EDITED BY KINGA REDŁOWSKA

BALTIC VISIONS
EUROPEAN COOPERATION
REGIONAL STABILITY

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Foreword
by Wojciech Wróblewski

The geographical location of Poland has predestined our country to be an important actor in a number of political contexts, both in the relations between the East and the West as well as along the North-South axis. However, our historical experience evolved mainly around the East-West relations, with popular perceptions dominated by relations with Germany and Russia. A feeling of historical and cultural community also exists with Czechs, Slovaks, and Hungarians. However, there is close to no identification with the countries of the Baltic Sea region, especially the Nordic states. Even though at the turn of the 14th and 15th century many Polish cities belonged to the Hanseatic League, nowadays, after many centuries during which our access to the Baltic Sea was restricted, we no longer feel like a ‘sea country’. Ironically, it is precisely the countries from the Baltic Sea region with which we currently have more in common in terms of security and foreign policy than we do with the states of the Visegrád Group.

That is why this publication aims at raising public awareness about the importance of the Northern region of the European Union and our role in it both in Poland and abroad. The ‘Northern Dimension’ project is a key priority objective of Polish foreign policy, which in turn defines the cooperation with our Northern neighbours as one of the strategic directions of the development of our country.

The North is important for the European community. Although only about 17% of the European population lives in the Baltic Sea region, geographically it encompasses almost 36% of the entire European Union. It is also worth emphasising that the economies of this region generate almost one-third of the Union’s GDP every year.

The region is characterised on the one hand by a great demand for resources, and on the other by a high level of export-orientated production. Both these elements generate exceptional needs in terms of logistics and transport. Despite the internal differences between individual countries, the region is characterised by an average high level of GDP and of democratic stability.

The only exception is Russia which, while being a member state of the Council of the Baltic Sea States and a regional power, constitutes an exceptional case both due to its way of conducting foreign policy (preference for bilateral relations, focus on issues of Russian minorities, instrumentalisation of sub-regional organisations), but also because it is not a member state of the EU or NATO. At the same time, this region has a strategic importance for Moscow as a transit channel for Russian energy resources. In its politics, Russia favours Germany offering it the position of the main importer as well as distributor of Russian gas in Central Europe.
Furthermore, the psychological aspect connected with the fall of the USSR and the loss of power in the region should not be ignored. The area of Russian military and economic influence shrank considerably – a fact for which Moscow is now trying to compensate by a new aggressive policy being carried out under the pretext of protecting the allegedly endangered Russian-speaking minorities in the Baltic states, above all in Estonia and Latvia. The Russian post-imperial trauma is expressed in the term ‘near abroad’ which is understood as the zone of Russian influence. Thus, the other countries of the region have to find a common solution for their relations with Russia, which remains a difficult partner in many aspects.

The Council of the Baltic Sea States, established in 1992, is a regional platform that institutionalises the international relations in the region. The following countries are the member states of the CBSS: Norway, Sweden, Finland, Denmark, Lithuania, Latvia, Estonia, Russia, Poland and Germany as well as, since 1996, Iceland. The European Commission also has member status, while ten additional countries enjoy observer status. The Copenhagen Declaration from 1992 outlines the following areas of cooperation for the Council:

- supporting democratic institutions
- economic and technical cooperation
- health and humanitarian issues
- environment protection and energy
- culture, education, tourism and exchange of information
- transport and communication

Each country holds a one-year-long presidency and sets out its own priorities for this period. Starting from 1 July 2015 Poland took over the Presidency in the CBSS, choosing as the three main challenges the following issues: sustainable development, creativity and civil security.

The following publication, prepared by the Foundation Institute for Eastern Studies, encompasses ten articles by authors from seven of the CBSS countries. All of them are well-respected international experts. In their analyses, they define the key issues the region is facing. These include: the crisis of regional security; cross-border electricity and gas connections and the development of LNG terminals; information and propaganda war on the global market. The Baltic Sea region is presented in the publication as the first macro-region of the European Union. The issue of cross-border cooperation between Russia and the Schengen countries is also discussed. The publication analyses the objectives of the Polish presidency which, while taking into account all the difficult aspects of the relations with Moscow, believes that the CBSS, as a platform of cooperation, could bridge the gap between Europe and Russia.

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Preface
by Kinga Redłowska

The Baltic Sea region, which is comprised both of Northern Europe’s countries and the sea itself, reflects the ties of common history, economy, and culture. The dynamic shift in European geopolitics that has taken place in the last couple years has encouraged a further deepening of cooperation in all its dimensions – transatlantic, European, and regional. European cooperation, regional stability is the sine qua non of the prosperous and dynamic countries in the Baltic Sea region.

The Polish presidency of the Council of the Baltic Sea States is an inspiring occasion to reflect on the importance of the region for Poland and to select accurate, effective tools for implementing strategic priorities. It is also an excellent opportunity to extend the traditional East-West framework and think about Central and Eastern Europe in a broader context. Finally, it presents an incentive to create a community of interests of the Baltic Sea countries, especially in the face of recent Russian policy toward Central and Eastern Europe – even if we must not forget that regional security currently has relatively limited relevance and is submerged within the broader Western-Russian agenda.

The annual meetings at the Economic Forum in Krynica-Zdrój have always been a proper place to discuss the issues pertaining to the countries of the Baltic Sea Region. For 25 years discussions about this area’s security, economy, society and culture have driven the course of the conference. The majority of guests of the Krynica summit come from Poland, Russia, Germany, the Baltic republics and the Scandinavian states, much like the authors of this volume, whose unique knowledge about their countries’ strengths and weaknesses allows them to properly explore the most pressing themes of our times. This is the mission behind the Economic Forum and the mission which drives the publication of the ‘Baltic Visions’ articles.

Kristi Raik from the Finnish Institute of International Affairs exposes the fact that concerns about hard security and territorial defence have made a comeback to the regional security agenda even as it has been overshadowed by the Russia-West rift. Nerijus Maliukevičius from Vilnius University then looks into the evolution of Russia’s posture on Information Warfare in the Baltic states. The paper analyses response strategies in countering this aggressive information offensive, focusing specifically on the issue of TV broadcast restrictions in Lithuania as well as on elements of the Latvian and Estonian approaches. The countries of the Baltic Sea Region have recognised cyber security as an inseparable part of national security and have begun to take steps to improve their domestic resilience.
The Estonian contribution to the publication argues that good regional cyber security-related cooperation in the Baltic Sea region has given its countries the potential to contribute effectively to cyber security and stability at a global level.

Greta Tučkutė then assesses Baltic energy connectivity, surveying its vulnerabilities and successful projects before analysing its future possibilities and challenges. She argues that a state of energy insecurity was a strong catalyst for the development of energy infrastructure, allowing for a more diversified and competitive energy supply. Tučkutė concludes that the Baltic States are turning from an 'energy island' into a region energetically incorporated into the European Union energy system.

As the Baltic Sea region is one of Europe’s most important economic areas, with strong potential for further future integration, we have decided to pay special attention to topics such as innovation. It has been a key element of the Nordic development model of post-industrial societies, which has been the basis of a brave shift towards a knowledge-based society. Professor Kurt Bodewig, a former Federal Minister of Transportation and Infrastructure (Germany) and current Chairman of the Board of the Baltic Sea Forum, highlights the first successful macro-regional strategy of the EU. In his article, Bodewig demonstrates how important a stimulus it was for research and for the economy in the region, highlighting in particular the intensive process of cluster creation in an area with the highest cluster-density in Europe.

I hope that readers will find this publication interesting and up to date, and will be inspired themselves to see the full potential of the Baltic Sea region.

I wish you an inspiring read!

Dr KINGA REDŁOWSKA
Director
International Cooperation Department
Foundation Institute for Eastern Studies
A Common Baltic Area: The Goals of the 2015 Polish Presidency of the Council of the Baltic Sea States

Kinga Redłowska, Foundation Institute for Eastern Studies, Poland
Kazimierz Poptawski, Baltic Insight / przegladbaltycki.pl, Poland

The Baltic Sea region is facing new challenges. By taking over the presidency of the Council of the Baltic Sea States (CBSS) on 1 July of this year, Poland also assumed the responsibility for implementing the objectives of this important regional organisation, one that has of course been greatly influenced by the situation in Eastern Europe. The Polish presidency will struggle with two main challenges in this context: supporting and maintaining existing cooperation among all 11 member states as well as the European Commission on the one hand, and developing this cooperation in future directions on the other. It is important to remember that the CBSS is one of the few organisations that continue to cooperate with Russia quite intensively and on a relatively high level.

The importance of the Baltic Sea Region for Europe and Poland

The 21st century has seen a continuing increase in globalisation of various aspects of politics and the economy. At the same time, regional cooperation has also been gaining in importance, given that it would be impossible to meet the requirements of a globalised world without strong regional collaboration.

The European Union has emphasised the importance of implementing macro-regional strategies for many years. However, the main ideas of the strategies promoted by the EU have not been invented from scratch; quite the contrary, as they are based on regional cooperation initiatives that have long existed in areas with dense and long-lasting networks of cultural, economic, and geographical ties.¹

In terms of geography, the Baltic Sea region encompasses the Nordic countries (Denmark, Finland, Sweden), the Baltic states (Estonia, Latvia, Lithuania) as well as Germany and Poland. Russia also belongs to this region, not only thanks to the location of its Kaliningrad exclave, but also because of the area around St. Petersburg.

Taking into account historical and economic reasons, Norway and Iceland should also be included.

Historically the region was not very stable, plagued by numerous wars that often resulted in border changes. Nevertheless, the first forms of regional cooperation emerged as early as the Middle Ages, most notably the Hanseatic League.² It is worth noting that in comparison with the rest of the region, the cooperation among the Nordic states is particularly well-developed, as they established rules of mutual cooperation earlier. It was not until the end of the 20th century that institutionalised modern relationships emerged elsewhere in the region. Such a change was possible first due to the collapse of the bipolar world order that had existed since the end of the Second World War which more immediately resulted in regained independence for the Baltic states and later permitted their accession to the European Union, which triggered new impulses for further integration.

In addition to the CBSS, the countries situated around the Baltic Sea work together within the framework of numerous international organisations both governmental and non-governmental, including the Nordic Council, the Helsinki Commission, the Baltic Sea Parliamentary Conference, the Union of the Baltic Cities, and the Baltic Sea Chambers of Commerce Association.

The Baltic region is also one of the most important macro-regions in the EU in economic terms, with a substantial potential for growth. Its future growth dynamics depend not only on the deepening of relations within the region, but also on increased trade with partners outside of the EU—notably Brazil, Russia, India, China, and Indonesia. The Baltic Sea countries that are members of the European Union have a population of almost 17% of the EU’s population. Hence, it is no wonder that not only the countries themselves, but also the entire European Union are interested in strengthening this regional cooperation, as demonstrated by the EU’s decision to make the region the subject of its first macro-regional strategy.

This strategy serves as an answer to the challenge posed by the economic heterogeneity of the Baltic Sea region, as it aims to reduce the economic differences while also enhancing integration, especially in terms of energy. Indeed, apart from adapting to the challenges of globalisation, it is precisely the elimination of the differences between the highly developed countries of the region (Germany, Scandinavia) on the one hand and Poland and the Baltic states on the other that poses the biggest challenge. Even though the countries of the latter group have performed very well during a relatively turbulent time for the global economy, they still aspire to the levels of prosperity enjoyed in western European economies.³

The Baltic region is an important part of Polish foreign policy. Apart from Russia, all the other countries in the region are members of the European Union and/or NATO. Poland’s membership in these organisations is the foundation of its security and economic growth. The last few years have seen a gradual strengthening of Poland’s role in

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European and Euro-Atlantic structures. Nevertheless, it is good bilateral relations with its immediate neighbours that remain the most important pillar of Polish security. At the same time, developing relations with northern Europe has begun to play a greater role in Polish foreign policy due to a wish to enhance the potential that comes with the country’s geographical location. For instance, since Poland sits at the crossroads of the planned North-South corridor, it can potentially harness the potential of both the Baltic and the Mediterranean Sea regions.

Poland would like to draw from the Nordic countries’ experience in new technologies and economic modernisation – it can best do this by strengthening mutual relations. The common interests of Poland and the Baltic states are clearly visible, especially in the light of the recent changes in European geopolitics caused by the shift in Russian policies and the resulting situation in Ukraine. In the face of these considerable new challenges, the few sensitive issues among these countries, such as different approaches towards the Polish minority in Lithuania, have faded into the background. Russian aggression in Ukraine, as well as increased military activity by different parties in the Baltic Sea area, have combined to strengthen the perception of shared regional interests. The issue of hard security in the region has returned to the agenda, followed by new soft security threats such as propaganda, information warfare, and cyber attacks. From the Polish perspective, enhancing cooperation around these issues is crucial. Even though it has achieved a new dynamic, individual countries still take often widely divergent approaches on many questions. Additionally, the priority placed on overall relations between Moscow and the West—given that the Baltic Sea states are NATO/EU members – often outweighs a specifically regional approach towards Russian policy.

**Aims and objectives of the Polish Presidency**

In assuming the CBSS presidency, Poland is presented not only with an opportunity, but also with a double challenge – both politically and organisationally. On the one hand, Under-secretary of State Henryka Mościcka-Dendys described the Baltic region as one of the two pillars of Polish regional activity, yet Poland’s engagement there has been less significant than in the Visegrád Group. Minister Grzegorz Schetyna stated while setting forth Poland’s 2015 foreign policy priorities that ‘the Presidency of the Council of the Baltic Sea States will be an important stimulus for strengthening Polish involvement in the Baltic Sea region’. On the other hand, even though the traditional subjects discussed at the forum of the Council do not involve conventional security, the working of the CBSS has of course been influenced by a context in which contacts between European countries and Russia have been limited.

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8 „Informacja ministra spraw zagranicznych o zadaniach polskiej polityki zagranicznej w 2015 roku”, Ministry of Foreign Affairs, 23 April 2015.
The Council of the Baltic Sea States is a political forum, a platform for exchanging ideas that influence the development of the Baltic area, and – as Poland’s ambassador to Latvia Ewa Dęb ska has emphasised – it is the most important regional organisation in the Baltic Sea, the actions of which constitute a model and inspiration for other parts of the continent. Of course, the CBSS is not the only platform of cooperation in the region, which is the focus of a wide spectrum of policies, strategies, and programmes. These in turn translate into dozens of projects carried out by international institutions and NGOs. This abundance is sometimes referred to as an ‘institutional nightmare’, but also as a ‘positive mess.’ While analysing the priority areas of the CBSS as well as the priorities of the Polish presidency that are derived from them, the influence of a few other more important forms of cooperation and their key sectors of activity should not be ignored.

**Priorities of the Council of the Baltic States**

In June 2014 the CBSS reviewed the five priority areas chosen in 2008 at its deputy ministers’ meeting in Riga: environment, economic development, energy, education, culture, ‘civil security and the human dimension’. After the evaluation, new long-term priorities of the Council were selected: ‘regional identity’, ‘sustainable and prosperous region’, and ‘safe and secure region’.

The first priority of regional identity encompasses among other aspects the intensifying people-to-people and inter-institutional contacts, protecting the region’s cultural heritage, developing cultural tourism, cooperating in the area of education, fostering youth dialogue, and establishing a brand for the region.

The second priority – a sustainable and prosperous region – entails improving the overall competitiveness of the region, promoting innovation in infrastructure, developing green technologies and R&D, improving environmental protection, and encouraging the development of an inclusive labour market.

Finally, the third priority of a safe and secure region concentrates on civil society and includes strengthening social resilience and risk management mechanisms, fostering macro-regional cooperation, enabling assistance and rapid response/recovery from natural and man-made disasters, and countering all forms of organised crime (especially trafficking in human beings).

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11 Groenendijk, Nico, „Clubs within clubs: The council of The Baltic Sea States (CBSS) and the Benelux as macro-regions within the UE”, European Integration and Baltic Sea Region: Diversity and Perspectives, p. 483, Riga 2011.
The role of the Council of the Baltic Sea States in the coordination of the regional cooperation

The CBSS plays an important role in coordinating inter-institutional cooperation and the implementation of goals established within other cooperation frameworks. Apart from its CBSS presidency, Poland simultaneously coordinates the activities of the following initiatives: the EU Strategy for the Baltic Sea Region (EUSBSR), the Northern Dimension (ND), and as the Vision and Strategies Around the Baltic Sea (VASAB).

Initially, the EUSBSR was envisioned as a catalyst for the development of the region towards full integration with the EU. The strategy encompasses such priorities as environmental sustainability, infrastructure connectivity, and economic prosperity, as well as 15 specific priority areas within these domains. The CBSS Secretariat is responsible for the coordination of three EUSBSR areas: climate change and sustainable development; security; and neighbourhood (policies). The coordination of the implementation of the EUSBSR is parallel to the CBSS presidency. Therefore, Poland has incorporated all the priority areas of the strategy into its activities.

At the EUSBSR Forum in the Latvian city of Jūrmala, Undersecretary of State Mościcka-Dendys stated that the adoption of the new EUSBSR Action Plan is a good moment to improve the effectiveness of cooperation among its main stakeholders and beneficiaries. Mościcka-Dendys included this task into the priorities of the Polish presidency of the EUSBSR National Coordinators. Poland is also responsible for the Northern Dimension Partnership for Transportation and Logistics as well as the VASAB Committee on Spatial Planning and Development.

It is worth noting that the goal of the CBSS and other cooperation frameworks in the region is first of all to improve the standard of living of the inhabitants of this area. These organisations and institutions should guarantee prosperity, better interpersonal, cultural (including the strengthening of a regional identity), and economic relations, improve the quality of the regional environment, and stimulate creativity and innovation. While Poland has established three clear substantive priorities for its presidency (as explored in more detail below), its decision to focus on a more effective management of the region – by harmonising and coordinating the activities of the various cooperation structures as well as promoting communication among them – is an equally important task.

Priorities of the Polish Presidency
1. New agenda for sustainable development of the Baltic Sea Region

The first objective of the Polish presidency in the CBSS fits into the long-term priority

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18 Dębska, „Morze Bałtyckie łączy, a nie dzieli“.
called ‘Sustainable Region of Prosperity’ that aims at improving three inter-dependent dimensions: economic, social, and ecological. The biggest challenge in this area will be to establish the foundations for a new agenda of sustainable development, which will enter into force in 2015. It should aim, among other things, to limit the economic and social impact of climate change. The agenda should also take the UN’s Sustainable Development Goals into account.

Activities within the framework of the sustainable development priority are also based on cooperation with HELCOM and VASAB, regional organisations whose goal is to improve environmental quality in the region. Working with these institutions enables the CBSS to take a more integrated approach to maritime and transport issues. Joint meetings of the Sustainable Development Group of the CBSS and the HELCOM-VASAB Joint Working Group are planned.

This priority also includes issues connected with energy, science, research, and innovation as well as tourism. Poland recognises the importance of the diversification of energy sources as well as securing their transport and delivery. Transmission networks, both electricity grids and gas pipelines, are a very important element in this area. It should also be mentioned that enhanced energy efficiency is an important factor in stimulating economic growth in the region.

In the field of science, research and innovation Poland supports internationalisation through common research and innovation strategies but also by supporting existing research programmes and enhancing their effectiveness. It has also included plans for creating a Centre of Baltic Tourism as part of this priority, which should coordinate and stimulate cooperation within the tourism sector.

2. Culture as a driving force for social and economic development of the Baltic Sea Region (Creativity)

As for the ‘regional identity’ long-term priority of the CBSS, Poland seeks to implement it by promoting culture under the motto ‘Creativity + Cooperation = Development.’ Above all, the Polish presidency promotes new interdisciplinary projects as well as enhanced effectiveness of cooperation networks among cultural organisations and institutions. It also wishes to emphasise ‘the economic potential of cultural ventures and the role of culture in the socio-economic development of the region.’ Culture should translate into development through the promotion and development of cultural tourism. While the Ministry of Foreign Affairs has emphasised the necessity of harmonising activities carried out by various bodies and cooperation frameworks on this issue, the Ministry of Culture and National Heritage is responsible for this priority.

21 „Priorytety Prezydencji”.
22 „Priorytety Prezydencji”.
3. Civil protection in the Baltic Sea Region

While sustainable development and creativity are broad terms that can be used both to reflect concrete aims and to conceal a lack of substantive content, civil protection has a very definite and measurable significance for the region. Pursuit of the long-term CBSS goal ‘a safe and secure region’ during the Polish presidency will be based on three main objectives:

The first objective is to enhance the regional response capacities and interoperability of civil protection services. Activities in this area should enhance the effectiveness of the emergency services in responding to natural and manmade disasters. Accordingly, Poland will review the availability of resources in the region.

The second pillar of this priority is nuclear safety and radiological protection. The MFA has enumerated a list of actions to be taken in this area: exchanges of data, information, and experience; cooperation programmes between spectrometry measurement laboratories and radiation protection authorities; and cooperation among law enforcement agencies, with special emphases on the safe transport of hazardous materials and on border control.

The third element of the security priority is strengthening the safety of children. Deinstitutionalisation of foster custody, strengthening foster families, and promoting adoption are just some measures mentioned in this priority, which is assigned to the Ministry of the Interior.

The influence of the geopolitical situation on the Polish Presidency and its priorities

The geopolitical situation in Central and Eastern Europe and the suspension of high-level cooperation with Russia by European states had a great influence on the formation of the priorities of the Polish CBSS presidency, especially in the areas of sustainable development and civil security.

One example of the direct impact of geopolitics on the presidency was the cancellation of the 2014 CBSS ministerial summit that was to be held in Turku, Finland. There will be no such summit this year either, even though it has traditionally been one of the most important events in developing cooperation in the Baltic Sea region. The current situation has also other aspects which go beyond institutional implications, of course: there is a real threat to the region’s security architecture. Accordingly, there have been real consequences, from a decreased sense of trust and lower intensity of interpersonal relations and contacts among NGOs to a drop in economic exchange as well as restrictions in financing development cooperation.

Despite the above mentioned difficulties,
The CBSS remains one of the few organisations in which cooperation with Russia still continues. As an organisation that combines the political dimension with very practical actions on various levels, the CBSS serves as a model of dispersed integration, which is flexible enough to go far beyond government structures. Maintaining even lower-level cooperation on as many areas as possible is in the interest not just of the region, but also of Europe as a whole. The efficient, pragmatic type of cooperation that exists within the CBSS could also indirectly influence Russian society.

The Polish presidency of the Council of the Baltic Sea States is also a good opportunity for emphasising the northern dimension of Polish foreign policy. It also presents a challenge of sustaining and developing regional cooperation among all CBSS member states, especially in the face of the difficult geopolitical situation in Central and Eastern Europe. One of Poland’s aims should be to further enhance the practical aspects of the actions of the Council by increasing the significance and intensity of local-level and sectoral contacts.

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Overshadowed by the Russia-West Rift: Security in the Baltic Sea Region

Kristi Raik, Finnish Institute of International Affairs (FIIA), Finland

‘Russia has yet to grasp the possibilities offered by the new era. It seems that some Moscow politicians still believe that in bilateral relations one side has to win and the other has to lose.’

