

Political State of the Region Report



2011



Konrad
Adenauer
Stiftung

Baltic



Development Forum

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Political State of the Region Report

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Published by Baltic Development Forum

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Language editing: Peter Dowdy

Layout: Bitdesign / Leena Närhi, Finland

Photo credits

Front cover: Wind power plants, Istockphoto

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Welcome Think – Tank!

I welcome the Think-Tank for the Baltic Sea Region as a network of scholars aiming to stimulate open discussion on the state of regional affairs, regional integration, mutual understanding and other topical issues.

This first report from the Think-Tank is a valuable contribution to the political debate and a complement to the excellent State of the Region Report published by Baltic Development Forum annually since 2004. It is my hope that it will serve as a handy reference to recent political developments in the countries of the Baltic Sea region and that it will make for a more informed public discussion of the various topics analysed in the report.

Stockholm
October 2011



Carl Bildt
Minister for Foreign Affairs of Sweden

Independent and expert analyses are also essential to the shaping of good policies. How, in the age of globalisation, can the Baltic Sea region maintain and develop its position as one of the most dynamic, innovative, sustainable and technologically advanced regions in Europe? This question encompasses a host of issues where scholars can play an important role in deepening our understanding of the nature of the challenges at hand, and of the options governments have in addressing these challenges.

I wish the Think-Tank much success in its work ahead.

Congratulations with the report

During the last decade The Baltic Sea Region has become a generally accepted and broadly discussed topic. At least in the high-level political sphere where numerous Baltic Sea initiatives, strategies and action plans are launched, discussed and implemented. This is a very positive development, confirming that the answers to the huge economic and environmental challenges in this region lie within close cooperation and joint action based on strong political commitment.

However, we still need to reach our citizens. As elected parliamentarians we hold the democratic responsibility to translate the macroregional strategy and engage our citizens in the discussions about the future of the region. We need a public forum where we can discuss the Baltic Sea Region among us, as politicians, experts, business representatives, NGO's and citizens.

This first Political Report on the State of the Baltic Sea Region is a promising initiative in this direction. Initiatives like this can help us relating the overall development trends to the everyday topics of the civil society. A broad communication of the trends and results of the strategy and its initiatives should be a crucial part of the implementation of the EU strategy for the Baltic Sea Region. The progress of the strategy should be measured and evaluated in accordance to this.

As a politician I welcome concrete policy recommendations from the Think-Tank. A network of qualified and highly esteemed scholars that also

demonstrate the courage and responsibility to give strategic policy recommendations. Also within sensitive issues that are difficult for us to launch or address through the mainstream political debate. A forum that can add concrete inputs to the BSR political dialogue and cooperation process will help increasing the political capacity and safeguarding of our decisions.

The adaption of the HELCOM Baltic Sea Action Plan was an important step towards saving the Baltic Sea environment. And by including the Action Plan priorities in the Baltic Sea Strategy EU has taken an important co-responsibility for the success. But environmental sustainability is also an area where we constantly need to be reminded of the necessity of committed political decisions and action, also at the national level. We need independent experts to keep us on the track by their analysis and comments on what they observe. I am glad that the new academic network will take on this important task and I am very much looking forward to the future dialogue. I am convinced that this is also the case for my colleagues in the Baltic Sea Parliamentary Conference.

Congratulations with the report! It is a fascinating experiment that will hopefully be followed by further reports with valuable recommendations for political action. The long term perspective is crucial for the Baltic Sea Region.

Helsinki
October 2011



Christina Gestrin
Member of the Finnish Parliament
former Chairman of the Baltic Sea
Parliamentary Conference

The report will stimulate dialogue

It is a great pleasure for me to welcome this first report from the new Think-Tank for the Baltic Sea Region. It provides us with the latest information on the political developments and qualified academic analysis of current political issues that influence the progress in the Baltic Sea Region.

Initiatives of this kind helps us taking the political dialogue of the Baltic Sea Region to a new level and make the issues relevant for the citizens in the Baltic Sea Region. As politicians we should reach out to the citizens and ensure public support for the initiatives taken. We need to integrate Baltic Sea issues into the public debate at national and regional level. We need a forum for independent academic analysis and policy recommendations, and a network to share these as widely as possible. This Think-Tank can help us pursuing our goals for the political dialogue in BSR in an open way that will raise the public awareness of the BSR and improve coordination between the different actors who are working hard to develop and tackle challenges in our region.

EU is often accused of inefficient use of resources. The EU Strategy for the Baltic Sea Region, initiated by the European Parliament, gives us an opportunity to raise the legitimacy of the EU and demonstrate to our citizens that a development strategy can bring about real added value at a fairly low cost. This report represents a step towards improved communication ensuring that we can avoid duplicating our efforts in the different parts of the region and its findings are valuable for the implementation of the Baltic Sea Strategy.

The think-tank can also be a watchdog that helps us to address sensitive issues. And we should be able to discuss sensitive issues in the

Baltic Sea Region - good neighbors can discuss common issues even if they do not always agree on the solutions. It will increase the public confidence and underlines the relevance for public and national political debate. This group of qualified academics – independent of national governments and European institutions – can help us to reveal and discuss “the sore points”. In order to become a smart region, we also need to be an honest and courageous region.

The think-tank will also stimulate academic debate among researchers about the challenges, policies and strategies in the Baltic Sea Region. We need more research on the challenges in the region from the academic world, and we need to make better use of the results. Developing this platform can boost the researchers’ interest in topics related to our region and the first macro-regional strategy in the EU. We need research-based knowledge to strengthen the basis for policy decisions and strategic initiatives. We need clever evaluations of the initiatives and feedback to the policy. We need strong cross-institutional and cross-disciplinary research networks with engaged scholars from a broad geographical and scientific area. These networks and this report can show the way.

