out. In addition, the basic idea of resolving the social conflict around coal through a consensus solution has failed, as the law violates important points of the original coal commission's compromise - also due to lobbyist interventions during the law writing procedure. Moreover, it must be criticized that neither voices representing future generations nor the most affected regions by climate change have been sufficiently heard during the entire process.

To achieve a climate-neutral world, further transitions will be needed, especially in the transport and heating sectors. In order to initiate strategies for change that leave no one behind, we must act quickly and learn from previous mistakes. In other sectors we can no longer afford such a slow and expensive process, rewarding incumbents instead of actors willing to create sustainable systems, as is the case with Germany's Coal Exit Law. As we have the required knowledge and technologies as well as the support by the majority of the population, it is possible and time to initiate a just transition to a sustainable economic system now. ■



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# Status and perspectives of “Energiewende” in Germany

Expert article • 2825

After the reactor disaster in Fukushima the German Federal Government, the *Bundestag* and the *Bundesrat* decided the “Energiewende”. It is to the one the gradual phase-out of the use of nuclear power plants by 2022. On the other hand, renewable energies should be expanded to the mainstay of future energy supply. Already in the integrated climate change and energy program of 2007, the Federal Government had brought the first packages for a State of the art, secure and climate-friendly energy supply in Germany on the way and at the same time set on ambitious, intelligent and efficient climate protection measures. Germany is aiming for a sustainable energy system by 2050 and will be one of the most energy-efficient and environmentally friendly economies in the world. That's why saving energy and increasing energy efficiency play a crucial role in this process. But the energy transformation affects not only energy policy. It is a fundamental choice about the social, economic, technological and cultural development of Germany.

However, the course for an “Energiewende” in Germany was set not in 2011 but several decades previously. This applies for the nuclear phase-out, which is inextricably linked to the setting change of nuclear power after the Chernobyl reactor disaster, as well as for the promotion of renewable energy sources in electricity generation, as well as for the constant reduction of energy consumption in all sectors of the economy. The most important and successful instrument in Germany's toolbox to reduce greenhouse gas (GHG) emissions was the promotion of renewable energy sources for electricity generation (RES-E) through a feed-in tariff. The Electricity Feed-In law of 1990 was followed by the Renewable Energy Law (EEG) of 2000.

The integrated climate and energy concept, adopted by the Federal Government in 2007, defined the goals of “Energiewende” by the year 2050, to be achieved via partial goals for 2020, 2030 and 2040. By 2050, greenhouse gas emissions in Germany should be reduced by 80 to 95% (base year 1990) and the share of renewable energy sources in electricity consumption should reach at least 80%. Improving energy efficiency is the key question in this context, therefore the energy consumption compared with the consumption in 2008 must be cut in halve. Since individual measures often only have a limited potential, the energy transformation in all sectors - industry, transport, households and in the trade and services sector –were started quickly.

The reforms of the EEG in 2014 and 2016 led to a fundamental reorganization of the promotion of renewable energies. In particular, the fixed feed-in tariff was replaced by a moving market premium.

The National Energy Efficiency Action Plan was adopted in December 2014 and a law on the partial implementation of the Energy Efficiency Directives was adopted in early 2015.

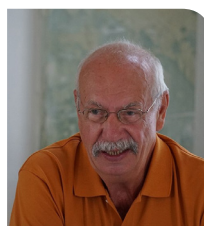
Nuclear policy dealt with the problem of the final disposal of nuclear waste. In July 2013, the Site Selection Act (StandAG) was enacted. The Commission on the Storage of Highly Radioactive Waste

presented its final report in July 2016. Based on the Commission's recommendations, the recast of the StandAG of March 2017 lays down the criteria for the selection of possible disposal sites, rules for participation procedures and the conduct of the site selection procedure. At the end of 2016, the Law on the Reorganization of Responsibility in Nuclear Disposal stipulated that operators would remain responsible for the closure and decommissioning of nuclear power plants and packaging of radioactive waste. However, in the future, the Federal Republic will be responsible for the implementation and financing of interim and final storage.

The coalition agreement of the parties in power provides for some concrete fields of action in energy policy, e.g. special tenders for wind and solar energy. In addition, the target of increasing the share of renewable energy in electricity generation to 65% has been brought forward from 2040 to 2030.

In June 2018, the so-called Coal Commission was set up, which in January 2019 recommended to the Federal Government in its final report that coal mining and electricity generation should be phased out by 2038 at the latest. The report contains proposals for economic structural change in the regions concerned. The Federal Government, together with the countries concerned, has developed an overall structural policy concept to support the coal regions. A Structural Strengthening Act on Coal Regions (StStG) aims to establish a binding legal framework for structural support to the regions, by providing financial support for investment and other measures by 2038.

But to reach the central goal of the Paris Climate Agreement to limit global temperature rise to well below 2°C, Germany's national actions to reduce GHG emissions must be significantly strengthened and the decarbonization of the energy system achieved sooner. ■



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# Why the German energy transition keeps on stuttering

Expert article • 2826

Germany has long been considered a champion of the Energiewende (energy transition), by replacing fossil fuels and nuclear energy with renewable energy. Renewable energy, especially wind energy, as well as solar and biofuels have been increasing rapidly over the last two decades. 20% of the electricity is currently generated by wind energy, while solar PV, biofuels and hydropower together account for another 20%. Yet, about 35% of Germany's electricity still comes from coal, as well as an increasing share of natural gas (IEA, 2020). The country's coal exit is being planned for 2038, which is nearly two decades away. Critics argue that the continued large-scale use of coal over such a long time frame is a major bottleneck to the energy transition and that the coal exit needs to be speeded up. Other bottlenecks beyond the energy sector are the continued use of fossil fuels in the transport and industrial sectors. Beyond these major bottlenecks, there are also other challenges that lead to a lagging energy transition.

A few years ago we conducted research for our article "The stuttering energy transition in Germany"<sup>1</sup>, which captured the perspectives in Germany among industry and policy-makers regarding transitions to renewable energy, particularly wind energy. It has now been 20 years since the Renewable Energy Law (Erneuerbare-Energien-Gesetz EEG) came into force, which spurred the energy transition and introduced feed-in-tariffs for renewable energy. The EEG and the feed-in-tariff for renewable energy, currently being updated again for 2021, are seen as the cornerstone and key instrument for driving forward the energy transition, and with it innovation in renewable energy technology.

Germany's feed-in-tariff enables producers of renewable energy to feed electricity into the grid and be financially compensated for it for a time frame of 20 years. Offshore wind energy was particularly financially favoured in the early 2000s, to boost large-scale wind energy generation capacities, yet some of that funding will come to an end soon. The feed-in-tariff is being funded not by taxes, but by a surcharge on electricity users, which adds roughly 20% to the price of electricity. Yet, the government is giving exemptions from the feed-in tariff to energy-intensive industries, such as the car industry and other large manufacturing industries. Industries that use large electricity quantities are only paying a small share of the electricity prices that private households are paying.

Over time, the quota for industries to receive a reduction in electricity prices has sunk from an electricity consumption of 10 GWh to 1 GWh which means that the overall national industry payment into the EEG account decreased, while the costs of the energy transition is mainly being shouldered by the individual consumers. Hence the consumer is facing an economic disadvantage while large energy-intensive firms, utilities and large energy providers are the economic winners of the energy transition in Germany. An increased share of wind energy and other renewables has indeed lowered energy prices,

albeit only for large corporate customers and energy providers, not for the individual consumer. In recent years, this situation has been partially attempted to be fixed by transitioning to an auctioning system for renewable energy to reduce electricity prices. Yet, this means the cost reduction has to be borne by renewable energy providers and project developers, not by energy-intensive industries that still benefit from the amended system. Other recent policies, such as a minimal distance between buildings and wind turbines of at least 1000 meters has also put a damper on wind turbine installations.

2020 marked the introduction of the European Green Deal and the EU's ambitions to achieve net zero emissions by 2050. In line with this goal, the German energy transition is advancing, despite the current challenges. Yet, the flawed policy design, the cost exemptions for energy-intensive industries on the back of individual consumers and the continued long-term reliance on coal mean that the energy transition is advancing slower and less smooth than might have been hoped for. For creating an energy transition that is socially just, economically viable and environmentally-friendly, the costs of the energy transition have to be distributed more equal. ■

<sup>1</sup> <https://www.sciencedirect.com/science/article/abs/pii/S0301421515001159#:~:text=Energiewende%20refers%20to%20the%20German,energy%2C%20most%20importantly%20wind%20energy>

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# Emerging role of Lithuanian LNG terminal

Expert article • 2827

**S**ix years ago, Lithuania, like other Baltic countries, was completely dependent on the monopoly supply of natural gas through pipelines from Russia. Today, Lithuania has ensured security of natural gas supply, forgotten about the political component of Gazprom's gas price, created a complete value chain in the field of liquefied natural gas (LNG) imports, established itself on the global market as a reliable LNG terminal operator and ensures supply of natural gas to the region. The 'broken ice' enhances strategy consistency – to ensure the long-term operation of Klaipėda LNG terminal at least until 2044.

## The direction of growth

Since the start of operations of the Lithuanian LNG terminal (KN 'Klaipėdos nafta', the operator), its utilization rate has been rising on an yearly basis and reached 50% in the sixth year of operation and similarly a year before in 2019. This indicator illustrates the dynamics of the European LNG market and reflects the ongoing trend of low LNG prices. The decrease of demand for LNG consumption affected by the COVID-19 pandemic filled European natural gas storage facilities and subsequently pushed LNG prices down. LNG flows from Norway account for the largest share of Lithuanian LNG terminal imports and account about 82% since the beginning of operations. LNG from the USA has demand in the spot market. Therefore 3 large scale LNG cargoes from US were imported through the Lithuanian LNG terminal during this natural gas year, which is calculated from 1st October 2019 until 30th September 2020.

A total of 3.5 million cub. m of LNG was imported in 2020, whereas in 2019 - 2.2 million cub. m. The import of natural gas through Klaipėda LNG terminal surpassed the gas imported by pipelines. In certain periods of year 2020-2021, 68 and more percent of natural gas supplied to the natural gas grid were imported through the LNG terminal. In the autumn of 2020, Lithuania announced that it had doubled its natural gas exports to neighbouring countries - using the well-developed Lithuanian gas transmission infrastructure, twice as much as last year was transferred to the Baltic States and Finland, i.e. - 7.8 TWh. This growth was significantly influenced by the launch of the Estonian-Finnish gas connection Balticconnector. From 1st January, prices on the Finnish gas exchange approached the prices in the Baltic States, although a couple of months before the start of the connection, the differences amounted to as much as EUR 10 per MWh. The correlation between the European TTF index and the Finnish natural gas price started immediately after the liberalization of the market.

## The potential of LNG has not yet been exploited

According to McKinsey & Company, the global gas market has grown by 5.3% in recent years and is expected to grow by 0.9% annually until 2035. The LNG segment is considered to be very promising - its growth is forecasted to be 3.5% by 2035 per year. LNG also has an important role to play in the transition to a climate-neutral economy by 2050. According to the European Commission, it is the most economically viable fuel for the transition to green energy. LNG reloading station, which started operating in Klaipėda in 2017, has also

enabled the development of a small-scale LNG market - Bunkering ships with LNG, transporting by tank trucks to regions remote from the natural gas network. However, so far the potential for LNG use in the Baltic States remains relatively low. LNG bunkering takes place only in Klaipėda and Tallinn, the LNG refuelling point for transport operates only in Estonia, a larger breakthrough can be seen only in Poland. Lithuania is also laying the foundations for the infrastructure of LNG heavy road transport refuelling points. In the next 2-3 years at least 4 LNG filling points will be operational in Lithuania, as the state provides subsidies for the establishment of such infrastructure. Klaipėda LNG terminal is among the most efficient terminals in Europe and the only terminal in the Baltic States. It is increasingly used by Latvian and Estonian gas suppliers. And with the growing demand for LNG in the transport, shipping and industrial sectors, the possibilities of utilisation will increase.

## Will ensure the operation at least until 2044

The LNG reloading station in Klaipėda gained a stronger foundation when in 2020 its sole user became the Polish company PGNiG. KN sees Poland as an open and high-potential market, as there are still many customers in Poland that are distant from the natural gas network, and the network of LNG filling points is expanding. In addition, Poland aims to reduce the production of electricity from coal from 80% to 37-56% by 2030, so the demand for natural gas supply will increase. The coming year will bring many more strategic opportunities to operate the Klaipėda LNG terminal at high capacity. The construction of the GIPL gas pipeline with Poland (which will start operating in early 2022) will become an important link connecting gas supply points and pipelines in the Baltic region with rest continental Europe, including countries such as Ukraine. Gas consumption in FINESLAT countries (Finland, Estonia, Latvia) and Lithuania should keep stable with minor declines until 2030. The supply flexibility, price transparency and independence from a single supplier provided by the infrastructure in Klaipėda are becoming important factors for the whole region. In 2018, the Seimas of the Republic of Lithuania approved the National Energy Independence Strategy and the Law on the Liquefied Natural Gas Terminal which altogether envisages long-term operation of the Klaipėda LNG terminal until 2044. When the current contract for the lease of the FSRU 'Independence' with the Norwegian 'Hoegh LNG' expires, Lithuania will have to acquire and own this type of vessel that meets the country's energy security and natural gas competitiveness aspirations. The KN is obliged to complete this project by the end of 2024 and to secure the supply of natural gas by the most cost-effective technological solution until 2044. ■



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# Towards electric urban transport

Expert article • 2828

**M**itigating climate change requires actions in all sectors of society. CO<sub>2</sub> reductions have not, however, been achieved at the needed rate in the transport sector. Within the EU-28, 27% of the greenhouse gas emissions came from transport in 2017. The need to implement alternative mobility concepts and reduce emissions in the transport sector is recognized by the EU, creating pressure on the member states. For instance, the European Green Deal defines “cleaner, cheaper and healthier forms of private and public transport” as one of the main action fields to reach zero GHG emissions in Europe by 2050.

Urban environments are responsible for a big share of global GHG emissions. Furthermore, local air pollution and noise affect cities in a negative way, especially as transport demands and volumes are increasing. Electric mobility (e-mobility) represents a viable option for greening urban transport in particular, as in a city environment the distances are generally relatively short and, as such, rather easy to cover with electric vehicles (EVs).

From the life-cycle perspective, given the current energy mix in Europe, at this stage EVs are already competitive in terms of CO<sub>2</sub> emissions compared with their ICE counterparts. In the future, the net GHG emissions will decrease even further as the share of renewable energy sources in electricity production will increase, the long-term objective of the EU being to reduce these emissions by 80–95% by 2050.