President of Estonia Lennart Meri, remarks at a meeting to commemorate the end of the Cold War, Jyväskylä, Finland, 8 November 1999.

‘I am not prepared to let this success story going down the drain.’

Chancellor of Germany Gerhard Schröder on German-Russian relations, quoted in Die Zeit, 11 September 2004.

‘Russia flouted international law and annexed Crimea [...] this calls the entire European peaceful order into question’

Chancellor of Germany Angela Merkel, Speech at the Lowy Institute for International Policy, Sydney, Australia, 17 November 2014.

In 2014, the effects of the Ukraine crisis on European security were sharply felt around the Baltic Sea. For some, Russia’s aggression against Ukraine was a culmination of worrying developments observed over many years; an outburst of tensions similar to a volcanic eruption that is unavoidable but impossible to predict with precision. For others, it was an abrupt turn away from stability and peace that perhaps could have been prevented with the right mix of diplomacy and clarity of strategic vision.

Both of these two perspectives find support in the Baltic Sea region, but a shared perception in this part of Europe is that the war in Ukraine and the deep crisis in relations between Russia and the West have had a dramatic effect on regional security. While comparisons to the Cold War era flourish, today’s situation is more volatile and unpredictable.

The quotes above underscore just how widely assessments of (and thus relations with) Russia differed between Germany and, say, Estonia 10 to 15 years ago. Now, by contrast, Germany has taken the lead in shaping a united EU approach to Russia, strongly condemning Russia’s actions in Ukraine. The EU’s efforts to engage and
integrate Russia, which had dominated the regional security agenda in the 1990s and early 2000s, have since been overridden by confrontation between what are two competing regional powers (even if the EU never wished to see the situation in such terms).

The threat perceptions of countries around the Baltic Sea have been re-assessed to reflect this emerging bipolarity and the accompanying renewed tensions. In addition to the events in Ukraine, Russia’s reckless military activity in the Baltic Sea region has contributed to a convergence of views among the remaining Baltic Sea states. Elevated concerns about national security have led most countries in the region to increase their defence spending. Issues of hard security and territorial defence have made a comeback alongside efforts to counter hybrid threats such as propaganda and economic pressure. As a result, economic interaction, people-to-people contacts, and cooperation on soft security issues between the two ‘poles’ have suffered.

Yet, despite their increasingly convergent views and deepened cooperation in the field of security, there are still considerable differences among the Baltic Sea states on how best to address the rapidly deteriorated security situation. The differences are most significant when it comes to their approaches to military power.

Both the trend of convergence in threat perceptions and security cooperation, as well as the remaining disagreements over how to counter a resurgent Russia, are explored in the analysis below – which concludes by underscoring the dominance of the broader Western-Russian agenda – especially the fate of Europe’s security architecture – over regional approaches to security in the Baltic Sea region.

**Convergence of threat perceptions**

After the Cold War, new conceptions of and approaches to security in Europe mushroomed in both academic and policy circles. There was a shift of focus from military to non-military threats, as well as from confrontational to cooperative ways of addressing perceived threats. An emphasis on soft security and on strengthening inclusive, cooperative structures was particularly strong in the Baltic Sea region. Military security and territorial defence were deemphasised and came to be viewed by many as out of fashion. At the same time, addressing far-away crises in places such as Afghanistan and the Middle East became a key component of national security policies.

Within this broader context, focusing specifically on the security policies of the Baltic Sea states reveals considerable differences among individual countries, beginning with different threat perceptions. In the wake of the EU’s ‘big bang’ enlargement of 2004, the relationship with Russia was the most divisive foreign policy issue between the new and old EU member states. The Baltic states and Poland were always outspoken about the (latent) threat posed by Russia. At the time when German chancellor Gerhard Schröder praised the German-Russian relationship as a success story and characteri-
ized his Russian counterpart as a ‘flawless democrat’, the Balts and Poles openly expressed criticism and concern about domestic developments in Russia. Germany based its policy of engagement on a belief – albeit one based on scarce evidence – in Russia’s democratisation and modernisation. Poland and the Baltic states, by contrast, saw authoritarian trends inside the country as a factor that undermined the prospects of cooperative and friendly relations with their big neighbour. Interestingly, both approaches saw Russia’s domestic development as a key driver of Moscow’s foreign policy. Their different readings of Russia’s trajectory mirrored their very different treatment by Moscow, which pursued a policy of friendly engagement with Germany at the same time as it expressed repeated accusations and threats against the Baltic states. 3

Russia’s aggression against Ukraine marked a turning point in the evolution of Western views on the potential of friendly engagement with Russia’s current regime. The annexation of Crimea and the war in eastern Ukraine led to a convergence of threat perceptions among the Baltic Sea states. The most significant re-assessment was undertaken in Germany’s ‘Ostpolitik.’ This coincided with broader calls for a more active and responsible international role for the country, as presented in the much-cited speech by president Joachim Gauck at the Munich Security Conference in January 2014. The shift was not about changing the core premises of Germany’s foreign policy – such as a commitment to international norms, peaceful conflict resolution, and multilateralism – but instead about taking a stronger and more consistent role in defending these principles. Since these commitments became irreconcilable with a friendly, special relationship with Russia, it was Ostpolitik that had to be abandoned, at least temporarily. As far as Germany’s leadership was concerned, Russia had become an existential threat to the European security order.

The events in Ukraine have also caused significant policy changes in Sweden, since they shattered the previous assumption that one could safely exclude the possibility of military conflict in Europe. Russia’s military activity in the Baltic Sea region

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3 To take just one example, then-foreign minister Andrei Kozyrev said in discussing Russian-speaking minorities in the Baltic states in 1995 that "[t]here may be cases when the use of direct military force will be needed to defend our compatriots abroad." Moscow Times, 20 April 1995.

– including some incidents close to Sweden’s borders – only exacerbated concerns in Stockholm. As foreign minister Margot Wallström wrote in the Swedish daily *Svenska Dagbladet* on 6 March 2015, Russia had become a ‘serious threat to European peace.’ In 2014, a ‘separate military attack directly targeting Sweden’ was still seen as unlikely, but the possibility of Sweden being affected by a military conflict in the region was acknowledged. ⁴ Sweden’s anxiety was largely shared by the other Nordic countries, as reflected in a joint declaration of their five defence ministers that was initially published in the Norwegian daily *Aftenposten* on 9 April 2015.

For Poland and the Baltic states, the Ukraine crisis came as less of a surprise. In these four countries, the events in Ukraine were more directly perceived as threatening than was the case in the Nordic countries or Germany. Their assessments of Russia had always been more pessimistic and antagonistic, and they had considered the Russian-Georgian war in 2008 as much more alarming than their partners in the EU and NATO. In 2014 their worries were re-confirmed and Russia became seen as an even more acute threat to their national security. For example, the foreign minister of Latvia – again a country which is known as relatively more accommodating towards Russia than its Baltic neighbours – stated in March 2015 that Russia’s military activity near Latvia’s borders ‘grew at an alarming rate’ in 2014 and posed a ‘threat to Latvia’s security.’ ⁵

**Bolstering defence**

The most obvious consequence of this shift in threat perceptions has been an increase in defence spending in almost every country in the region. A brief look at defence policies of the Baltic Sea states prior to the Ukraine crisis shows a slightly different picture compared to the level of foreign policy rhetoric described above. Germany’s defence policy prior to 2014 matched its foreign policy rhetoric, reflecting a decades-long practice of low levels of investment in European security, a focus for the military on crisis management in far-away locations, and a ‘dearth of strategic thinking.’ ⁶

Countries bordering Russia, by contrast, never ceased taking into consideration the possibility of confronting a traditional military threat. Finland is an interesting case in point: in parallel with its active efforts to promote friendly and inclusive relations with Russia and its persistent official denials that Russia posed a threat, it continued to maintain a credible territorial defence. Finland and Estonia were the only countries in the region to maintain military conscription throughout the post-Cold War era. Finland’s emphasis on territorial defence suggests that its threat perceptions were not that radically different from the Baltic sta-

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tes, although Helsinki’s diplomatic relations with Russia and its foreign policy rhetoric were indeed different, being wrapped in a veil of ‘feigned naïveté’. Latvia and especially Lithuania were cases of an opposite mismatch, having combined alarmist rhetoric with a defence spending below 1% of GDP prior to 2015. Meanwhile, Estonia and Poland maintained their defence spending at levels above and close to 2% of GDP respectively.

Hence, in 2015, the largest hikes in defence spending were seen in Lithuania (50%) and Latvia (15%), which undertook hasty measures to boost previously low spending commitments. A strong re-adjustment of defence policy took place in Sweden. During the post-Cold War era, the Swedish military (along with those of many other European states) had been significantly downsized and re-oriented from territorial defence to crisis management tasks. In 2014, Sweden re-focused on territorial defence and increased its military expenditure by more than 5% (albeit from a low base; even after the increase, Sweden’s military spending remained below its 2000 level). Likewise, Norway considerably increased defence spending. The new Finnish government that took office in May 2015 has also expressed a commitment to step up expenditure on security and defence (while cutting virtually every other sector of the state budget). Germany’s defence spending declined in 2015, and the quality of Germany’s defence forces was heavily criticised. Acknowledging the need for adjustment, Germany has announced plans to increase military spending from 2016. Yet its ‘civilian power’ identity and its popular reluctance to lean on military force remain strong.

While increased defence budgets in most countries in the region can be read as an indicator of heightened concern over the Russian threat, significant changes have also taken place in the structures and concepts of collective defence. NATO has undertaken what it calls ‘the biggest reinforcement’ of its collective territorial defence since the end of the Cold War. Although still generally reluctant to boost its military, Germany has nevertheless considerably increased its commitment to the security of NATO’s eastern flank, where its military contribution has become the highest among European NATO members. Denmark has also considerably increased its contribution to the defence of the Baltic states within an Alliance framework. However, Germany has objected to the permanent stationing of NATO forces in Poland and the Baltic states so as not to violate the NATO-Russia Agreement of 1997 – even though Russia clearly has violated the commitment it made in that agreement to refrain ‘from the threat or use of force against each other as well as against any other state, its sovereignty, territorial integrity or political independence.’

The stationing of troops is a major divisive issue between Germany and NATO’s eastern members that reflects deeper cleavages between their foreign and security policy approaches, notably when it comes

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to military power. While Germany prefers to speak about ‘reassuring’ the Baltic states, the latter seek credible military deterrence against the perceived Russian threat.

Another cleavage in the region is that between members and non-members of NATO. Finland and Sweden stay outside the Alliance, albeit seeking further to tighten their cooperation with it. At the same time they have significantly deepened bilateral defence cooperation. In addition, as confirmed in the aforementioned joint ministerial declaration, the Nordic countries have all expressed a commitment to enhancing security cooperation-including with the Baltic states-in order to address ‘deterioration in the security situation in Northern Europe’. In the meantime, the role of non-NATO EU members in regional defence remains ambiguous, in spite of their expressions of solidarity towards the other Nordic and Baltic countries, as well as their commitments within the framework of the EU.

**How to deal with the bully**

In addition to national, regional, and Trans-Atlantic efforts to bolster regional defence, one can single out other important (if to some extent divisive) elements of responding to Russian aggression.

There is general agreement on the necessity of maintaining diplomatic and other contacts with Russia, but some disagreements around the Baltic Sea (and beyond) remain over the preferred form and nature of such contacts. High-level political contacts have been dominated by the Ukraine crisis, leaving limited space for other issues. Bilateral diplomatic contacts have been cut to a minimum, with Germany leading what little diplomatic engagement efforts remain. This has left Poland frustrated over its marginal role in crisis diplomacy. The approach pursued by Germany (as displayed most notably in the Minsk agreements) has not been whole-heartedly supported across the region – but it has also not been openly challenged so as not to fracture a fragile Western unity. Finland stands out in the region as the only country in addition to Germany that has maintained active bilateral dialogue at the highest political level, provoking some suspicion about its commitment to the EU line. However, none of the Baltic Sea countries has in fact undermined European or western unity towards Russia. Compared to the EU as a whole, there clearly has been more unity among the Baltic Sea states.

The need to support Ukraine is another cause that unites the Baltic Sea states, but there is again a notable divergence of views on what forms Western support should take. In principle there exists a broad commitment to support Ukraine’s domestic reforms, although the level of actual support has been modest. Poland and the Baltic states have expressed the strongest solidarity towards Ukraine, built on shared historical experiences and a shared interest to counter Russia’s meddling in other post-

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-Soviet states. Lithuania and Poland have been most forthcoming on the issue of providing lethal military assistance to Ukraine, a step that has been rejected by Germany and the Nordic countries as likely to escalate tensions further. Thus, the issue of military power has once again become divisive.

Regional fora, such as the Council of Baltic Sea States (CBSS), have experienced spill-over effects of the Ukraine crisis, such as the cancellation of the summit that had been scheduled for June 2014 in Finland. Geopolitical confrontation has negatively affected sectoral and technical cooperation, but there is still space and practical need for continued regional cooperation in areas such as the environment, health, or civil protection, where joint approaches are required to address shared challenges. Although curtailed due to EU sanctions and Russian counter-sanctions, economic ties—including trade and tourism—remain significant. People-to-people contacts have become particularly important as a way to distinguish between the regime and society in Russia and to cultivate ties to those parts of society that have remained more open to dialogue. However, civil society contacts have been hit by tightening repressive measures in Russia.

**Conclusion**

Perhaps paradoxically, the combination of increased security cooperation among the Baltic Sea states other than Russia and heightened concern about regional security does not lend more importance to regionalism. In the new environment, regional security around the Baltic Sea has limited relevance in its own right, and is instead submerged within a broader western-Russian agenda dominated by renewed tensions and a revived emphasis on conventional military security. The dramatic increase of Russia’s military activity in the Baltic Sea region should be seen as one symptom of the broader confrontation over the future of Europe’s security order. Likewise, increased security cooperation among countries in the region (again, excluding Russia) is both a participant and reflection of these broader trends. The solutions that are being sought by the Baltic Sea states to counter the increased insecurity aim to integrate Euro-Atlantic, regional and national elements. The success of such solutions accordingly hinges upon the broader question of how to rebuild the security architecture not just of Europe, but of the entire North Atlantic region.

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For some time, ensuring Nordic-Baltic energy connectivity has been a challenging task, given that Estonia, Latvia, Lithuania, and Finland have been isolated from the European energy system and market, and that the three Baltic states had been an integral part of the energy grid and market of the Soviet Union. The region’s continuing dependence on a single energy supplier and its inability to diversify energy resources has had a direct impact on its economic growth, development, and political climate-especially since energy has often been used as an instrument of political pressure.

This challenging task has become one of the main objectives of the European Union; the objective of integrating these ‘energy islands’ into a common energy system has been embedded in the Baltic Energy Market Interconnection Plan (BEMIP) as well as in the legislation of the integrating states.

The aim of this article is to assess the main obstacles that stand in the way of Nordic-Baltic energy connectivity and to provide an overview of the possible and completed energy projects in and around the Baltic Sea for connecting the ‘energy islands’ of Estonia, Latvia, Lithuania, and Finland to the EU energy system.

Strengthening interconnection capacities and expanding energy supply corridors both help to foster the independence of these countries, as energy resources are vital for economic development. Moreover, Nordic-Baltic energy connectivity positively affects and increases regional cooperation and contributes to the overall wealth, innovation, and competitiveness of the EU.

1.1 Electricity

One of the main priorities indicated in the BEMIP Action Plan is to synchronise the electricity grids of the three Baltic states with that of Continental Europe. Due to insufficient infrastructure and technical differences among electricity grids, the

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achievement of this goal will require significant financial investment as well as political involvement on the highest levels.

The path toward achieving this goal is complicated also because of the fact that the Baltic electricity systems are synchronised with those of Belarus and Russia, and operated on the basis of the BRELL (Belarus, Russia, Estonia, Latvia, and Lithuania) agreement. This continuing link constitutes an obstacle for progressing with other tasks such as improving congestion management, balancing and intra-day market functioning.

The September 2014 BEMIP Progress Report indicates that ‘there is currently no common understanding of net transmission capacity calculation and allocation methods between the Baltic TSOs, Belarus and Russia. Baltic TSOs signed agreements regarding capacity calculation and allocation on 15 March 2013.’

The report goes on to point out that negotiations with Russia and Belarus, based on the negotiating directive adopted by the Council of Ministers in February 2012, addressed all major issues with third countries. However, the issue of common reserves and balancing requires further discussions. Following the outcome of the study on interconnection possibilities that was completed in September 2013, the EURUBY negotiations were put on hold until the Baltic states finalise their assessment of the situation and agree on a way forward.

Moreover, the Baltic states generate electricity in different ways. The potential to use local oil shale significantly reduces the share of imported energy in meeting energy needs in Estonia—so much so that Estonia is the least dependent country in the European Union on imported energy supplies, with 11.9%. The majority of oil shale is consumed either to generate electricity or in the production of shale oil. At the same time, Estonia has managed to increase the share of renewables in electricity generation to 13% as of 2013.

Latvia, by contrast, gets the largest part of electricity from hydro power. The country has three hydroelectric power plants on the Daugava River: Keguma HES, Plavīnu HES, and Riga HES, which together produced 48% of domestic consumption in 2011. In total, 95% of electricity is generated by Latvian electricity suppliers, of which Latvenergo (with 89% of domestic production) is dominant.

Lithuania used to be a net electricity exporter, however, since the closure of the Ignalina NPP (mandated as part of its EU accession agreement) in 2009, Lithuania has been heavily dependent on electricity imports—making it been the most vulnerable of the three Baltic states to electricity supply disruptions. The main sources of imports are Estonia, Russia, Latvia, and the Nordic countries (since the opening of the Estlink 1 & 2 cables connecting Finland to Estonia). The present dependence on Russian electricity supply leaves much room for political manoeuvring and manipulations.

On the other hand the situation will soon be improved. For instance, the NordBalt
undersea transmission cable directly connecting Lithuania to Sweden and the Nordic electricity system) is being finalised: the project, which will have a capacity of 700 megawatts (MW) is 90% completed thus far and should be fully implemented by the end of 2015. Meanwhile, the LitPol Link connecting the Baltic states to Poland should also begin functioning by the end of this year as well, with an initial capacity of 500 megawatts (MW), rising to 1000 MW from 2020. As far as other Baltic states are concerned, Estonia has already connected with Finland via – EstLink 2, which was completed in December 2014 with an EU contribution of approximately €70 million.

A free market in electricity allows infrastructure to be used in the most efficient way, especially if the electricity exchange among the countries is competitive. As an example is Nord Pool Spot (NPS), which is active in nine countries: Norway, Sweden, Finland, Denmark, Lithuania, Latvia, Estonia, the UK, and Germany). As the world’s first deregulated power market, NPS has provided a blueprint for European electricity market integration. NPS is also a good example for how Nordic markets can integrate with those on the eastern and southern shores of the Baltic. Increased competition under NPS has made the electricity markets in each participating country more transparent and safer for states and their citizens alike.

While these interconnection projects significantly increase the independence of the Baltic states, the question of power generation and diversification remains important to ensuring energy security. One could argue that it is sufficient to have the possibility of importing/exporting electricity; however, there is always the dilemma of whether to invest in power generation (a potentially expensive proposition for smaller economies) or to rely instead on the import of energy resources.

There is good potential in the Baltic Sea region for the increased use of renewable energy sources in power generation; it is estimated that renewables could cover about 30% of the gross energy demand of the region (as opposed to 16% for the EU27); however, the cost and efficiency of renewables production will remain an important issue to consumers.

1.2 Nuclear energy: to be or not to be?

Another source of electricity that has been discussed in the region for a long time is the construction of nuclear power plants (NPPs). Lithuania has begun to study the possibility of constructing a new plant at Visaginas to replace the closed facility at nearby Ignalina, as all the needed facilities and know-how were in place. However, the Visaginas project provoked much public discussion, leading ultimately to a 2012 referendum in which a majority of voters declined to support the project.

Although no final decision has yet been made, the project is not moving forward at present. However, negotiations are continuing with Estonia, Latvia, and Poland, the potential partner states. The project would be

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4 As cited on the website of Lithuania’s electricity transmission system operator LitGrid, www.litgrid.eu.

implemented and partly owned by the Japanese company Hitachi. Supporters of Visaginas present it as a project of regional importance that could ensure electricity supply and energy diversification for the entire region and that could also contribute to balancing electricity generation, given the stability of nuclear power as a source that does not depend on seasons or other environmental conditions.

Poland has also declared its intentions to construct two nuclear power plants. In February 2012, the supervisory board of the Polish Energy Group (PGE in its Polish-language abbreviation) approved the construction of two nuclear power plants 2035 as part of a strategy plan for the period from 2012 to 2035. PGE plans to install around 3000 MW of nuclear capacity. Three potential sites are under consideration: Choczewo, Gąski and Żarnowiec. 6

Finland has already four reactors, with a fifth under construction and two more planned for the future. One of the two, the proposed plant at Pyhäjoki plant, is to be built in cooperation with Russia’s Rosatom. This project has already provoked active debate among local citizens and neighbouring countries.

Russia had intended to construct a NPP in Kaliningrad; however, immediately after the failed Visaginas referendum, it announced an end to those. Despite its hopes to sell electricity to Europe, Russia faced many obstacles in securing preliminary electricity supply contracts to Europe. Moreover, the necessary efforts to disconnect from the BRELL system would have caused technical difficulties for such exports, requiring additional investments.

Another NPP project being developed in the region is that of Belarus in Astravets, located on the border with Lithuania and in close proximity to Poland.

Russia’s intentions to construct NPPs on the EU border make it possible to draw the assumption that it aims to retain access to the European market so as to have control of the energy market and also maintain leverage on political, security, environmental, and economic issues through strategic electricity generation facilities.

2.1 Natural gas

The Baltic states used to be highly dependent on the Russian gas supply. Until recently, they imported natural gas only from Russia, as the gas supply infrastructure inherited from the Soviet Union did not provide any other options. This monopoly situation made Baltic States extremely vulnerable and allowed the single gas supplier to dictate purchase conditions and requirements—not only in economic but also in political terms. For instance, Lithuania paid the highest price in Europe for Russian gas, although transportation costs are clearly lower than to Germany. Consequently, Lithuania brought a case against Gazprom to the Arbitration Institute of the Stockholm Chamber of Commerce; initiated unbundling procedures; and constructed an LNG terminal in Klaipeda. These actions resulted in Gazprom’s decision to change pricing policies toward Lithuania.

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Despite their highly dependent status on Russia, there are several aspects that allow the Baltic States to benefit from their unfavourable geographical position. First is the large gas storage facility Incukalns UGS, with a maximum capacity of 4.47 bcm (2.32 bcm of active gas) that is located in Latvia. During the peak season, Russian gas is supplied from Incukalns to the Baltic states and to northwestern Russia.

Another important factor is the Kaliningrad region, which is supplied via Lithuania; accordingly, Russia cannot easily terminate gas supply to Lithuania without cutting off the exclave. Previously, Russia had tried to connect Kaliningrad directly to the mainland via North Stream, however, the building of a branch pipeline did not look commercially attractive to other partners. The idea of building an LNG terminal in Kaliningrad has also been raised; a feasibility study has already been completed, and according to official declarations, the project will be implemented by 2017.