Finally, from a Brussels perspective it is important to convince our friends from other parts of the EU about the potentials of our region and to show that we guarantee an efficient use of the EU funds allocated to us. Initiatives like this report will stimulate a dialogue on topics that are import for the Baltic Sea region among all decision makers in Europe and I am convinced that this will have a positive impact in the long run.

Brussels

October 2011



Carl Haglund
Finnish Member of European Parliament
Vice Chairman of Baltic-Europe Intergroup in EP

Editors' Foreword

In a remarkably bottom-up process, the European Commission in 2009 tentatively negotiated a new development which gave European regionalisation a new quality: by decree of the EU Strategy for the Baltic Sea Region, the Baltic Sea Region became, during the Swedish presidency of the Council of the EU, the first European macroregion; more will follow.

The exemplary political, economic, and cultural transformation of the region since 1989-90 was a necessary condition for this concentration on and selection of the Baltic Sea Region: since then, it has again become possible to view the Baltic Sea Region, separated for over 40 years by the Iron Curtain, as an undivided entity. The region's doings and dealings have, since then, come under practically no restrictions. Mobility over the sea has achieved previously undreamed-of levels, and political and cultural co-operation have led to the Baltic Sea being called the 'Sea of Possibilities'. The Baltic Sea Region, seen also as a 'laboratory of modernity', could be a European example for other, to some extent not yet defined, regions. The regionalisation of Europe will thus continue.

It could also turn out that the macroregionalisation of the Baltic Sea Region could cure one or more of the handicaps plaguing the European Union, or at least ameliorate their political consequences: with the recent expansion of the EU to 27 member states, and the failure, up until now, to provide adequate governmental structures, the Union has become inscrutably complex, and in any case, ungovernable, causing its acceptance by its citizens to continue to decline. Here, regionalisation could help to make the process of Europeanisation clearer to citizens. Local and regional problems are more easily and effectively solved at a regional level. Furthermore, regionalisation leads to a more decentralised form of government, which is closer to the people.

However, when developing the Strategy for the Baltic Sea Region, the EU stipulated that this should not lead to further institutionalisation or an increase in the budget. Under these conditions, creating sustainable regionalisation is an exhaustive task that will require a great deal of willpower! In other words, great demands have been made of the political establishment, which it should be aware

of. The exemplary character of the region, and the high expectations with regards to effectiveness and sustainability, should be a commitment, and special attention should therefore be given to the Baltic Sea region. Unfortunately, we can observe that, neither in regards to the public nor politics in general, is this the case. The Baltic Sea Region is one of co-operation, not of conflict, and as such, a careful consideration of its political, social, cultural, and economic processes could be very useful. The region has a strong tradition of mutual dialogue and learning.

For some time, recognised experts have been dealing with questions concerning the Baltic Sea Region within a newly established think tank, preparing to give advice, and to initiate, develop and follow up political processes. Expert knowledge is there. With this first Political State of the Baltic Sea Region Report, we wish to begin the process; more could follow.

We would like to thank the authors of this report for their valuable contributions, input and efforts. We are indebted to Peter Dowdy for the language editing. In the name of everyone who has contributed to the report, we would also like to express our gratitude for the support of the Baltic Development Forum, the Konrad-Adenauer-Foundation (Riga/Berlin), the Centre for Baltic and Eastern European Studies (CBEES) at Södertörn University (Stockholm), and the Department of Northern European Studies at Humboldt University (Berlin). We hope that this report proves persuasive to responsible persons and decision makers, and creates the possibility of future work.

The structure of this report was developed in December 2010, and revisited in February 2011. The end of the reporting period was July 2011.

Berlin and Odense in September 2011



A handwritten signature in blue ink, appearing to read 'B. Henningsen'.

A handwritten signature in black ink, appearing to read 'Tobias Etzold'.

Bernd Henningsen and Tobias Etzold

Sponsors' Foreword

It is a great pleasure for Baltic Development Forum and Konrad-Adenauer-Stiftung to launch the first report of the Think Tank Group for the Baltic Sea Region.

The idea of a virtual Baltic Sea Think Tank was born during discussions at BDF Summits in Stockholm and Vilnius, and further developed during an intense dialogue with researchers and relevant academic institutions in Copenhagen, Stockholm and Riga, resulting in the set-up of the Think Tank Group in 2010.

The Think Tank Group is an open forum for discussions on the state of regional and political affairs. The aim of the Think Tank Group is to work with political, societal, cultural, and historical questions of wider interest, thereby helping to raise awareness and mutual understanding in the Region.

Undoubtedly, the work of the group will help gain a better understanding of the mechanisms of regional integration and thereby providing inspiration to the new macro-regional concept in Europe.

Copenhagen and Riga

October 2011



Hans Brask
Director, Baltic Development Forum
On behalf of BaltMet Promo



Andreas M. Klein
Director
KAS Office Baltic/Nordic States

In addition, the Think Tank Group does not shy away from addressing various sensitive issues that exist within and between countries. It is not least important.

A special thanks to Professor Bernd Henningsen, Dr. Carsten Schymik, and Dr. Tobias Etzold, who have been the main driving forces behind the report. At the same time our appreciation has to go to the whole team of distinguished and highly committed researchers in the Think Tank Group.

Also, we would like to thank our co-operation partners: Humboldt University, the German Institute for International and Security Affairs, the Danish Institute for International Studies, the Polish Institute of International Affairs, demoseUROPA, Södertörn University, Euroacademy, and the Universities of St. Petersburg, Vilnius, Riga, Tartu, and Turku.

We are looking forward to intense and fruitful discussions of the observations and findings of this report. Wishing you a good read.