## Boosting e-mobility with international cooperation

Despite the clear potential, the know-how about applying e-mobility in an urban context is still fragmented among decision-makers and transport planners. In addition, national strategies towards the electrification of transport often focus on private car use while other electric vehicles have received less attention. The BSR electric – Fostering e-mobility solutions in urban areas in the Baltic Sea Region -project, funded by the INTERREG Baltic Sea Region Programme 2014-2020, essentially aimed to fill these two gaps and enhance the utilization of e-mobility in urban transport systems around the Baltic Sea Region. The project started in October 2017 and ended in September 2020.

The consortium of 15 partners and 28 associated organizations in eight countries demonstrated the potential applications of different types of e-mobility, such as e-logistics, e-bikes, e-buses, and e-ferries, with seven use cases. The aim of the different use cases was to outline the practical implementation of the different modes. Among the themes and aspects covered in the use cases are included issues such as user acceptance, economic viability, and technical barriers to e-mobility integration.

As a project with a wide array of partners ranging from research institutions to cities and NGOs, BSR electric clearly demonstrated its strength in addressing the multifaceted topic of electric mobility. The seven use cases all addressed a particular issue of e-mobility, drawing conclusions on how environmentally friendly transport solutions can be implemented in the varying Baltic Sea climates. The cross-border exchange of experiences managed to grasp the essence of implementing successful sustainable e-mobility solutions in urban environments, providing valuable insights to guide public authorities, companies, planners and transport providers in the process of reaching

more sustainable urban mobility systems. The key learnings from the use cases fed into checklists, an online learning module targeted at decision-makers as well as other urban transport stakeholders, and a roadmap document gathering the experiences from the project.

## Drivers and barriers to the transition

Despite the wide array of the use cases, they all highlighted the fact that to ensure a successful transition towards e-mobility, several aspects, including policy, infrastructure, finances and technological issues need to be taken into account. Although the Baltic Sea Region countries are at different stages in their transition, the issues they are facing are essentially the same. Procurement costs of electric vehicles are high, although the life-cycle costs are smaller than those of their internal combustion engine counterparts. A more comprehensive network of charging infrastructure is needed to enable a widespread adoption of e-mobility, and the technological barriers still limit the range of electric vehicles. At the same time, more awareness is needed about the advantages of the EVs.

Also, a perhaps sometimes forgotten user perspective must be acknowledged. The end-user perspective was explored further particularly in the Turku University of Applied Sciences use case and pointed out also by several other use cases of the project. The transition is not just about finding the appropriate technology or providing the infrastructure. If the end-user does not adopt the solutions available – whether due to their discomfort, higher price or some other user-oriented reason – even the finest of technology will not gain the market access needed. People need to be convinced of the safety and usability of the vehicles. In other words, the potential behavioral barriers connected with new technologies need to be addressed in order to succeed with the transition.

It was found that the barriers to e-mobility can be removed by improving the network of charging infrastructure and procurement procedures, as well as working on the image of e-mobility among the public. Political targets, spatial planning and city development plans, strategic partnerships and networks are needed as well. The International Energy Agency (IEA) predicts, that as the battery technology is developing at a fast pace, by 2030 the average driving range of a battery electric vehicle could be 350-400 km, while the battery costs are also dropping. At the same time, sustainability objectives are driving the policy support for e-mobility at different levels of governance. It could be argued that the momentum for e-mobility is now.

Electrification of urban transport is a complex process, in which cooperation among the stakeholders representing different sectors is essential. The BSR electric project outputs aim to help these stakeholders making informed decisions and navigate their way towards more sustainable transport systems. All material and outputs are found at the project website <https://www.bsr-electric.eu/>. ■

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# At risk to get out of balance

Expert article • 2829

**G**ermany, like many other European countries, has a rapidly ageing society.

As the working age population tends to decline, the number of people of retirement age will steadily grow over the next two decades. Recent projections of the Federal Statistical Office, estimate that the population aged from 15 to 64 years will decline from 54 million people in 2020 to 50 million in 2035. This is a conservative estimate. The underlying scenario assumes a net immigration of more than 4 million people over the projected period. This roughly corresponds to the range of annual net immigration figures during the last decade. Hence, in order to keep the working age population at the current level, net immigration would have to increase by nearly 100 percent. At the moment, however, there is little indication of a substantial shift in that direction.

Labour shortages are already a problem, but will become more acute in the near future. This is not only driven by demographic change, but also by the steady growth in the number of jobs over the last 15 years, despite the financial crisis of 2008/2009. Between 2005 and 2020, employment rose by almost 15 per cent and has now reached a level of nearly 45 mio. workers. So far, the ongoing Covid-19 crisis has only slightly interrupted this trend. In fact, increasing labour demand meets decreasing labour supply.

The increasing number of people of retirement age is likely to result in a growing burden for the pay-as-you-go pension system in Germany. Pension claims are financed by wage contributions of the workers. On average, in the year 2000, four workers had to provide funding for one retiree. By 2025, this ratio is expected to reduce to three to one and by 2050, it is expected to reach two to one.

The picture sketched so far is based on pure headcounts. What matters even more is the skill dimension of human capital. In fact, a large part of immigration over the last decade was driven by refugees, who are typically low-skilled. Another important driver has been immigration from within the EU, predominantly by migrants from the new member states, who typically also are low- and medium-skilled. In contrast, immigration from non-EU and non-crisis countries has been steadily declining, despite the fact that most immigrants from these countries hold an academic degree. This is all the more surprising, since Germany has increasingly relaxed immigration regulations especially for high-skilled workers from outside the EU. It seems like language barriers play an even bigger role for immigrants than legal obstacles. For high-skilled migrants from India, for example, Germany doesn't seem as attractive as English-speaking countries like Australia, New Zealand, the U.K or the U.S.

The big question is whether and how Germany will be able to cope with a declining workforce accompanied by a deterioration of the skill composition. Interestingly, the country was facing a comparable threat already in the past. Back in 2005, demographic projections were indicating a decline of the working age population until 2020 in a similar range as the current projections do for 2035. Notably, however, up to now the working age population remained as high as it was in 2005, mostly due to net immigration that was not anticipated to the extent it actually happened. But even that would not have been sufficient to serve the constantly increasing labour demand over the last 15 years.

Labour supply increased also due to a number of behavioural changes. The most striking phenomenon is the increase of the employment rate of the elderly since 2005. Up to 2005, the employment rate of individuals in the ages between 55 and 64 was fairly stable below 40 per cent. Actual early retirement was generously subsidized in various forms, even though not necessarily labelled early retirement. The labour market reforms of 2003-2005 mark a crucial paradigm shift towards increasing work incentives and abandoning early retirement schemes. Since then, the employment rate of the elderly has steadily increased year-on-year and has now reached almost 75 per cent. This is an unprecedented phenomenon within Europe.

Another important measure consists of a rapid expansion of child care facilities after 2010, which substantially contributed to an increase of female labour force participation.

However, the challenges that lie ahead are much bigger than the ones from the past. Keeping the workforce stable will not be enough to cope with an increasing number of people in retirement age. Behavioural adjustments like increasing retirement age may reach their limits. But immigration especially of high-skilled workers is still an option. Unfortunately, Germany has a comparative disadvantage in terms of language barriers. Therefore, extra efforts will be necessary, for example by massively extending the accessibility to German language courses abroad or by attracting talented foreign students to German universities. ■



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# The labour market integration of refugees in Germany

Expert article • 2830

Germany experienced since 2012 a net immigration of 5 million people, of which 1.5 million were refugees from non-European countries, most of them from Afghanistan, Eritrea, Iraq, Iran, Nigeria, Pakistan, Somalia and Syria. 247 thousands immigrants of that group meanwhile left the country again. Particularly in 2015 and 2016, when the stream of refugees arrived, right wing populists criticized the tremendous social costs of 80 – 100 billion Euros since 2015.

Numerical modelling however show that the public sector financial balance for refugees is positive in the long run if they are successfully integrated into the labour market. As most immigrants do not have sufficient German language skills and their school and vocational education is in average much lower than the requirements of the labour market, they need a longer period of training and – particularly for the younger – apprenticeship before they can leave the regime of basic security for job seekers and cover their and their family's living expenses by their own work. From then they pay income taxes and social insurance contributions which exceed the social transfer payments they received in the beginning after their arrival and later from the pension scheme. The calculations however also show that a failed labour market integration provides high net social transfer payments. Therefore, the former policies which aimed at keeping asylum seekers out of jobs as long as possible in order to avoid incentives for immigration are not only unsocial, but also extremely costly for public budgets.

Progress has been made with regard to formal recognition as asylees or refugees with right to stay. 2 years after the immigration only 8% had not finished the procedure and are still waiting for a permit for a longer stay. The majority of refugees has acquired knowledge in German language. Meanwhile the participation of women in language courses which was low in the beginning has caught up and is still inadequate only for women with children aged less than four years.

Five years after the big wave of refugee immigration it is time to have a look on the achieved labour market integration of refugees:

- The number of employees from the asylum seekers countries has grown from 70.5 thousands in January 2015 to 361,400 in March 2020. About 30% of the refugees arrived since 2012 have found a job.
- The number of registered unemployed job seekers in that group increased in the same period from 113,234 to 470,687. 38% are still searching for an employment.

In March 2020, many refugees were still dependent from social transfer payments. The recipients of basic security for job seekers grew from 150,640 in January 2015 to 629,500. 196,000 were registered as unemployed. About 262,000 were in education or special training programs. 72,000 stayed at home for childcare and nursing. 60,000 refugees have been working as low income earners receiving additional transfer payments to achieve the guaranteed minimum income.

Education is crucial for the integration of refugees who in average have had a much lower level of years in school, vocational training or even tertiary education. 11% had never attended school, 14% only a primary school. For a successful labour market integration however a vocational training or another formal qualification is necessary. The participation of refugees in education has increased, more for male, less for female refugees, in general depending from human capital former acquired before. Particularly men participated in a vocational training.

Statistics show that five years after their immigration about 60% of the refugees have started working in Germany. During the last years, they have met a labour market situation with an increasing number of jobs in total, more qualified workers leaving for retirement than young people finishing their education. Enterprises have lamented a skilled labour shortage since several years. Refugees, particularly young male, help to close the labour market gap, rolling in apprenticeships in small and medium enterprises in smaller towns which often have not the best position in the competition for skilled labour force. German federal government has established an exceptional leave to remain for young people without a formal asylum or refugee status in case they have started a vocational training contract. Problems remain for young women who show a lower participation in language and training courses, probably because of cultural features of their home countries.

To sum up, Germany is on the right path to integrate refugees who will probably stay for their lives and raise their families here. Their children will hopefully enjoy a better education and help to delay the aging of the German population. Last but not least, they will in the long run help to stabilize the balance of public sector budgets. ■



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# Fiscal policy response during COVID-19 in Germany

Expert article • 2831

Throughout the year, international organizations and think tanks, like the OECD, the IMF, or Bruegel, reported that Germany's plans in response to the crisis would produce a substantial fiscal impulse close to or even above 10 % of GDP. However, these figures are likely to be much too high. Recent estimates by the Joint Forecast project – which is conducted by the five leading German economic research institutes for the federal government – find an impulse of roughly 4 % relative to GDP for the current year, taking into account the immediate measures adopted in spring and the stimulus package announced in early summer. Admittedly, these estimates do not cover the most recent measures that were announced together with additional shutdown measures at the end of October. However, these additional measures are unlikely to make a large difference with respect to the size of the fiscal impulse as they will be funded by financial resources made available for earlier stimulus actions that had not been used up so far.

There are several reasons for this undershooting. First of all, the German government seems to have been keen to report a huge stimulus in spring and therefore partly counted the impact of automatic stabilizers as a response to the crisis in its reporting on the Stability and Growth Program. Further, several measures are highly likely not to be fully used up. For example, in Spring € 50 bn were made available for grants to small and medium sized firms but by the end of May only 30 % of this sum were actually spent. The take-up quota in the follow-up program was even lower, at least in part due to bureaucratic hurdles. Because of this, there is now room for additional grants to accompany the November shutdown without asking the parliament for an extension of the budget framework.

Most of the measures will be ceased at the end of 2020, like the temporary VAT cut. However, the German stimulus package, as many other stimulus packages in Europe, is meant to provide impulses also in the upcoming years. After 4 % in 2020 the expected impulses sum up to 1½ % for the year 2021 and about ¾ % of GDP for the year 2022 according to the aforementioned Joint Forecast. The additional spending is likely to be partly funded by the EU recovery funds. However, the overwhelming bulk will be financed by national borrowing, which can already be seen in the plans for the 2021 federal budget where net credit is far above the regular allowance of the German fiscal rule, the “debt brake”.

How to judge the fiscal response in Germany? Automatic stabilizers as well as discretionary measures substantially stabilized the disposable incomes of private households during the crisis. This likely helped to achieve public support for shutdown measures to fight the epidemic and stabilized the economic outlook for many. However, some of the measures of the stimulus package seem to be rather inefficient. It is unclear how much help the temporary VAT cut worth € 20 bn could provide when households had a lot of space to boost private consumption simply by normalizing their record-high savings rate. Further, the pull-forward effects for durable consumer goods will

weigh on private consumption next year. Since the COVID-19 crisis will continue in 2021 this measure may not contribute to stabilize the economy.

Given the timing of the crisis and its potentially longer lasting effects, it makes sense to provide stimulus beyond 2020 as it is envisioned in the stimulus package as a whole. However, the corresponding measures pursue not just one, but two goals: economic stabilization and fostering structural change with a focus on certain measures to address climate change. Thus, policy goals are mashed up. The package includes various detailed grants, subsidies, and tax reliefs to encourage private investment in certain areas. This not only means that these funds may do little to support the economic upswing but is also of questionable efficiency with regards to climate targets, since emissions trading schemes and the pricing of emission certificates are already in place and provide incentives for the relevant investment without the need for additional bureaucracy and the picking of winners by government.