The monopoly on natural gas supply acted as a catalyst for additional interconnection and supply diversification projects, with the firm and constant support from the EU. As Jean-Claude Juncker declared last year before taking over the chair of the European Commission, 'If the price for energy from the East becomes too expensive, either in commercial or in political terms, Europe should be able to switch very swiftly to other supply channels. We need to be able to reverse energy flows when necessary.'

One of the important gas lines is the Gas Interconnection Poland-Lithuania (GIPL), which is aimed at diversifying gas supplies, increasing security of supply, and integrating the Baltic states’ gas markets into a single European market. GIPL is being implemented in cooperation with the Polish gas transmission system operator Gaz-System.

The prospective 700-mm diameter gas transmission pipeline will connect the Rembelszczyn and Jauniūnai gas compressor stations in Poland and Lithuania respectively. Its estimated cost is €558 million, of which €422 million covers the section in Poland and €136 million the portion on Lithuanian territory. Partly supported by EU energy infrastructure financing programs, GIPL is scheduled to begin operation in 2020. However, at this stage financing from the Polish side has yet to be fully confirmed. Since Poland wants to be seen as a vital ‘energy bridge’, it should therefore allocate funds for the completion and further development of this vitally needed natural gas interconnection.

Balticconnector is another single-pipeline project of a single pipeline linking Inkoo (Finland) to Estonia, with a capacity of 2.4 bcm per year. Balticconnector would secure gas provision in case of disruption of gas supply from Russia. It would also support

Finland in the diversification of the supply sources, both by connecting it to Incukalns and by enabling it to gain access to the European gas network. As of today, two alternative Estonian destinations for the pipeline have been identified: Paldiski and Muuga.

Other intra-Baltic connections include:

- Latvia-Estonia pipeline: upgrades are underway to increase its capacity from the current 7 million cubic metres per day (mcm/d) to 10 mcm/d and to add a reverse flow compressor; the estimated completion date for these improvements is 2016;

- Estonia (Narva)-Russia Pipeline: while its current capacity is only 0.5 mcm/d, by 2022 this should be increased to 7.5 mcm/d (bidirectional).

- Latvia-Lithuania Pipeline: although its current bidirectional capacity is 5 mcm/d, two upgrades are possible: one would increase the daily capacity to 6 mcm/d by 2018, while the other le the other one would bring it to 12 mcm/d by 2020.10

2.3 LNG

LNG terminals can contribute significantly to the strengthening of energy security and diversification. One of the first LNG terminals built in the region is the floating facility at Klaipėda, Lithuania, which has a nominal capacity of 4 bcm per year11 and can serve as an additional regional gas supply infrastructure to the region (see figure below12).

Its capacity is sufficient to satisfy the entire natural gas demand of Lithuania and most of the demand of Latvia and Estonia in the event of a sudden gas supply interruption from the East. The Lithuanian gas trading company Litgas has signed agreements allowing it to sell gas from Lithuania to the other Baltic states.13

Additional LNG terminals in the region are planned for Finland, while discussions are taking place regarding potential terminals in Estonia and Latvia. Despite widespread speculation, to date no material agreement has been reached on building a large-scale terminal in any of these countries.

11 Klaipeda LNG, presentation material presented by the former general manager Rokas Masiulis www.sgd.lt,.
12 Ibid.
However, several small scale terminals will start functioning in Finland by 2018. Meanwhile, Polish LNG terminal in Świnoujście should soon begin operation after extensive delays caused by disagreements between the government and the general contractor responsible for the terminal’s construction.\(^{14}\)

### 3. Oil

Although oil is not usually a key focus of the EU’s energy policy, it still represents more than a third of Europe’s energy mix\(^{15}\). The liquidity of the global oil market and its different infrastructure requirements do not raise the same concerns as for gas; the fundamental dependence of the transport sector on oil is not addressed in the EU’s energy security policy. Nevertheless it is important to review developments in the oil supply sector, given that certain cases show a close relationship between oil supply dynamics and the political climate.

Just like the gas and electricity sectors, the oil sector has experienced pressure from Russia. The three Baltic states have repeatedly experienced oil supply cutoffs during or after political or economic disagreements with Russia. For instance, oil exports were interrupted when Latvia refused to sell the Daugavpils river port oil facilities in 2003 and when Lithuania sold its Mažeikių Nafta oil refinery to a Polish and not Russian company in 2006. Oil sanctions served as an instrument of political pressure against Estonia after that country moved a Soviet-era war memorial away from the centre of Tallinn in the so-called Bronze Soldier events of 2007.

Oil is supplied and exported through the following terminals: Muuga, Paldiski South, and Paljassaare Harbour (Estonia); Liepaja and Ventspils (Latvia); Butinge and Klaipėda (Lithuania).\(^{16}\)

### 4.1 Liberalisation of the EU energy market

The first two packages of EU legislation aimed at liberalising the energy market were introduced in 1996 and 2009, with the Third Energy Package (3EP) – devoted to ownership unbundling – coming in 2011. The 3EP provided for the separation of energy production from energy transportation infrastructure, as a consequence of which suppliers are no longer able to monopolise the transportation and distribution of their energy resources.

Lithuania and Estonia implemented unbundling legislation in the natural gas and electricity sectors before the 2014 deadline. While Latvia has yet to complete implementation in the natural gas sector, it is expected to do so by 2017. Nonetheless, this delay represents a problem, as the lack of competitive access to the Incukalns storage facility effectively shuts down the free circulation of LNG in the region.

The Third Energy Package is considered by Russia to be discriminatory and highly

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15 Jacques Delors Institute, From the European energy, Community to the Energy Union A Policy Proposal for the Short and the Long Term, 2015, p. 29.

16 Jacques Delors Institute, The Baltic States in the EU: Yesterday, Today, and Tomorrow, July 2013, p. 70.
adverse to its interests; accordingly, Russia brought a complaint to the WTO, charging that ‘[...]elements of the Third Energy Package, in the opinion of Russia, contradict the obligations of the EU in WTO on basic principles of non-discrimination and market access[...]’ the Third Energy Package creates serious obstacles to ensure a stable supply of Russian gas to the EU.”

Of course, unbundling legislation can only be fully effective once there is a choice of suppliers. It can be assumed that after connecting the electricity grids to their EU neighbours to the north and south; boosting LNG supply projects to the region; and developing alternative energy resources, the Baltic states will be able to benefit from the Third Energy Package. It is already evident that LNG infrastructure has contributed to the objectives of the 3EP by creating alternative supply sources and increasing market competition.

5. Concluding remarks

One of the first statements of the European Commission statement launching the Energy Union initiative declares that ‘Our vision is of an integrated continent-wide energy system where energy flows freely across borders, based on competition and the best possible use of resources, and with effective regulation of energy markets at EU level where necessary.’ However, for this stated objective to be achieved in the Baltic, much effort is still required. To date, many steps have been taken to improve infrastructure and allow energy to flow more freely; however, the region still can be labelled as an energy island to some extent, as some energy sectors experience obstacles caused by political manoeuvring and infrastructure limitations.

The gas market is still remarkably bound to the single supplier. While the construction of an LNG terminal in Lithuania diversified gas supplies to an extent, the delayed liberalisation of the Latvian gas market prevents the full use of the terminal for regional purposes. While the GIPL project is scheduled for completion by 2020, past experience shows that such large-scale projects experience considerable delays without high interest from all stakeholders. As long as this project is not implemented, there will not be any direct connectivity between the northern and southern European gas markets.

Ideally, the Baltic gas market would become one market with one common regulator. While the infrastructure exists to make this idea worth considering, it is still not currently possible in practice due to the foreign and domestic policy interests of each state. While a single market space would bring more competition and provide a stronger negotiating position, in the absence of specific EU legislation national interests are simply too strong. Nonetheless, some tangible steps forward in this sphere can be cited, such as the creation of the Lithuanian natural gas trading platform GET Baltic, which aims to become the main natural gas trading platform in the Baltics.


The electricity sector has been quite widely developed and now features both good intra-Baltic connections as well as interconnections to the north and south. However, in some parts the infrastructure is old and needs to be upgraded, given that grid capacities are not always efficient. Another obstacle – or rather, challenge – is that the Baltic electricity system is synchronised with that of the former Soviet Union via BRELL. The Russian side obviously is interested in delaying desynchronization given that it would have a direct impact on the Kaliningrad region and the overall balancing of the BRELL system. However, with the launch of LitPol Link and NordBalt by the end of this year, electricity circulation will affected regardless.

As with the other sectors, ensuring oil supply is not a simple task. The main Druzhba (‘friendship’) pipeline has been under construction for many years, putting Mažeikių Nafta in an economically difficult situation. As a result, the Polish company Orlen-the owner of Mažeikių nafta-has experienced huge losses. Meanwhile, in Latvia a considerable decrease of oil exports through its ports has been observed, as Russia has diverted its exports through Primorsk. Estonia has also seen less oil transit through its rail network, especially at times of increased political tension such as the period following the 2007 Bronze Soldier events.

In conclusion, despite its progress in infrastructure and in technical areas, the Baltic region remains vulnerable due to its geographical and geopolitical situation. There is plenty of evidence to support the point that problems in the region’s energy sector often appear as a result of political pressure. Decisions take place not on economic grounds but because of the political and emotional environment. However, energy infrastructure projects, development of renewable energy, strong EU legislative support, and strengthening of regional cooperation can turn these shortcomings into advantages, and the Baltic states could well be positioned in the future as a competitive energy hub.

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Head of an independent think tank Centre for Geopolitical Studies since its establishment in 2005. She holds an MA degree in Conflicts and Sustainable Peace Studies. Main scientific interests include – energy security, international relations, analysis of the balance of power in global politics. She is an initiator, organizer and participant of a number of international conferences, forums, public initiatives and publications.
The article examines the evolution of Russia’s posture on Information Warfare (IW) and its practical application in the Baltic states. The analysis begins by reviewing the Soviet experience with political concepts such as propaganda and agitation (пропаганда и агитация, in Russian), as well as military concepts like active measures (активные мероприятия”), strategic deception (стратегическая маскировка,) and reflexive control (рефлексивный контроль). Special attention is given to the institutional arrangements, networks, and political-military practices that helped to create the mystique of a Communist utopia and shape the images of Soviet enemies. It then continues by looking into how this practice of creating a ‘fake façade’ of Soviet reality was borrowed by the Kremlin under President Vladimir Putin and put into effect in Russia’s neighbourhood: first in the Baltic states and now, most vividly, in Ukraine.

The second principal part of this research outlines the experience of the Baltic states with the influence strategies of the contemporary Kremlin by looking into the deliberate penetration and free-riding of their media environment by Kremlin media assets as well as at Russia’s sophisticated truth-bending campaign, which uses pseudo-documentaries, films, and books. The preferences of the Lithuanian audience are analysed with the help of a recent public opinion survey. After illustrating how the

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1 Public opinion survey (CATI method) was ordered by VIASAT and carried out by “Spinter Research” in May 2014. The data analysis was done by the author and by Dr. Mažvydas Jastramskis (Institute of International Relations and Political Science, Vilnius University).

Kremlin gradually weaponised its media and information policies within its neighbourhood, in its final part this article focuses on potential response strategies by the Baltic states in countering this aggressive information offensive. Special attention is given to the issue of Russian TV broadcast restrictions in Lithuania, as well as counter-strategy considerations in the other two Baltic states. The article concludes with recommendations for coordinating a wider European response to the Kremlin’s abuse of media and information channels for its geopolitical interests.

The legacy of building a ‘fake façade’ of Soviet reality

For years scholars examined Kremlin’s influence strategies in its neighbourhood through the magnifying glass of Western concepts such as soft power or information warfare⁴. This is a somewhat misleading approach, however, because it fails to assess the importance of the Soviet experience and the legacy of concepts and strategies that are quite unique to the history and practice of Soviet/Russian geopolitical power and political leadership in the region. During a meeting with Russia’s ambassadors in 2012, Vladimir Putin concluded with regret that ‘as far as using new methods goes, soft power methods, for example, there is still much to reflect on.’⁴ Accordingly, it is quite evident that the concept of soft power remains somewhat alien to the Kremlin, especially in the face of aggression in Ukraine. This should come as no surprise, because Joseph Nye originally introduced the concept of soft power back in the 1990s as an American political invention.⁵ The same could be said about the concept of information warfare, which was originally coined by US military strategist Martin Libicki in his book What Is Information Warfare, which primarily concentrated on the American strategic military edge⁶. Contemporary Russian influence strategies in the neighbourhood resemble Soviet-era practices more than Western ones.

In order for the Baltic states to be effective in counter-strategy, it is important conceptually to understand the nature of the challenge for the region. For influence and power plays, the Kremlin borrows a lot from the Soviet past. During the Cold War years, such policy was not defined in Nye’s terms; instead, it had other names in the political realm: ideological struggle (идеологическая борьба) or propaganda and agitation (пропаганда и агитация). Soviet party documents stressed that an ‘ideological struggle for the hearts and minds of billions of people around the planet is taking place […] and the future of mankind depends on the outcome of this ideological struggle.’⁷ Those concepts were used to depict an attractive Soviet utopia for both the domestic and international audience. This fake ideological façade was later used for very practical political purposes: e.g. in provoking ‘permanent revolution’ abroad, or selling Stalin’s idea of ‘socialism in one country.’ When analysing the Soviet concept of propaganda and agitation in

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⁵ Martin C. Libicki, What is Information Warfare (NDU publ., 1995).
his 1964 comprehensive study, Frederick Barghoorn was struck by the similarities between Communist propaganda and the religious propaganda of the Catholic Church: a few intelligent and dedicated individuals could be converted to 'correct' Marxist-Leninist ideology and could later carry out agitation work among the masses. In the Soviet Union, Communist ideology became a substitute for religion. Barghoorn concludes that this process of ideological conversion through propaganda was especially important for the Soviet Union because it produced revolutionaries that were determined to change their respective social and political environments to create a Soviet-style utopia.

This almost religious belief in a Soviet utopia was vital for practical political purposes: internally this helped organise the political life of Soviet society, while externally it served to find 'useful idiots' to carry on the existential ideological struggle with the West. It is striking how successful the Soviet Union was at the art of propaganda. It managed to create a fake reality in which science was replaced by Marxist-Leninist ideology; education by indoctrination through the discipline of the Pioneer and Komsomol youth organizations; and journalism by propaganda in state newspapers with Orwellian titles such as The Truth (Правда).

The same can be said about the way external Soviet political ideological front group networks were organized. Networks of Communist parties and movements around the world were also given Orwellian titles including words such as 'friendship,' 'peace,' or 'culture.' These front groups were key participants in the global ideological struggle (идеологическая борьба) with the West. The first group was the Comintern (Communist International), founded in 1919 and later succeeded by Cominform (the Communist Information Bureau, which existed until 1956. However, the best illustration of the Soviet political network model is the Union of Soviet Societies for Friendship and Cultural Relations with Foreign Countries (SSOD), an umbrella group of international Communist organisations and popular front movements created in 1958 as a successor to the All-Soviet Society for Cultural Relations with Foreign Countries (VOKS). Overall, such networks of 'peace' and 'friendship' organizations concentrated on specific topics that changed over time: during the early years the key theme was 'the unity of the international proletariat and the spread of socialism'; in the period immediately before and after the Second World War, the topic shifted to the fight against 'fascists and warmongers'; later, it was replaced by the Soviet struggle against 'colonialism and discrimination' and toward 'peace, democracy and socialism.'

This entire ideological struggle against the capitalist bloc was orchestrated by experienced specialists from the International Section of the Central Committee of the Soviet Communist Party.

The anti-Western slogans of contemporary Kremlin’s propaganda resemble much of this Soviet experience. This should come as no surprise, because — as Barghoorn

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8 Barghoorn, 16.
10 Barghoorn, 29.
concluded – Soviet propaganda and agitation was marked by a special kind of semantic adaptability: the ‘proletariat and working class’ in later propaganda messages was turned into the ‘peace-loving people’ and still later into the simple catch-all of ‘the people.’ Such semantic adaptability can be seen today in Putin’s repurposing of WWII-era narratives about ‘fascists’ in the Baltic states or Ukraine.

In the military realm Soviet strategists practiced such concepts as active measures (активные мероприятия), strategic deception (стратегическая маскировка) and reflexive control (рефлексивный контроль). Fake reality was a tool for the Soviet military as well, which used these concepts in order to discredit, disorient, and deceive the opponent. The KGB was the master of active measures, which were defined as ‘covert or deceptive operations conducted in support of Soviet foreign policy. [...] The goal of active measures is to influence opinions or actions of individuals, governments, or publics. Deception is the essence of active measures.’ Strategic deception and reflexive control, meanwhile, were the domain of Soviet military institutions. The American analyst Timothy L. Thomas has rightly summarised the end game of all these concepts as follows:

- distraction, by creating a real or imaginary threat to one of the enemy’s most vital locations (flanks, rear, etc.) during the preparatory stages of combat operations, thereby forcing him to reconsider the wisdom of his decisions to operate along this or that axis;
- overload, by frequently sending the enemy a large amount of conflicting information;
- paralysis, by creating the perception of a specific threat to a vital interest or weak spot;
- exhaustion, by compelling the enemy to carry out useless operations, thereby entering combat with reduced resources;
- deception, by forcing the enemy to reallocate forces to a threatened region during the preparatory stages of combat operations;
- division, by convincing the enemy that he must operate in opposition to coalition interests;
- pacification, by leading the enemy to believe that pre-planned operational training is occurring rather than offensive preparations, thus reducing his vigilance;
- deterrence, by creating the perception of insurmountable superiority;
- provocation, by force him into taking action advantageous to your side;
- overload, by dispatching an excessively large number of messages to the enemy during the preparatory period;
- suggestion, by offering information that affects the enemy legally, morally, ideologically, or in other areas;
- pressure, by offering information that discredits the government in the eyes of its population.”

This comprehensive outline of Soviet measures of military deception bears striking resemblance to the recent Kremlin campaign against Ukraine in Crimea. Concealing the military’s identity; provoking

unrest; paralysing Ukrainian government and military institutions: these were the precise steps in Putin’s course of action.

**Contemporary Russian propaganda and the „new fake” of Putin’s political reality**

The Soviet experience demonstrates how important ideology is for the success of propaganda and agitation. While Communist ideology was the cornerstone for Soviet propaganda practices in the West, modern Russia specifically lacked such an ideological base until Putin (re) invented the ideas of the „Russian World” (Русский мир) and, later, a conservative agenda. While Moscow lost its global appeal based on communist ideology, it was still able to maintain its reach over the region in the post-Soviet environment.

The Kremlin has also heavily borrowed from the Soviet institutional experience: in 1994, during the Yeltsin administration, those enormous institutional capacities were mobilised around Roszarubeztsentr, which in essence became a successor to the Soviet SSOD and VOKS organisations. Under Putin Roszarubeztsentr was reorganised into Rossotrudnichestvo in 2008. Meanwhile, the Baltic states were the focus centre of another institution within the presidential administration, the Department for Interregional and Cultural Relations with Foreign Countries, which was established in 2005, when Vladimir Putin appointed Modest Kolorov as its first head. In 2007 yet another institutional reshuffle took place with the establishment of the Russian World Foundation, headed by Vyacheslav Nikonov. This foundation devotes its activities entirely to the practical implementation of the Russian World ideology.

On the other hand in the military realm strategists modified old Soviet concepts into new strategies: for example, in the Russian General Staff this resulted in the idea of nonlinear conflict – or, as many call it, hybrid warfare – in which the Soviet experience of military deception, distraction, and disinformation are central to this new way of winning future battles. In Gerasimov’s doctrine of nonlinear conflict, non-military tools of influence are even more important than traditional military means.

With the help of these contemporary propaganda toolboxes, the Kremlin started to shape a ‘new fake’ reality for the Baltic states and other neighbouring societies. The primary target group was and still is Russian-speakers in the region. Two main narratives focus around the exceptionalism of the Russian World and the traditionalism of conservative values – thereby presenting a clear dichotomy between Russia and the West, between ‘good’ and ‘evil.’ Additionally, several other sub-narratives constantly emerge: these include the artificial and revisionist character of the Baltic states (and other states that emerged after the collapse of the Soviet Union) and the storyline of the ‘golden age’ of Soviet rule.

Putin’s reaction to Euromaidan and his later aggression in Eastern Ukraine demonstrated

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15 Ibidem.

just how robust and intense this process of creating ‘new fake’ realities for political ends can be: suddenly, Russian state television stations stopped bothering to use fake witnesses or professional actors to tell invented stories on prime-time news and talk shows; they simply ‘reported’ stories such as the alleged crucifixion of a child by the Ukrainian military. This culminated with the Crimean campaign, during which Russian military spin doctors supported the strategy of using unidentified soldiers on the ground from the beginning, and continued to back this campaign of fake reality in the Donbas region: e.g. in ‘explaining’ the shooting down of Malaysia Airlines Flight 17 and the supplying of separatists via so-called ‘humanitarian convoys.’ This strategy of using deception, distraction, and disinformation in order to create a new kind of virtual reality, perfectly suited to Putin’s political ends, is best illustrated in a new study by Peter Pomerantsev.

From a Baltic perspective, this Kremlin propaganda offensive in the region is the result of a long-term approach: for more than a decade, Russia concentrated on bringing its media outlets into the European media environment in order to be able to reach neighbouring populations with the above-mentioned narratives. In an analogy with geopolitics of energy, such an approach could be called ‘geopolitics of information,’ in which the European media environment is abused (and information tools used for geopolitical ends), in much the same way as Gazprom increased its dominance in the European energy market and became a source of political leverage for Putin’s foreign policy goals. What was central to the Gazprom strategy was the establishment of murky energy subsidiaries in the Baltic states and in other European countries. Later, those subsidiaries were used to put pressure on the respective governments during energy negotiations with Russia – and in some cases, to influence domestic political landscapes financially during elections.

The same could be said about Putin’s geopolitics of information, in which the Kremlin has sought to establish state media subsidiaries in European countries: e.g. the First Baltic Channel (PBK) was licensed in Latvia; five other channels (NTV Mir Baltic, NTV Mir Lithuania, REN TV Baltic, REN TV Lithuania, and PBMK – Music TV) in Great Britain; and RTR Rossiya in Sweden. With the help of such ‘media-offshoring’ of Russian state TV channels, the Kremlin gained a significant competitive edge in reaching its target audiences in the Baltic states.