Sponsored by:

Baltic Development Forum
Konrad-Adenauer-Stiftung

Baltic Development Forum is an independent and high-level network for decision-makers from business, politics, academia and media in the Baltic Sea Region. Our mission is to create a prosperous Baltic Sea Region through regional integration, sustainable growth, innovation and competitiveness. We shape the regional agenda by publishing reports on topics vital to the development of the Region and proposing priorities for action. Our annual high-level Summits offer a unique platform for debating vital matters across borders and sectors. Forum is chaired by the former Minister for Foreign Affairs of Denmark Uffe Ellemann-Jensen.

The Konrad-Adenauer-Stiftung (KAS) is a German political foundation that was named after Konrad Adenauer - the first chancellor of the Federal Republic of Germany - who was a fierce defender of democracy and peace in post-war Europe. Through its 75 representative offices worldwide, KAS engages itself in close partnerships with non-governmental organisations, public institutions and Think Tanks. These partnerships contribute to drafting policy-making strategies, conduce to institution building, participate in capacity building, lead political dialogue and organise exchange programmes. Overall, KAS realises more than 200 projects in more than 100 countries. With its projects and activities, KAS contributes to the worldwide promotion of democracy and the strengthening of the rule of law as well as to peace and social harmony, the fight against poverty and social exclusion, the extension of the concepts of the social market economy, and to EU Integration.

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List of Acronyms

Bcm	Billion cubic meters
BDF	Baltic Development Forum
BEMIP	Baltic Energy Market Interconnection Plan
BPS	Baltic Pipeline System
BSAP	Baltic Sea Action Plan
BSAS	Baltic Sea Action Summit
BSR	Baltic Sea Region
BSSSC	Baltic Sea Sub-State Cooperation
CBSS	Council of the Baltic Sea States
CFE	Conventional Forces in Europe
CFSP	Common Foreign and Security Policy
CPI	Corruption Perceptions Index
EaP	Eastern Partnership
EIA	U.S. Energy Information Administration
ENP	European Neighbourhood Policy
ENPI	European Neighbourhood and Partnership Instrument
ENSI	Enhanced Navigation Support Service
e-PINE	Enhanced Partnership in Northern Europe
ERDF	European Regional Development Fund
ESM	European Stability Mechanism
EU	European Union
EUSBSR	European Union Strategy for the Baltic Sea Region
FAB	Functional Airspace Blocks
GDP	Gross Domestic Product
HELCOM	Helsinki Commission
IMF	International Monetary Fund
LNG	Liquefied Natural Gas
MEP	Member of the European Parliament
MoS	Motorways of the Sea
MP	Member of Parliament
MSFD	Marine Strategy Framework Directive
MW	Megawatts
NATO	North Atlantic Treaty Organization
NB8	Nordic-Baltic 8
NC	Nordic Council
NCM	Nordic Council of Ministers
ND	Northern Dimension
NDI	Northern Dimension Initiative
NDPTL	Northern Dimension Partnership on Transport and Logistics
NORDEFECO	Nordic Defence Cooperation
NPP	Nuclear Power Plant
PGNiG	Polish National Oil and Gas Company
OECD	Organization of Economic Cooperation and Development
TEN-T	Trans-European Transport Network
UBC	Union of Baltic Cities
VAT	Value added tax

Executive Summary

In what state is the Baltic Sea region (BSR) in 2011? What are the current priorities of its countries? Is the newly established EU Strategy for the Baltic Sea Region (EUSBSR) able to tackle the region's problems and challenges? Has the BSR become an environmentally sustainable, prosperous, accessible and attractive, and safe and secure place since the adoption of the strategy? The first Political State of the Baltic Sea Region Report comes to the conclusion that the EUSBSR, although far from perfect, is the "new game in town" and has provided BSR co-operation with a fresh impetus. Its adoption and the start of its implementation have made the EU the most relevant player in the BSR. However, the strategy will still have to prove that it will be effective and sustainable, can make a difference and will be able to bind the interest and commitment of its stakeholders.

The report deals with the aforementioned questions in detail and provides an overview of political and economic developments in the BSR and those countries that form the region - Denmark, Estonia, Finland, Germany, Latvia, Lithuania, Poland, Russia and Sweden - over the period January 2010 until July 2011. It sheds a light on these countries' governments and, so applicable, recent general elections, which in some consolidated the existing political constellations but changed the political scene in others. The country chapters also analyse concrete policies (domestic, foreign and economic) and the way the countries have been dealing with the recent economic and financial crises that affected all of them considerably. On average, the BSR, however, proved a certain economic stability.

Furthermore, the report focuses on the countries' policies towards the BSR and the region's place on their political agendas. The EUSBSR has revitalised most of the countries' interest in the region and in regional co-operation. However, to some countries, the BSR is more important than

for others. Several countries lack a national Baltic Sea strategy which makes it difficult for them to elaborate a clear stance towards the European and regional efforts. Nonetheless, the EUSBSR has gained a certain relevance for the region and its countries as its initiation and implementation established an important link between regional and wider European developments. The strategy puts the BSR into a wider European context. It also has a potential to provide a wider framework for the many regional co-operation arrangements and initiatives. A specific characteristic of the BSR, certainly in comparison to other European regions, is its dense and deep institutionalisation. Many organizations on different levels, of different size and with different scopes of activity attempt to enhance regional co-operation. The challenge has been and still is to co-ordinate those activities effectively and efficiently and to shape a coherent system of regional co-operation.

In its second part, the report analyses specific issues that are of relevance for the BSR: security, energy, environment, migration/demography, labour mobility, transport and communication, and branding the region. Some of these issues are common themes for all littoral states (migration, labour mobility, energy, branding) but there is no or only limited regional cooperation in those areas. Hard/military security is not even a common theme for all the countries. These issues could, however, become more important also on the regional level in the future. Transport and environment are common themes and important issues of regional co-operation. The state of the environment can even be considered an important test case for the effectiveness of regional co-operation and the implementation of the EUSBSR. Only time will show, whether the EUSBSR has been able to make the BSR an environmentally sustainable, prosperous, accessible and attractive, and safer and more secure place.