In sum, the fiscal response during COVID-19 in Germany is large, but not huge. The measures are timely and it may turn out that additional stimulus in 2021 and 2022 will be useful. However, some measures are not well designed to stabilize the economy. The temporary VAT cut may just rearrange demand in the short-run, and additional spending for certain climate policies may just create windfall gains for some private investors when the emissions trading schemes already provide the incentive to implement the most efficient emissions reduction technologies. ■



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# Covid19 and international migration

Expert article • 2832

**G**eographical migration research highlights the phenomenon of transnationalism as a consequence of migration processes. From the individual perspective, transnationalism is characterized by the development of durable social connections over state boundaries which are relevant for the organisation of everyday life and the formation of individual identities. From the state perspective, the concept of transnationalism suggests the dissolving of boundaries and decreasing relevance of traditional approaches of “state” and “citizenship”. The phenomenon of transnationalism is densely connected to processes of globalisation, and both processes are strongly intertwined. The strategies to contain the Covid19-pandemic had serious consequences for both processes, notably for international migrants.

This is most evident in the case of border closures aiming to contain the pandemic, but also by the cessation of air traffic and by efforts to re-nationalize production and supply chains. Border closures are especially relevant for those whose lives are shaped by transnational mobility: transnational families are hampered in their transnational routines; migrant workers have to choose between maintaining their jobs abroad or uniting with their families. Refugees are facing the suspension of asylum procedures and a significant delay in resettlement or family reunification processes. We have also observed the increase of state interventions regarding the regulatory frame of mobility during the pandemic: while many forms of migration have been severely restricted, at the same time other types of migration have been supported by state authorities, such as the immigration of seasonal workers in agriculture.

In addition to these practical consequences for international migrants, we also have to consider long-term psychological effects of border closures and mobility restrictions. The juxtaposition of mobility and sedentariness has always created social tensions, as it challenges concepts of belonging. Attitudinal research has revealed that the fear of “strangers” is highest where “foreigners” are least present. Furthermore, the emphasis on “otherness” is often coupled with questions about the legitimacy of the presence of “foreigners” and about integration costs and integration obligations.

In times of high politicisation of migration such as during the “refugee crisis” or the “Brexit”, fears and prejudices against migrants are fuelled by public discourse. Thus, migrants already left the United Kingdom before the Brexit was implemented, as they experienced increasing xenophobic hostility. During the years of “refugee crisis” in Germany, arson attacks against newly established refugee accommodations increased as a means to prevent the allocation of asylum seekers to a locality. During the first lockdown of the Covid19-pandemic in Germany, second home owners were denounced by the local population, as they were officially not allowed to leave their first place of residence and stay in their second homes. Considering those recent examples we can conclude, that de-globalization processes have adverse effects for migrants not only by impeding physical mobility, but also by increasing psychological boundaries.

This is all the more true for the most vulnerable groups of migrants, such as the asylum seeking migrants who are stuck in overcrowded camps on the Greek islands. Their fate has increasingly been pushed out of sight in the context of the pandemic. While in the beginning of

2020 there was an initiative of a “coalition of the willing” to at least relocate the unaccompanied minors from the Greek camps to other European states, these approaches have almost come to a standstill during the first lockdowns. Meanwhile, countries such as France, Germany and Luxembourg have organized a number of relocations, but there is no durable solution for the majority of asylum-seeking migrants who got stuck at the outer borders of the European Union.

Considering those experiences during the first two waves of the Covid19-pandemic, there is a high probability that de-globalization processes will have a strong impact on international migration also after the end of the pandemic. Just as the economic consequences of the pandemic will exacerbate social inequality within states and worldwide, it also leads to further polarization in the area of migration: on the one hand, there are migrants with a high amount of social capital and those who are considered useful by state and non-state actors. On the other hand, there are vulnerable migrants with poor individual resources, who are at the same time under high migratory pressure and are therefore most dependent on international solidarity. It should be a central matter for the European Commission to develop sustainable reception strategies for those most vulnerable migrants.

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# Postcorononomics

Expert article • 2833

**P**ostcorononomics does not mean that after Covid-19 a new era is beginning. The corona pandemic is not a game changer. However, it is an eye opener. And it accelerates the speed of change.

Covid-19 does not affect significantly the long-term economic trends like the impacts of a still growing world population, the catch-up processes in poorer economies and the global need for more efforts to protect the environment and to avoid climate change and species extinction. Nevertheless, the corona pandemic speeds up the structural change from industrialised economies that are producing and trading goods to digitalised economies exchanging data.

Globalisation has been already under stress since the late 2000s. The global division of labour had lost momentum with the aftershocks of the financial market crisis and has not yet regained its old dynamics. The advantages of specialisation were visibly diminishing, but the disadvantages of high transaction and transport costs as well as increasing dependence on foreign intermediaries had become steadily more important. Corona will accelerate further on-going de-globalisation processes.

Globalisation will not disappear. But it will continue to change its face. Localisation – from local touch to local products for local clients – will celebrate a comeback. Glocalisation as an intelligent mixture of globally standardised mass production and tailor-made local specification might become a clever new strategy. In the aftermath of the corona crisis, various links in global value chains are likely to be brought back into the neighbourhood. Anyone who has been importing inputs from far away in the last decades, will tap other sources and increasingly look for alternatives in the vicinity. Global supply chains have been too vulnerable in the corona crisis. National supply security has become too important.

Digitalisation will complement and substitute globalisation. Data flows will replace trade flows. Video meetings will make business trips superfluous. The home office will replace the business office. In the wake of the pandemic, population and businesses people across the countries were made aware of what digital technologies are achieving. What was first tried and tested as an emergency measure as a result of the corona virus can and will be retained in many areas and activities even after the pandemic.

The pandemic-related surge in digitisation will change production processes forever. As soon as people start communicating and working digitally with each other and go shopping and exchanging online, and as far as smartphones, I-pads, computers and apps dominate everyday life, work and leisure, they will enter the data playing field where algorithms, artificial intelligence and self-learning systems take the lead and set the rules. Then everything and anything becomes measurable, evaluative and comparable always and at all times.

In the age of data and digitisation optimization, standardisation and scaling become the new measure of all things. What has proven itself as being efficient and effective somewhere, will be copied everywhere. Completely new connections of centrality and decentralization will be possible. Many things are programmed, specified, organized and implemented uniformly. Some things, however, are done, produced or printed out on site, at home or at the customer's premises.

"Hybrid" will be the new magic word of the post-corona era. It refers to the intelligent crossing of standardisation (to take advantage of the benefits of standardisation, i.e. economies of scale) and diversity (to meet different individual needs) into new hybrid forms. In education, face-to-face and distance learning are combined. In business, companies will mix homework and compulsory attendance into modern work and time models, thus enabling employees to better combine work and family life and to achieve a balanced relationship between work and leisure. Firms will develop core competencies at their headquarters and then market them worldwide but will specify cultural characteristics and individual customer requirements on site in accordance with their own specific needs.

However, data economy and digitization are accompanied by new existential threats to the population and economy. Hacker attacks on Twitter accounts of prominent entrepreneurs and politicians in the US and EU or the suspected attempt by Russia to illegally access computers of Corona researchers in the US are warning shots enough.

There are also viruses in cyberspace that can cause immense damage. And of course, they endanger human lives and societies just as much as bio-chemical viruses. Attacks from cyberspace have a devastating effect when entire cities are left without electricity, light or water. It would destroy normal life, when the data centres of public service utilities, mobility and communication centres or intensive care units of hospitals are paralyzed because the Internet is paralyzed. And the damages would be immense when stock exchanges and banks remain closed because online transactions cannot be verified in electronic data and payment transactions.

Security in cyberspace will be one of the central state functions in the post-Corona era. It is important to prevent a virtual pandemic from following the biological pandemic. Security in cyberspace will be expensive and in turn demand additional tributes from the taxpayer. Insufficient protection against cyberattacks and cybercrime, however, is far more expensive. It can destroy livelihoods and, in the worst case, call into question the stability of Western societies. ■

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FLORIAN SCHRÖDER

# Baltic innovations help to combat Covid-19

Expert article • 2834

**E**stonia, Latvia and Lithuania are among the leading digital countries in Europe. This is based on an excellent education system (Pisa study in Europe: Estonia 1, Latvia 16, Lithuania 19) and state leaders and presidents who already started digitizing their country and governments in the 1990s, so they can all now harvest the fruits of investment beyond their national borders.

Estonia is probably the most internationally renowned example of a digitized society and, since 2014, more than 45,000 people from 154 different countries have been granted Estonian e-residency, enabling them to register a company online, digitally sign and exchange encrypted documents, conduct secure online bank transfers, and make tax declarations electronically. But the other two Baltic countries also have plenty to offer in this field.

Latvia demonstrates the extensive involvement of virtual assistants in public administration. The Latvian company Tilde boasts great accomplishments in providing machine translations for the European Presidency since 2015. An AI-powered EU Council Presidency Translator provides instant and secure translation of text, documents and websites in all 24 official EU languages. And during the 3 first months of the German Presidency, a total of 42 million words were translated using the Tilde system, which is the largest volume of translations so far during an EU Presidency.

Lithuania is among the top countries in the EU for young people with digital skills. According to a Europe-wide survey, 93% of young people aged 16-24 in Lithuania have basic digital skills or above – far higher than the EU average of 80%. This is proof of the continuing strength of Lithuania's skilled talent – both now and in the future. All this shows the potential of the Baltic countries to serve the interests of the whole of Europe, including in the fight against Covid-19.

The Baltic countries are already extremely innovative in this field. Estonia launched a hackathon in March 2020 to generate ideas for tackling the pandemic. It was organized in a matter of hours and went global, attracting participants from 20 nations. The winning entries included a ventilator which utilizes a standard hospital airbag, but automates the process of squeezing using readily available machine parts and a hospital's compressed air supply. Another team created an interactive medical volunteer database which enables doctors to get the help they need in a crisis. And inventions are still going on.

Using predictive analytics and artificial intelligence, the Lithuanian company Convius introduced Crowd Control as a reservation tool for new and pre-sold tickets & season passes, visitor spread management, online check-ins, crowd prediction, crowd insights, and contactless payments to ensure safety and control by preventing overcrowding at all times.

The Latvian companies E. Gulbja laboratorija, JK Energy and JSC Latvijas Finieris created innovative, contactless Covid-19 testing labs, where tests can be carried out around the clock and no medical staff are required.

Baltic countries were also among the first in the world to introduce Covid-19 contact tracing apps. For example, the Latvian app "Apturi Covid" uses Bluetooth to anonymously detect nearby smartphones that also have this app installed. This makes it possible to find out faster if you have been exposed to COVID-19 because when it comes to viruses, speed and saving on staff is essential. My personal suggestion would be that some Baltic city could serve as an example of how to fight Covid-19 using the app. This would mean that you could visit shops, restaurants and other public places only if you have activated the app on your smartphone. Mandatory activation of the app automatically means more freedom for society as a whole. In a digitized society, this initiative would not make such a big difference to everyday life, but the contribution to the well-being of the whole world would be huge. Examples from China and South Korea show that an aggressive approach to contact tracing significantly reduced the spread of the disease. Let's make use of the possibilities of the digital age!

Of course, there is much criticism in European countries about data protection and the downloading of various apps. In my opinion, one should not make data protection a victim of the pandemic. Respecting the privacy of individuals and data protection is one of the ethical principles and universal human values in Europe and it should also remain so. In this case, the juxtaposition between data protection and the pandemic is a false fight.

In general, it seems easier for smaller countries like the Baltics to innovate or change, whereas larger countries take much more time to adapt. We should use the potential of small countries for strengthening Europe. Europe must continue to move closer together especially economically. But to achieve this, we urgently need to involve the citizens. It is important to create so-called lighthouse projects for cooperation at regional levels. And these should be projects of the 21st century, such as digitization, environmental protection and the development of smart cities. Let's create e-Europe with the help of Estonia, Latvia and Lithuania! ■

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# Challenges and opportunities: The German training system in Corona times

Expert article • 2835

Low rates of youth unemployment and stable transitions from school to work are two of the most important outcomes of the German system of vocational education and training (VET). The core of the system revolves around the willingness of companies to offer structured, work-based training programmes, leading to nationally recognised qualifications that form the basis for further learning in the world of work or in higher education. Trainees have a contract with their training company and also attend vocational college for one or two days a week. Because of the two distinct learning venues coming together in providing training in comprehensive programmes the term “dual system” was coined.

Traditionally, over half of the relevant age cohort transitions into the dual system, resulting in over half a million new training contracts every year and an overall number of over 1.3 million trainees. One of the strengths of the system is that it is market-based, with companies free to decide whether or not to offer places and school-leavers to decide to apply for a place or to follow a different route. Ideally, the forces of supply and demand regulate this market, ensuring that training quality remains high and that the value of the resulting qualifications is recognised in the labour market.

As with all market-based systems, the German model of training is vulnerable to external shocks. The Corona-pandemic has undoubtedly been such a shock, affecting a number of key elements of the dual system.

First, there is a concern regarding companies' ability to offer training places in a situation in which many of them are fighting for survival or are in the process of re-inventing their business model. The latest figures show a drop in the number of training places offered of around 8 percent. However, not only the supply of, but also the demand for training in the dual system is severely affected. With young people and their families regarding the economic environment training companies are operating in and the prospects of the economy more generally as uncertain, the option of staying on at school or moving into higher education is seen as the safer option. As a result of this and possibly other factors, the number of young people registering their interest in training has also dropped by around 8 percent. The combined effect of these changes on both sides of the training market will in all likelihood be a decrease in the number of new training contracts by around 50,000 in 2020 compared with 2019.

A second important impact of the Corona-pandemic has been the way training is conducted. During the prolonged periods of full and partial lockdowns, many trainees were not able to enter their companies, or their training had to be downscaled significantly. With training in the dual system relying on trainees learning their trade by engaging in real-life work, in relevant production and service processes, companies not operating at all or at a much less intense level, training processes were severely affected. The same was the case for vocational colleges which were closed for several months in the whole of Germany.

Third, assessment of training had to be postponed or called off completely. Most training programmes have an intermediate examination roughly half-way through the training process. This assessment is formative in nature, this means it gives feedback on the general progress of the trainee but does not count towards the final results, the overall mark the trainee is awarded at the end. A number of the important regulatory bodies that are responsible for this assessment decided to cancel intermediate exams that were scheduled at the height of the crisis. Of course, for the final examinations that determine whether a qualification is awarded or not and also determine the overall mark, this is not an option and the regulatory bodies are working frantically to make sure that final examinations can take place.

As is typical in times of crises, however, there are also opportunities created for developing ways that are not feasible in normal times. There has been, for instance, an unprecedented growth in distance and blended learning. In some sectors scenarios, simulations, and 3-D virtual spaces have been developed rapidly to substitute more traditional forms of learning. While there are clearly differences between economic sectors and according to the size of colleges and training companies, it seems clear that training venues that had invested in digital infrastructure and, probably even more importantly, in the digital expertise of training staff had an important advantage when the crisis hit. From a systemic perspective, creating favourable conditions for training in digital and virtual modes across all training venues has to be a priority for educational policy and practice. Only if there is sustained commitment of all relevant stakeholders to support training companies and vocational schools in this endeavour, the VET system in Germany will maintain its position and its contribution to the success of the German economy. ■

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# Online grocery shopping in Germany: From zero to hero?