The geopolitics of information approach has become a sophisticated truth-bending campaign with the use of the above-mentioned TV channels as well as other media outlets. This campaign focuses mainly on the topic of history – from distant periods to the more recent past – to present a new virtual reality for the Baltics. This can be illustrated by the following list of ‘pseudo-documentaries’ and books:

17 Peter Pomerantsev, Nothing Is True and Everything Is Possible: The Surreal Heart of the New Russia. (PublicAffairs, 2015, 241 pp.)
### Table 1 List of propaganda examples

<table>
<thead>
<tr>
<th>Year</th>
<th>Media</th>
<th>Title</th>
<th>Narrative/plot</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>Internet</td>
<td>‘Фашистские настроения в Латвии, Эстонии и Литве’ (&lt;i&gt;Fascist Sentiment in Latvia, Estonia and Lithuania&lt;/i&gt;)</td>
<td>Rise of neo-fascism in the Baltic States.</td>
</tr>
<tr>
<td>2004</td>
<td>Book</td>
<td>‘Прибалтика между Сталиным и Гитлером’ (&lt;i&gt;The Baltics between Stalin and Hitler&lt;/i&gt;)</td>
<td>Justification of the Molotov-Ribbentrop pact.</td>
</tr>
<tr>
<td>2005</td>
<td>Documentary</td>
<td>‘Нацизм по-Прибалтийски’ (&lt;i&gt;Nazism, Baltic Style&lt;/i&gt;)</td>
<td>Collaboration of the Baltic states with Hitler during the Second World War.</td>
</tr>
<tr>
<td>2005</td>
<td>Internet caricature contest</td>
<td>‘Смерть фашистским оккупантам!’ (&lt;i&gt;Death to the Fascist Invaders!&lt;/i&gt;)</td>
<td>Art competition for best caricature on the topic of neo-fascism.</td>
</tr>
<tr>
<td>2006</td>
<td>Collection of documents</td>
<td>Преступления нацистов и их пособников в Прибалтике (Эстония) 1941–1944 (&lt;i&gt;Crimes of the Nazis and Their Collaborators in the Baltic States (Estonia) 1941-1944&lt;/i&gt;)</td>
<td>Collaboration of the Baltic states with Hitler during the Second World War.</td>
</tr>
<tr>
<td>2006</td>
<td>Collection of documents</td>
<td>’Латвия под игом нацизма’ (&lt;i&gt;Latvia Under the Yoke of Nazism&lt;/i&gt;)</td>
<td>Collaboration of the Baltic states with Hitler during the Second World War.</td>
</tr>
<tr>
<td>2007</td>
<td>Collection of documents (in English)</td>
<td>’Латвия под игом нацизма’ (&lt;i&gt;Latvia Under the Yoke of Nazism&lt;/i&gt;)</td>
<td>Collaboration of the Baltic states with Hitler during the Second World War.</td>
</tr>
<tr>
<td>2007</td>
<td>Collection of documents (in English)</td>
<td>„The Tragedy of Lithuania: 1941–1944“</td>
<td>Collaboration of the Baltic states with Hitler during the Second World War.</td>
</tr>
<tr>
<td>2007</td>
<td>Collection of documents</td>
<td>Преступления нацистов и их пособников в Прибалтике (Латвия) 1941–1945 (&lt;i&gt;Crimes of the Nazis and Their Collaborators in the Baltic States (Latvia) 1941-1945&lt;/i&gt;)</td>
<td>Collaboration of the Baltic states with Hitler during the Second World War.</td>
</tr>
<tr>
<td>2007</td>
<td>Book</td>
<td>‘Прибалтийский фашизм’ (&lt;i&gt;Baltic Fascism&lt;/i&gt;)</td>
<td>Collaboration of the Baltic states with Hitler during the Second World War.</td>
</tr>
</tbody>
</table>

Source: the author
These are just a few examples of how Russian propaganda narratives shape a new virtual reality and history. Usually such campaigns are organised before or during key national holidays or during electoral cycles. They paint a picture of the Baltic states as revisionist countries with aggressive nationalist values, fascist pasts, and neo-fascist presents. By contrast, of course, the Soviet period is presented as a glorious and nostalgic ‘Golden Age.’

Baltic experience of battling the “new fake” of Putin’s propaganda

When Russia started its campaign of aggression in Ukraine, a group of young professionals and activists took up the challenge of countering Putin’s information offensive and debunking fake stories and narratives by launching the internet project StopFake.org in March 2014.22 In the Baltic states, the idea of countering Russia’s geopolitics of information campaign and the Kremlin’s propaganda narratives is not a new one; these techniques have for years been the focus of Baltic counter-strategies.

The feeling of being duped by fake reality and history on Russian TV channels is present not just among Baltic leaders and experts, but within society more generally: in 2014, Lithuanians were surveyed about their trust in the news and information presented on three major Russian TV channels in Lithuania – PBK, RTR and NTV; the largest group (one-fourth of respondents) stated that they completely distrust Russian news, backed by an additional 13.9% who somewhat distrust it; these figures can be compared with the only 1.6% who expressed complete trust and 4.9% who said they somewhat trust the news sources (see Chart 1).

Chart 1. Do you trust the TV news and information broadcasts of PBK, RTR and NTV? (%)

[Chart 1]

Russian propaganda pressure accordingly resulted in counter-pressure from the Baltic states, which began to implement some counter measures. In August of 2011 a think tank specializing in investigative journalism called Re: Baltica – which can be considered a prototype of StopFake.org – was established. The think tank has produced some excellent investigative reports about Russian propaganda and its organisation in the Baltic: e.g. several investigations were conducted under the ‘Money from Russia’ initiative.23 In 2014 NATO decided to establish a Strategic Communications Centre of Excellence (StratComCOE) in Riga, thus strengthening organisational communications capabilities in the heart of the

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23 For more see NATO Strategic Communications Centre of Excellence available at: http://www.stratcomcoe.org/ [accessed: 2015-07-06]
Baltic. Apart from Latvia, StratComCOE has six other sponsoring nations: Germany, Estonia, Italy, Lithuania, Poland, and the United Kingdom. The centre is quite active in researching Russian propaganda capabilities, releasing for example a 2014 ‘Analysis of Russia’s Information Campaign against Ukraine.’ 24

Estonia, for its part, has pioneered another important counter-propaganda tool: the Annual Reviews of its Internal Security Service (KaPo), published beginning in 1998. In these reviews, KaPo devotes significant attention to publicising Russian influence operations, describing in detail the institutions and individuals involved. 25 From 2012, Lithuania’s State Security Department and Military Intelligence Service began to produce similar annual reports. Additionally, Estonia holds annual discussions among key media, military, and political decision-makers under its Psychological Defence initiative—and at these meetings, the Russian information offensive in the region is a central topic during those meetings26.

One of the spheres of counter-strategy in which Lithuania has taken the lead in the Baltic became the use of administrative-legal action against the disinformation, hate speech, and war propaganda that became frequent on Russian-controlled television stations. While the aggressiveness of Russian propaganda intensified during Putin’s campaign in Ukraine, it was not uncommon during previous years as well: e.g. in 2004, PBK broadcast a documentary called ‘Secrets of the Century: The Verdict for Europe,’ which questioned the consequences of the Ribbentrop-Molotov Pact for Lithuania and its independence27. At that time the Lithuanian Radio and Television Commission faced difficulties in taking any action, since PBK was licenced in Latvia and thus fell under Latvian jurisdiction.

According to the aforementioned Lithuanian public opinion survey, a clear correlation was evident between support of Putin’s policy in Ukraine and the frequency of watching Russian TV channels.

**Chart 2. Support of Russian policy in Ukraine and Russian TV watching (%)**

![Chart 2](chart2.png)

Source: See Chart 1
As this chart clearly demonstrates, those who are heavy viewers of the Russian television support Russia's policy in Ukraine – and vice versa. The biggest challenge is the radicalising effect that hate speech and disinformation about Ukraine has on those heavy viewers, not just in Lithuania but in the Baltic states in general. Recently the Lithuanian Radio and Television Commission took a more active approach towards hate speech and disinformation on Russian TV: e.g. there were five cases when administrative measures were taken, resulting in temporary (three-month) broadcast restrictions on the channels concerned (by comparison, in Latvia there was one instance in which Rossiya RTR was temporarily banned, while Estonia has declined to take any such action).

One of the first instances was a case against PBK, when in 2013 it broadcast yet another documentary, 'The Man and The Law,' about the events of January 1991 in Vilnius. By muddling the facts, it put forward a conspiracy theory arguing that it was Lithuanian activists, not Soviet soldiers, who started shooting at the crowd. In 2014 the Office of the Inspector of Journalist Ethics concluded that in two other instances – an edition of 'Вести Недели' (Weekly News, shown on RTR Plana) and the documentary 'The Damned Trap for the Alpha Group' (shown on NTV Mir) – there was a breach of Article 19 (1)(3) of the Law on the Provision of Information to the Public, 'which provides for an unconditional prohition to publish information which instigates war or hatred, ridicule, humiliation, instigates discrimination, violence, physical violent treatment of a group of people or a person belonging thereto on grounds of age, sex, sexual orientation, ethnic origin, race, nationality, citizenship, language, origin, social status, belief, convictions, views, or religion' as well as Article 19 (2) of the same law, which prohibits disseminating 'disinformation.' The Lithuanian Radio and Television Commission reacted again and imposed broadcast restrictions on TV programs of Russian origin in the above-mentioned channels. In 2015 there was one other case when Lithuanian Radio and Television Commission imposed administrative restrictions, when REN TV Baltic breached the same law. However, the most recent case – a complete ban on RTR Plana – is quite unique, because Lithuania cited norms established by the EU’s Audiovisual Media Services (AVMS) directive. Article 6 of the Directive specifically states: ‘Member States shall ensure by appropriate means that audiovisual media services provided by media service providers under their jurisdiction do not contain any incitement to hatred based on race, sex, religion or nationality.’ In this way Lithuania challenged the Kremlin’s media offshoring strategy and free-riding on

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24 For more see KaPo’s section „Annual Reviews” available at: https://www.kapo.ee/eng/annual-reviews.html [accessed: 2015-07-06]
29 See Meduza. available at: https://meduza.io/ [accessed: 2015-07-06]
pan-European media regulation (RTR Planeta declares that it is licenced in Sweden) and set a precedent for other EU member countries.

**Recommendations for a wider European response to the Kremlin's information offensive**

As outlined in the preceding section, the Kremlin’s information offensive and propaganda pressure in the Baltic states produced counter-pressure effects as well. Each of the Baltic states concentrated on some specific aspects of counter-strategy. Latvia produced excellent investigative journalism initiatives – such as Re: Baltica – so it should come as no surprise that Russian journalists facing professional problems at home decided to choose Latvia as the host of their own investigative journalism initiative, called Meduza

Estonia’s KaPo started the practice of public Yearly Reviews, which was later adopted by Lithuanian security institutions. Additionally, Estonians demonstrated the benefits of high level discussions on Russian propaganda amongst policy makers and journalists. Finally, Lithuania demonstrated that it possible to challenge Russian geopolitics of information in Europe and demand that Russian TV channels observe European media regulations instead of free-riding on them.

Overall, Russian aggression in Ukraine revealed the lack of a more coordinated approach towards counter-strategy. For years, the Baltic states have challenged Putin’s information offensive in separate ways. It is clear that those lessons learned should be shared among European partners. In 2015 Lithuania together with Estonia, Denmark, and UK circulated a non-paper on coordinated European approach towards countering Russian propaganda. The parties invited the European Union take resolute action to increase public resilience in the EU and the Eastern Partners to any propaganda – whether it serves the interest of the Russian government or of radical and extremist groups. The document builds its argument on 4 As:

**Awareness.** Raise the dangers of propaganda and the importance of proper response to it. Propaganda aims at hindering the EU and Western unity and lessening public support to EU policies and actions – apprehension of the damage and urgency is needed to take necessary steps and take them together.

**Assertiveness.** Tell truth, facts and deconstruct propaganda proactively. We should actively spread the European narrative as well as our national narratives– explaining our policies and actions. Actively deconstruct propaganda, disclosing sources, narratives and methods. This will increase critical perception of our populations and make information manipulations less effective. Important to note, that this capacity is critical repelling manipulations by radical extremists groups as well.

**Alternatives.** Provide credible and competitive information alternatives to Russian speaking populations and those using Russia’s state-controlled media.

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32 Article by Jonathan Swift, (The Examiner, Number 15), p. 2, col 1
**Accountability.** Media monitoring institutions should pay greater attention to violations of laws on broadcasting and public information – taking into consideration criteria as objective reporting, transparency of interests, incitement of hatred or propagation of violence and war.31

It is quite clear that Europe should not engage in Putin’s game. Rather than trying to battle propaganda with counter-propaganda, instead European Union should practice its tools of strategic communication, debunking fake elements of Putin’s propaganda narrative while evoking European media regulation where and when it is breached by Russian media outlets. At the same time it is very important to research and understand the conceptual roots of Russian information – offensive strategies in order not to be misled by erroneously interpreting Russian policies through the lens of Western concepts such as soft power. In facing Putin’s propaganda challenge, the European Union needs a common understanding, a common language, and a common set of integrated solutions to counter this ‘new fake’ reality of the contemporary Kremlin in just the same way as the West stood up to challenge the ‘old fake’ of Soviet propaganda during the Cold War period.

**Dr NERIJUS MALIUKIENIČIUS**

Rising Challenges: Cybersecurity in the Baltic Sea Region

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Introduction

Since the end of the Cold War, the Baltic Sea region has been one of the most prosperous and stable in the world, with its countries of the region cooperating closely on numerous cross-border issues. However, these regional dynamics have been interrupted by Russia’s annexation of Crimea and aggression elsewhere in Ukraine in 2014, with frontline states increasingly concerned about both regional stability and their own national security – including in the cyber domain.

A wide variety of actors and sectors in the Baltic Sea Region have a stake in cyber security. This is exemplified by waves of denial-of-service (DoS) attacks that overwhelmed government, media and banking websites in Estonia in 2007, industrial spying via spear-phishing attacks against the Norwegian oil and gas sector in 2011, military espionage by a foreign government against Danish leading defence corporations since 2012, targeted infiltration of the Finnish Foreign Ministry’s electronic communication networks in 2013, and cyber attacks against a Polish aircraft carrier in 2015.

In this article we scrutinise the present state and future potential of cyber security cooperation in the Baltic Sea region. Mature cyber security cooperation has emerged among the eight Nordic-Baltic countries (NB8), a group that includes the five Nordic countries (Finland, Sweden, Norway, Denmark, and Iceland—hereafter N5) and the three Baltic states (Estonia, Latvia, and Lithuania, or 3B). This chapter first briefly describes the emerging state of cyber cooperation at the strategic and technical levels, while the main bulk of the chapter suggests areas and issues for future cooperation in a field that will continue to be...

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1 For a detailed look into this well-known case, see chapter on the Estonian cyber attacks in Jason Healey (ed.), A Fierce Domain: Conflict in Cyber-space, 1986-2012 (Cyber Conflict Studies Association, 2013).
5 „Hackers Target Polish Airline LOT, Ground 1,400 Passengers“, Security Week, June 22, 2015.
a challenge both regionally and globally. We argue that despite strong existing cooperation, there remains fertile ground for deepening NB8 cooperation on the operational and technical levels, as well as for expanding it to Poland and Germany.

**Overview of NB8 cyber security cooperation**

The motivation for greater defence cooperation among the Nordic countries have been enhancing effectiveness and competence, saving on costs, as well as educating and training personnel – especially in the exercise of high quality capabilities. Historically and culturally very close, the Nordic countries—which comprise the world’s leading region in the area of digital development—have traditionally not been eager to include less wealthy neighbours with different cultural and social values in NORDEF- CO projects. Moreover, there has been a gap between the ambitions of the NB8 security and defence cooperation expressed in the lofty rhetoric of government statements and concrete actions at the working level that fail to match such words. Factors that have encumbered greater advancement of the overall NB8 security and defence cooperation have been explored in detail elsewhere. One major limitation hampering N5 cooperation is differences in alliance membership: not only are Sweden and Finland not NATO members, but Norway is outside the EU, while Denmark has chosen to exercise its opt-out from the EU’s common security and defence policies; naturally, for NATO members cooperation with the alliance naturally takes precedence.

Despite these limitations, NORDEFCO has been often cited as a good example of close regional cooperation, and significant results have been achieved. In the area of cyber security, the landmark 2009 Stoltenberg report on the NB8 suggested the N5 could benefit greatly from cyber security cooperation. Since then cyber cooperation among the NB8 countries has become particularly active. However, cyber threats and challenges have continued to grow – arguably outpacing the parallel development of international cooperation. The cooperation formats that are currently in place are laudable, but further trust and deeper cooperation are necessary to prevent and if necessary respond to the increasingly complex and well-resourced cyber threats stemming from state and non-state actors alike.

### 1.1 Strategic level interactions

At the strategic level, cyber security is often on the agenda at meetings of cabinet ministers, political directors of the...
Ministries, and parliamentary delegations. For example, Estonia formally highlighted cyber security as a priority in its 2014 chairmanship of the Nordic-Baltic cooperation framework; one key accomplishment was initiating an annual meeting between NB8 and US cyber policy delegations. An analogous meeting has also been taking place for several years among the NB8, the UK, and Poland. Meanwhile, the N5 have established a working group to reflect on new areas of cyber security cooperation on foreign and security policy issues. Moreover, NB8 officials responsible for cyber defence have met on an annual basis since 2012.

The NB8 states also cooperate frequently at the working level in both formalised and ad-hoc ways through their participation in numerous international organizations, such as NATO, OSCE, the European Union, and the United Nations. This can include coordination of national delegations positions before significant meetings, drafting and delivering joint statements, vocally supporting each other’s initiatives and positions, briefing each other on developments, and participating in multilateral projects. Examples include: Sweden and Finland participating in the work of the Tallinn-based NATO Cooperative Cyber Defence Centre of Excellence (CCD COE), or Lithuania’s presentation of best practices in regional cooperation on behalf of all three Baltic States at an annual OSCE conference on confidence-building measures in cyberspace. In the framework of the United Nations, Estonia is the only country from the NB8 to be included in the most recent Group of Governmental Experts (UN GGE) discussing cyber security at the global level. However, Estonia has conducted several briefings on the work of the UN GGE and even conducted an international seminar to NB8 representatives on the topics of international law and norms of responsible state behavior in cyberspace, which are at the heart of the UN GGE process.

1.2 Operational and technical level collaboration

While the discussions that take place at the strategic level are usually rather overarching and conceptual, they can also result in more practical, technical-level cooperation. One example is a project between the foreign ministries and electricity companies of the Baltic states and the US to strengthen the cyber security of critical electricity infrastructure in the region. Recently, overlapping elements were discovered with as Baltic Ghost, another avenue of cooperation between the ministries of defence

and armed forces of the Baltic States and the US; the two cooperation formats have subsequently been effectively combined.

The topic of day-to-day cooperation on the part of technical authorities, however, is less well documented. States are generally reluctant to share operational details of technical-level information sharing and incident response. However, one example involves Finnish and Estonian CERTs, which worked together to create a software tool called Abusehelper that simplifies information sharing, helps to reduce rates of malware infection, and can be used to combat the activities of botnets 18. The Nordic countries have also set up a secure communications network (Nordic National CERT Information Sharing Network, NCIS) that can be used to share classified information and coordinate cooperative responses to cyber incidents 19. The three Baltic States also maintain close ties among their national CERTs; there is political-level support for signing an MoU to formalise cooperation in incident response and exchanging information 20.

1.3 Joint trainings and exercises

Strategic – and working level discussions and commitments among government officials are important, but they must be complemented by technical – level advances in order to maximise their utility. One of the first examples of NB8 cooperation in this field took place in 2010, when specialists from Sweden, Estonia, Latvia, Lithuania, and NATO planned and conducted an exercise called Baltic Cyber Shield 21. Since 2012, the NB8 countries have all participated in the annual Locked Shields exercise hosted by the NATO CCD COE, which is the largest technical ‘live-fire’ cyber defence exercise of its kind in the world 22. Poland and Germany also regularly participate in both exercises.

Additionally, Nordic CERT Cooperation (NCC) brings together CERTs from the N5 countries to carry out joint trainings in a variety of different aspects of cyber security. These states have also been holding their separate cyber security exercises in this cooperation format, such as one that was hosted by the Swedish Civil Contingencies Agency in March 2015 23. Finally, the Nordic countries have used the NORDEFCO format to initiate projects aimed at developing joint training activities among military CERTs involving the testing of offensive as well as offensive cyber warfare processes and technologies. The 3B recently accepted an invitation to join the pan-Nordic Cyber Warfare Collaboration Project (CWCP) as part of NORDEFCO in 2015-2016 24.

Recommendations for further cooperation

The depth and breadth of cyber cooperation among the NB8 states demonstrates their commitment to joint approaches to tackle the problematic aspects of the increasing reliance on information technology by governments, businesses, academic institutions, and individuals. However, collaboration within the region must also continue to move forward in new directions and in innovative ways.

In the following section, several avenues of cooperation that the NB8 should pursue will be identified. International law, norms of behavior, and CBMs are areas in which strategic debates significantly affect NB8 interests, and in which those states can play an even more active role. On a more practical level, the NB8 can also broaden cooperation in the field of critical infrastructure protection and improve shared situational awareness in order to improve regional cyber security. Finally, widening existing formats to include Poland and engaging in more joint capacity-building activities would also constitute effective ways of leveraging international cooperation in order to promote the shared goal of a free and secure cyberspace.

2.1 Promoting strategic stability

Over the course of the last several years, a number of different actors have expounded their visions of what is necessary for stability in cyberspace. Estonia, through its membership of the UN GGE, has also proposed three norms: refraining from attacking critical infrastructure (such as financial infrastructure), not hindering the work of other countries ‘CERTs’, and providing mutual assistance in cyber crises. At the time of writing, it remains to be seen whether the current UN GGE process will deliver another breakthrough report, as it did in 2013. However, this is an area where agreement at the regional level from the NB8 could shape the global debate in a significant and positive way.

NB8 countries other than Estonia can and should devote greater attention to cyber norms and express an interest to work with Estonia to arrive at shared views. Meanwhile, Estonia, should go beyond seminars and briefings by holding substantive discussions with fellow NB8 countries with a mandate to find areas of agreement. This would benefit both Estonia and the rest of the NB8 states by projecting their collective views at the European and global levels in a much stronger way than any one country could on its own. It would also show that countries that are still at different levels of digital development can find common ground on this topic. Finally, the strong voice that would emerge from regional agreement could be amplified if other countries, whether inside or outside Europe, were to subscribe to positions agreed among the NB8.

2.2 Critical infrastructure protection (CIP)

On a more practical level, NB8 should consider closer cooperation in the field of critical infrastructure protection. Vital sectors such as telecommunications, finance, and energy have considerable domestic interconnections as well as cross-border dependencies. In this context, attacks or failures in a single country have the potential to cause disruption across the region. Moreover, there is currently no common approach to critical information infrastructure protection, let alone a lack of uniform cyber security standards or information-sharing protocols across jurisdictions.
A more thorough understanding of interconnections would enable better risk management and preventative activities in NB8 countries regarding CIP.

A regional approach in the NB8 format could prove to be a significant contribution to awareness and preparedness. Possible methods of cooperation could include meetings of experts; joint training & exercise activities; and even aligned legal frameworks. This field is especially important both because interconnectedness is steadily increasing and because high-profile proofs-of-concept as well as real-world incidents have already demonstrated that cyber tools can be used to cause physical destruction and even the loss of human life, by manipulating industrial control systems that control critical infrastructure. The countries of the Baltic Sea region can and should increase cooperation in the field of CIP in order more effectively to prepare for these risks and safeguard the prosperity and security of their populations.