The Baltic Sea Region in 2011

Twenty years after the end of the Cold War and the fall of the Soviet Union, the Baltic Sea region (BSR) is primarily characterized by a dense web of co-operative relationships and interlocking institutions with various memberships, scopes of activity, loci of power, resources and agendas. All littoral states of the region, except for Russia, are EU member states. As is outlined in the following country chapters, this largely determines their political postures and creates advanced forms of interdependence. Russia, for its part, is involved in a strategic relationship with the EU (and individual Baltic Sea states). Norway and Iceland - conventionally considered members of the region by way of longstanding Nordic co-operation, cultural affinity and membership in various regional institutions – are integral parts of the political dynamics of the region. This positive outlook simultaneously holds a set of challenges and tensions, both within the region in terms of diverging political and economic priorities and a certain lack of trust, and externally in the form of competition at and dependence on the European as well as the global level. This picture is in contrast to most, if not all, other regions of Europe and creates a very special political situation through a combination of common interests among political actors (for instance in safeguarding the environment and developing the competitiveness of the region) and at the same time vested national interests in the various institutions of the region and historically embedded patterns of competition. Such a 'thick' landscape creates special preconditions for those in the business of developing Baltic Sea interaction.

Primary institutions

Nordic institutions and Nordic-Baltic interaction.

Nordic co-operation has a long history, whose main institutional expressions are the Nordic Council (parliamentary co-operation), founded in 1952, and the intergovernmental Nordic Council of Ministers (NCM), which dates back to 1971. The scope of co-operation has been broad, but steers clear of sensitive issues relating to traditional security concerns in the Baltic Sea and the divergent choices of security policy strategies among the five Nordic countries. The paradigmatic changes of 1989-1991 also brought about changes for Nordic co-operation. Fundamentally, Sweden and Finland joined the EU in 1995, which effectively meant a strong focus on EU institutions and interaction. In consequence, Nordic co-operation was perceived as less valuable and important. In recent years, Nordic co-operation has been revived and developed also into areas that used to be taboo (as security and defence co-operation, in the form of NORDEFECO). Institutionally, the NCM occupies the key role in the context of Nordic co-operation. The organization was reformed in the period 2005-2008 to better meet the new circumstances, but calls are heard for further reforms being necessary.

From a Baltic Sea perspective, the NCM is important in various respects. Together with the NC, it has been - and still is – involved in extending Nordic co-operative structures to the Baltic countries. Nordic-Baltic co-operation under the heading of NB8 never realised its full potential largely due to lacking Nordic commitment, but the political will seems to be increasing again,

evident for instance in the preparation of the so-called Wise Men's Report (2010) for future co-operation, especially in civil security matters. The NCM is also significant from the perspective that it administers substantial amounts of money allotted to Nordic and Baltic Sea co-operation and plays a concrete role in the implementation of the EU Strategy for the Baltic Sea Region (EUSBSR).

The Council of the Baltic Sea States (CBSS).

The CBSS is the primary institutional expression of the geopolitical changes in the BSR in the aftermath of the fall of the Berlin Wall and the Soviet Union. The political strength of the institution rests with the deliberate design of an intergovernmental forum encompassing all littoral states of the Baltic Sea, including Russia as well as Norway, Iceland, and the European Commission. The organization was set up to address common concerns on a broad spectrum of issues of cross-border nature, including combating organised crime, environmental issues, and people-to-people contacts. The political salience of CBSS has decreased, spurred in part by successive EU enlargement in the BSR and developments in the EU-Russia relationship (see below) and has now been reformed into a project-based organization with a more narrow policy scope than before. Russia has, however, maintained its focus on the organisation as the key institution for Baltic Sea regional co-operation. From that perspective, the CBSS retains at least some importance. The current priority areas of CBSS are environment, economic development, energy, education, culture, civil security, and the human dimension.

The EU Northern Dimension (ND). Beyond these regionally based organizations, two frameworks emanating from the EU level shape the current character of the institutional landscape of the region. One is the EU-internal strategy for the BSR discussed below, the other the Northern Dimension, a policy framework set up by the EU and including Russia, Norway and Iceland as external partners. The evolution of the ND has been uneven, to say the least. Divided into four different partnerships, those for environment and public health, respectively, have been institutionalised and carry independent importance. The partnership on transport and logistics has, however, been plagued by conflicting attitudes and competitive national interests, and although

the states share a long history, they have only recently gained momentum. The partnership on culture has only recently been established and has yet to have an impact. The Northern Dimension was dismissed by many as 'hot air' in its initial phase, but co-operation was revived through a political declaration in 2006, taking Russia, Norway and Iceland on board as equal partners in the decision-making process. Together with the concrete involvement of financial institutions, this reflects more intense political engagement in the co-operative framework.

Sectoral institutions. As stated above, the BSR is densely populated with institutions of various kinds. An inventory of regional organizations conducted by the European Commission in preparation for the EUSBSR identified more than fifty organizations active in the region. Most of these are sectorally limited, but still carry an important role not only for the policy areas in which they are active but also for contributing to the concrete operationalisation of broader co-operation envisaged in the various political decision-making bodies. A good example of this is the Helsinki Commission (HELCOM), which is active in the area of environmental protection. HELCOM adopted a Baltic Sea Action Plan (BSAP) in 2007 that now feeds into the EUSBSR, rendering HELCOM a key position in the environmental part of the strategy. There are also organizations that are framed at other levels of interaction than the intergovernmental one, such as the Union of Baltic Cities (UBC), and the Baltic Sea States Subregional Co-operation (BSSSC).