Expert article • 2836

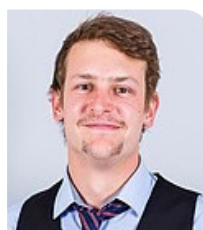
**D**igitalisation is a continuous process that has had a tremendous economic impact and has disrupted many industries into rethinking their business approaches, or else risk perishing in the digital age. As food consumption is vital to the functionality of the human body, the importance of universal food distribution and availability remains indisputable. Yet, online grocery shopping remains a segment that was left comparatively untouched in terms of digitalisation since its first wave at the turn of the millennium. Worldwide acceptance of online grocery shopping developed differently.

Online grocery shopping has faced many set-backs in its early stages mainly due to fragmented market structures, cost intensity and the perishability of the products as a critical factor in the requirements on the cooling chain. In Asia, countries such as China, Japan and South Korea were early adopters concerning digital grocery shopping. In Europe, online grocery shopping became popularised in France and in the UK. German consumers however rejected this form of shopping for a long time due to various reasons. In 2019, the share remained just 2 % of total sales volume. Reasons for the reluctance of German consumers to shop groceries online can be seen in their concerns about data security and in their resistance towards mobile and digital payment methods. However, especially due to the Corona crisis, a change in shopping behaviour could be observed in 2020, showing that online grocery shopping has become more popular among Germans. There still remains a gap between consumers' intentions to buy groceries online compared to consumers' actual purchasing behaviour. These differences in adoption patterns may be related to the national infrastructure such as the highest supermarket density in Europe and liberal opening hours. However, both the retailing industries efforts and the consumers' willingness strongly influence actual adoption behaviour.

Grocery retailing is regarded as a hypercompetitive market with low overall margins and heavy infrastructural investment. Digital transformation in retailing is likely to diminish the distinction between brick-and-mortar stores and online retailing formats and, in fact, many retailers have restructured their logistics to multi-channel approaches. Again different preferences are visible throughout Europe. While France has installed pick-up systems, many other countries (such as) prefer a home delivery option. In Germany however, efforts to digitise both the stationary and online offering remain on a moderate level, despite general increased reception of digital technologies in grocery retailing amongst consumers in Germany.

With the pandemic spread of the novel COVID-19 virus, online grocery shopping became a reliable option for risk groups (such as elderly, chronically ill, or those with pre-conditions). While online shopping in Germany generally decreased during the stay-at-home policies, online sales of food and medicine saw a sharp increase in revenue. Three in ten consumers bought food online during the pandemic. Still, acceptance may have risen further due to

the COVID-19 policies. As such, the retailing industry now has an opportunity to adapt to the new customer segments entering online grocery shopping with the SARS-CoV-2 pandemic by integrating adequate and consequent digitalisation efforts within their service offerings. Smart shopping carts and applications as well as radio-frequency identification (RFID) show large acceptance rates in Germany and should therefore be implemented on a larger scale. Consequently, digitalising the in-store and online shopping experience will help in many ways as it increases both the ability to effectively market products, but also enables substantial consumer education both in health and sustainability related product characteristics. Digitisation will also help to individualise the user experience and may help counter the low overall social interaction in online shops by integrating smart shopping assistants. Implementation of real-time delivery tracking (as already in place with many food delivery services) would help consumers to plan accordingly and may help integrate grocery shopping into the new home-office reality. It appears as if the COVID-19 pandemic did not alter actual usage in Germany substantially, however German consumers' intention to use these services are picking up. Famous examples, such as the Dutch company 'Picnic', illustrate the success of local food distribution via online ordering. With an increased interest in this topic from the German population, the retail industry should focus on strengthening their online service offerings and invest in larger capabilities to ensure adequate home delivery during stay-at-home policies. As the COVID-19 cases rise again, so may the number of orders placed with online grocers, perhaps triggering the lasting establishment of online grocery shopping in Germany. ■

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# FDIs and the amended German foreign trade law

Expert article • 2837

**F**oreign Direct Investments play a substantial role in international economic relations. On the one hand target countries, sectors, or companies that realize FDI inflows seem to be very attractive for generating future returns for their investors. Moreover, FDIs were mostly assessed positively because of generating jobs, increasing tax revenues, and a signal for good economic conditions. On the other hand, a certain skepticism towards FDIs could be figured out because of rising dependency on foreign investors. Not only national companies could be afraid of new competitors but governments see more and more question marks in the case of foreign direct investments in those sectors where the control of local assets and natural resources are in the hand of foreign ownership. Very critically is the assessment of investments when national infrastructure or a know-how drain is affected.

Germany's government has expanded and sharpened its Foreign Trade Law quite often since 2017 to balance the benefits of these FDIs with the increasing problems of potential abuse of investors. Although no specific country has been mentioned officially by German authorities it is nevertheless obvious that Chinese investments make the German legislators more and more nervous. Especially with the announcement of its strategy "Made in China 2025" Germany became more afraid that Chinese investments will be used to an aggressive forward of technology transfer to make China more competitive using foreign know-how.

While a sudden and sharp global increase of FDIs could be seen in 2015 and 2016, from 2017 to 2019 the curve went down to the former level. Against this trend, according to an EY study, the volume of Chinese investments in Germany increased from 530 Mio. in 2016 to more than 13,700 Mio. Euro in 2017 and a slight decrease in 2018 to approx. 10,700 Mio. Euro. While in 2019 the number of transactions increased from 35 in 2018 to 39 the total volume decreased to approx. 4,740 Mio. Euro only. Of course, industrial companies were mostly targeted such as automotive, biotech, medical industry, robotics, and computer-equipped industry.

The corresponding amendments in the German Foreign Trade Law are mostly affecting the Foreign Trade and Payments Act (Außenwirtschaftsgesetz-AWG) as well as the Foreign Trade and Payments Ordinance (Außenwirtschaftsverordnung-AWV). Both legal frameworks were updated by tightening the involvement of foreign investors.

One purpose was to implement requirements from the EU screening regulation (2019/452) that came into force in October 2020. This regulation comprises an EU-wide consultation framework that allows investment control authorities to concrete examinations.

One of the most critical changes of the AWV is the amendment of paragraph 55: While earlier an 'actual threat' to the public safety or order has been a reason to prohibit a foreign investment with

the amendment the 'likeness to affect' the public safety or order is underlining the tightening of investor-related assessment. Usually, the German Federal Ministry of Economics and Energy (BMWi) could start the examination procedure if the foreign investor should take over 25% or more. With the changes in the Foreign Trade Laws, the sectorally specific investment control will be applied at an investment volume of a minimum of 10% in the military sector. Moreover, in the case of cross-sectoral investment controls the 10% threshold is also a benchmark in the case of investments that are affecting critical infrastructure. Especially the health sector is concerning the Covid 19 pandemic now in the focus of these considerations because of high importance in securing e.g. medical equipment.

The whole legislative procedure was done in less than three months. Compared to the initial proposal text by the government, only a very few changes were made. Moreover, the 16th amendment of the AMV is pending where further extensions to the review of investments to certain high technology sectors. The high speed of further changes in the German legislation is nurtured by the fear that during the Covid 19 crisis lots of companies run into financial trouble that makes it easier for foreign investors to continue their shopping tours successfully.

In the future it will be interesting to follow the consequence of these acts: Critics fear that the two-step examination by the BMWi could not be sharpened but also will take much more time. Besides, the stricter enforcement ban could bring foreign investors generally to reconsider Germany as a suitable location for investments. On the other hand, if Germany continues the way of more protectionism the counteractions by others will follow. On the contrary, the Federal Minister of Economics warned that despite the German basic attitude towards liberality and market orientation should not lead to naivety in the case of risks and dangers towards the national economy. ■

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# Maintaining economic growth: The internationalization of Germany's professional football

Expert article • 2838

Since the foundation of Germany's premier league (the Bundesliga) in 1963, professional football has continuously evolved as a business and is a notable factor in the country's economy today. In the 2018/19 season, the contribution of professional football to the German economy amounted to an added value of €11 billion. In the same period, the football business secured the full-time employment of 127,000 people and generated an estimated €3.7 billion in taxes and duties. The Bundesliga's economic development over the past two decades has been characterized by remarkable growth rates. The major drivers of this development have been the constant increase in revenue from national media and the sale of sponsorship rights. However, the question is not if, but when these growth rates slow down or even disappear, because the domestic media and advertising markets are close to the point of market saturation.

Against this background, the Bundesliga increasingly seeks to develop new markets in foreign countries. The international extension of commercial activities appears to be a key opportunity for significant, further economic development. A vivid example of the large potential of foreign markets, compared to the domestic German market, is the following: the Bundesliga club, Bayern Munich has almost 150 million fans in China and, thus, their Chinese fan base is almost twice as big as Germany's total population. To drive the internationalization of professional German football, DFL Deutsche Fußball Liga, the governing body for the Bundesliga, founded a subsidiary, the Bundesliga International. The company operates regional offices in New York (for the Americas), in Singapore (for the Asia-Pacific region) and in Beijing (for China). These locations indicate that North America and highly populated countries in Asia (particularly China and India) represent geographical priorities for international marketing activities. Bundesliga International is responsible for marketing the audiovisual and sponsorship rights, as well as branding and digital licenses in foreign markets. It aims to increase the visibility and attractiveness of the Bundesliga brand and, thus, sets the foundation for developing global commercial activities into a significant new source of economic growth.

While international markets promise tremendous economic potential, the Bundesliga faces fierce competition, not only from other highly popular sports leagues, but also non-sport players in the global entertainment industry. Football is by far the most popular sport in Germany and the Bundesliga is one of the leading entertainment products in the domestic market. However, although the Bundesliga is broadcast in over 200 countries, its standing in the global entertainment market is considerably lower. For example, in terms of annual revenues from international media rights sales, the Bundesliga (€250 million) only ranks fourth among Europe's top football leagues, lagging significantly behind the English Premier League (€1.6 billion), the Spanish La Liga (€897 million) and the Italian

Serie A (€371 million). Beside media rights, merchandising sales are an important aspect of the revenue mix, generated by commercial activities abroad. The Bundesliga currently generates an estimated 25% of its total merchandising sales revenues (approximately €180 million) in foreign countries.

In addition to the Bundesliga's collective commercial activities, individual clubs increasingly engage in their own international marketing efforts. This is not limited, but applies in particular, to the top clubs Bayern Munich and Borussia Dortmund, whose financial resources enable them to reach out to international fans and develop their brands in foreign markets. Six Bundesliga clubs operate their own offices abroad. All of these clubs have offices in China, while two clubs also operate an office in the United States and one in Singapore. Apart from foreign offices, the majority of the Bundesliga clubs engage in selective international marketing activities, such as pre-season friendly matches and promotional tours in foreign target markets, the signing of sponsorship deals with foreign partners and the opening of overseas football academies. It is estimated that several clubs generate revenue from international commercial activities in excess of €10 million. However, as is true for revenue from national markets, there is a substantial difference across the clubs.

To summarize, Germany's Bundesliga is increasingly targeting foreign markets to explore new sources of revenue and optimize existing ones. This strategy aims to maintain professional football's economic growth rates. The Bundesliga is renowned for great stadium atmospheres, clubs rich in tradition and a lively fan culture. These aspects appeal to domestic supporters as well as to many consumers in foreign countries. However, the internationalization of the Bundesliga is still in its infancy, and represents more commercial potential than actual exploitation of additional revenue streams, to date. Should the exploitation of this commercial potential gain traction, the internationalization can become the major driver of continuous economic growth and further increase the Bundesliga's important role in Germany's economy. ■

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MAX HOGEFORSTER

# Challenges and support of business transfers in the Baltic Sea Region

Expert article • 2839

Small and medium-sized enterprises are the backbone of economically strong regions in Europe. In the countries of the Baltic Sea Region, SMEs account for over 99% of all enterprises, generating almost 60% of the GDP and create 70% of all jobs. As a result of their significant macro-economic impact, their stability is crucial to overall economic growth. Meaning, their unique structure needs to be taken into account, especially in critical times, in particular when the business is passed on to the next generation. This happens at an increasing rate, since many new private companies were established in the early 1990ties. Their managers are about to retire soon and require successors.

A successful transfer preserves jobs, cluster structures and intellectual and production capital. Each year up to 400.000 companies are transferred in Baltic Sea Region countries. One-third of the estimated transfers are likely to fail. Two third of these failed business transfers are not related to economic reasons, but a result of the non-functioning transfer. This has fatal consequences; it unnecessarily destroys jobs in prospering businesses, and it hinders the economic development.

The reason for these failed business transfers are diverse and closely related to the challenges SMEs face during the business transfer. One critical factor is time, as SMEs usually have a smaller planning horizon of 1 to 6 months, but business transfers need to be planned much more in advance. At least 12–36 months are required for the handover of a company. Also, the lack of preparation of a business transfer leads to difficulties in finding a suitable successor, securing necessary funds as well as reorganizing the company.

Finding a qualified successor is challenging. For a company this process is time consuming, needs a lot of planning and expertise. For many SMEs it isn't easy to conduct this process besides the daily business. There is also a widespread lack of entrepreneurs willing to take over an existing business. Due to the demographic changes there are also less and less young people that can lead the companies in the future.

Resources and the know-how for conducting successful business transfers are lacking among most companies. The process of handing over the company to a successor is unique and new to many owner-manager and business support organisations. More innovative models for business transfer processes and their planning, especially in eastern countries, are necessary.

The financial expectation of the old owner-manager is frequently hindering the negotiation process as it is often non-realistic regarding the enterprise value. This complicates the negotiation process with the potential successor. Expertise is missing to conduct an independent valuation of the business.

Even though the European Commission stated that more jobs are lost due to failed business transfers than new jobs are created by start-ups, the majority of public economic support still focuses on start-ups. A change is the INBETS project, co-financed by the INTERREG

VB Program. It aims at tackling these challenges by comprehensively elaborating the topic of business transfers in the Baltic Sea Region. It is systematically strengthening the institutional capacity of existing SME business support institutions and raising awareness about the importance of business transfers among political decision makers.