2.3 From situational awareness to situational understanding

Information sharing is particularly critical with regard to complex, targeted, and well-resourced (usually state-sponsored) threats known as advanced persistent threats (APTs). Strategic actors often target companies and government agencies across the region using a similar set of tools, and one country’s mitigation efforts and lessons learned can be crucial to prevention and detection in another. This type of information is often sensitive or classified in nature; for this reason, communications networks that can securely transmit classified information—such as the one among Nordic CERTs—could be expanded to incorporate the Baltics as well.

Furthermore, the trust that exists among governments of the NB8 can and should be leveraged to formalize technical-level cooperation between NB8 CERTs, law enforcement agencies, and military units in the form of a broad-based and inclusive memorandum of understanding. Such a document would create the politically binding basis from which to continue cooperation in jointly combating both basic and advanced cyber threats across the NB8 region.

2.4 Joint regional exercises

Considering the growing cross-border interdependence of critical infrastructure within the NB8, Nordic cyber security exercises could be expanded into regional ones. The most promising avenues for cyber cooperation among the NB8 are research & development, education, and training, including strategic and technical-level exercises.

It is planned that the aforementioned CWCP, will collaborate with the NATO CCD COE. Since the N5s already conduct joint trainings, and since they and the Baltic countries (as well as Poland) are sponsoring or contributing partners of the NATO centre, the NB8 states could test their capacities jointly at NATO’s cyber range, which is also located in Estonia. This would be in accordance

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25 „Lithuania’s Power Interconnections with Poland and Sweden to Be Launched Within Year”, Deli, January 4, 2015.
with the primary objective of the CWCP, which is to build combined capacity involving training and exercises among military CERTs.

### 2.5 From NB8 to NB9 and Germany

Cyber security cooperation in the NB8 should be deepened to involve more projects at the technical and operational levels, as well as expanded geographically to include other like-minded countries in the Baltic Sea region such as Poland (in the Nordic-Baltic-Poland 9, format, or NBP9) and Germany. The NBP9 and Germany should enhance cooperation among their law enforcement bodies, CERTs, and militaries, in order to improve the protection of critical infrastructure and critical information infrastructure in the sectors of finance, transportation and energy. In the long run, the countries should aim to attain common situational awareness and situational understanding as well.

Cooperation among the NBP9 and Germany could further leverage joint cyber defence training and exercises, as well as the pursuit of joint cybercrime investigations. Last but not least, cooperation among defence academies, national universities, and think tanks aimed at exchanging experiences and ideas on how to integrate cyber security and defence aspects into education efforts related to operational planning is both a feasible and necessary undertaking.

Table 1. Rows refer to areas of collaborative activity, and columns indicate the actions that NB8 countries could take at each level.

<table>
<thead>
<tr>
<th>Area</th>
<th>Domestic</th>
<th>Regional</th>
<th>Global</th>
</tr>
</thead>
<tbody>
<tr>
<td>International Law</td>
<td>Undertake legal and policy analyses; develop positions and mandate</td>
<td>Negotiate and agree to list of shared norms</td>
<td>Promote agreed list through international speeches, presentations, and publications</td>
</tr>
<tr>
<td>and Cyber Norms</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Critical Infrastructure</td>
<td>Map domestic interdependence among sectors</td>
<td>Chart cross-border dependencies; carry out meetings and joint projects;</td>
<td>Share best practices and lessons learned</td>
</tr>
<tr>
<td>Protection</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Situational Awareness</td>
<td>Ensure adequate human as well as technical resources; foster better institutional relations</td>
<td>Formalise platforms for sharing among civilian, security, and industry bodies; develop a joint cyber situational picture and joint analysis.</td>
<td>Share best practices and lessons learned</td>
</tr>
<tr>
<td>Education and trainings</td>
<td>Integrate cyber into operational planning into curricula of national military academies and into national crisis management/ military exercises</td>
<td>Conduct regional exercises to build combined capacity; exchange experiences on developing cyber defence planning curricula</td>
<td>Coordinate participation in EU &amp; NATO cyber exercises across NB8</td>
</tr>
</tbody>
</table>
| From NB8 to NBP9 and Germany | Assess willingness and necessity of inclusion                             | Integrate Poland and Germany into existing cooperation formats based on mutual interest | Invite Poland and Germany to participate in global messaging efforts    | 29 Advancing Confidence Building in Cyberspace: Sub-regional Groups to Lead the Way, Occasional Paper (Tallinn: ICDS, November 2014).
Conclusion

A number of high-profile cyber incidents in the NB8 countries have raised awareness of the seriousness of the threat. Most policymakers, officials, and analysts now view cyber security as an integral part of national and international security. This understanding has translated into a noticeable advancement of regional cooperation at all levels.

However, there are still several ways in which the NB8 can move forward and positively affect their collective cyber security. These include coordinated messaging to influence global debates about cyber norms, adopting a more regional approach to CIP, developing a joint situational awareness and analysis, and collaborating on cyber education and training.

The NB8 have already developed a good foundation upon which to keep improving their cooperation in practical terms, especially in expanding the scope of their collaboration to Poland and Germany. However, given the global nature of cyberspace and the strong likelihood that cyber threats will continue to grow in terms of scale, frequency, and sophistication, they need to stay engaged and assert their positions at the international level as well. The effective combination of these approaches can not only the countries of the Baltic Sea region more secure, but also contribute to stability and freedom globally as well.

PIRET PERNIK

She joined the International Centre for Defence and Security in April 2013. Her research focuses on cyber security policy-making and other strategic issues relevant to cyber security. Her tasks include analysing global developments, including strategies and policies pursued by states and international organisations. She recommends how to shape Estonia’s efforts on cyber security and on how to introduce the Estonian experience internationally. She coordinates cyber security related cooperation with other relevant domestic and international actors. Before joining ICDS, she worked at the Policy Planning Department of the Estonian Ministry of Defence (in 2003–2009 and in 2012–2013). In 2009–2012, she served as an adviser to the National Defence Committee of the Riigikogu (Estonian Parliament). She has lectured on international relations at the Estonian Humanitarian Institute of Tallinn University and the Euroacademy and has carried out sociological research projects at the Institute of International and Social Sciences, the Institute of Educational Sciences and the Estonian Institute for Futures Studies of Tallinn University. Piret has studied sociology at the Estonian Humanitarian Institute and political science at the University of Tartu. She holds a Master’s degree in Sociology, and a Master’s degree in International Relations and European Studies from Central European University in Budapest.
PATRIK MALDRE

He joined the International Centre for Defence and Security in June 2015. His main field of activity is the observation and analysis of Estonian and international cyber security policy. Patrik's initial projects are focused on researching Nordic-Baltic cyber cooperation as well as cyber security-related information sharing practices among states and in international organizations. Previously, Patrik is served as Desk Officer for Cyber Security Policy and as Specialist in Public Diplomacy at the Estonian Ministry of Foreign Affairs. He is also a reservist in the Estonian Defence Forces, a member of the Estonian Defence League, and is currently serving in the Estonian Reserve Officers Association as Liaison Officer to the United States. Patrik holds an M.A. in International Relations with a specialization in International Peace and Security from the Institut Barcelona d’Estudis Internacionals (Spain) and a double-B.A. in Philosophy and Political Science from the University of Illinois at Urbana-Champaign (U.S.A.).
Introduction

The Baltic Sea region¹ is one of Europe’s most important economic areas, with a strong potential for further integration in the future. Eight of the nine states that border the sea are members of the European Union. The ongoing structural change towards service – and knowledge-based societies; the intensification of economic interconnections in global goods, services, and labour markets; the increasing integration of neighbours within the region; and the ongoing demographic changes will all have considerable influence on the region. While such trends bring challenges, they also offer opportunities and further potential.

In the following a brief overview on some economic indicators of the Baltic Sea region in comparison to the EU27² is given. In 2014, 39.7 million people lived in the Baltic Sea region, which is 7.9% of the EU27 population of 502.7 million inhabitants. Due to the very low population density in Sweden and Finland, the Baltic Sea region is sparsely inhabited on average (35 people per square kilometre, compared to a figure of 117 inhabitants/km² for the EU27). However, from an economic point of view, the region has been very successful. In 2013, the Baltic Sea region generated a GDP of €1,244 billion, which was 9.5% of EU27 GDP. In the past, the region’s GDP growth figures have also been very positive (cf. Stiller/Wedemeier 2011). Its per capita income of €31,300 was considerably higher than the EU average of €25,900. In addition, in 2013 the unemployment rate was lower (8.0% vs. 10.1%) and the workforce participation rate higher (54.8% vs. 51.4%) than in the EU27 (cf. Eurostat 2015).³ These facts demonstrate that the Baltic Sea region is a key driver of growth for the entire European economy. In this context, it is important to note that the region’s

¹ We define the Baltic Sea region as the EU countries Denmark, Estonia, Finland, Latvia, Lithuania, and Sweden as well as parts of Germany and Poland, specifically the German federal states of Hamburg, Mecklenburg-Western Pomerania, and Schleswig-Holstein as well as the Podlaskie, Pomeranian, Warmian-Masurian, and West Pomeranian voivodeships of Poland. In addition, the trade analyses in the Baltic Sea Trade section take Russia into account.

² All references to the European Union refer to the EU27, i.e., all member states except Croatia.

³ For a good overview on economic development of the Baltic Sea region, see. Stiller/Wedemeier (2011).
economic success is significantly dependent on the intensity of trade within the region as well as between the region and foreign countries. Its future, moreover, depends not only on continued trade and economic growth, but on maintaining its market-leading position as well as its comparative economic advantages.

This paper aims at analysing the trade connections of the Baltic Sea region. We take both relationships within the region into account. On the one hand the intra-regional trade, and on the other we consider the trade networks of the Baltic Sea region with other countries. These trade analyses are complemented by a critical review of what we call the Baltic Sea region’s ‘economic specialisations’, that is, the focal sectors of its economy). This analysis is particularly helpful in identifying the Baltic Sea states leading position in the international trade market.

**Baltic Sea trade**

Locations near sea coasts tend to attract more concentrated economic activity thanks to transport cost advantages and intensified trade (cf. Großmann et al. 2006). According to empirical studies, the costs of transporting goods from one region to another increase by 20 to 30%, when the two regions are twice as far apart (cf. WTO 2004). This correlation helps us to understand why international trade relationships tend to be more intensive when the distance among the trading partners is smaller.

Spatial proximity is only one factor explaining the intensive trade links among the Baltic Sea states. Other reasons include historical ties among these countries, especially among the cities once part of the Hanseatic League. Thus, to a certain extent these economic and social connections are the result of path dependency.

Accordingly, Baltic Sea states make up a high percentage of each other’s imports and exports. Germany imports 13% of its goods from the region, mostly from Poland (7%). Russia is also an important trading partner for Germany (11%). Estonia (74%), Latvia (73%), and Finland (61%) are especially highly dependent on imports of goods from Baltic Sea trading partners. Lithuania (60%) and Finland (47%) have especially high import links to Russia (see table I).

Export flows from Germany go mainly to Poland (7%), Sweden (3%), and Denmark

<table>
<thead>
<tr>
<th>To / from</th>
<th>Germany</th>
<th>Denmark</th>
<th>Estonia</th>
<th>Finland</th>
<th>Lithuania</th>
<th>Latvia</th>
<th>Poland</th>
<th>Sweden</th>
<th>BSR¹</th>
<th>Russia²</th>
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<td>4.8</td>
<td>17.7</td>
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<td>18.3</td>
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<td>10.2</td>
<td>9.2</td>
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<td>0.8</td>
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<td>3.6</td>
<td>23.1</td>
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<td>0.6</td>
<td>4.7</td>
<td>51.8</td>
<td>16.3</td>
<td></td>
</tr>
</tbody>
</table>

1 Baltic Sea region
2 Russia’s import share of extra-regional trade
Germany is an important purchasing and sales market for most Baltic Sea states, though some states within the Baltic Sea region trade more intensively with other partners than Germany. Nonetheless, for Denmark, Germany is the most important export market (29%); other important Danish trading partners are Sweden (19%) and Finland (4%). Finland’s (21%), Poland’s (34%), and Sweden’s (17%) most important export market in the context of EU intra-regional trade is also Germany. As for the three Baltic states of Estonia, Lithuania, and Latvia, they each have a high share of EU extra-regional exports going to Russia (between 35 and 46%) (see table II).

Germany plays a crucial role in trade in the Baltic area. In 2004, it imported and exported €102.5 billion worth of goods from and to the Baltic Sea region. By 2014, the trade value expanded to €175.5 billion, which is an increase of 71%. The three Baltic Sea states showing the largest growth in trade over the same ten-year period from 2004 to 2014 were Poland (+161%), Latvia (+157%), and Lithuania (+149%). In comparison, Finland (+35%), Denmark (+37%), and Sweden (+42%) had the lowest growth figures. The EU27 – intra-regional trade of the Baltic area increased by 53% (to €1,894 billion); meanwhile, the EU27 – extra regional trade value of the region grew by 75% (to €1,103 billion) in this period. Overall, exports and imports of the Baltic Sea states increased dynamically not only with partners within the region, but internationally as well.

All Baltic Sea states, including Russia, experienced an economic downturn between 2008 and 2009 due to the global economic and financial crises. After recovering in 2011, the Baltic Sea states have returned to growth. Altogether, the trade development of the Baltic Sea states has generally run in parallel, with the exception of Russia. In 2012, exports and imports to and from the Baltic Sea states began a decline that continues to this day (see figure I). The reasons for this decline are manifold, beginning with the decline in the world price of oil, the rouble crisis, and the implementation of economic sanctions on Russia because of its annexation of Crimea.

Generally, the development of the traded value per kilogramme (that is, the value–volume ratio) to and from the Baltic Sea region increased rapidly between 2004 and 2014, with the exception of Russia and extra-regional trade with the EU27.

### Table II

<table>
<thead>
<tr>
<th>From/ to</th>
<th>Germany</th>
<th>Denmark</th>
<th>Estonia</th>
<th>Finland</th>
<th>Lithuania</th>
<th>Latvia</th>
<th>Poland</th>
<th>Sweden</th>
<th>BSR¹</th>
<th>Russia²</th>
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<td>1.3</td>
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<td>4.3</td>
<td>18.5</td>
<td>57.3</td>
<td>3.8</td>
</tr>
<tr>
<td>Estonia</td>
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<td>3.6</td>
<td>:</td>
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<td>7.3</td>
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<td>2.2</td>
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<td>56.7</td>
<td>19.4</td>
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<tr>
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<td>4.3</td>
<td>7.9</td>
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<td>:</td>
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<td>15.1</td>
<td>6.5</td>
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</tr>
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<td>Latvia</td>
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<td>5.1</td>
<td>16.2</td>
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<td>8.9</td>
<td>7.4</td>
<td>75.6</td>
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<tr>
<td>Poland</td>
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<td>2.1</td>
<td>0.9</td>
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<td>3.7</td>
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<td>:</td>
<td>48.9</td>
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</tr>
</tbody>
</table>

¹ Baltic Sea region
² Russia’s export share of extra-regional trade

Since 2012, the extra-regional traded values per kg have decreased slightly, while for many states (Germany, Denmark, Estonia, Lithuania, Poland, and Sweden), the development of the value-volume ratio has actually stagnated. Explanations for these phenomena are diverse, ranging from exchange rate fluctuations to low interest rates and low primary prices (that is, for oil products and raw materials).

**Figure I. International trade within the Baltic Sea region**

Broader trading patterns within the Baltic Sea region can be summarized as follows: Germany mostly trades processed industrial goods (with a 31% share of its total trade with the region), capital goods (13%), capital goods, parts, and accessories (9%), and transport equipment plus parts and accessories thereof, (also 9%). Germany is not unique in this respect, as other Baltic Sea neighbours also trade mostly industrial and capital goods to the Baltic Sea region. While, Denmark and Lithuania specialise in trading processed food and beverages mainly for household consumption (11% for the former). Estonia specialises in trading capital goods, parts, and accessories (10%). Finland’s largest category is processed fuels and lubricants (9%), as is Latvia’s (12%). Poland, meanwhile, exports important shares of transport equipment, parts, and accessories thereof (10%), and Sweden capital goods, parts and accessories (8%) to the Baltic Sea neighbours. Uniquely, Russia’s foreign trade with the Baltic Sea states depends strongly on the selling of primary fuels and lubricants (see table III).
### TABLE III

Trade of the Baltic Sea region by trading partner, product, and value in % 2014

<table>
<thead>
<tr>
<th>BEC-Code</th>
<th>Germany</th>
<th>Denmark</th>
<th>Estonia</th>
<th>Finland</th>
<th>Lithuania</th>
<th>Latvia</th>
<th>Poland</th>
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1. BEC = Broader Economic Categories; 111 Food and Beverages, primary, industry; 112 Food and Beverages, primary, household; 121 Food and Beverages, processed, industry; 122 Food and Beverages, processed, household; 210 Industrial supplies, primary; 220 Industrial supplies, processed; 310 Fuels and lubricants, primary; 321 Fuels and lubricants, processed, motor spirit, 322 Fuels and lubricants, processed, other; 410 Capital goods, except transport equipment; 420 Capital goods, parts and accessories; 510 Transport equipment and parts and accessories thereof, passenger motor cars; 521 Transport equipment and parts and accessories thereof, other, industrial; 522 Transport equipment and parts and accessories thereof, other, non-industrial; 530 Transport equipment and parts and accessories thereof; 610 Consumer goods, durable; 620 Consumer goods, semi-durable; 630 Consumer goods, non-durable; 700 Goods not elsewhere specified

2. without Denmark


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### Economic specialisations of the Baltic Sea region

The Baltic Sea region exhibits some specialisations in economic activity, meaning that certain sectors are less important for its economy. Although there are strong differences within the Baltic Sea region, by means of using location quotients the region’s most important economic sectors can be identified. For this purpose the sector shares in the Baltic Sea region, measured by gross value added (GVA), are compared to the corresponding shares in the EU27. Values of the location quotient higher than one imply that the corresponding economic sector has greater than average significance within the Baltic Sea region compared to the EU27 as a whole, and correspondingly values lower than one mean that the sector has less than average significance.

These quotients can be found in Table IV.
TABLE IV
Economic specialization (GVA) of the Baltic Sea region in comparison to EU27 in 2012

<table>
<thead>
<tr>
<th>Economic sector (NACE Rev. 2)</th>
<th>Location quotient</th>
</tr>
</thead>
<tbody>
<tr>
<td>A Agriculture, forestry and fishing</td>
<td>1.20</td>
</tr>
<tr>
<td>B Mining and quarrying</td>
<td>1.34</td>
</tr>
<tr>
<td>C Manufacturing</td>
<td>0.95</td>
</tr>
<tr>
<td>D Electricity, gas, steam and air conditioning supply</td>
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</tr>
<tr>
<td>E Water supply; sewerage, waste management and remediation activities</td>
<td>0.84</td>
</tr>
<tr>
<td>F Construction</td>
<td>0.93</td>
</tr>
<tr>
<td>G Wholesale and retail trade; repair of motor vehicles and motorcycles</td>
<td>1.06</td>
</tr>
<tr>
<td>H Transportation and storage</td>
<td>1.36</td>
</tr>
<tr>
<td>I Accommodation and food service activities</td>
<td>0.55</td>
</tr>
<tr>
<td>J Information and communication</td>
<td>1.03</td>
</tr>
<tr>
<td>K Financial and insurance activities</td>
<td>0.83</td>
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<td>L Real estate activities</td>
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<tr>
<td>M Professional, scientific and technical activities</td>
<td>0.95</td>
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<tr>
<td>N Administrative and support service activities</td>
<td>0.85</td>
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<td>O Public administration and defence; compulsory social security</td>
<td>0.93</td>
</tr>
<tr>
<td>P Education</td>
<td>1.00</td>
</tr>
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<td>Q Human health and social work activities</td>
<td>1.27</td>
</tr>
<tr>
<td>R Arts, entertainment and recreation</td>
<td>0.97</td>
</tr>
<tr>
<td>S Other service activities</td>
<td>1.19</td>
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</table>

1 Data for Polish regions are from 2011.

Notable findings include that the region’s economy features a considerably greater emphasis on agricultural and mining activities, as well as on transportation and health services. On the other hand, accommodation and food service activities are in particular strongly underrepresented.

Notwithstanding the above examples, it is clear that the quotients in most cases are quite close to one. This is due to the fact that, on the one hand, the aggregation of economic activity by sectors is not very detailed, and, on the other hand, the averaging of this activity over several countries or regions hides interesting information.

A closer look at the data reveals that the relatively high location quotient of the transport sector, for example, is mainly due to the Baltic countries Latvia and Lithuania as well as the German federal city-state of Hamburg. In comparison to EU27, Hamburg features a location quotient of 2.21 in this sector. This is hardly surprising, because Hamburg’s important port sector has a strong need for sufficient transport capacities and therefore works hand in glove with the logistics sector.

In agricultural activities, on the contrary, Hamburg – as a highly urbanised city-state – has by far the lowest location quotient of all Baltic Sea regions, with 0.07. Agriculture is therefore very unimportant for Hamburg’s economic sector structure. However, the highest values of location quotients in the Baltic Sea regions are reached in this sector. The Podlaskie and Warmian-Masurian voivodeships in Poland and the German federal state Mecklenburg-Western Pomerania have, with location quotients of 6.48, 5.32,
and 2.05 respectively, very strong specialisations in agriculture. But even for the Pom-eranian and West Pom-eranian voivodeships agriculture features a high location quotient compared to EU27 (cf. Central Statistical Office of Poland 2015, Eurostat 2015, and Federal Statistical Office 2015).

These results show that knowledge-based structural change has not yet reached every part of the Baltic Sea region. In particular, the eastern European regions have further need for the expansion of knowledge-based industries and services. This is very important for the region’s future prospects, because the demographic change will lead to a declining population, especially in rural areas (cf. Eurostat 2015). In order to counteract this development, these regions have to increase their attractiveness for immigrants. A knowledge-based economic structure attracts more companies, which in turn draws more people, and so on. In this manner the regions can help to slow this demographic change.

**Conclusions**

To conclude, the Baltic Sea states are highly interlinked through intensive trade connections. These trade patterns can be explained by a long historical, cultural, and societal affinity, as well as spatial proximity. The foundation of the Hanseatic League fundamentally shaped today’s Baltic Sea region, especially in its patterns of urbanisation and international trade. Its remarkable contemporary development is reflected in the first macro-regional strategy of the European Commission for the Baltic Sea region.

The Baltic Sea states’ past and future is highly interdependent. Their development dynamic depends on GDP growth, on foreign trade links – including to trading partners outside the EU, such as Indonesia or the BRIC (Brazil, Russia, India, and China) countries, and on their economic structure. For Russia, St. Petersburg plays an important role as a Baltic Sea port because it connects the markets in central Russia to the EU. The states of the Baltic Sea area have some leading positions and global brands (agriculture, food, and beverage products, furniture, logistics, software, toys, etc.) in the international trade market.