The EU Strategy for the Baltic Sea Region (EUSBSR)

In a general sense, the EUSBSR represents the foremost symbol of how Europe relates to the BSR. The origins of the EUSBSR can be traced back to 2005/2006, when the Baltic Intergroup of the European Parliament brought up the idea of and adopted a resolution on a Baltic Sea Strategy, at the time thought of as a strategy for reinforcing the internal dimension of the ND. As the Council and later Commission developed the idea, the character changed into an EU-internal strategy for regional development. The EUSBSR was adopted

by the European Council in October 2009. The strategy encompasses four pillars – ‘environment’, ‘prosperity’, ‘accessibility’, and ‘safety and security’ – structured into 15 priority areas involving some 80 concrete projects.

Two years into the implementation phase of the strategy, early signs convey a quite complex picture. At least four different but inter-related aspects condition the relevance and future of the strategy. First, the political role of the strategy is changing. The strategy, having the character of a novel instrument for functional co-operation, received substantial political attention in 2008 and 2009, also due to new forms of policy preparation and public consultation. Once the strategy was decided, the political attention, quite naturally, largely shifted elsewhere. Other strategies are now being developed, and the focus of the EUSBSR “has been more administrative than political”, to quote a Commission progress report after the first year. The challenge in the near future, thus, is to retain the political commitment and interest in the strategy and the region. Having said that, there is an opening for – indeed, even an expectation of – regional leadership and ownership of the strategy. That in turn means that subsequent developments of the strategy as the prime example of the relationship between Europe and the region is much in the hands of regional powers, despite the structural dependence on higher-order dynamics discussed above.

Second, it is a promising sign concerning the concrete implementation of the strategy that substantial amounts of projects have been launched. Moreover, as in the environmental and energy areas, the strategy has been able to spur the use of already existing sectoral organizations and structures as key components for progress in specific priority areas. However, concrete implementation thus far has been sectorally limited and focused on individual priority areas. The challenge in this area is how to stimulate and structure projects that involve a number of areas in an integrative and inclusive way. Moreover, while the launching of projects is greatly important, methodological tools as well as empirical assessments are still largely lacking regarding the independent effects of the work stimulated by the strategy. The width of the strategy could also be discussed in this context. The initial set-up was ambitious, while

the uneven progress across areas may be seen as a call for a more limited and strategically selective strategy based on preconditions in terms of already established organizations and structures to lead co-operation.

Third, the lack of financial resources is hampering the progress of the strategy. This comes as no surprise, given that the launch of the strategy involved no specific funding (perhaps a precondition for getting the strategy accepted by all member states). The financial need looks different for different areas of the strategy, which could play into the issue about a more selective approach discussed above. The issue is partly one about securing centralised EU funding, including the use of existing means in the form of structural funds. It is also possible – arguably necessary – to align national funding programs along the ambitions of the strategy. Currently, there seems to be a lack of commitment on the part of regional actors to actively restructure existing schemes to better serve the strategy.

Fourth, the success of the strategy depends ultimately on Russia. Most issues of the strategy are of cross-border nature, implying Russia’s key role in the progress of co-operation. The EU decided to develop the strategy as an EU-internal strategy despite the interdependent nature of the problems that the strategy seeks to address. Now, this implies that a two-fold approach is necessary to EU-Russia interaction, in the form of EUSBSR external co-operation as well as in the broader form of developing the ‘strategic partnership’ between the two sides. From a regional perspective, there is an inherent risk in this design – if the two ambitions were to compete with or contradict each other, and the Russian commitment as well as the greater EU concern would be at the strategic level rather than at the regional level, then regional development would be compromised.

Assessment: Implications and challenges

What are the main implications of the institutional landscape mapped out above? At least three sets of arguments can be discussed at this point. The first one concerns overlapping and potentially mutually reinforcing institutions. In essence,

there are two sides to the coin of a dense web of institutions. On the one hand, it is a reflection of and further stimulates a culture of multilateral co-operation in the region. On the other hand, the risk of co-ordination problems, bureaucratic infighting and dispersed allocation of resources increases with the number of organizations involved in at least partly the same endeavours. Somewhat paradoxically, the number of organizations may be inversely related to the effectiveness of multilateral regional co-operation. The multitude of organizations thus calls for governance mechanisms concerning what may be labelled as an 'institutional division of labour'. The complex and ever-changing preconditions and needs for co-operation in combination with the incremental nature of decision-making on co-operation suggest that reasonably there can never be a master plan for regional co-operation. Still – or precisely for that very reason – decision-makers need to be as explicit as possible in terms of the roles that different organizations in the regional context should play. In consequence, one main advantage of a well-functioning Baltic Sea strategy would thus be to provide guidance for effective co-operation.

A related point has to do with the observation that there is a varying degree of commitment of the Baltic Sea states to regional co-operation as well as to specific institutions. Already among the five Nordic states one can see partially divergent foci of interest and degrees of engagement. Expanded to the region in general, it is fair to claim that not all states perceive the value of regional co-operation in the same way. There may be a whole array of explanations for this situation, ranging from strong national interests being directed in a different direction (for example, towards the Arctic rather than the BSR, as in the cases of Denmark and Norway), the EU-centricity in foreign policy (which one could argue defines Sweden and Finland) to the BSR being just one of many foreign policy arenas (specifically Germany and Russia) or just one of many examples

of regional co-operation (European Commission). Fundamentally, this picture describes the challenges for Baltic Sea co-operation. Nonetheless, there is simultaneously a possibility for intraregional agenda setting and leadership for actors that want to pursue Baltic Sea co-operation. In concrete terms, this is true for small states in the region with a more narrow scope of interests in relation to larger states, and for regional representatives in relation to European-level institutions, as the latter practically cannot fill all organizations and structures with concrete content.