Within the scope of the project the INBETS consortium developed six different business transfer models facilitating the transfer and financing for the involved parties. For each case, a detailed instruction helps to structure the transfer in the right way. The models cover transfers within the family, to an external entrepreneur, to a former employee or a workers' cooperative and the takeover of another company.

Managing owners will be better prepared for the phase of the transfer. For this purpose, it developed tools that facilitate the transfer. The developed valuation models serve as an independent tool, helping retiring SME owners and potential successor to find a price for the business, fair for both parties. A knowledge management tool is crucial for preserving important information, contacts and procedures during the transition phase.

An important focus of the project is furthermore the training of business support organizations to increase institutional capacity for backing business transfers in the Baltic Sea Region. A training program for SME consultants was developed, tested, evaluated and finalized that puts these consultants in a position of being able to actively promote and accompany the business transfer of a SME. The personal support before or during transfers that can thus be provided by the trained coaches is of particular importance for the companies.

To tackle the demographic changes and the overall lack of qualified potential successors, another essential part of the project is the recruitment and training of potential entrepreneurs who could take over the SMEs. For this reason, the project provides training for entrepreneurship and successors, as well as curricula for (young) people who are currently studying related subjects at schools and higher education institutes.

In summary, it can be stated that the economically important field of business transfer has been neglected up to now, but will gain in importance in the future due to the strongly increasing demand of the consulting market and projects like the one outlined above. ■



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JAN FELLER

# Corona changes Germany – good news for Finland

Expert article • 2840

**M**any Finns know that Germany is Finland's most important trade partner. Few, however, are aware of the magnitude: Every year, Finland exports more to Germany than it does to North-, Central-, and South America combined.

While the Coronavirus pandemic has had a detrimental short-term effect with Finland's exports to Germany plummeting by 30% in the first half of 2020, the long-term perspectives for the country are rather positive. The opportunities are driven by three factors: the pandemic, Germany's notorious slowness in digitalisation, and decarbonisation efforts.

## Corona exposes weaknesses – and strengths

The COVID-19 pandemic has put the German economy under pressure – like so many others. In addition to the economic costs of measures against the spread of the corona, Germany's economy has already been under pressure before. The country's key automotive sector is being squeezed from different directions. Next to the efforts in expanding e-mobility, almost the entire industry including its various suppliers need to increase their digitization.

Since spring 2020, the German government is fighting the economic crisis with stimulus packages of unseen dimensions, many of them aiming to make the country future-proof while stimulating the economy. Interestingly, many of the areas that Germany will spend the 130 bn € stimulus launched this summer are areas where Finnish companies have innovations and products to offer. Be it artificial intelligence, quantum computing, smart energy solutions or the digitalisation of the health sector – significant market opportunities will arise over the next two years.

Stimulus aside, German manufacturing companies are working on making their supply chains more resilient. This summer, more than 20.000 manufacturing companies stated that they are actively looking for new or parallel suppliers – 60% of which stated to be looking for new partners within the EU.

## Digitalisation: Finland has it, Germany needs it

While Finland is Europe's most digital country, digitalisation in Germany has lagged in many sectors. This dynamic is visible when looking at the roughly 50 Finnish companies which we as German-Finnish Chamber of Commerce are helping to enter the German market each year: Today, more than a third of those companies have digital solutions to offer. Be it e-health, automotive software, AI-based production tools or learning solutions, Finnish companies are among early innovators.

An area where many aspects of digitalization come together, are smart cities. While Germany still has difficulties getting the country covered with broadband internet, Finland is already reaching the next level: In their Smart City-project, the city of Espoo is testing streetlights with 5G transmitters. Billboards or bus shelters could

follow. The new infrastructure should ensure large bandwidths and high reliability of data transmission. In other projects autonomous busses are being tested and sensors are even installed in garbage containers to measure and communicate the level to optimize the routes for garbage trucks.

## Decarbonisation efforts open opportunities

Humankind's biggest challenge, fighting climate change through decarbonisation, also plays in Finland's favour and influences the economic relations to Germany. Both countries follow similar goals of decarbonising, but the key industries are different. Looking at the German automotive sector again, the share of electric vehicles in Germany is rising. Almost 18 percent of newly registered cars in October 2020 in Germany were electrically powered – a record. From January to October, new registrations of e-cars have tripled (+192 percent) to 252,531, with an overall market share of 10.9 percent.

Finland again is uniquely positioned to provide almost all ingredients for batteries in an ethically and ecologically sourced way. This has already attracted large investments such as the 400 million Euro facility German BASF is building in Harjavalta, located in the south-west of Finland. The chemical pre-products from Harjavalta will be further processed in BASF's site in Schwarzheide, some 120 km south of Berlin. Before the BASF decision to build a factory in Schwarzheide, Tesla had announced to start producing in Grünheide, even closer to Berlin, and not far from BASF's battery plant.

Finnish car producer Valmet Automotive has recently announced that they will open a second battery production site in addition to their Salo-based operations, also located in south-western Finland. As a contract manufacturer and Tier 1 system supplier for German car producers like Daimler among others, the Finns have sharpened their strategic focus to e-mobility and electric vehicles. Beyond batteries, Finland has a competitive edge in smart energy systems, energy efficiency solutions, and renewable fuel.

Germany is one of the world's most competitive markets – but traditionally Finns have had good success on the German market. The current crisis causes a large transformation in Finland's biggest export market and brings a multitude of opportunities along. The right time to seize those is now! ■



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JARKKO HEINONEN

# City of Uusikaupunki and its linkage with the German economy

Expert article • 2841

As is typical for small national economies, Finland also emphasises the importance of exporting goods and also services for our well-being. As far as industrial production in particular is concerned, it can be said that our domestic demand alone does not allow for any competitive domestic industrial production. All our production is based on exports. This is, of course, because only through exports will we reach a sufficiently large market and production volumes to enable competitive production efficiency and the development of new product innovations in Finland in general. This also applies, as a rule, to industrial companies that do not have their own exports. In the end, however, their production is also linked to how their customers succeed in exporting efforts.

The majority of the value of Finland's total exports, just under 70%, consists of exports of goods and over 30% of services. Examining all sectors individually, industry generates an even greater share, around 80% of total exports, as industrial exports also increasingly include services due to, among other things, installation and maintenance services of products sold. As is often repeated, Finland lives off exports. And since industry plays a crucial role in our exports, it can be said that Finland's well-being largely relies on the competitiveness of our industry.

Like many other Member States of the European Union, the most important export country for Finland is Germany, which accounted for almost 15% of our total exports in 2019. Sweden was next (10.4%) and the USA (7.4%) third. Germany has always been an important export country for Finland, but over the decades Germany has become increasingly important. Over the past fifty years, the real value of Finland's German exports has increased more than fivefold. At the same time, Germany has emerged from the fourth most important exporting country into the most important one.

The Uusikaupunki region has traditionally had strong export-driven industries. In fact, the whole establishment of the city of Uusikaupunki is based on export trade. More than 400 years ago, the region had developed a very efficient production of containers in relation to that time. The quality and efficiency of production was so good that strong exports were also generated. However, since foreign trade was only allowed for cities, the king had to establish one. This is how the city of Uusikaupunki was founded.

From the point of view of industrial production and exports, the only car factory in Finland located in the area makes the Uusikaupunki area special. Measured by the number of personnel, it is also Finland's largest industrial production facility and exceptionally significant for Finnish exports. In 2019, the value of passenger car exports was EUR 2.9 billion, which corresponds to 4.4% of the value of all Finnish exports. Consequently, this single factory is of considerable importance for all Finnish exports.

Similarly, given the population of the Uusikaupunki region, it can roughly be said that the value of our industry's exports per capita is as much as eight times the national average. The figures are rough and

partly indicative, but clearly indicate that the Uusikaupunki region is perhaps Finland's most export-driven economic area in relative terms.

In the light of the statistics, the German market is dominating the industrial exports of Uusikaupunki. On the other hand, these figures are influenced by a kind of statistical illusion, which arises from the fact that all exports of passenger cars, excluding exports to Russia, are recorded as exports to Germany. Even though the customer of the car factory is German, the cars built in Uusikaupunki end up around the world.

However, this does not remove the fact that Germany is of particular importance to the economy of the Uusikaupunki region. A large German customer has made it possible to significantly increase the production of the car factory, which is also reflected in many ways in other business activities in the region. At the same time, a strong car industry has been built, and therefore the prerequisites for the development of a new industry cluster have been built. This would not only have local significance, but would be a nationally significant concentration of production and innovation. ■



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CHRISTOPHER M. SCHMIDT

# Finnish challenges in doing business with Germany

Expert article • 2842

Finland has a long history of ties to Germany that go far beyond different periods of political and economic contacts during the last centuries, right to the Hanse time in the Middle Ages. Since then different linguistic, cultural, legal and administrative experiences as well as different craftsmanships have been exchanged along the trade route between Lübeck and Visby. The contacts that doing business together brought about were to continue for many centuries ahead with an upswing since the 19th century. Today, renowned Finnish brands such as Fazer, Stockmann, Hackman and Paulig, to name a few, are modern witnesses of contacts in the history of the countries.

Good business contacts are based on communicative skills and knowledge about the other culture's impact on daily life, its interpersonal relationships, modes of interaction, logics of negotiation, concepts of work flow organisation and the relevant professional values that come with it, among others; in short, what one could call the complex constellation of mental models that come with another culture. These mental models are expressed through the use of language and guide our way of doing things. Thus, language is far more than using foreign words for the 'same' contents. By switching a language we automatically also switch the mental models attached to language due to culture-specific concepts expressed through language. This is why deep knowledge of the target culture's language is the foremost key also to doing business at an international level. In this respect, we have challenges in today's Finland which are worrying when doing business with Germany.

Several decades ago, German language proficiency in Finland was quite elaborate seen from today's perspective. In surveys carried out by the end of the 1980s in Finnish companies, almost 80% of the respondents claimed to be able to carry out business negotiations in German with German counterparts. At the end of the first decade in the new millennium, this percentage had dropped to under half of the respondents and it continues to drop. Why is this extremely worrisome from a Finnish perspective?

When looking at trends in education one can foresee developments in other sectors in society. Finland ranks globally among the highest ratings in school education. These ratings are quality oriented. It is no wonder Finland has these high rankings, as education in Finnish institutions is of very high quality generally. However, this is not the point. The problem is not what is taught but rather how big the annual drops in pupils for certain A-level courses in school are. Here the German language has suffered from a constant retreat in number of students who study the language at school. When Finland joined the EU in 1995, there was a (somewhat short-lived) boom of studying German at school which lasted for a couple of years but which has declined constantly ever since. Accordingly, also students of German at university level are in decline. Today's pupils and students are the leaders and multipliers of tomorrow. As the ability to learn and internalise a new language diminishes by age, what is not done today will be twice as difficult to do tomorrow.

Finnish companies in part also play a role in diminishing the foreign language competence of German, as the push to favour English as lingua franca in corporate life was actively carried out after the fall of the Soviet Union, when many Finnish companies had to redefine their foreign markets. However, using a third language when trying to navigate through complex negotiations is a disadvantage, especially as the proficiency of English is not very high among the numerous small or middle-sized companies at a local level in Germany.

This has had its impact also on corporate employment strategies in Finland lately. A recent turn towards a more language-sensible hiring strategy can be seen in Finnish companies, probably due to the very strong growth in business contacts with Germany. Here we have a dilemma, though, at least for the time being. In surveys carried out by the German-Finnish Chamber of Commerce in Helsinki in recent years, more than two thirds of Finnish companies doing business with Germany reported difficulties in hiring relevant staff with enough German language proficiency. This can be seen as a long-term consequence of the development described above.

The question is: What can be done? The answer is: A great deal. First and foremost, we have to speak about the language proficiency problem in media in order to make its consequences publicly known. The short-term measure would be promotion strategies of German proficiency for corporate staff at a more permanent and profound level. The long-term task is to influence education politics at ministerial level in order to target promote at school those other languages than English that Finland is in need of. Otherwise we risk reducing our world boundaries to a one-dimensional level.

Or, to put it in the philosopher Wittgenstein's words: *Die Grenzen meiner Sprache bedeuten die Grenzen meiner Welt.* ■



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# Languages required for business contacts with Germany

Expert article • 2843

International contacts – and especially international business contacts – are commonplace nowadays and a matter of routine. But which languages are used for communication between companies at home and abroad – especially between Finnish and foreign workers? Is it not the case that today, English as a *Lingua Franca* is used for all purposes and that this one – supposedly – common language is sufficient? How, for example, is language managed in relationships between Finland and Germany, i.e. in the relationship with Finland's most important trading partner? This question was the starting point for the LangBuCom study, in which we surveyed employees in Finnish companies and organisations who deal with German-speaking partners at work. The study can be seen in the context of other language needs analyses that have been conducted since the 1990s, especially in Finland. Language needs analyses are a common tool for the professionalisation of language teaching. Such studies are the basis for the development of specialised language teaching and today, they serve to further develop and ensure the quality of teaching in business communication.

In 2016, for its language needs analysis, LangBuCom conducted an online survey using a questionnaire with 23 open and closed questions. It was distributed through various channels such as Finpro (now Business Finland), The German Chambers of Commerce Abroad (AHK-Finland) and Facebook and resulted in a response of 272 completed questionnaires. Most of the responses came from employees in Finland working in SMEs and mostly from the middle and upper management. Their primary language was mostly Finnish, although some indicated Swedish and others German. Almost everyone had knowledge of four or more languages. Most of them used these four languages Finnish, English, German and Swedish at work. Other languages like French, Russian or Spanish did not play a major role in this group.

The survey revealed some interesting results. In their contact with German partners, the Finnish employees used two languages, English and German. This may not be surprising at first sight, as it is commonplace that very few people outside Finland speak Finnish. However, the results become more interesting when you take a closer look at the answers. The questions were divided into written and oral language use – this differentiation was used to provide important information for the development of language courses –, and, as it can be seen, English is used slightly more frequently than German, with the dominance of English being somewhat stronger in written communication. However, the answers do not show 'either or': One cannot assume that Matti always speaks nothing but English with his German partners and Nina always speaks only German. It is rather 'both and', because only a small percentage of the respondents indicated that they never use German or never use English in contacts with their German partners.

An important point concerning languages were the individual respondents' opinions and attitudes, especially regarding language-related opportunities and challenges. Most respondents indicated that they liked to use German, somewhat fewer preferred English, and

some avoided German because of their assumedly limited knowledge of the language. However, the majority saw a need for German.

In terms of economic importance, a large majority of respondents believed that companies have better business opportunities as a result of having German-speaking employees. These employees also usually have better recruitment and promotion opportunities.