However, one critical prerequisite for future competitiveness in the region is ensuring its industrial knowledge capability and its innovation power. This requires a broad but specialised knowledge base and the ability of its inhabitants and workforce to adapt to innovation while also being experimental and creative enough to invent new products and processes on their own.

**References**


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When the Iron Curtain collapsed into the Baltic Sea in the early 1990s, new networks and relationships developed quickly in the whole Baltic Sea Region.

In a branding exercise in the Baltic Development Forum one option was this: ‘Born in the age of globalisation. The Baltic Sea Region is the only economically significant place on Earth that was born for, and into, a global world. Unlike most other regions, it’s not struggling to cope in a different world order than the one it grew up in, but it is itself a product of globalisation, and so has global competitiveness in its veins.’

But what is the Baltic Sea Region (BSR)? While there are many different ways to define it, this article views it as including the Nordic and Baltic countries, Poland, western Russia, and northern Germany. However, less attention is paid to the northern coast of Germany, as its economy is strongly integrated with that of continental Europe.

Overview

In a 2007 branding exercise for the Baltic Development Forum, one suggestion was ‘Born in the Age of Globalisation’. The modern BSR is arguably the result of a sudden opening (and the resulting creative new encounters) between mature economies in the west and innovation-hungry, fast-growing ones in the east.

How do things look now, 25 years later? According to most international benchmarks, the Baltic Sea Region comes out as a very innovative part of the world – albeit with some reservations, see below. There is an almost unique combination of key industrial clusters – from biotech and ICT to renewable energy, design, and much more, all within a sustainable context. Moreover, much innovation is user-driven; as a result, the region is sometimes seen as a testbed for sophisticated new products for later introduction to world markets.

The following are the issues I seek to address in this article:

How has business and industry developed...
after the region became completely free? What can we learn from the journey that we all have made in Northern Europe? What prospects will business and trade have in the future in our region?

Evidently the last few decades have comprised a period of great change in the world, characterised by globalization of trade and investment as well as by the introduction and dramatically increased use of the internet. How has the structure of the economies and business changed in these years?

In the midst of this period, the world has been shaken by a serious financial crisis. How has the Baltic Sea Region recovered? What are the main hurdles in our current development?

To create regional cohesion requires not only political will and an effective civil society but also a functioning economic markets. How far have we come in this respect?

As for the future, what new challenges and possibilities are emerging? Finally, what about the Baltic Sea itself, given that it is so fundamental to our lives? Can it be saved by sustainable conservation as well as with new, advanced scientific and technological measures?

In sum, this article is about integration, internationalisation, and innovation.

Industry structure

The region, which expands over a vast territory, is nevertheless sparsely populated. Accordingly, communications and transport have been extremely important since the beginning of its history. At the beginning of the 1900s, Stockholm had the largest number of telephones in Europe – not the largest per capita figure, the largest absolute number. The railway industry is quite developed in Scandinavia, while Poland has a long tradition of producing high-quality transit vehicles like trams and buses.

There is an abundance of raw material and commodities in the region, which features large forests as well as expansive deposits of iron ore and other minerals. It is significant for the prosperity of the BSR that much of the wood and iron has been processed in the region itself, thereby facilitating the development of more sophisticated value-added products – such as new forms of paper, furniture, special steel, power generation technology, automotive & maritime equipment etc. This is somewhat different from North America, where much of the abundant natural resources extracted in Canada has been exported to the US to undergo value-added further processing.

In modern times, the Northern European economies have thus been characterized by a high concentration of companies with highly developed, complex products in various areas, like electricity production, ICT, and industrial services. In the 1980s many synergies emerged among the Nordic countries, between Sweden, Finland and Norway in paper and pulp processing equipment and electricity, as well as in services with Denmark. This Nordic industrial integration was rightly seen as forerunner to the larger European Single Market, which was launched in the early 90s and which has served as an impetus for growth in the small export-oriented Nordic economies.

New trade and foreign investment

After the freeing of the economies of the former communist countries, trade throughout the Baltic Sea Region developed fast. At first, trade for the eastern BSR countries was mostly with the western states, but trade among them soon began to increase as well. Thus, a certain level of economic integration emerged in the region. Its industrial, manufacturing, and knowledge base was constantly upgraded throughout the 1990s, thereby facilitating the later
integration into the European Union of the new democracies.

Another important feature of the intra-regional integration process was a significant increase in foreign direct investment (FDI). Again, this had previously been a strong trend in western countries like Denmark and Sweden, but eastern BSR states were able to increase the inward stock of FDI faster than the world as a whole, let alone faster than the ‘old’ European market economies.

To a large extent this meant outsourcing of lower cost production from the western to the eastern part of the Baltic Sea basin. But it also brought with it the introduction of modern industrial systems to the transitioning countries.

Early on this was part of an immediate wave of post-communist privatisations in the new market economies. Yet a firm trend of accepting FDI became established such that it continued to grow even after the privatisation wave was more or less over. The inward FDI into new market economies such as Estonia, Latvia, and Lithuania has been especially important, since a genuine capital market built on private savings did not previously exist in those countries, and had to be gradually built up from scratch.

Upgrading

These changes in FDI only follow the general modernising trend in the eastern BSR. Gradually, the focus of FDI itself has moved away from manufacturing, flowing instead into service sectors like finance, real estate, tourism and business activities. This is not to say that manufacturing has been left behind; it too has also grown, although with less relative importance. Examples include food processing, forest/wood products in Estonia and Latvia – and given the strong industrial tradition in Poland – transport equipment. It should be noted here that while the Nordic countries represent a very important source for FDI in the Baltic states, this does not apply to Poland, where Germany, UK, France and the US play a dominant role.

The upgrading of the economies should be seen in the context of increasing domestic consumption, which featured new patterns and tastes – although some lingering traditions from Soviet-style central planning remained in some people’s minds. The upgrading has also been part of the integration process into the EU, of which the new democracies became members in 2004.

Financial crisis

The great worldwide financial crisis in 2008 hit the Baltic Sea Region hard. Some countries, like Sweden and Finland, had already undergone a very painful crisis in the early 1990s. As a result of the lessons learned and implemented from that period, the Swedish and Finnish banking systems were less shaken than many others in 2008-09. The state had also built up strong financial reserves with permanent budget surpluses.

Other countries were not as fortunate; especially hard hit were the ‘tiger’ economies at the eastern rim of the Baltic. The respective GDP of Estonia, Latvia and Lithuania fell by 20, 25, and 17 percent respectively. Unemployment increased by a factor of four.

The big exception was Poland, which was the only country in the European Union that did not see a single quarter of negative growth throughout the whole crisis. This was due to a combination of its cautious fiscal policy, its successful creation of a domestic market with relatively strong demand, and the Keynesian role of substantial use of structural funds from the EU.

Recovery

Through tough domestic policies, the Baltic states managed to recover more
quickly than other parts of Europe after the acute financial crisis. Moreover, their recovery has been sustained. Unemployment rose sharply during the crisis but has again declined not only in the Baltic states but also in the Nordic countries, something that is not the case for Europe as a whole. The other driver of the crisis, rapidly swelling public debt had not been a problem before the crisis and was more manageable than elsewhere.

A positive sign is also the region’s performance on the so-called economic misery index, which has been better than that of North America or the EU as a whole. This is important not least given the large income disparities in the region as well as the growing divide in living standards between urban and rural areas in the eastern part of the Baltic Sea Region.

**Current prospects and lessons learned**

So what are the current prospects for business and economy in our region? The annual State of the Region Report of the Baltic Development Forum raises a question that is very much en vogue throughout the world at present: whether it is possible to adapt to a ‘New Normal’ with less growth.

**Sound base**

First it has to be said that that, essentially, the region has a sound economic base. The gap in prosperity levels between the eastern Baltic Sea Region and Europe as a whole has narrowed every year, while the Nordics – which are ahead of the rest of Europe – have been able to increase their lead.

As has been mentioned, unemployment levels have receded after the crisis. Public finances are well managed, and the region gets very high marks on most innovation scorecards.

**New worries and challenges**

Nonetheless, there are certainly also worries that have to be taken seriously, and thus no reason for political and economic actors to become complacent.

While the region performs better than the EU as a whole on unemployment, private consumption, private investment, etc., it is now underperforming in a comparison with the whole of OECD. Thus, even though we are doing better than EU, we are still too closely tied to the European economy.

Businesses in the region have to trade and invest in a much more global way if the region is to become once again a world leader in innovation. Today being part of so-called global supply chains is vital for business in all parts of the world.

Especially worrying is the drop in the growth rate of private investment in recent years and the lack of expansion of small and medium-sized enterprises. High uncertainty (to a more pronounced degree than in the EU as a whole) about the medium-term outlook – is probably a reason. Russia’s annexation of Crimea and its involvement in Eastern Ukraine also plays a role in generating insecurity about the prospects for private investment.

**Lack of skills to meet new industrial demands**

Another more important weakness of the Region relates to skills in the work place. A highly educated working population has traditionally been a key asset of countries in the region, with vocational training as a particular strength.

However it seems that the educational systems of many BSR countries have problems catching up with the needs of companies in areas that require new technologies and systems. Labour productivity does not stand out as very advanced, and in some of the eastern countries of the
region, ‘brain drain’ is a problem. It is of utmost importance for the region to modernize and expand education and training in a generous way!

Gender equality is also a factor that should rank high on the scale of preferences. This applies even to countries like Sweden and Denmark that are considered to be the world’s strongest in female workforce representation. In Sweden income gaps between men and women still exist, and the labour market is highly segmented.

**Attract foreign talents**

In this dimension we also have to see the difficulties of attracting talent from outside the BSR. To be relevant in science-related industries, we must be able to attract top-level talent to settle here. Much has to be done to make the region more attractive to outsiders both in terms of finances and of living conditions; given the region’s long, cold winters with short daylight hours. An ambition to do just that has been made in an EU-supported project (One Baltic Sea Region) initiated in Helsinki and with the Swedish Institute in an operative role.

These measures — modernising skills training, attracting outside talent, and raising gender equality — can be even more effective, if adopted by all BSR countries so that the region as a unified whole can be viewed from the outside as a source of opportunities.

**A genuine Baltic Sea market**

Most important for the cohesion and genuine integration of people and businesses, as well as for lasting prosperity, would be the creation of a genuine domestic market for around 70 million consumers.

As our region is sparsely populated, a functioning domestic market – with substantially upgraded infrastructure – is particularly vital for increased consumer demand to be translated into increased production for companies in the region. Much has been done in this respect; all the countries that touch the Baltic – with the key exception of the Russian Federation – are now members of the European Union and its single market. Integration in trade and investment between the new democracies in the East on the one hand and the ‘old Nordics’ and Germany on the other means that consumer choice in the region has become more varied.

Yet even within the single market, many hurdles still exist, such as different product standards and a certain diversity of rules regarding trade in services. The continued pursuit of efforts to bring down remaining barriers to trade is especially important for smaller companies. This is currently dealt with in a flagship project within the EU Strategy for the Baltic Sea Region called ‘Remove Remaining Single Market Unjustified Barriers’. This is led by the Polish Ministry of Economy in partnership with the National Board of Trade of Sweden.

**Russia in the WTO**

The 2012 accession of Russia to the World Trade Organization (WTO) is of course essential with respect to creating a truly unified market in the Baltic Sea Region, including St Petersburg and Kaliningrad on its eastern shore. However Russia’s involvement in Crimea and eastern Ukraine and the resulting economic sanctions are a setback. Nonetheless, it should be noted that Russia has made binding commitments to open up its markets in many different fields.

Import duties should come down. Trade-distorting measures such as export duties and discriminatory pricing practices have to be reduced or eliminated. Non-tariff barriers to trade also need to be lowered.

If these measures are implemented, it is true that exporters outside the region will
eventually make gains in many industrial areas. However, even more important would be liberalization in ICT and in financial and other services.

Of course one can claim that implementation of these liberalization measures could be slow, delayed by sanctions and held up for political reasons. Yet, to date, the WTO dispute settlement procedures have shown themselves to have real clout; many domestic Russian laws will have to change in a more transparent and liberalizing direction.

What does a ‘true domestic market’ mean?

A good example of what is implied by a domestic market could be the example of Skype. This is seen in Sweden as a Swedish innovation, in Denmark as Danish, and in Tallinn as very much Estonian. In reality, though, it emerged from the critical mass of young ICT entrepreneurs who had benefited from strong user demand in the Baltic Sea Region as a whole.

The concept of a Baltic Sea market is certainly not new. The medieval Hanseatic League in many ways created the regions we now know it, and its influence continues to be felt today. It should be noted that the League was more than just a trading community backed up by sea power. Strong cultural impulses and inspiration followed the Hanseatic traders wherever they went in the region. To take just one example, the brick ‘Backstein Gothic’ architectural style continues to define the region, with similar churches and castles to be found in Lübeck, Malbork, Riga, Turku, Stockholm, and Ribe.

Nowadays there is also a perception that cultural development can go hand in hand with innovations in communication and ICT-technologies. Berlin has had particular success in branding itself as an innovative hub for cultural entrepreneurship, something that also creates economic benefits. Another feature in this respect is the rapidly advancing industry of sophisticated computer games for an international market, where Finland and Sweden are very strong.

Innovation and the knowledge-based economy

To be able to compete on the global and not just European scale, the BSR has to maintain its lead in business innovation. The region is fortunate to be widely regarded as innovative in many respects. For instance, the region is very strong in patenting, both in general and for energy and environmental technology more specifically. A knowledge-based economy has clearly emerged, with industry and services becoming intertwined into complete systems.

Openness and free trade

An important reason for the region’s innovative capacity is the relative openness of its economies; the Nordic countries—and now, to a large extent, the eastern Baltic Sea region – are strongly committed to free trade, which also opens possibilities for the import of technology and ideas, and has been a strong force for advancement in science and culture – not to mention the gains our businesses have made from being open to international influence.

Innovation is to a large extent user-driven: that is, shaped by demanding customers and consumers. The example of Skype is telling. People in the Nordic countries are known as early adopters. Many observers also claim that the combination in the region of high openness to change and a strong social safety net is important for innovation. Frightened people are seldom innovative.

Academia and business

No less crucial is a more positive attitude to cooperation between universities and
business than in many other parts of Europe. Engagement between private-sector and Academia provides a critical opportunity for intellectual cross-fertilization, something that is key to inspiring new thinking and unexpected ideas.

In this respect it is of special interest that the region hosts 15 of Europe’s 100 strongest clusters. We have a mixture of clusters in for example ITC, health care, environmental research, and maritime services, a mixture that enables them to benefit from each other.

Vulnerability and shifting demand

We cannot however be satisfied with our present position. We are vulnerable. Global competition and changing demand conditions are too variable to permit our region to become complacent.

One aspect of this has been raised by the ministry of science of the German federal city – state of Hamburg. This ministry is involved in the European Union Strategy for the Baltic Sea Region and is charged with coordinating scientific and research cooperation within the strategy.

Hamburg’s officials have worried that although the BSR is one of the most competitive and innovative science regions in the world, there is a clear lack of transnational cooperation between institutions of higher education – with suboptimal results. Accordingly, they have proposed the creation of a Baltic Science Network to exploit as yet untapped potential. The stakeholders would be ministries of education (or science), national umbrella organizations responsible for implementing science and research policies, and key regional actors such as the EU Commission, the Council of Baltic Sea States, and the Nordic Council of Ministers.

Hurdles for innovators

Fostering innovation can mean many different things. Most innovators are up against hurdles of various kinds, such as outdated legislation, conventional peers in industry, universities and banks, or undeveloped markets. Accordingly, a main task for the public authorities should be to help eliminate obstacles for innovators.

In this respect, the new concept of the EU regional policy known as Smart Specialization can be helpful. It is based on a ‘bottom-up entrepreneurial discovery process’ based on the relative strengths and capabilities specific to a given region, so-called ‘location-specific’ with the goal of not spreading its efforts too widely.

Finally, while it is easy to overlook innovation in Russia given the dominant role played in its economy by commodities, especially oil and gas, it nevertheless has many innovative companies in ICT and retail. However, they are not well known since few of them reach the world market.

Boosting demand for business spearheads

To become more successful in global competition, developing good conditions for demand is crucial. The whole Baltic Sea Region could benefit in this respect from the investment in ESS (European Spallation Source) in Lund, Sweden, co-hosted by Denmark. Focused on the use of neutrons in material science, it is the first ‘Big Science’ large international research facility to be located in the BSR. Understanding basic atomic structures is important in a variety of applications, including plastics, pharmaceuticals, engines, computer chips, cosmetics, detergents, textiles, paints, fuels, and batteries; moreover, it is vital for other research areas such as learning how DNA sustains life at the molecular level. The work in ESS could well become a boost for research and industry in the whole Baltic Sea Region.
**Defining element: The Sea itself**

Of course, there remain fascinating new possibilities and untapped potential for future entrepreneurial business advances in our region.

Of common interest should be the environmental condition of the Baltic Sea itself. It is deteriorating dangerously, with problems including but not limited to eutrophication (a reduction in sea oxygen levels ultimately resulting from agricultural and industrial runoff) – even if there have also been positive developments, such as diminished chloride and dioxin pollution, as well as reviving populations of sea eagles and seals.

The region’s companies are strong in water purification and sustainable environmental technologies, as well as other fields such as space technology and ICT that can be used to monitor the sea. Estonia’s world-leading e-government solutions should also be mentioned in this context. Since no one wants to live next to a dead sea, all countries in the Baltic Sea basin should be motivated to apply their capacities for creative innovation to find solutions for minimizing further environmental damage and improving the living conditions in the sea.

Boosting demand in an entrepreneurial milieu can be brought about by improvements in public procurement, which if done right can promote innovation and environmental friendly techniques. This approach is today not only accepted but also encouraged by the European Commission.

The future role in the region of the Council of Baltic Sea States is often discussed. I would propose that the governments come together to stimulate demand through joint public procurement, thereby incentivizing industry to develop new innovative technologies and systemic solutions for environmental issues in the Baltic Sea. If these issues are solved regionally, this could also lead to a global breakthrough in responding to environmental and climate challenges.

Now, we come full circle. The Sea created the conditions for life, culture, and prosperity throughout the region’s history. And today the sea could become the key factor that will bring people and countries together in meaningful cooperation, thereby preventing centrifugal forces from dominating in our part of the world!

**Concluding remarks**

With a strong economic and innovative base, the Baltic Sea Region has managed to recover from the global financial crisis better than many other parts of the world. However, most of its economies are small and vulnerable. The new democracies in particular still have lot of catching up to do in order to modernize in a sustainable way.

If the region is to lift itself above the ‘New Normal’ of the no-growth economy, an increasingly global trading orientation is of utmost – thereby linking it with important centres of growth outside Europe.

Gender equality has to be prioritized. Education and professional skills training needs to improve. Outside talent should be attracted.

Innovative cooperation between universities and business, as good as it is ‘at home,’ must become more advanced on a transnational level. Leftover ‘siló’ mentalities have to disappear for the region to become stronger in developing large innovative scientific and business projects and thereby be more of a player on a global scale.

Remaining barriers to trade must be removed. A genuine domestic market in the Baltic Sea Region would mean much for inspiring private investment, not least for smaller companies. It could also foster stronger innovation for the benefit of consumers while promoting regional cohesion.
The member governments of the Council of Baltic Sea States have to work together in a more operational way jointly to advance business cooperation while strengthening the state of both science and society. The defining element is the Sea itself. Since it has formed our culture and economies, its ecological fate is of paramount importance and should occupy the minds of all people who live in the region. This should also give us the necessary inspiration – and tenacity – to succeed!

MATS HELSTRÖM

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Cross-border Cooperation: Challenges and Opportunities

Oleg Matukevich, Foundation of Knowledge and Technology for SMEs ‘Victoria’; Information Centre for Business Support – INOK, Russia

The experience of cross-border cooperation between Russia and countries of the Schengen zone: The example of the local border traffic (LBT) regime with Poland.

1. General features of the local border traffic regime between Russia and Poland

A local border traffic (LBT) regimes have become an important factor in cross-border cooperation between Russia and some countries of the Schengen area. It facilitates the border crossing process for citizens of both countries living in the border area. Under the LBT, residents of the border zone do not require visas in order to visit the border area of the other country for a series of reasons, from social, cultural, family, and officially acknowledged economic reasons (non-profitable activity).

At present the Russian Federation has concluded intergovernmental agreements on the LBT with three countries of the Schengen area: Norway, Poland and Latvia.

Russia’s LBT agreements with these countries differ from each other in ways such as the distance or duration of permitted stays. on such parameters as a distance of permitted stay on the territory of a State-member of LBT Agreement from the state border and duration of stay. For example, the Russian-Polish LBT regime defines the border zone as 150 kilometers wide, in contrast to the 30 km zone of the LBT regime between Russia and Norway.

The most distinctive example of an LBT regime is that between Russia and Poland, which came in force on July 27, 2012. It allows residents of the border zone an unlimited crossings for stays of up to 30 days at a time (not to exceed 90 days within a 180-day period) in the neighbouring country.

On the Polish side, the zone includes residents of the following administrative units:
– in the Pomeranian Voivodeship: Puck, Gdynia, Sopot, Gdańsk city and county, Nowy Dwór Gdański, and Malbork
– in the Warmian-Masurian Voivodeship: Elbląg city and county, Braniewo, Lidzbark, Bartoszyce, Olsztyn city and county, Kętrzyn, Mrągowo, Węgorzewo, Giżycko, Godtap, and Olecko. Meanwhile, on the Russian side, the entire Kaliningrad region is included, as illustrated below.

2. Influence of LBT regime on the Russian-Polish border crossing

The LBT regime between Russia and Poland can be considered unique not only within the context of the two countries
bilateral relations, but also within that of relations between Russia and the European Union as a whole. It caused a sharp rise in Russian-Polish border crossings in the first two years after the agreement entered into force, although this number was strongly influenced by political and economic factors emerging in the second half of 2014. According to the Border Guard Service of Russia in the Kaliningrad region, the number of border crossings in both directions were twice as high in 2012 (when the Agreement on LBT regime was signed) compared with 2011, reaching over 4.2 million (see Table 1).

Table 1. Characteristics of the border crossing between Poland and Russia (Kaliningrad region) in the period from 2012 to the first quarter of 2015

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>1st quarter 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Total crossings:</td>
<td>4 232 613</td>
<td>6 360 382</td>
<td>6 795 350</td>
<td>1 384 376</td>
</tr>
<tr>
<td>Foreign citizens</td>
<td>2 327 108</td>
<td>3 201 006</td>
<td>3 592 546</td>
<td>833 536</td>
</tr>
<tr>
<td>Russian citizens</td>
<td>1 903 976</td>
<td>3 157 632</td>
<td>3 201 126</td>
<td>550 530</td>
</tr>
<tr>
<td>Stateless persons</td>
<td>1 529</td>
<td>1 744</td>
<td>1 678</td>
<td>310</td>
</tr>
<tr>
<td>2. Total crossings</td>
<td>286 156</td>
<td>3 230 830</td>
<td>4 680 278</td>
<td>995 979</td>
</tr>
<tr>
<td>under terms of LBT</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Citizens of Poland</td>
<td>268 233</td>
<td>2 143 516</td>
<td>3 043 426</td>
<td>729 505</td>
</tr>
<tr>
<td>Russian citizens</td>
<td>17 838</td>
<td>1 086 372</td>
<td>1 635 428</td>
<td>266 140</td>
</tr>
</tbody>
</table>
In 2013, over 6.3 million people had crossed the Russian-Polish border, or, 50% more than in 2012.