A third aspect concerns the financial preconditions for regional co-operation. In short, the financial landscape is rather uneven, a perspective which invites a number of different reflections. One is that the multitude of organizations discussed above means that financial assets are dispersed over a large set of recipients. There is thus a functional argument for allocating resources in a different way to get fewer but stronger entities. A second line of thought concerns that on the Nordic level, the NCM is actually in possession of substantial amounts of funding, but its effectiveness is compromised by cumbersome allocation procedures and a very broad agenda. One could thus make the argument that it would be beneficial to adopt a more flexible and rapid funding scheme. Third, the EUSBSR includes very limited amounts of additional funding (a fact that may indeed have been a prerequisite for getting EU27 to agree on the strategy). For good and bad, the strategy can only function as a co-ordinating device, rather than implementing projects of its own.



Rikard Bengtsson

Denmark

Population	5,564,219
Surface area	43,075 km ²
Capital	Copenhagen (København)
GDP	201,739 billion US dollars, 36.449 US dollars per capita (2010)
Currency	Danish kroner
Corruption level (<i>Transparency International Corruption Perception Index 2010</i> ; 10.0-9.0 = very clean, 0.0-0.9 = highly corrupt)	9.3 (ranking: 1)
Current government	Minority government by Venstre (liberal) and Konservative Folkeparti
Three largest cities	Copenhagen, Aarhus and Odense
Baltic Sea coastal regions	Sydsjælland, Lolland, Falster, Bornholm

Denmark fell into a recession as a result of the international financial and economic crises in 2008 and continued to be so in the first and second quarters of 2011. As a consequence, the country's political focus has since been on budgetary and fiscal consolidation and the restoration of economic growth. Developments in the Baltic Sea area, including some of Denmark's largest trading partners, have been of particular importance. The decision on the Fehmarn Belt connection, linking Denmark and the rest of Scandinavia closer to Germany, holds far-reaching strategic implications in terms of trade, transport, business, research, and people-to-people contacts. Denmark has been heavily involved in the development and implementation of the EU Strategy for the Baltic Sea Region, taking responsibility for the co-ordination of the largest number of priority areas.

Government

Since 27 November 2001, Denmark has been ruled by a liberal-conservative minority government with the support of the right-wing People's Popular Party. Present Prime minister, Lars Løkke Rasmussen, took over from Anders Fogh Rasmus-

sen on 5 April 2009, when Fogh Rasmussen was appointed Secretary-General of NATO.

Since then, the government has been reshuffled several times. The most recent – and largest – reshuffle took place on 23 February 2010 when, among others, Lene Espersen took over as Minister for Foreign Affairs from Per Stig Møller, who

was appointed Minister for Culture. The coalition government has been under pressure owing to several “bad cases” involving different ministers’ administrations and decisions, for example on refusal of the right of Danish citizenship to 32 Palestinians without citizenship residing in Denmark, causing the minister of integration to leave her post. The private economy of conservative MP Henriette Kjær led to her resignation as political spokesperson and group leader. In particular, the Minister of Foreign Affairs and chairwoman of the Conservative Party, Lene Espersen, was subject to harsh and long standing criticism for not taking part in an Arctic 5-ministerial meeting in Canada accompanied by a drastic fall in opinion polls of the Conservative party. Lene Espersen was replaced as party leader by the Minister of Justice, Lars Barfoed, in January 2011. Espersen remained in Government as Minister of Foreign Affairs.

General elections will take place in Denmark in 2011 – at the latest on 12 November. Opinion polls have consistently suggested a shift to a coalition government led by the Social Democrats and with the participation of the Socialist People’s Party. The election campaign is most likely to be dominated by the political parties’ plans for

the Danish economy, including possible welfare reforms on pension systems, labour market reforms, and tax reforms. In general, the opposition parties put emphasis on economic growth where the government advocates short and medium term budget consolidation.

Policies

The economic and financial crises have been dominant in Danish politics and on top of the Government’s agenda in recent years. A housing market correction and domestic banking crisis exacerbated the impact of the global financial crisis. Government policy initially focused on softening the negative impacts of the crises by increasing public spending and introducing particular measures to stabilise the banking system. The focus eventually shifted from short-term concerns to putting growth on a steady and sustainable path through a consolidation package by means of a fiscal consolidation strategy. This strategy aims at reducing the general government deficit and at restoring the structural balance of the public budget, followed by welfare and tax reforms.



In the first quarter of 2011, Danish GNP fell by 0.5 %, and private consumption and government spending declined by 0.8 %, and fixed investments dropped 8.3 %. Employment slid 0.1 %, after declining 0.3 % in the fourth quarter of 2010. In the second quarter of 2011, growth unexpectedly declined again, and after two quarters with negative growth, Denmark is officially back in recession.

During 2010, Danish Security and Intelligence Services discovered and prevented more suspected attempts at terrorist attacks on different Danish targets, among others the news paper Jyllands-Posten and the cartoonist Kurt Westergaard, because of his drawings of the prophet Muhammad. More than on terrorism, the Danish domestic political debate focused on the integration of immigrants into Danish society. As to Denmark's foreign and security policies, the country is heavily involved in the NATO mission to Afghanistan (approximately 750 troops) and has suffered heavy losses (39 dead soldiers). Despite this, Danish involvement there has enjoyed broad political and public support and has largely been undisputed.

In February 2011, the Government and the Social Democrats, the Danish People's Party, the Social-Liberal Party and the Liberal Alliance agreed on a two-year plan for the comprehensive Danish engagement in Afghanistan for 2011-2012, with a view towards 2014. The so-called "Helmand Plan" involves adjusting of the Danish military engagement towards an increased focus on training of the Afghan security forces. The plan also entails a markedly strengthened police training effort as well as an increase in civilian and developmental contributions to Afghanistan. The changed focus means that Denmark, in 2011, could reduce the overall number of troops with approximately 30 soldiers. The reductions will continue in the second half of 2012, reducing the overall Danish contribution from the current approximately 750 to approximately 650 soldiers. By the end of 2014, there will be no Danish combat units in Afghanistan, but Denmark will continue its active engagement in the country with an emphasis on developmental assistance and support for the training of the Afghan police.