In this context, the perceived changes regarding the importance of German in business life were also of interest. Only a few respondents thought that German had lost some of its importance in recent years. With a view to the future, the vast majority thought that its importance will remain the same or will even increase. This may well be the case in view of both foreign trade figures – Germany was Finland's most important trading partner in 2019 – and the numerous Finnish-German business connections, such as Konecranes–Demag and Fortum–Uniper or smaller ones like Oras–Hansa. The numerous Finnish-German business connections also include for instance the German companies in Finland like Bayer or Meyer, both of which have their largest non-German production facilities in Turku, and the well-established trading groups Lidl and Bauhaus, which as a matter of course require their management to have German language skills.

However, the companies' demand for employees with sufficient knowledge of German now seems to be higher than the supply on the labour market. This is one result of surveys conducted by AHK-Finland among German companies in Finland. According to the most recent survey, prior to Corona, 42 % of companies stated that they had difficulty finding staff with sufficient German language skills. The need is even higher in the logistics sector.

In contrast to this, however, the number of German learners has developed in quite a different direction. Apart from English, increasingly fewer foreign languages are being taught in Finnish schools. This predicament has also been the subject of complaints by ETLA and politicians for a long time and is now of concern at the highest level of educational responsibility. However, the reforms that have been set in motion, such as introducing the first foreign language in the first grade, combined with the recommendation to deliberately not offer only English at this level (introduced 2019–20), are not really being implemented. Most municipal school authorities, even those in such supposedly international cities as Turku, are sticking to their previous policy and still offering predominantly English as the only first foreign language in schools. Genuine and prompt reforms and achievements are needed so that future employees are able to meet the language skill requirements for business contacts with Germany. ■

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# Fostering dialogue across the Baltic Sea

Expert article • 2844

The Finnish Institute in Germany was founded in 1994 with the purpose of fostering dialogue and the exchange of ideas between Finland and German-speaking Europe in the fields of culture, science and economics. Altogether there are 17 Finnish Institutes throughout the world that share a common goal of promoting peace by fostering dialogue and collaboration across national borders. Art exhibitions, readings, poetry slams, concerts, workshops, residencies and seminars are just some of the events that the Institutes arrange in order to achieve this goal.

The Finnish Institute in Germany supports and enables on average more than 150 events each year that reach around 150,000 people. Around 30% of these events take place in Berlin, where the Finnish Institute is located, while 70% are realised elsewhere in Germany, Austria and Switzerland. In 2019, for example, Finland had the honour of being the guest country at Vienna Design Week in Austria.

Design stands alongside Sibelius, Alvar Aalto and the Finnish education system as one of the strongest associations that people have in relation to Finland. However, our aim at the Finnish Institute is to go beyond the well-known and typical notions that exist of Finland. Through our programme, which we always plan in close collaboration with local partners, we intend to offer a more diverse and complex image of the country located in Northern Europe. Hence, the exhibition "Wild at Heart", for which we commissioned Tero Kuitunen at the Vienna Design Week, was curated with the intention to offer the audience an exciting and fresh perspective of Finland's contemporary design scene. At the same time, the purpose of such exhibitions is to offer visibility for the work of creative professionals from Finland and to offer them access to new, international networks and job opportunities.

In the field of literature, Finland has a lot to offer, and the Finnish Institute has also been very active during its 25 years of existence in promoting German translations of Finnish fiction, non-fiction, poetry, as well as literature for children and young adults. The highlight within this framework has been the Leipzig Book Fair, which takes place annually in March and gathers almost 300,000 visitors in only four days. There, all five Nordic Countries share a common booth, the "Nordic Forum", where a variety of writers from these countries present their most recently translated works in Germany.

Due to the focus on Vienna in 2019, Finland also took part in the book fair Buch Wien in November, together with colleagues from Denmark, Norway and Sweden. After this wonderfully successful experience, future participation is already being planned for the coming years.

Another important principle that drives the work of the Finnish Institute in Germany is an interest in dealing with topics that are of global concern. We therefore focused our 2016 annual programme on the topic of "mobility and migration", for example, and in 2020 we addressed in our programme the ways in which human beings

and nature interact. So far, the majority of events that we have organised involved people travelling across national borders in order to meet physically at a location for a certain period of time. In the future, however, travel might be limited due to a growing interest in sustainability or driven by concerns to avoid the spread of COVID-19. At the same time, the possibilities of engaging with others on digital platforms are becoming more diverse and offer exciting prospects when it comes to the question of accessibility. Audiences all over the world can follow the streaming of an event, as long as they have an internet connection and a suitable device at hand. Geographical location doesn't matter anymore. The challenge with organising events in this manner will be how to transfer the magical and unique relationship that often evolves between a performer and its audience from the offline to the online world.

Current times show us how important it is to encourage cooperation between people and institutions across all kinds of borders, whether they are national, social, or disciplinary in nature. Today's global challenges demand teamwork and joint answers – only together can we reach sustainable solutions for the future. ■



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LUISE LIEFLÄNDER-LESKINEN

# Finland and Germany – let us empower their relations again...

Expert article • 2845

There is a long tradition of strong relations between Finland and Germany. Already before 1800 German language and culture played an important role in the eastern parts of Finland, so called Old Finland, which belonged to Russian government. Katharine the Great implemented during her reign new school curricula and educational systems, which extended to some Finnish areas. In the district schools in Savonlinna, Lappeenranta and Hamina German language was used for teaching and members of the administration of these towns had to command German and Russian as administrative languages in addition to their mother tongue (Finnish or Swedish).

After 1809, when whole Finland had become as grand duchy a part of Russia, many German immigrants came to Helsinki, which the tsar had decided in 1912 to be Finland's new capital. The architect Engel constructed the Senate Square and the main cathedral in Helsinki. Merchants, engineers and musicians came, for example von Berg, Paulig, Fazer, Stockmann, Tilgmann, Huber and Pacius. A German church was built in 1864, a German library founded in 1881 and a German school in the same year.

The German language was still the most important scientific language at the beginning of the 20th century. Germany also played an important role in the Finnish civil war in 1918, when more than 10000 German soldiers came to Finland and stayed here from April to the end of the year. There were German language theatre events and concerts; even a German Language newspaper was published in Helsinki at this time.

I shall not refer here to the special relationship between Germany and Finland in the time of World War II, because that is another story. But if we speak about language and culture exchanges between these countries, we can stress that German language was still the most important foreign language in Finnish schools in the 1960s. There were four Goethe institutes in Finland at that time as well as the DDR cultural centre. The two German states almost had a competition in supporting Finland with guest lectures and study material. In 1973 Finland granted both German states, the BRD and the DDR, official diplomatic recognition. Many Finnish students went to the German speaking countries to study there and German language was still very popular in Finnish schools and universities. In the beginning of the 1990ths after the German reunification there was again a kind of boom in the interest in German language and culture in Finland.

Today we look 30 years back to 3rd of October 1990, when the reunification was celebrated. What do the relations of Germany and Finland look like now?

Finland joined the European Union in 1995 together with Sweden and Austria, it was one of the first countries to adopt the euro on 1 January 1999.

The corona pandemic has its influence of course, but Germany is still the most important trade partner of Finland and German language is important for a successful business. The number of students of

German has dramatically diminished in the last decades in Finland – although it is the most spoken mother tongue in the European Union and the official language in 7 countries. About 130 million people speak German as their mother tongue or second language and in 42 countries 7.5 million people belong to a German speaking minority.

But Finnish educational policies promote only the English language; German, French and Russian language – they all struggle for survival in Finnish schools. This cannot be in the interest of a small country like Finland, which is known worldwide for its excellent school system and for intelligent young people speaking several foreign languages.

We try to promote Finnish – German relations by students' exchange, which is organized by the SSYL (Association of Finnish-German societies) and by many of the 64 Finnish twin towns of German towns. Germany is still the favourite country for Erasmus students and there is a network of Finnish- German schools, so called PASCH schools, to which 18 Finnish schools belong. So, there is a lot going on between Germany and Finland. If we speak of technology and trade, we can say that Finland is a forerunner in digitalization and launching of start-ups in the economy. In this regard Germany can learn from Finland. This can be also a way to empower the relations between the two countries again. ■



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# Historical legacies within a European conflict region

Expert article • 2846

The regular violation of the Baltic states' airspaces by Russian jet fighters and the "escort" out of them by NATO jets indicates that the Baltic states could still be described as a region of conflicts. Reporting more or less regularly about it, European journalists continue to accent how Russian power politics are threatening the Baltic eastern coast. Herewith, a traditional narrative about Russian expansionism is served, while NATO expansion in 2004 and its security politics are not described as provocative for the Russian side.

Because of their ethno-cultural complexity and geostrategic significance, the Baltic states have become a major European conflict zone in which conflicts of loyalty and minorities as well as imperial claims to hegemony have repeatedly manifested themselves, particularly in modern times. A historical perspective helps us to understand why the former Russian Empire's "Baltic Sea guberniya" and Soviet Socialist Republics came to be perceived as a conflict region and what impact this has for today's national consciousness and security politics.

Already in pre-modern times, these territories became a space of interest for the Baltic Sea's great powers, while the indigenous population only played a subaltern role. Particularly Russia's ascent as a European power has been tightly interwoven with the Baltic Sea region since the Livonian War (1558-1583). From the second half of 19th century on, the Baltic Sea guberniya witnessed the emergence of national movements that challenged the traditional social structures. Until then, the Germans living there had formed the social elites in the cities and the countryside, while the Jews, being often small business owners, made up a huge proportion of the urban population. The Russians' social structure was more diverse: they were representatives of the Empire, lived in the eastern border regions of the guberniya as peasants or as workers in industrialized areas. The ingenious people were mostly peasants. The national movements of Estonians and Latvians gained dynamic momentum, because they nourished hopes that the social dominance of the Germans could be at least reduced. The imperial politics brought measures that reinforced Russification. As a result, the Baltic states found themselves at the crossroads of various social, political and cultural modernization processes that ran in parallel and were mutually reinforcing.

Through the internal provincial dynamics, loyalty turnarounds challenged the interethnic relations: The Estonians and Latvians were able to replace the former social elites step by step in the local governments after the turn of the 20th century. It was primarily the revolution of 1905 that triggered the social changes. World War I and the Russian Revolution were catalysts, which resulted in an exchange of political (but not of economic) elites in favour of the indigenous population. After gaining independence in 1918, the interwar period brought the failure of democratic systems because of the authoritarian putsches led by Antanas Smetona (1926) in Lithuania, Kārlis Ulmanis (1934) in Latvia, and Konstantin Päts (1934) in Estonia and the

reduction of minorities' rights originally sheltered by commendable minority protection rights. However, this era is today perceived as a time of national well-being because of the states' independence, while the fading of the democratic systems is not interpreted as such.

Except for the national movements and interwar period, which are perceived as culmination points, the Second World War and Sovietization played the most important role as negative points of reference, because they brought about national suppression. Herewith, the German occupation and the German genocide perpetrated against the Jewish population living in the Baltic states seemed to be only an interlude for their population's historical consciousness. Its focal point in all Baltic states is still the annexation as socialist republics by the imperial expansionism of the Soviet Union at the beginning of World War II in 1940 and their recapture in 1944: the following Soviet social engineering politics brought severe and brutal mass deportations of the indigenous ethnic groups, particularly for their bourgeoisie and educated strata. Subsequently, a huge number of Russian workers were settled in industrial cities, which is today the focus of securitizing discourses concerning possible Russian territorial claims.

As the historical legacies of this conflict region continue to have a great impact on today's identities, the internal attitude towards the ethnic "minorities" living there is also deeply influenced by them. With regard to the states' security, particularly the interpretation of the Soviet "occupation" still has a strong influence on today's perception of Russia and on the Baltic states' foreign politics – these legacies have continued to challenge the Baltic states' internal and external policies until today. ■



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# The medieval Hansa as a monopoly

Expert article • 2847

In the last couple of years, national issues have increasingly taken precedence over the benefits of free trade and globalization. However, free trade is a relatively recent creation. In the early Middle Ages, a very different form of trade policy dominated. Traditionally, regulation and monopolistic tendencies have been seen as an integral part of the medieval economy. In Northern Europe, the Hanseatic League was the supreme power that successfully introduced a protective and even monopolistic trade policy. From the thirteenth century onwards, the Hansa was able to control the commercial axis connecting the East and the West, from Novgorod to Bruges and London by employing highly protective trade practices.

Overseas trade was hardly free in the Baltic Sea region in the Middle Ages, even though customs (*Pfundzoll*) were levied only in times of war when ships and cargoes left or entered Hanseatic ports. In the whole of Northern Europe, as a rule, the right to participate in the trade of the local markets and in the staple branches of foreign trade was being defined and circumscribed. Monopoly was indeed the prime object and the prerequisite condition of urban regulations and became the guiding object of town policy. Commercial transactions were subject to diverse town laws and regulations that constituted a compromise between the domestic merchants' dependence on external trade, on the one hand, and their profit seeking interest, on the other hand. This group interest of the merchants often led to a systematic discrimination of foreign traders. In fact, the domestic merchants' desire to take advantage of their ability to impose various privileges related to commerce seems to have been a prime motive for their interest in regulating trade.

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

Different attempts were made to create a more homogeneous commercial setting for Hanseatic merchants. It was a rational strategy to standardize and harmonize urban laws as well as weights and measures in order to reduce the degree of heterogeneity and complexities of trade inside the Hansa. First, a big step in the standardization of various urban laws was taken as the laws of Magdeburg and Lübeck became the dominant urban laws in the Baltic. The Lübeck law, for instance, was adopted as far away as Tallinn. Although originating from many different towns, most Hanseatic merchants acted, therefore, on the grounds of a commonly

known and practiced law. The Hansa also standardized weights and measures for many of the commodities its merchants were dealing with. However, it would be a false interpretation to see Hansa as a solid organization. The communal ethos that bound individual merchants together within a town community implied that between communities, the forces were more separating than uniting. Among the Hanseatic towns, the interests of the eastern towns were largely opposed to those of Lübeck and the so-called Wendish towns, and even between the eastern towns from Danzig to Tallinn there were occasional conflicts.

It is questionable as to whether the organization of the Hansa based on town communities fostered competition as well as private initiative and innovation. In Hanseatic trade, there prevailed a conservative spirit that aimed at preserving the existing privileges rather than finding new opportunities for profitable transactions. The communal, egalitarian ethos was not ideal for encouraging merchants to increase their individual efforts. Therefore, it is possible that in the long run it was critical for economic development that the communal organization gradually lost ground once centralized states had started to evolve. The breakdown of the communal system and the increasing competition between states opened new paths for private initiatives that were impossible within stagnant town communities of the Hansa.