Both Russian and Polish experts believe that the sharp rise in crossings is connected with the implementation of LBT regime.

One of the Kaliningrad region newspapers quoted a head of the Kaliningrad Border Guard department Oleg Lutsky as saying ‘the sharp increase in the Russian-Polish border crossings was mainly caused by the agreement on LBT, which has become increasingly popular since its implementation’.

Statistical data by the Border Guard Service of Russia in the Kaliningrad region show that while in 2012 the number of crossings of the Russian-Polish border in the framework of the LBT was only 6.7% of the total number of border crossings, this figure had jumped to 50.7% in 2013 and 68.8% in 2014.

LBT card has become the most common ‘tool’ used by the residents of the Kaliningrad region to cross the border. In 2013 66.1% of Kaliningrad residents had crossed the border with LBT cards several times a month, 25.9% – several times a week (!), and 1.6% – every day! Only 6.4% used the LBT card less than a few times a year or less, according to a report by the Polish Laboratory for Social Studies.

It worth noting that the Poles and Russians have different goals and frequency of crossing the – Russian-Polish border.

According to Poland’s Border Guard Service statistics, Poles cross the border more often than their Russian counterparts (see below), but their main purpose is to purchase fuel (88% of local border crossings). Other purposes of border crossing are of relatively little importance: tourism – 7.1%, visiting friends and relatives – 1.6%; business: 0.6%; and contracted work – 0.4%. The financial incentives for Russians crossing into Poland are more complicated. First of all they buy food and clothing as the prices are more attractive in Poland than at home. Representatives of this group make up 54% of the total number of crossings of the Russian-Polish border.

Border crossings for tourism make up 19%. Up to 18% of Russians enter Poland as a transit country. Other purposes of entering into Poland are: hired labour – 3.4%, private business – 2.5%, and visiting relatives & friends – 2.3%.

In turn, the analysis of statistics by the Kaliningrad Border Guard Service shows that Poles visited the Kaliningrad region twice as frequently as Russians visited the Polish border areas: some 6.2 million compared to 3 million as of March 31, 2015 (see Table 1).

In the second half of 2014, the LBT system was affected by the highly strained relationship between Russia and Poland caused by the crisis in Ukraine and by the weakening of the Russian rouble against major currencies, including the Polish zloty.

Thus, according to the Central Statistical Office of Poland, nearly 105,000 Russians crossed the in December 2014, almost 73,000 (or 70% less) than in the same period the previous year.

‘The tourism and shopping boom caused by LBT and the favourable rate of the zloty has ended, probably both because of the devaluation of the rouble and the difficult economic situation in Russia. Moreover, the mood has not been good in our neighbouring relations recently’ – an adviser of the mayor of Gdansk Tomasz Nadolny was quoted by one of the Kaliningrad editions.

However, the decline in the number of the Russian-Polish border crossings in the second half of 2014 does not negate the impact of the LBT regime on commercial and cultural exchanges between the two countries. This is confirmed by statistics on the number of permits issued to cross the border under the LBT regime (see Table 2).
Table 2. The number of permits issued by Russia and Poland for border crossing under the LBT regime

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>Quarter I 2015</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Issued by the CG of</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Poland in Kaliningrad</td>
<td>12 672</td>
<td>184 295</td>
<td>53 868</td>
<td>13 781</td>
<td>264 616</td>
</tr>
<tr>
<td>Issued by the CG of</td>
<td>7 000</td>
<td>56 000</td>
<td>160 000</td>
<td>27 000</td>
<td>250 000</td>
</tr>
<tr>
<td>Russia in Gdańsk</td>
<td></td>
<td></td>
<td></td>
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</table>


'We have issued more than 250,000 LBT permits. It means that more than a quarter of the residents of the Kaliningrad region obtained them. And it is important that these permissions are being used. According to the statistics data provided by both the Polish and Russian border guard services, LBT border crossings amount to more than 50% of the total' Consul General of Poland in Kaliningrad Marcin Nosal said last October at a conference devoted to the impact of the LBT regime held in the Polish city of Bartoszyce.

According to the press service of the Warmian and Masurian Border Service, as cited by the Polish cultural and business centre in Kaliningrad, almost 2.5 million residents of Kaliningrad region and Polish residents of border provinces had used the LBT system during the past two years.

Statistics from small border traffic the Kaliningrad Border Guard Service show that in the period from 2012 to the first quarter of 2015, Russian-Polish border crossings under the LBT regime accounted for 58% of the total number of crossings.

3. Social and economic aspects of the LBT regime

According to the Polish authorities, the implementation of the LBT regime caused a boom in tourism and shopping, giving an impetus to social and economic development in the included border areas.

As Poland’s Central Statistical Office pointed out in 2012, residents of the Kaliningrad region purchased goods in Poland of a total value of nearly 23 million zloty (about 230 million Russian roubles). Moreover, this data was compiled only on the basis of some 22 million VAT refund receipts presented by Kaliningrad residents at the border; the figures therefore do not include goods purchased at duty-free shops or goods/services ineligible for VAT refunds.

In 2013 the Russians spent 584 million zloty, or 6.7 billion roubles in Poland of which 37.3% were spent by those who crossed the border under the LBT regime.

According to official statistics, in 2013 Polish citizens spent 378 million zloty in the Kaliningrad region, or about half the corresponding figure for Russians in Poland. The share of Polish spending by LBT travellers amounted to 54.9% of the total. On average each visitor from Poland spent 259 zloty in the Kaliningrad region, compared to 500 zloty spent per Russian citizen in Poland.

The importance of the LBT regime for the social and economic development of the border regions was highlighted at the aforementioned Russian-Polish conference in Bartoszyce. For instance, the NewsBalt...
information analytical portal cited the comment of Mieczysław Struk, a high-ranking official from Pomerania Voivodeship. Mieczysław Struk on the two year results of the border regime, which he regarded as unique for relations between Russia and EU: ‘The growth of Russian tourism in Pomerania provides not only economic, but also intercultural benefits. The implementation of the LBT has also shown great flexibility of the service sector (hotels, retail chains) which quickly adapted to the customers from the Kaliningrad region’.

According to the Polish side, Kaliningrad residents do not just shop in Poland, but take part in active recreation by for example attending concerts, taking sightseeing trips, and visiting museums. Even though the area that can be under the LBT regime is limited, it still gives Russians a good chance to learn a lot about the neighbouring country.

Moreover, municipalities in the Kaliningrad region and their counterparts in Poland’s border areas intensified cooperation in the cultural, humanitarian, and social spheres thanks to the LBT system.

‘It has become much easier for us to visit the Polish border towns with which we have close cultural and humanitarian contacts, and in turn to invite our Polish colleagues to visit in return’, said Sergei Gvozdinsky, first deputy head of the municipal administration in the Russian border town of Mamonovo.

An important result of implementation of the LBT regime between Russia and Poland, according to the participants of the Bartoszyce conference, was that previous forecasts predicting dire consequences such as an intensification of cross-border crime (particularly smuggling) due to the LBT system had not come to pass.

‘There were only 80 violations of the LBT regime within two years. This is insignificant, if we take into account that there were several million border crossings annually’ – Marcin Nosal the Consul General of Poland in Kaliningrad, said at the conference.

For his part, Kaliningrad Region governor Nikolai Tsukanov agreed:

‘The two-year experience of visa-free border crossing under the LBT regime is very important for us”, he said: ‘During time in which the LBT regime has been in force, there have been virtually no violations from either side. It shows that the Poles and the Russians respect each other and are ready for mutually beneficial cooperation’, he added.

It should be noted the Russian-Polish political relations, which have become more complicated recently, as well as economic difficulties in Russia, have of course influenced the social and economic impact of the LBT regime. Kaliningrad residents became less willing to travel to Gdansk and other neighbouring towns first of all because the fall in value of the rouble against the zloty made shopping in Poland less advantageous. As the number of both Russian shoppers and tourists decreased, the impact was immediately felt by the owners of shopping centres and even small shops in the border regions of Poland.

‘The decrease in the number of Russian tourists is strongly felt in the service industry as well as the culinary and trade sectors’, Christina Hartenberger-Pater, director of the Pomeranian Regional Tourist Organization, told one of the Kaliningrad news agencies.

Nevertheless, both sides consider the difficulties to be temporary and agree with that LBT maintained its positive impact on the social and economic development of the border regions of Poland and Russia.

‘Recently I have noticed that there is a new Biedronka shop built just 300 meters from the border in Bezledy’ – said Nosal.

‘This is significant. We have actively started to issue five-year LBT permits to those
who have already had permits valid for two years. In 2014 we issued more than 50,000 LBT permits; moreover, over 13,000 LBT permits and 7,000 visas were issued in the first quarter of 2015. LBT is a useful tool for helping two neighbouring nations to know each other better’, argued Nosal.

4. Challenges and opportunities of the LBT regime

Alongside with the positive results of LBT implementation between Russia and Poland, however, both sides have identified some problems with visa-free border crossings between the two countries.

Both Russian and Polish experts point to ‘bottlenecks’ at border crossing points. Efforts to modernize infrastructure, including electronic innovations, have so far failed to resolve a problem of kilometres-long queues at crossing points on weekends and bank holidays.

To solve the problem the Poles promised to complete the reconstruction of the Olsztyn-Braniewo railway within two to three years. This project is aimed at establishing a railway connection between Warmia-Masuria and Kaliningrad region. According to Marszalek (Chairman of the Sejm) Jacek Protas, who participated in the Bartoszyce conference, the Polish side has already allocated some funding toward its implementation.

Moreover, Protas believes that for strengthening inter-regional cooperation it is necessary to include sea traffic, including to the port of Elbląg, in the LBT zone.

The report by the Laboratory of Social Studies of Poland on the results of the implementation of LBT between Poland and Russia also noted the need to widen border areas of Poland under LBT umbrella and to further simplify cross-border procedures.

According to the mentioned-above report the Poles consider intensification of information activities as an important aspect of the further development of visa-free travel with Russia.

The information activity should cover such issues as the rights and duties of the Polish citizens during their stay in Russia, the potential inconveniences and information on what to do when being in trouble, as well as positive examples of the implementation of LBT, including examples of Polish-Russian cooperation in various fields.

In turn, the Russian Foreign Ministry representative office in Kaliningrad pointed out two major factors which significantly constrain LBT development:

– the lack of a modern tourist and recreational infrastructure in the Kaliningrad region able to attract more tourists;
– the refusal of the European officials to include the Polish town of Elk in Warmia-Masuria, as well as the waters of the Vistula Lagoon, in the LBT zone.

However, despite the existing problems in the implementation of the LBT traffic between Russia and Poland the two sides agree that the mechanism, has shown its worth and requires further development.

The LBT regime has a positive effect on the development of economic, cultural and humanitarian ties of the Kaliningrad region with the border areas of Poland.

‘Besides it can be considered as an important step on a way to visa-free regime between the Russian Federation and the European Union’, said Pavel Mamontov, a head of the Russian Foreign Ministry representative office in Kaliningrad, voicing the official position of his department.
OLEG MATUKEVICH

President of the Foundation of Knowledge and Technology for SMEs „Victoria” (Kaliningrad). Director General of the Information Centre for Business Support -INOK that provides business information services since 1991. From 2008, Member of the Board of the Kaliningrad Chamber of Commerce, which is responsible for the development of SMEs in the region. In 2013-2015, Vice-President of the Baltic Business Club in charge of the development of interregional and international trade. Head of the Małopolska Region (Poland) Representative Office in the Kaliningrad Region. He was awarded the Medal of Merit of the Kaliningrad Region. He has more than 15 years of experience in international projects and start-ups.
According to the rankings from the European Union Innovation Scoreboard as well as other indicators measuring dynamics of innovation, countries from the Baltic Sea Region have occupied leading positions for many years.

Innovation is a key element of the Nordic post-industrial development model, which calls for a brave shift towards a knowledge based society. It means among other things strong state involvement in the development of active relations with business, continuously rising funding for the R&D sector, and stimulation of the development of innovative start-ups, creative industries, and the search for new areas of innovation (i.e. green technology, energy industries, design, information & social media, smart cities, etc.).

Other countries of the Baltic Sea Region have actively joined in the exchange and transfer of knowledge from successful Nordic countries.

This is reflected in the development of institutional networks of cooperation, the active Nordic business presence in other countries in the region, and the increasing popularity of a business culture that stimulates innovation. The Triple Helix model, promoted also in the context of the EUSBSR (EU Strategy for the Baltic Sea Region), can be applied here and relies on the active role of business, government, (including local government) and the science and research sector as the main actors in innovation. This article also presents some concrete examples of best practices. Its special focus will be on effective examples from the Danish experience in boosting innovative clusters.

1. The Nordic model for investors: strengths and challenges

According to the Nordic Regional Report, Denmark, Finland, Norway, and Sweden are
individually and collectively interesting to international investors seeking ‘safe havens.’ Praised for creating balance between competitiveness and social inclusiveness, the Nordic countries have striven to make their economies more resilient as the financial crisis seemed to be coming to an end. The International Monetary Fund released a report in 2013 that contains a review of the strengths and weaknesses of four Nordic economies.

Figure 1 presents a number of economic indicators. Each of them refers to the current condition of a particular Nordic economy. An 0-10 scale was created by normalising all the variables chosen for the report. A higher score means that a country has better performance according to the selected variable.

By and large the Nordic countries have highly competitive economies. Figure 1 demonstrates the Nordics’ top-notch scores on all of the variables. Among four countries only Norway has a lower score on innovation than the OECD average. The Nordic countries are most similar in public debt level and in income equality. While in the first case the OECD average is not much lower than behind the Nordics’ score, the second reveals a much larger gap between these two groups.

Sweden is ranked second on most variables. Its weakest area is in fiscal policy. Relatively low scores in price stability and average fiscal balance are the result of government policy. However, its high level of innovation and competitiveness make Sweden an attractive place to start a business.

Finland leads in innovation, though Sweden and Denmark are not far behind. Finland spends the highest amount of GDP on R&D, with 3.87%; however, second-place Sweden has still spent 3.42% of GDP on R&D for two consecutive years.

Figure 2 presents the level of real GDP growth in the Nordic countries, which can be linked to the specific model of development innovation in the region. The report found that the unique combination of openness to trade, competitiveness, and a high degree of specialisation – which the authors call the ‘Nordic model’ – is responsible for the strength of the Nordic’s economies (for instance in 2012, the sum of exports and imports stood at over 60% of GDP; exports consisted of either raw materials or highly specialised and innovative final goods).

2. Countries from the Nordic-Baltic region in various rankings on innovation

2.1. EU Innovation Scoreboard 2015

The Innovation Union Scoreboard is an indicator published by the European Commission according to which the Scandinavian countries are among the leading EU countries when it comes to innovation. There are many reasons for this, including their tradition of inventiveness, commitment to gender equality, and deep belief in the individual. Another important factor is
that research institutes work closely with both the private sector and public sector, thereby forming the basis for the activity of such global companies as Sweden’s Astra-Zeneca, Ericsson, and Volvo, or Denmark’s, Rockwool, Danfoss, and Velux – along with many others.

Innovation is thus closely linked to research and development activities. Sweden, which took first place in the Innovation Union Scoreboard 2015, is also in the top three countries by amount of investment in this area; with 3.6%, it already far exceeds the EU’s 2020 target of allocating 3% of GDP to research and development.

2.2. Innovation Capacity Index

Every year, Harvard Business School releases the Innovation Capacity Index, which analyses the innovation potential of individual countries. Of the 173 countries surveyed, Sweden took second place in terms of well-educated engineers per citizen – just behind Japan. The 2015 study also noted that over the last 15 years, Sweden is in second place when it comes to the rate of increase in the number of patents per capita.

2.3. Global Innovation Index

According to the Global Innovation Index issued by INSEAD Business School in 2014, Sweden was ranked in third place. This indicator is a measure of the extent to which the infrastructure of the country is conducive to the functioning of a creative environment, enables innovation, and contributes to real results.

An especially developed area of Swedish innovation is biotechnology. Research in this sphere is not limited to such giants as Astra-Zeneca and Pfizer, but includes many small biotech companies as well. The key export products in this industry are pharmaceuticals, and innovations in the field of medicine include among others the asthma medications Bricanyl and Pulmicort, the growth hormone Genotropin, and the gastric antiulcer drug Losec – which is one of the best-selling pharmaceuticals in the world. Other rapidly developing markets include medical equipment, imaging devices, orthopedic implants, dialysis equipment, artificial heart-lung machines, ECG monitors, and laboratory testing equipment.

3. Nordic states as leaders in providing innovative clean energy solutions

Thanks to their success at innovation, Nordic states have tended to become global leaders in sustainable development as well. A report from the 2012 Nordic Innovation Publication affirms that the Nordic states aim to increase innovation in green growth and welfare due to challenges posed by globalisation, climate change, and ageing populations. In the area of green growth, the Nordic countries see an opportunity for innovation and increased global market share. In addition, climate change provides an impetus for green and sustainable solutions in which Nordic states already have competitive advantages. Ageing populations require innovative solutions within the public sector, especially in order to maintain the welfare state.

Although the Nordic states are already leaders in innovation among EU member states, they seek to become global pioneers in sustainable development, specifically in green growth and welfare. Their approach aims to empower the Nordic welfare model with a high emphasis on green development.

For Nordic states, it is important to secure and maintain a leading position in fighting climate change and introducing sustainable energy solutions. Joint research programs
and large investments in new technologies are important short-term steps, while Nordic governments’ support for common research projects to developing integrated solutions in the energy sector will be advantageous in the long run.

The Nordic states invested €53.4 million into innovative research and the development of new technologies from 2009-2013. This funding was directed towards six sub-programs: effects of and adaptation to climate change; interaction between climate change and the cryosphere; energy efficiency with nanotechnology; integration of large-scale wind power; sustainable bio-fuels, and carbon capture and storage.

Besides these common actions, each state from the region has its own energy strategy. For instance, Denmark seeks to cover its total energy and transport demand with renewable energy by 2050. Before that point, it favours making large investments prior to 2020 in energy efficiency, renewable energy, and the energy grid. Sweden – according to a report entitled Making Sweden an Oil Free Society – plans to dramatically reduce oil consumption and energy dependence by 2020. Finland is one of the world leaders in the use of biomass, mainly due to its large forest resources, while Norway is the European leader in the share of renewables in gross inland energy consumption. Almost a fifth of total primary energy consumption in Finland is met by biomass, is third-highest in the EU after Latvia (29%) and Sweden (22%). Data from Eurostat illustrate that Norway covers nearly half (42%) of its gross inland energy consumption by renewable energy, 38% by hydro power.

4. Lessons from regional cooperation for boosting innovation

The Nordic countries currently sponsor joint research programmes and are determined to make large investments in innovative and sustainable solutions.

The Nordic Council of Ministers has created a fund called Nordic Innovation (NI), which funds projects that boost innovation and competitiveness in the Nordic business sector and lead to commercial and sustainable development. Nordic Innovation primarily works with small and medium-sized companies in the Nordic region. Its mission is to make it easier to develop and conduct business in the region without national barriers.

Nordic Innovation defines innovation as new products, services, markets, processes, or organisational models that create financial benefits or otherwise are of value to society. Innovation takes place in companies and public sector service providers, and is important in all industries and sectors. It thus calls for a broad approach acknowledging that innovation comes from a number of sources and in a number of types. NI is also keen to encourage innovation in all industries and sectors, including in public administration (following the Triple Helix concept from EU Strategy for Baltic Sea Region – EUSBSR). ‘Nordic added value’ is gained when cross-border co-operation among organisations generates more value than would be gained from only working nationally. By the promotion of cross-border trade, NI means measures that encourage new start-ups and market opportunities as well as increased trade in goods, services, and capital both within the Nordic region as well as in the EU as a whole.

5. Clusters as effective tools of boosting innovations: examples from Denmark

Clusters tend to emerge around natural resources necessary to a given industry (e.g. Silicon Valley in the US or the maritime cluster on the Danish coast) or around
universities and other knowledge institutions that train relevant personnel and that are open for collaboration with business (e.g. life sciences around Copenhagen). Some clusters emerge in the 'neighbourhood' of another industry that creates demand for their products or services (e.g. the wireless technology cluster in the Danish region of Northern Jutland, which has responded to the needs of the maritime industry).

Therefore, the cluster is one of the main forms of innovation networking. Innovation networking is a broader term, covering not just R&D co-operation on a local scale (as in a cluster) but also collaboration among companies located in different regions, countries, or continents. Such collaboration can be formalised to a greater or lesser degree. Of course, we can barely speak of clusters without mentioning the key factor of networking.

### 5.1. Innovation Systems within a cluster

Innovation systems within a cluster are mainly shaped by private-sector activities. The presence of companies and enterprises within the system is in turn conditioned by geographical location as well as by the specific aspects of the sub-sector in which they operate. Companies sharing the same field of interest tend to increase their level of mutual interaction when located nearby.

### 5.2. Innovation in Danish clusters

The Danish Agency for Science Technology and Innovation has revealed, based on research conducted on 1225 companies, that after a year, participation in innovation networks increases the probability of R&D collaboration by a factor of 4 and the probability of innovation by more than 4.5 times. Some 3,301 companies participate in innovation networks in the country.

#### Table 1. Danish companies participating in innovation networks by size

<table>
<thead>
<tr>
<th>Company size in full-time equivalent</th>
<th>Amount of participating companies</th>
<th>Fraction of participating companies</th>
<th>Fraction of total companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 to 19</td>
<td>1,730</td>
<td>57,1%</td>
<td>96,0%</td>
</tr>
<tr>
<td>20 to 49</td>
<td>441</td>
<td>14,5%</td>
<td>2,5%</td>
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<tr>
<td>50 to 99</td>
<td>270</td>
<td>8,9%</td>
<td>0,8%</td>
</tr>
<tr>
<td>100+</td>
<td>590</td>
<td>19,5%</td>
<td>0,7%</td>
</tr>
<tr>
<td>All</td>
<td>3,031</td>
<td></td>
<td>96,0%</td>
</tr>
</tbody>
</table>

5.3. Cluster example 1: Life Sciences – Medicon Valley

Fig.3 Map of Medicon Valley and list of firms involved in this cluster

The life sciences cluster located in the Øresund region (covering Greater Copenhagen area, including adjoining parts of southern Sweden such as the city of Malmö) is one of the most important and well developed clusters in Denmark, and is a European and world leader in both biotechnology and medical technology. The success of this cluster is based on many factors, including the proximity of high-quality universities, multi-company collaborations, knowledge spillovers, public-private partnerships, government support, and venture capital investments. ‘Medicon Valley’ s exceptional feature is the latter: the huge impact of venture capitalist firms can be clearly seen in the examples of Fluxome (an industrial biotech company focusing on molecular bioengineering and nutrition), Vivostat, Acarix, and Santaris Pharma. For example, the investments of Sevenure Partners, one of the biggest venture capital firms in Europe with a €500 million budget, has enabled these biotech companies to carry out R&D activities that they eventually have been able to turn into scientific and commercial successes.