On 11 May 2011, the Danish Government, the Danish People's Party and the Christian



Democrats concluded an agreement on permanent customs border controls in Denmark in relation to the smuggling to and from Denmark, mainly of goods and items such as drugs, weapons, explosives, and goods liable to duty. The agreement implies establishing permanent control facilities along Danish borders, video surveillance and strengthened police co-operation. According to the Government, the strengthened controls at the borders can be implemented within the framework of the current Schengen co-operation. The agreement gave rise to considerable concern and criticism from Denmark's neighbours, not to mention Germany. The European Commission follows the implementation of the agreement very closely.

Denmark and the Baltic Sea Region

Historically, Denmark has been deeply engaged in the Baltic Sea region. In recent years, the focus has been on developing relations across and around the Baltic Sea in areas such as trade, investments, environment, transport, business, and culture. Strong ties and increased co-operation with Denmark's neighbours across the Baltic Sea have a strong bearing on the environment, and on Danish exports and thus economic growth, with the region making up 40 % of Danish exports.

2010 marked the year of the Danish presidency of the Nordic Council of Ministers, focusing, among other things, on the Baltic Sea and

co-operation between the Nordic countries and the Baltic states. This was highlighted when the ministers for Nordic co-operation met with their Baltic partners in Vilnius in February 2010. Another highlight was the publication of the Wise Men Report on Nordic-Baltic co-operation by the former Danish Minister for Defence, Søren Gade, and the former Latvian Prime Minister, Valdis Birkavs, in summer 2010. The report received a warm welcome from the ministers of foreign affairs in the Nordic and the Baltic countries, and a follow-up to the report's suggestions is well under way.

In January 2011, the Danish Government decided upon the Fehmarn Belt connection between the south of Denmark and the North of Germany. This connection, in the form of a tunnel, will link Denmark and the rest of Scandinavia to Germany and the rest of continental Europe, implying significant strategic implications in areas such as trade, transport, economy, research and people-to-people contacts. Another significant development in the area was the opening of one of the world's largest windmill parks at sea: Rødsand II, situated south of Lolland in the Baltic Sea.

The Danish Government is of the opinion that the Baltic Sea region faces several challenges that require action at a regional level, since national or local responses can be inadequate and insufficient. According to the Danish Government, the EU Strategy for the BSR (EUSBSR) represents a unique opportunity to create momentum in regional co-operation and exploit the region's potential to generate smart, green economic growth. One year after the strategy's adoption, positive results already began to show, including efforts to clean up the Baltic Sea by reducing pollution from agriculture and shipping. Denmark is one of the leading participants in the EUSBSR, taking responsibility (alone or shared) for the largest number of priority areas (coordinator for 6 out of 15 areas). Denmark thus assumes responsibility for the following priority areas: 1) to become a model for clean shipping, 2) to mitigate and adapt to climate change, 3) implementing the Small Business Act: to promote entrepreneurship, SMEs and effective use of human resources, 4) to improve the access to, and the efficiency and security of energy markets (with Latvia), 5) to become a leading region in maritime safety and in security (with Finland), 6) to reinforce

maritime accident response capacity protection from major emergencies. Furthermore, Denmark takes a leading role in a large number of flagship projects. The upcoming Danish presidency of the EU in the first half of 2012 provides an opportunity for Denmark to take the lead in developing the EUSBSR further. The point of departure for further EUSBSR work will be the result of the evaluation of the EUSBSR that was conducted during the Polish EU Presidency in the second half of 2011. The follow-up on the conclusions of this evaluation and its future implementation will fall into the hands of the Danish Presidency.

The Danish Government views the EUSBSR as a most useful means to strengthen green growth in the region and in Europe as a whole, in line with the EU's 2020 strategy for growth in Europe. Denmark puts a strong emphasis on the participation of Russia in this strategy. The country opines that common challenges in the form of polluted waters, transport safety, and clean shipping could best be tackled in co-operation with Russia.

Outlook

The Baltic Sea region is likely to increase in importance and political attention in Denmark in the years to come. In the short term, the Danish EU Presidency in the first half of 2012 will deal with the EUSBSR and advance the implementation of this strategy. This will bring renewed impetus to co-operation throughout the Baltic Sea. In the medium term, the construction of the Fehmarn Belt tunnel will strengthen economic activity in Lolland and Falster, bringing new life to the area. In the longer run, the Fehmarn Belt tunnel will link Denmark and the rest of Scandinavia more closely to Germany, with far reaching strategic implications in terms of trade, transport, business, research, and people-to-people contacts. The Baltic Sea region shows every indication of growing in importance economically and politically, not only in Denmark, but to all the states bordering the Sea in the years to come.



Peter Munk Jensen

Estonia

Population	1.34 million
Surface area	45,227 km ²
Capital	Tallinn
GDP 2010	14.5 billion Euros
Currency	EURO
Corruption level (<i>Transparency International Corruption Perception Index 2010</i> ; 1 0.0-9.0 = very clean, 0.0-0.9 = highly corrupt)	6.5 (ranking: 26)
Current government	Coalition of Party of Reforms and Pro Patria / ResPublica
Three largest cities	Tallinn, Tartu, Narva
Baltic Sea coastal regions	The whole country is in the Baltic Sea area, and the country has a long coastline – 3794 km. The immediate coastal counties (15 in total) are Ida-Virumaa, Lääne-Virumaa, Harjumaa, Läänemaa, Pärnumaa, Saaremaa, and Hiiumaa.