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# More robust EU trade policy towards China needed

Expert article • 2848

China is still a large and growing sales market and a low-cost production location. However, Chinese companies have also become serious competitors. If their success was based on fair competition, European companies and economic policy would have to address this challenge solely with more innovation, education, and supply-side reforms. However, the Chinese state also grants extensive subsidies for industrial policy purposes, thereby distorting competition. The intensive use of industrial policy tends to create large overcapacity in China and on the global market, depressing world prices and threatening to displace efficient European companies.

These negative spillovers onto the world market are increasingly problematic, because of the immense and growing size of the Chinese economy. In addition, China is rapidly catching up in terms of technology - partly because of a forced technology transfer strategy. With its "Made in China 2025" plan, China aims to also catch up in sectors in which many European firms are specialised today. In the medium term, the combination of these developments could endanger Europe's prosperity. In fact, it can be shown in relevant theoretical trade models that a rapid technological catch-up of China can lead to welfare losses in industrial countries.

The ideal way to tackle this problem is through multilateral negotiations in the WTO. However, the necessary Chinese agreement to reform WTO rules to contain industrial subsidies is not on the horizon. In parallel, the EU is negotiating a bilateral EU-China Comprehensive Agreement on Investment (CAI). But China's overall concessions in the CAI have so far fallen short of the justified expectations of the EU. Apparently, Beijing will not move sufficiently on the issue of competitive distortions without more negotiation pressure.

The EU should therefore choose a more robust approach and align even more with the US in this respect. More concretely, Brussels also needs to take unilateral action - in order to increase China's incentives to engage, but also to prepare for a further increase in the global spillover of Chinese competitive distortions. However, in contrast to the US approach, European unilateral actions have to remain within the remit of WTO rules. The framing of such an approach is crucial: Using defence instruments against competitive distortions must not be seen as protectionism, but as an attempt to level the playing field.

The EU has various options to move at least some way into this direction:

- The EU should bring forward more WTO complaints against Chinese industrial subsidies, even though WTO rules are limited in scope.
- As the EU employs existing trade defence instruments (TDIs) much less than the US, the use particularly of anti-subsidy measures should be expanded by lowering the TDI rules within the WTO framework and by supporting SMEs even more.
- The EU needs to expand its trade defence toolbox. One example

is an International Procurement Instrument (IPI) in order to be able to reduce access to EU public procurement for third countries with closed procurement markets, such as China. Moreover, a Level Playing Field Instrument (LPFI) for the EU market is needed because there is currently no way to tackle the problem that subsidised Chinese companies operating in the Single Market with artificially low prices threaten to force efficient European firms out of business – as suggested by a recent Commission's White Paper.

A more robust stance towards China undoubtedly also has economic disadvantages for the EU: For example, more TDIs and the IPI would increase prices for users of the affected goods. In addition, there is a risk of protectionist abuse of the new tools, which must be counteracted with cleverly designed instruments and of retaliatory measures by China. European politicians will have to decide on a case-by-case basis whether or not to take economic defence measures against China. To guide these decisions, three important principles are recommended:

- Producer interests should be prioritised in economic defence decisions. There can be no right for users to obtain goods at artificially low prices due to distorting subsidies or other non-market practices, if a relevant number of European jobs are at stake.
- Long term orientation is needed. European policy and company decisions tend to be too short-term oriented. For example, the focus on short term profits in China tends to entice corporations to transfer important parts of their technology, despite this having a negative impact on the company in the longer term, due to increasing Chinese competition.
- Safeguarding European production and jobs, particularly of SMEs, should be the primary objective compared to the interests of European corporations with production operations in China. ■



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# Tensions in EU-Russian diplomatic relations

Expert article • 2849

**A**t a time when the world is shaken by the Corona-pandemic, cooperation among states has the potential to facilitate negotiations aimed at finding a common approach in crisis management. Paradoxically, in this difficult time when cooperation among states is more important than ever, we witness some of the most profound conflicts with ramifications for international politics: continuing protests aiming for regime change in Belarus, a war between Armenia and Azerbaijan and the recent poisoning of Alexei Navalny who spearheads the political opposition movement to President Putin are the latest manifestations of tensions in the post-Soviet space which shape contemporary EU-Russian diplomacy.

The purpose of this article is to concisely review the current state of EU-Russian relations without seeking to predict its future. An attempt to do the latter is likely to result in a series of inaccuracies or even fallacies in this multi-faceted and complex relationship which transformed significantly since the end of the 1990s. This review will first identify several key factors which contributed to the worsening of EU-Russian diplomatic relations in the mid-2000s before establishing a hypothesis regarding some factors and events which are likely to shape this relationship in the medium to long-term.

At the core of my monograph is the argument that the transformation of EU-Russian relations from diplomatic courtship in 1999 to increasing contestation throughout the Putin presidencies unfolded on three levels.

First, on a *geopolitical* level, a narrative led by President Boris Yeltsin centred around Russia's aspirations for future EU membership but was replaced by the Kremlin's development of its own integrative framework in the former Soviet space.

Second, on an *economic* level Russia's reliability as a supplier of gas for an enlarging EU was questioned after the Russian gas monopoly's Gazprom's interruption of supply to Ukraine in 2006. This interruption resulted both in a decrease in the pressure in the pipelines and in supply shortages in several EU member states.

Third, on an *ideological* level, the formulation of mutually acceptable values as the foundation of EU-Russian relations was difficult for two reasons. On the one hand, the EU was internally divided on developing a unitary foreign policy towards Russia.

Whilst several heads of government of EU member states as well as several EU officials sought to develop good bilateral relations with Russia based on mutual gains such as cooperation in energy policy for instance, others were more outspoken in their dialogues with Russia when raising issues such as indications of violations of the freedom of speech. On the other hand, the EU's difficulty to formulate a consistent foreign policy towards Russia was compounded by some structural factors, such as the changing European Council presidency which chaired each biannual EU-Russia summit. Given the annually changing chairmanship of this presidency, the Russian representatives at these summits were faced with a different interlocutor than at

the previous summit which might hamper the development of a continuing joint diplomatic agenda. This structure has also an impact on establishing mutually agreed values and their implementation in EU-Russian diplomacy. These structural impairments are likely to shape the future development of EU-Russia relations.

In addition to some key factors which shaped EU-Russian relations in the past, an additional factor which currently determines the relationship needs to be taken into consideration. Since July this year Germany is holding the chairmanship of the European Council Presidency. Alexei Navalny, the leader of the opposition towards President Putin was put into an artificially induced coma after he had allegedly been poisoned with the nerve agent novichok. Since Navalny's treatment in hospital in Berlin, several German Ministers and representatives within EU institutions deliberate on the further imposition of sanctions against Russia which had been previously denounced by a group of Russian officials since the emergence of the Ukraine crisis in 2013.

Even though one should refrain from predicting the future development of EU-Russian diplomatic relations, diplomatic tensions between individual EU member states and Russia are likely to affect the future of EU-Russian diplomatic relations in the short-to medium term. The relationship will likely be shaped by both occasional tensions in Russia's diplomacy with an individual EU member state and the EU's challenge to develop a unitary approach in seeking to mediate a mutually acceptable and sustainable solution. ■



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# Historical roots of alcohol mortality in Russia

Expert article • 2850

Excessive consumption of alcohol has been perceived as a plague for the Russian society for decades. Some eagerly presented is as an intrinsic feature of Russian culture, and a barrier for economic development of the country. Yet external circumstances, like the price of alcohol and the governmental policies, play an important role in this respect as well. The Gorbachev's "dry law" of the 1980s, while not entirely successful (and ruinous for public finances of the USSR), seems to have reduced mortality from alcohol consumption. In the 1990s, easy access to alcohol was an important trigger for the deep mortality crisis in Russia, the "Russian Cross". Most recently, Russia experienced both a decline of the overall alcohol consumption and of the hazardous drinking. According to the World Health Organization data, between 2003 and 2016, consumption of alcohol in Russia decreased by 43%. In many Russian regions, beer superseded vodka as the most frequently consumed alcoholic beverage. It can to some extent be explained by the restrictive measures of the Russian government but could also reflect the overall change of the lifestyle modern Russia experiences and the growing wealth of Russians until mid-second decade of the 2000s. Vadim Radaev, Yana Roshchina and Daria Salnikova (*Alcohol and Alcoholism*, 2020) show that these are in particular young cohorts born after 1990, which demonstrate higher abstinence rates.

The question remains, however: how much path-dependence is there in the alcohol consumption (and mortality) in Russia, and at which point of time do hazardous drinking habits emerge and become robust? One way of answering this question is to look at the spatial correlation between alcohol mortality across a long historical period. The data on deaths from alcohol for individual regions of the (then) Russian Empire are available since late nineteenth century. While the way alcohol-induced mortality was recorded in the 1880s and today differs (due to the advancements of medical profession), and there was a substantial change in the territorial division of Russia over the century, it is still possible to match the historical and the contemporary alcohol mortality rates and to trace whether they are correlated. Indeed, in our article published in 2019 in *Alcohol and Alcoholism*, we show that the spatial patterns of alcohol-induced mortality for the male population in the 1880s and in 2010s strongly resemble each other. The effect cannot be explained by the economic characteristics of the regions, their geographic location, crime rates or ethnic composition. From this point of view, the history seems to cast a long shadow upon the alcohol mortality in Russia.

The end of the nineteenth century is not only the period when data for alcohol mortality become available, but also an important point in time in the formation of hazardous drinking practices. At this moment of time, Russia enters a period of industrialization, with skyrocketing urban population. Many peasants either move to the cities or engage in *otkhodnichestvo* – seasonal labor migration. Outside of their traditional social structure and control of the rural institutions, (mostly) young men seem to form a fruitful ground for the development of

hazardous drinking – similar patterns were observed in many modern countries around the globe, where industrialization went hand in hand with increasing alcohol consumption and deviant behavior. The correlation between historical and modern alcohol mortality suggests that behaviors and practices, which form at this moment of time, when the society is in turmoil, are particularly robust.

Does it mean that any hope of improving the alcohol mortality in Russia is futile? The experience of the last years shows that governmental measures, if they are implemented with sufficient persistence, and cultural change can reduce mortality from alcohol. However, even in this case, while the overall level of alcohol consumption and alcohol mortality could decrease, the "problematic" regions would still stand out as performing worse than other territories of Russia. Furthermore, both cultural change and governmental policies in Russia, which contributed to the reduction of hazardous drinking in the 2010s, are to some extent conditional on economic prosperity. In the periods of economic decline, both the societal change comes to a halt and the government finds it more difficult to implement consistent anti-alcohol measures (because of lack of control over its bureaucracy and because it becomes more dependent on fiscal revenue from alcohol sales). The ongoing economic stagnation in Russia since 2013-2014 should make the task of reducing hazardous drinking habits more difficult (although substantial differences exist between individual regions of Russia in this respect). ■

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# The effects of international learning mobility on Russian participants

Expert article • 2851

An increased budget, more inclusive policies, and the reach of the Erasmus+ Programme beyond European Union Member States points to a growth in opportunities for international students through European grants. Following the Tempus Programme, the Erasmus+ Credit Mobility became available for non-EU universities' academic staff and students, as did EEA Grants, Norway Grants and other state-supported scholarships such as the Stipendium Hungaricum and the DAAD in Germany.

Unlike in Member States, the availability of funded short-term (3 to 12 months non-degree) mobility programs is quite recent and still limited in the EU's surrounding area which results in relatively low popularity and participation rate. Further program development and effective implementation requires the measurement of early-stage effects, including participants' reactions to particular cultural and professional impulses and main differences in attitudes between participants and their peers who are graduating from the domestic education system without international experience. These indicators and impact studies are missing from the (scientific) literature not to mention the evidence-based promotion campaigns on local level to increase youth participation.

The purpose of this study is to summarize and introduce the effects of international student mobility based on quantitative primary research data collected from Russian university students. This population is important to research as they are the next generation of active citizens and potential leaders of their country. The survey responses were divided into a non-mobile (without international experience) and a mobile group in order to compare cultural and professional skills, attitudes towards diversity, future plans and opportunities on the domestic labour market.

One of the most important findings is that – contrary to popular opinion – short-term student mobility does not have a long-term pull-factor to live abroad and does not contribute to brain-drain. Non-mobile students are more interested in leaving their home country, while the majority of mobile students plan to return. The illusions of an easier and more favourable foreign life seemed to be exchanged for using the mobility experience and the extra knowledge to gain a competitive edge in the domestic labour market. Explanations for these findings can be attributed to foreign experiences the mobile group faced, which gave them a more realistic view of differences between the home and host country, insights into difficulties of being out of their comfort zones and the so-called “mama-hotel”, administrative difficulties of operating in a foreign country, etc. In contrast, their unexperienced peers do not have a basis for comparison, and are generally unaware of these issues and challenges. As a result, they are likely to imagine an easier life abroad, where everything seems to be more convenient, being informed almost exclusively through the representations they see from (social) media.

There are distinct differences between the groups in other areas as well. Mobile students tend to participate in the social and political life of their community, which shows that active citizenship is associated with participation in mobility as well as increased interest in European topics and global news. These are key conditions of critical thinking where mobility plays a significant role through citizenship education allowing individuals to go beyond geographical borders to address and solve international challenges such as conflicts, environmental pollution, terrorism etc.

Russian students became more confident in their abilities after mobility, and they experienced easier access to quality traineeships or full-time jobs than their non-mobile peers. They also report clearer ideas about professional career aspirations and goals and generally perceive better chances for quality employment in the near future – especially in international jobs in the domestic labour market.

Their tolerance towards others' (core) values and behaviour increased only slightly, while their will to develop intercultural cooperation skills showed significant increases after mobility. Foreign studies helped participants in dealing with the challenges and demands of a modern, multicultural environment, making them more open to learn and improve intercultural skills without leaving their home country permanently. This implies that mobility enabled students to increase their capacity to adapt to new situations and interact with people from different countries and cultures. As a result, they feel less threatened and frustrated when dealing with people from other cultures, leading to less (perceived) conflicts. ■

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YOJI KOYAMA

# The Baltic States viewed from the Far East

Expert article • 2852

All the Baltic States are small countries comparable to Prefectures in Japan. As I live a coastal region facing the Sea of Japan and hope economic development of the region through cooperation with countries of the opposite of the sea, I am concerned about situations in the Baltic States. In the period Tzarist Russia Latvia was the most developed country among the Baltics, and on the eve of World War I, its capital Riga was famous for "Paris of the Baltics". Now, however, Estonia takes the lead in the economic sphere.