5.4. Cluster example 2: Copenhagen Clean Technology (Cleantech) Cluster

This cluster focuses on the sustainable exploitation and integration of renewable energy sources. Renewable energy in Denmark is produced mainly from wind power and biomass; some 46 companies are involved R&D programmes working on those energy sources. Two of the world's
leading wind power companies, Vestas and Siemens Wind Power, are based in Denmark and carry out their R&D activities mainly within the cleantech cluster. This wind power cluster attracts companies by the possibility of ‘access to a complete value chain of sub-suppliers and professional services; access to a highly qualified and experienced talent pool – with 24,000 people employed in the wind power sector; and access to universities with cutting edge know-how, extensive experience in collaborating with industry, and world class research and test centres.’

A noteworthy contribution to cluster’s innovation network is Siemens’ Centre of Knowledge Interchange, which is being established in Denmark mainly because of Siemens’ cooperation with the Danish Technology University, which has a particularly long tradition of collaboration with private companies. The Siemens Centre is an example of a private initiative that enhances the innovative capacity of a cluster that has already been created and nurtured by the advantageous conditions provided by public institutions and by the open Danish approach towards public-private collaboration.

The Danish government is actively involved in supporting renewable energy cluster in many ways, not just by providing university graduates. For example, it created or helped to create several programmes and funding sources dedicated to the development of new cleantech solutions. Start-up and R&D activities can receive support from the Danish National Advanced Technology Foundation (with a budget of €38 million), the Danish Agency for Science, Technology and Innovation (with a budget of €55 million, solely earmarked for energy solutions, the Energy Technological Development and Demonstration Program (EUDP) (with €30 million), the Danish Energy Association (€5.5 million) and many other foundations and programmes. No less important is the presence of science parks, which serve to incubate business activities. In addition to foundations and programmes, venture capital – as noted above with reference to other sectors – is also very active in cleantech. Supporting new companies not only with financial input, but also business experience, venture capitalists act as another innovation capacity booster in the cluster.

An exceptional focus of the cleantech cluster is on the smart grid, a system integrating various renewable energy sources. Each of these sources has its flaws: for instance, the problem with the wind power is that sometimes wind speeds are excessive, causing more production than the grid can handle; at other times, however, there is less wind than needed. Diversification of energy sources is the best way to deal with this problem; however, it is not possible to carry out a sensible diversification programme without a stable and well-planned network. Making such a network possible via greater cooperation is an invaluable role for the cluster to play.

5.5. Cluster example 3: Information & Communication Technology

Denmark’s ICT cluster concentrates wireless technology developers in the northern part of the country. Again, as in most of Danish clusters, the ICT one benefits from access to the country’s highly innovative talent pool, a result of Denmark’s high level of education as well as the openness of its public institutions and authorities towards public-private collaboration. The ICT cluster benefits specifically from a particularly suitable domestic test market comprised of enthusiastic ‘early adopter’ Danish consumers.

The principal contribution of the Danish authorities to this cluster are a set of very
competitive legal regulations. According to the World Economic Forum’s Global Information Technology Report, Denmark has the best laws in the world on ICT. Denmark provides a flexible environment for business activities while protecting intellectual property and even promoting the cluster worldwide.

**Conclusion for business**

Participation in a cluster brings several benefits for a company. Knowledge transfer is just the starting point. By cooperating with other advanced entities in the field of innovation, a company learns from more experienced players and is more likely to develop its own solutions, giving it a market advantage while broadening its revenue stream.

In addition to benefits regarding innovation (such as knowledge spillovers and R&D co-operation), clustering brings other advantages, such as proximity of suppliers (the concentration of one kind of company in a certain area attracts other companies in the sub-sector as well as affiliated enterprises like suppliers and outsourcing firms) or resources (a cluster is often located in certain area because of its unique features, whether natural resources, infrastructure, workforce, tax benefits, or high-quality universities). Finally, clusters make possible lowered transport and import costs due to their geographical concentration.

Finally, developing a successful cluster attracts venture capital firms, which have considerable input in developing new technologies and improving innovative capacities. Without a cluster it is more difficult to secure the attention, let alone investment, of venture capitalists.

**Conclusion for public authorities**

Clustering should be a key objective of regional development, as it reinforces knowledge-based development overall. Knowledge-based development is desirable because it results in better use of resources, public-private partnerships (innovation-oriented growth goes hand-in-hand with cooperation with universities and other public knowledge-related institutions, not to mention public authorities), measurable economic outcomes (both economic growth and higher state revenue from corporate taxation), and improvement of a country’s public international image. Moreover, the presence of a cluster attracts companies to locate their branches in a certain region, which provides new workplaces, taxpayers, and other benefits for local and national authorities.

Examples of various Danish clusters, reveal that governmental support like advantageous tax systems (the maritime cluster) or dedicated programmes and investments (the cleantech cluster) may help to develop clusters, repaying the cost of such support by attracting key companies to join or even help create such networks, eventually driving growth. Danish government and local authorities actively support clusters and innovation networks in plentiful ways, resulting in the highly developed structure of Danish innovation networks that has made the country a benchmark in this field.

**6. Can the Nordic model of boosting innovation be a lesson for Poland?**

Some elements of this model of cooperation can be also applicable to the Polish context. The high level of Scandinavian investments, the geographical location of the country within the Baltic Sea region,
and the transfer of specific elements of Nordic business culture with a specific focus on innovative solutions has meant that strengthening regional cooperation with Northern Europe and being an active partner in this region is extremely attractive for Poland not only because it can stimulating its economic development in the short term, but because in the long term it could give Poland a better perspective on how to effectively adapt to changing trends in the long term.

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European Pioneers: The Baltic Sea Region as the First Macro-Region of the European Union

Kurt Bodewig, Former Federal Minister of Transport; Baltic Sea Forum, Germany

‘The Baltic Sea continues to be one of Europe’s most vulnerable areas. Algae bloom each summer, and more and bigger ships move through its narrowest and shallowest straits. Divisions from the past are still being overcome. Research, innovation and trade links need to be reinforced, while transport and energy connections have big gaps – the eastern and northern parts of the Region are still too often isolated from the rest of the EU.’


This quotation from a 2012 European Commission communication on the situation of the Baltic Sea and its region sets forth the grounds for the EU Strategy for the Baltic Sea Region (EUSBSR) and its re-adjustment. It also presents the three most important issues faced by the region: ecological damage to the Baltic Sea; its vital role as an environmentally friendly transport corridor; and, finally, an ever-present division within the region regarding its infrastructure – especially in terms of energy supply – that results from historical differences between two former political blocs.

These issues have been the subject of political debate in the Baltic Sea region for a long time. Many politicians, as well as representatives of the private and non-profit sectors, believe that the Baltic Sea should develop as an environmentally sustainable area that would become a model region for clean shipping as well as a knowledge region with technical innovations in the area of sustainable sea transport.

The particularly high level of active cooperation among universities and technical colleges in the Baltic Sea region offers the necessary conditions for such development. At the same time, existing protection mechanisms in terms of maritime security and public safety should be developed even further. The subject of these efforts should be a common approach towards cross-border cooperation.

The long-lasting cooperation structures in the Baltic Sea Region

As early as the end of the Middle Ages, the Baltic Sea area was already one of the
most politically and economically important regions not just of Europe but also of the entire world. Hanseatic cities like Lübeck, Tallinn, Gdańsk, or Hamburg – and later on, countries such as Denmark and Sweden – were for a long time powers of the highest European rank.

The fascinating idea of reviving the special importance of the Baltic Sea Region both as an economic area and living space was taken up even before the fall of the Berlin Wall by figures like the former head of the Social Democratic Party of Germany (and Minister-President of the federal state of Schleswig-Holstein) Björn Engholm, who proclaimed his vision of the ‘New Hanseatic League’ in 1987.

Exactly 25 years ago this political wish became a reality, thanks to the earlier demise of the communist systems in Central and Eastern Europe as well as the enlargement of the European Union – first the 1996 accession of Sweden and Finland and then the 2004 enlargement to the Baltic states and Poland. These events expanded the common horizon of political cooperation within the Baltic Sea region even further. The discussions from the period of last quarter century alone touch upon the long-lasting cooperation structures that have since allowed the Baltic Sea region to become the first macro-region – an almost perfect one.

Organisations such as the Council of Baltic Sea States (CBSS, which includes the non-EU states Iceland, Norway, and Russia), the Baltic Marine Environment Protection Commission (HELCOM), the Baltic Sea Parliamentary Conference (BSPC), the Union of Baltic Cities (UBC), and, last but not least, the Baltic Sea States Subregional Cooperation (BSSSC) are platforms of continuous political cooperation.

There are also numerous economic organisations such as the Baltic Sea Forum (BSF, 1992), the Baltic Sea Chambers of Commerce Association (BCCA, 1992), the Visions and Strategies Around the Baltic Sea network (VASAB, 1992), the Baltic University Programme (BUP), the Baltic Development Forum (BDF, 1999), the Baltic Sea Trade Union Network (BASTUN, 1999) and the Hanseatic Parliament (2004), which are supported from the employees’ side by the Council of Nordic Trade Unions (NFS, 1972) and the Baltic Sea Labour Forum (2011). This long-lasting tradition of economic cooperation is also the foundation for common activities in other areas such as energy, environmental protection, and transport. It also facilitates common solutions to current issues such as the International Maritime Organisation (IMO)’s SECA regulations (which provide force strict reduction of airborne emissions produced by the ships crossing the Baltic Sea), or the societal and legal obstacles faced by the fast-growing number of cross-border commuters. Together with a well-developed scientific and educational network, these long-lasting cooperation structures are a guarantee of success.

Civil society is one of the most important driving forces of the innovation process, especially in the fields of environment, culture, and youth policies. This activity is visible in numerous inter-regional and cross-border initiatives, especially the regular meetings of non-governmental organisations from the Baltic Sea Region, called the Baltic Sea NGO Forum, that have been held by the official presidencies of the CBSS since 2011. Not only are EU member states such as Germany, Poland, Denmark, Sweden, Finland, Estonia, Latvia, and Lithuania represented at these meetings, but so too are active NGO participants from Norway, Iceland and Russia, as well as (sometimes) guests from countries further afield. Participants discuss topics such as
environmental protection, sustainable development, and social issues.

**Macro-regional strategy of the European Union**

The existing level of intensive cooperation was one of the main reasons why the Baltic Sea Region was chosen as the subject of the EU’s first macro-regional strategy. As early as 2006, the European Parliament pointed to ecological damage and other challenges facing the region. A year later the European Council asked the Commission to develop a long-term strategy for this European area. In June 2009, the Commission presented the EUSBSR action plan with the necessary measures. Together with other macro-regional strategies on the Danube and on the Adriatic & Ionian, the EUSBSR was incorporated in the Europe 2020 Strategy, which is intended to accomplish goals set forth in the Lisbon Treaty.

**What are the objectives of the strategy?**

The European Commission describes a macro-region as ‘an area covering a number of administrative regions but with sufficient issues in common to justify a single strategic approach.’ Both parts of this definition apply in particular to the pioneering region of the Baltic Sea. With EU enlargement in 2004 the Baltic Sea became (almost entirely) an inland sea of the Union. The EUSBSR was created to address the region’s common problems and reflect its increased importance.

The Strategy has four main objectives:

1) Improving the environmental situation in the Baltic Sea area.
   The Baltic Sea is a sensitive, flat sea, which at the same time is the biggest brackish water ecosystem in the world. Therefore, the protection of biological diversity and risk prevention were defined as key priorities.

2) Enhancing prosperity in the region by providing support for well-balanced economic development through: fostering innovation among small and medium enterprises, and through supporting the macro-region in the implementation of the EU law, especially regulations concerning the internal market.

3) Increasing accessibility and attractiveness of the region for its inhabitants, economies and workforces, as well as for tourism. Improved transport connections and increased energy security through interconnected electricity networks and gas pipelines are particular priorities.

4) Ensuring safety and security in the region, for instance, through enhanced member state cooperation within the European Police Office (Europol) framework.

Creating a clear identity for the Baltic Sea Region following the example of the Mediterranean area is yet another aim. Furthermore, the strategy should also include practical cooperation with Russia.

A whole set of measures was defined in the strategy. After successful calls for tenders, these measures gave rise to numerous flagship projects and other initiatives. As the Chairman of the Baltic Sea Forum, which was involved in three of the projects – which concentrated on sustainable transport and innovative maritime transport technologies – I have experienced first-hand the dynamics of this process as well as the exhilarating feelings connected with its breakthroughs: it is satisfying to work with pioneers who wish to build a continent of innovation and sustainability and who are, working on cross-border solutions and approaches.
Public criticism accompanied the implementation

Even at the early stages of the strategy, there was criticism regarding the three big ‘No’s of the EUSBSR: the new strategy would receive no new financial means and no European legal framework of its own. Furthermore, due to a deliberate decision, there were to be no new institutions. Instead, it was to be a grassroots strategy that would build upon the well-known platforms of cooperation in the Baltic Sea region. However, the last ‘No’ did not entirely last, since the Joint Technical Secretariat in Rostock and the annual EUSBSR Conferences have taken on an almost institutional dimension.

In terms of financing, the existing EU support programmes were to be involved and the development was to be regulated by the Commission’s Directorate General for Regional and Urban Policy. The basic idea of the strategy – effectively using available resources in projects, networks, and organisations – remains a successful one. Indeed, these traditional links have created strong connections among national and regional Baltic initiatives while not only promoting further cooperation, but also – thanks to regular exchanges of information and experiences – helping to create common strategies. Today’s emergence of multilateral and trans-regional clusters can be attributed to this grassroots approach.

Thus, despite all the criticism at the beginning, this cooperation approach has proven to be very successful. As a result of more than a hundred initiatives – many of them flagship projects – a whole set of issues was defined in a new and innovative way. To illustrate this process, consider a selection of subjects that are not always at the centre of attention, such as: health (Health Region Baltic Sea, BioCon Valley, BSHR Health Port); clean shipping (BSR InnoShip, Clean Baltic Sea Shipping); transport corridors (Scandria, East-West Transport Corridor II); sustainable logistics concepts (Amber Coast Logistics); support for small and medium-sized enterprises (Baltic Sea Labour Network); agriculture (Baltic Manure, Hardwoods); tourism (Enjoy South Baltic); and maritime spatial planning (PartiSEApate). Moreover, a great number of projects in the areas of research & scientific cooperation, energy security, and many other subjects have progressed successfully with visible results. All these projects had two things in common: the idea of initiating innovations in diverse areas on the one hand, and a strong link with the current INTERREG-Programmes and other EU funding possibilities on the other.

Pioneers: Spatial planning in the Baltic Sea Region

A completely new quality of political cooperation was achieved through common strategies on marine spatial planning, an issue that is only just beginning to be a subject of international cooperation. The European Union’s concept of motorways of the sea (MoS) once played an increasingly important role in spatial planning. In light of the current situation, this concept should be revived. The link between spatial planning and various maritime issues shows how big an impact such planning has on various aspects of the utilisation of the Baltic Sea.

At the same time, an ecologically sustainable structure must be developed for the transport area of the Baltic Sea. Taking into account the situation in global shipping, the Baltic Sea region has a historic chance to give a new stimulus to sea transport, linking competitiveness with sustainability, thanks to the following factors: the stabilisation of ferry traffic, the further
growth of the cruise industry, the increased cooperation among ports with environmentally-friendly hinterland logistics, and the recent developments in the area of modern, sustainable propulsion technology.

The European Parliament and the European Council together defined the common European framework for maritime spatial planning in Directive 2014/89/EU of 23 July 2014 (entered into force on 17 September 2014) in order to ‘contribute to promoting the sustainable development and growth of the maritime and coastal economies and the sustainable use of marine and coastal resources.’ As a result, interaction between land and sea should receive more attention. The directive calls for national legislation regarding maritime spatial planning to be created by September 2016, with appropriate spatial plans to be presented by March 2021.

Baltic Sea Forum projects and their results

The Baltic Sea Forum, an NGO with consultative status at the United Nations and a strategic partner of the Council of the Baltic Sea States, participated as a partner in three projects in the first phase of the Strategy. These projects concentrated on sustainable transport structures and brought about crucial results regarding the organisation of the Baltic Sea area:

Results of the ACL Project

The transnational project ‘Amber Coast Logistics,’ implemented in cooperation with 19 partners from Poland, Lithuania, Latvia, Belarus, and Germany, was finalized in February 2014. As a result, a number of recommendations regarding infrastructural, political, organisational, and technological challenges were formulated. Political and economic decision-makers were also informed about the necessity of sustainably organising different kinds of transport in the southern and western parts of the Baltic Sea region.

The project’s short-term prognosis prepared for the region assumes an average growth rate of 2.9 to 3.1%. It is therefore recommended that a concrete approach be implemented quickly. It also applies to the hinterland transport to Belarus, Russia and Ukraine. What is worth noting is the open-mindedness of the decision makers towards tri-modal loading terminals and towards stronger integration of rail and water transport.

An improvement of efficiency to border and customs clearance was another important subject raised in the report, as were improvements in technical equipment and in workforce qualifications.

Results of the CBSS Project

After three and a half years of intensive cooperation with partners in various working groups of the Cleanship Project (CBSS), a number of pilot projects were presented together with technical solutions and the final Baltic Sea Clean Shipping Report. The Baltic Sea Forum was responsible for moderating the political strategy of the Clean Shipping concepts. It entailed the reorganisation of regional harbours and maritime transport within the next five to ten years, while taking into account the SECA regulation of the IMO as well as the measures contained in the HELCOM action plan in order to become the most environmentally friendly transport in the future as well.

Therefore, the CLEANSHIP report contains a number of recommendations and commitments to act on in order to regain the quality of the environment in the currently endangered Baltic Sea. Through sustainable structures in all parts of maritime trans-
port in the Baltic Sea – from RoRo ferries to cruise ships – the markets should be further developed in a responsible matter.

**Results of the BSR InnoShip project**

The BSR InnoShip project began with the first meeting of all partners in Helsinki in November 2010 and set out the following objectives:

1) Transnational coordination, so that the Baltic Sea Region could become a model region in maritime transport emissions performance, in accordance with national and international regulations;

2) Exchange of knowledge and development of good-practice models regarding more sustainable and economically viable Baltic Sea shipping concepts;

3) Developing a platform of specific solutions in harbours, cities, and the logistics industry to introduce innovative low-carbon technical solutions;

4) Raising public awareness in order to reduce the negative consequences of maritime emissions. The solutions developed in the Baltic Sea Region should also be made available to other European regions and countries.

Although presenting a full list is outside the scope of the current article, recommendations varied from speeding up port handling to introducing new environmentally-friendly sewage and exhaust gas treatment plants. Further recommendations included using liquefied LNG natural gas as a fuel as well as other means of reducing emissions.

I would like to mention one more result: upon the completion of these three projects, the Baltic Sea Forum created an annual Maritime Clean Shipping Award. The recipients of the award are chosen by an international jury on the basis of their particularly innovative solutions and concepts.

**Metropolitan regions and clusters**

Alongside the EUSBSR, a strategy for creating metropolitan regions was founded. As a result, a new type of metropolitan region – interregional and bilateral – was developed in the Øresund region of southern Sweden and eastern Denmark (3.7 million inhabitants) as well as the Talsinki region in northern Estonia and southern Finland (1.9 million inhabitants). The first one came to being mainly due to the realization of the Øresund road and rail link that dramatically increased ties between the two cities of Copenhagen and Malmö, resulting in a division of labour as well as common spatial planning. The cluster structure with the ‘Medicon Valley’ (life sciences, cancer and allergy research) and the ‘Copenhagen Cleantech Cluster’ (environment technologies, wind and bio energy, fuel cells) is particularly developed in this area.

The Talsinki region reflects the special cooperation between the capital cities of Estonia and Finland. This cooperation gave the Estonian economy a boost after the country regained its independence and can be traced back, among other things, to the similarities in the Finno-Ugric languages of both countries. It is especially visible in the creation of a common IT cluster that among other accomplishments developed Skype, the internet-based communication system that became an international icon. The thousands of commuters between both cities also testify to the reality of the common economic area.

Other meaningful metropolitan regions of the classical type developed historically around Hamburg (with a population of 4.3 million) and St. Petersburg (which combined with the surrounding Leningrad Oblast has some 5.5 million inhabitants). Moreover, Oslo and Stockholm qualify as
metropolitan regions despite their smaller populations.

All these regions have continued to develop in accordance with general demographic trends in the region, according to which the populations of rural areas have shrunk dramatically while the number of residents in the metropolitan regions has visibly risen.

**Intensive cluster creation as a new characteristic of the Baltic Sea Region**

Representatives of more than 150 innovative clusters from the Baltic Sea Region met during the second BSR Stars Cluster-to-Cluster conference, with the characteristic title Towards New Horizons, that took place in Germany in September 2014. The following topics were at the foreground of discussions at the conference: the pooling of the responsibilities of government, business, and academia, taking into account the potential of small- and medium-sized enterprises; and introducing and promoting further innovations. Transnational cooperation between clusters is a particular prerequisite for developing new markets, and is strengthened thanks to the support for the Baltic Sea Region’s cluster policy by the European Commission Future funding possibilities cover a wide spectrum that includes ‘Horizon 2020’, ‘COSME’, and ‘BSR Innovation Express’ among others – not to mention the EU’s traditional financing instruments of the EU.

**Added value of the macro-regional strategies**

The first macro-regional strategy of the European Union, the EUSBSR is probably the most successful realisation of this concept and will be continued in the funding period 2014-2020. In light of this success, the European Council deliberately emphasised the added value of the macro-regional strategies in its conclusions of a report for the European Commission in October 2014. An emphasis was placed on the responsibility of the member states as well as the need for stronger inclusion of the strategy in specialised policies. The new EU programmes 2014-2020 should thus show even more consideration for the particular needs of a given region. The fact that the EU Commission is expected to prepare a report on the governance of the macro-regional strategies is for me a sign that this instrument is regarded as an integral part of the integration process.

In any case, the ‘pioneers’ of the Baltic Sea Region have done an excellent job.

**Prof KURT BODEWIG**

The Foundation Institute for Eastern Studies based in Warsaw is the main organiser of the Economic Forum held annually in Krynica, Poland. Over the last 25 years the Forum has become a major economic event in Central and Eastern Europe. Each year, this prestigious conference is attended by high-level representatives of business, politics, academia and NGOs. The event has a long tradition of bringing together leaders from Central and Eastern Europe, Western Europe, Asia and America. The Institute for Eastern Studies organises other annual conferences in various European cities: Europe-Russia Forum, Europe-Ukraine Forum, Energy Forum.