These countries have the following points in common: They were forcibly incorporated into the Soviet Union in 1940 and then regained independence in 1991; after their independence they adopted neoliberal economic policies in transition to a market economy; they were admitted to the European Union in 2004 and then adopted Euro; and they implemented de-collectivization and farmland reforms based on the principle of restitution in 1992-1993. As citizens of new EU member states became able to participate directly in the labor markets in the EU countries after their EU accession, emigration from the Baltic States to advanced EU countries increased.

In recent years the differences among the Baltic States have become clearer. A decrease in population in both Latvia and Lithuania is remarkable whereas it is not so much in Estonia. During the period between 2004 and 2018 the total population decreased in Latvia and Lithuania by 16.6% and 18.5% respectively. Such a remarkable decrease in total population is mostly ascribed to their citizens' emigration. Especially after the 2008 global financial crisis the outflow of population has been so intense that this problem is taken seriously in both countries, although immigration has increased recently. I would like to consider what has brought such differences.

Both Finns and Estonians belong to the same language group (Finno-Ugrian languages, a subdivision of the Uralic family of the language groups) and therefore they have had human interaction from ancient times. Already during the Soviet period Estonian people watched Helsinki TV programs and were familiar with circumstances in the West. In addition, a regular ferry service between Helsinki and Tallinn since the 1960s provided a steady stream of tourists from Finland. Finnish-Soviet agreement on science and culture gave Estonian experts various opportunities to visit Finland. Although this was still limited to a handful of Estonians, this was helpful in establishing networks of personal contacts between Finns and Estonians that was to become hugely significant later on. After Estonia's regained independence Finland has actively supported Estonia especially for its EU accession. Estonia has actively attracted foreign direct investment. It is said that Finland is included in Finnish and Swedish economic areas. Thanks to the influence of the Nordic countries and Estonian peoples' own efforts, IT industry has developed. It is well-known that Skype was invented by Estonian people.

Zenonas Norkus, a Lithuanian historical sociologist, views new EU member states of post-communist countries in the world

capitalism. According to him, Estonia is a semi core while Latvia and Lithuania are semi peripheries. Estonia's added value to imported (semi-manufactured) products amounted to approximately 40% of its industrial production's export as early as at the beginning of the 2000s, while Latvia's corresponding figure was below 20%. This gap has been persisting. In Latvia and Lithuania more workers have been engaged in productions for low value-added intra-industry foreign trade than in Estonia. In Latvia and Lithuania most of high-skilled workers who were trained during the Soviet period have lost suitable jobs. It could be considered that among such workers some people emigrated to advanced EU countries.

After the EU accession, the Baltic States hurried their Euro adoption (Estonia joined the Eurozone in 2011, Latvia in 2014 and Lithuania in 2015). They did so in order to make sure that their escape from the Russian economic area and their entry into the EU's economic area. It was necessary for them to satisfy the Maastricht convergence criteria. They attached importance especially to the criterion on budget and endeavored to decrease budget deficit. They were severely damaged by the 2008 global financial crisis. Both countries tried to get through this crisis by the implementation of austerity measures. Governments cut wages in public sector and pensions. Expenditures in social welfare were substantially decreased. At enterprise level wages were cut by one-third, and unpaid summer vacation was encouraged.

As Estonia had budget surplus before the global financial crisis and pooled a certain amount of money in a fund the government was able to utilize the fund at the time of the crisis. Therefore, the austerity measures were not so severe in this country. In contrast, Latvia and Lithuania could not afford to do so. The austerity measures were very severe in both countries. From a viewpoint of international finance, the Euro adoption was a great success, but it laid a heavy burden on their society.

As for agriculture, the share of employees in agriculture of total population in Estonia decreased sharply from 16.6% in 1990 to 6.2% in 1999. In this country well before the official abolishment of Kolkhozes and Sovkhozes the 'middle classes' (engineers and specialists) in rural areas took a prompt action and established family farms based not on the principle of 'restitution' but on the law on farm of 1989, which allowed long-term lease of vacant land of Kolkhozes and Sovkhozes to peasants, and then enlarged their sizes. At the same time, there were many people who left agriculture and move to other industries. In contrast, the number of people engaging in agriculture did not decrease so much in Latvia and Lithuania. During the same period in Latvia the share decreased slightly from 15.5% to 15.0%, and in Lithuania the share rather increased from 17.6% to 20.1%. In both countries there are many peasants who remain in agriculture with family subsistence farming.

Looking at Gini coefficient which shows income inequality in a society, it was very low in all countries in the Soviet period. As peoples' income inequality expanded in the course of transition to a

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market economy after the regained independence, the Gini coefficient increased in all the Baltic States. In this respect they are similar. In Estonia, however, after the Gini coefficient increased to 0.36 in 1993 it decreased gradually, reaching 0.316 in 2017. In contrast, in both Latvia and Lithuania it continued to increase slowly. It peaked at 0.375 in 2009 in Latvia, and it peaked at 0.379 in 2015 in Lithuania. At first glance it sounds strange, but it could be considered that such high Gini coefficients reflect severe austerity measures and the fact that many peasants live with family subsistence farming.

There are some researchers who argue that such a rapid outflow of people from both countries could be more appropriately explained by the theoretical model of Albert Hirschman's *Exit, Voice and Loyalty* rather than by pull and push factors of the income gap between the Baltic States and advanced countries. In a Lithuanian researcher's opinion, individual perceptions that the global financial crisis and the subsequent implementation of austerity measures caused inequality and decline in the quality of life led many people to decisions of not 'voice' but 'exit', i.e. emigration. ■

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# BALTIC RIM ECONOMIES

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LARS FREDRIK STÖCKER

# “The East-Europeanization of Estonian Politics”

Expert article • 2853

It is not often that Estonian politics makes international headlines. Interior Minister Mart Helme's recent gaffe in an interview with the Russian Service of German broadcaster Deutsche Welle in mid-October, however, received news coverage far beyond Estonia. The founder of the Conservative People's Party EKRE, which entered into a coalition with Prime Minister Jüri Ratas's Centre Party in 2019, significantly increased the party's electorate by resorting to a Eurosceptic and anti-immigrant rhetoric spiced with occasional homophobic slurs. Asked about EKRE's goal to enforce a constitutional amendment recognizing marriage as a union between a man and a woman only through a popular referendum, Helme took a radical stance against what he called “homo propaganda”. Gay people might as well “run to Sweden”, where they would meet with a friendlier reception than in Estonia, which as part of Eastern Europe cherished different values.

The reference to Sweden was no coincidence, as the country openly supports and finances LGBT activism across the former Soviet bloc and has become a popular target of Polish and Russian right-wing campaigns using sexual minorities as political scapegoats. Helme's comment was an allusion to the frequent portrayal of Sweden as the epitome of Western decadence, but it also recalled, unintentionally no doubt, the late Soviet practice of sending dissidents to Sweden instead of to Siberia. Tiit Madisson, the principal organizer behind a mass demonstration on the 48th anniversary of the signing of the Molotov-Ribbentrop Pact and its secret protocols in August 1987, which is widely considered as the starting point of the Estonian struggle for restored independence, was forced to emigrate to Sweden. A few months later, he was joined by former political prisoner Heiki Ahonen, who had signed a resolution announcing the intent to establish the Estonian National Independence Party in January 1988 and was subsequently flown out to Stockholm. Both Madisson and Ahonen continued to fight the Soviet regime as leading activists of the Relief Centre for Estonian Prisoners of Conscience, a human rights organization established by Ants Kippar in 1978.

Kippar was among the estimated 25,000 Estonians who reached the Swedish coast after their escape from the approaching Red Army across the autumnal Baltic Sea in 1944. This first major wave of incoming refugees in modern Swedish history is deeply rooted in Swedish and Estonian collective memory alike, and Stockholm's refusal to extradite civilians to the USSR paved the way for strong ties between Sweden and Estonia across the Cold War divide. Anders Hedman, representative of the traditionally pro-Baltic Swedish Moderate Party in Tallinn, evoked the memory of Sweden's historical significance as a refuge in a manifestation of support for Estonia's LGBT community in front of the Estonian Parliament a few days after the Helme interview was aired. Sweden, as the leaflet that Hedman distributed read, would be happy to welcome “gay refugees” from Estonia in 2020 just as it sheltered war refugees from across the Baltic in 1944. If Estonia's Interior Minister, in turn, would consider to

invite Swedish homophobes to compensate the demographic loss, the population exchange might become a “win-win case” for both sides.

Mart Helme's open hostility towards LGBT-friendly legal changes such as the adoption of the Registered Partnership Act in 2014 contradicts Estonia's long-cultivated Nordic self-image, which served as a counterweight to the perceived stigma of being a post-Soviet country. Accordingly, Helme's statements received support from an unexpected corner. On social media pages, Estonia's Russophone community applauded the anti-LGBT stance of EKRE, which despite its ultranationalist ideology has started to look out for value-based commonalities across ethnic divides. Helme thus might indeed have succeeded in mobilizing additional votes, but the general response to his gaffe was critical. Rait Maruste, formerly President of the Estonian Supreme Court, warned of the danger of playing into the hands of revisionist forces across the eastern border, stating that Helme's envisioned Eastern European canon of values in fact was nothing more than a relic of Soviet hegemony in the region and a proof of the longevity of the “Communist-orthodox mentality”. Helme did not succumb to the public pressure to resign, but his insinuations about voter fraud in the U.S. presidential elections in early November eventually cost him his position. He will, however, be remembered as a living emblem of the still unsolved tension between the vision of Estonia as a liberal-democratic, Western-type nation and its ethnocentric, illiberal counterdraft. While Estonia's Nordic orientation remained uncontested for much of what we commonly call the post-socialist era, which is slowly receding into the past as a period of fundamental political and economic realignment, Sweden in particular has lost much of its significance as a role model, not only economically, but also politically in view of the government's inability to cope with the escalating crime rates as a consequence of uncontrolled mass immigration and segregation. The battle over values, which has succeeded the war of ideologies of the past century, sometimes makes unlikely bedfellows, and social conservative and nationalist ideologies might indeed open up for new regional alliances beyond the post-Cold War regionalization processes of the transformation era. ■



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KARI LIUHTO

# Germany: A global trader with a European focus

Expert article • 2854

With a population surpassing 80 million, Germany forms the core of the EU economy. It accounts for one quarter of the EU's GDP, and the average standard of living of Germans is significantly above the average for the European Union as a whole. Germany has also been more successful in combating coronavirus than its Western European counterparts. By the beginning of December, less than 20,000 people had died of coronavirus in Germany during the pandemic, a figure that is just one third of the death tolls for France, Italy or the United Kingdom, all of which have smaller populations than Germany. Thanks to its successful fight against coronavirus, Germany's unemployment rate has also remained clearly below the EU average.

Germany is a major global trader. It is the world's third largest exporter after China and the USA. For Germany, foreign trade is exceptionally important. Its foreign trade-GDP ratio is 70%, compared to only around 20% in the USA and 35% in China. Without large-scale foreign trade, Germany would have a much lower standard of living. Indeed, such a situation would lower the standard of living in the whole of Europe, as the rest of Europe is dependent on German economic development. Restricting global trade is therefore poisonous not only to Germany but to European prosperity as a whole.

Although Germany is a global trader, the map shows that Europe is Germany's trading stronghold. Among Germany's top 10 trading partners, there are only two non-European countries, namely the USA and China. Germany has benefited a lot from the Eastern enlargement of the European Union. As a sign of it, Germany accounts for more than 20% of the imports to several Central East European countries.

Cars and car parts account for the largest share of German foreign trade. Last year, they accounted for 17% of German exports and 12% of imports. To put it in stark terms, whatever stops German car exports also stops the growth in European prosperity. This is why defending free global trade should be the main objective of all European governments.

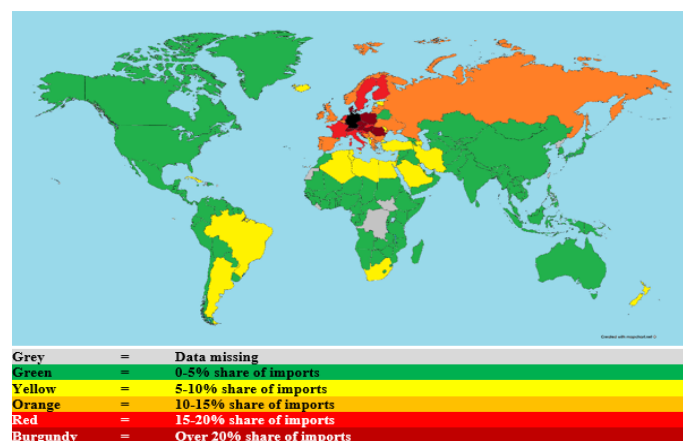
As a country with little natural resources, Germany is largely forced to import its raw materials and energy from abroad. Due to its large-scale energy imports from Russia, Russia's share of Germany's energy imports is disproportionately high. Otherwise, Russia's share of Germany's total foreign trade is low (less than 2.5% in 2019). Germany imports approximately one third of its crude oil and almost half of its natural gas from Russia, and imports of natural gas are likely to grow as Germany closes its nuclear power plants in 2022. The societal impact of the closure of nuclear power plants should not be over-played, however, as nuclear power represents only five percent of German energy consumption.

As the US sanctions have halted the Nord Stream 2 gas pipeline project, it will be interesting to see whether Germany will build during this decade its first LNG importing port. Although pipeline gas and LNG compete for the same consumers, it should not be forgotten that

these two different forms of the same product are complementary rather than mutually exclusive. The price ultimately determines the final supplier of the gas.

The future of the European Union is overshadowed by several problems, such as the corona pandemic, Brexit, populism, the refugee issue, excessive debt, and the ageing population. Nevertheless, hope for the future can be seen in the fact that the corona vaccine is already on the market and in the IMF forecasts of 4–5% growth in GDP next year for Germany and the whole Euro Area. ■

Map. Germany's share in imports in 2018



Source: World Bank.

More precise information on Germany's economic role in the Baltic Sea region can be found at: [https://www.researchgate.net/publication/344786950\\_The\\_Baltic\\_Sea\\_region\\_BSR\\_in\\_2020](https://www.researchgate.net/publication/344786950_The_Baltic_Sea_region_BSR_in_2020)



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# BALTIC RIM ECONOMIES

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