2010 saw a turning point from an extended and deep downturn to gradual recovery of Estonia's economy, which demonstrated 3% annual growth, mostly stimulated by restored exports markets. Although resurged and unemployment reached new peaks, the social peace in the country was preserved. Moreover, despite of ambiguous expectations of possible euro implications, the ruling right coalition enjoyed public support and strengthened its position in the Parliament (Riigikogu) after the elections of spring 2011. Alongside with attempts to enhance solidarity with the Baltic states (Latvia and Lithuania), Estonia continued to facilitate co-operation with the Nordic countries, to a growing extent positioning itself as a Nordic, rather than a Baltic, state. Estonia welcomed the EUSBSR, although it realises the limitations of its current framework.

Government

In 2007-2011, the right wing liberal Party of Reforms and the nationalist party 'Pro Patria and Res Publica' formed a coalition government. The Social Democrats were also in government until

2009. The elections of March 2011 enhanced the position of the ruling coalition, which received 56 of 101 seats in Parliament. Voters appreciated the relative economic stability and firm leadership provided by the government over the course of the global economic crisis, as well as some

populist promises, for example, to introduce free higher education, to pay “parents pension”, and to abolish the land tax. Therefore, Prime Minister Andrus Ansip (Party of Reforms) retained his post; the length of his tenure, held since 2005, has set records in contemporary Estonia. The main opposition Centre Party was discredited by leaked information from security services that its leader, Edgar Savisaar, applied for funding from Russia. The Prime Minister ruled out a coalition with the Centre Party, which gained a majority of the votes of the Russian-speaking population, unless its leader resigns. The Parliament is gathering on 29 August 2011 for an extraordinary session to elect a President. The acting President Toomas-Hendrik Ilves secured support from the ruling coalition and Social Democrats, enjoys widespread public support, and has a good chance to be re-elected.

Policies

Estonia managed to fulfil the Maastricht criteria as a result of a governmental policy of budget cuts and the results of the global crisis. Inflation decreased from 10.4 % in 2008 to slight deflation in 2009, the budget deficit in 2009 was 1.7 % and governmental debt was 7.2 %. In 2010, due to budget consolidation and sales of Kyoto Units, the state budget saw a small surplus. On 22 April 2010, the Riigikogu approved the Law on introducing the Euro. On 12 May 2010, the European Commission evaluated Estonia’s readiness for accession to the euro zone and recommended to admit Estonia on 1 January 2011. Estonia’s entry to the euro zone and to the OECD (Estonia received an official invitation on May 27 and became a full member of the OECD on 9 December 2010) was largely considered as a continuation of Estonia’s success story by its citizens, partially explaining the wide public support for the neoliberal economic course.

There was a lively debate in the media whether the euro would speed up the inflation, but mostly the expectations were rather positive. According to Eurostat, only 0.2-0.3 % of total inflation was caused by changing currency. The consumer price index reached 5.2 % in July 2011 relative to July 2010, which is mostly explained by external factors. Nevertheless, this is almost twice as high as it

was in 2010 (3 %). Other macroeconomic indicators in the first half of 2011 continued to improve steadily. In the 2nd quarter, GDP estimates were 8.4 % growth relative to that period of the previous year, and unemployment decreased to 7.8 %. The effect of the euro for foreign investment is not yet clear.

The liberalisation of the energy market and ensuring energy security are the cornerstones of Estonian energy policy. The Government presented its plan to deprive “Eesti Gaas” (co-owned by “Gazprom”) of its pipeline transportation facilities, which may ease the way for LNG gas onto the local market. Environmental investigations have been carried out for some LNG terminal projects. Estonia is competing with Latvia and Lithuania to receive the EU’s support through the Baltic Energy Market Interconnection Plan (BEMIP). At the same time, the current share of Russian gas in Estonia’s total energy balance is slightly higher than 10 %, with the prospect of decreasing by 5 %. Energy development plans are on the table because of the rising environmental cost of producing electricity from oil shale (a cornerstone of the Estonian energy sector). The contract on construction of a new power station in Narva, which would reduce CO₂ emissions, was concluded with “Alstom”, to come into force by 2015. Both the construction of a nuclear power plant (NPP) in Estonia and participation in a joint Baltic-Polish project in Lithuania were on the agenda. The Coalition Agreement of the new government claims to revise the law and carry out feasibility and environmental studies concerning future NPP project implementation in Estonia.

Estonia and the Baltic Sea region

Estonia is strongly integrated into the Baltic Sea region, and its trade turnover with the region is about 60 % (including Russia, Poland and Germany) – exports are approximately 53 % and imports almost 63 %, which is one of the highest levels among the BSR states. According to Foreign Minister Urmas Paet, the country is interested in downshifting barriers for maritime trade inside the EU to “drop customs controls among themselves to create a trade-boosting maritime zone”.



Currently, custom controls still apply when vessels cross international waters. This concern is caused by growing trade with Sweden, which has exceeded its pre-crisis level. Nordic capital is strong in the national economy, especially in the financial sector. Sweden is the largest foreign investor to Estonia, which in 2010 provided about 50% of the total inflow.

These concerns determined Estonian priorities within the EUSBSR: Estonia is a coordinator of Priority Area 6, “to remove hindrances to the Internal Market in the BSR.” The high-level conference “The EU Baltic Sea Strategy and the Internal Market” was organised in Tallinn on 17 September 2010. Leading the flagship project “Increase the use of electronic signatures/e-identification”, corresponding to the idea of establishing a Baltic Digital Plan, allows Estonia to present and to promote its IT achievements internationally.

Additionally, Estonia sees the EUSBSR as instrumental in internationalising some problematic issues in relations with Russia through involving the European Commission and consolidating a common position among the 27 EU member states. The hottest issues for Estonia are associated with bottlenecks on the border with Russia. Estonia welcomes the leading role of the European Commission in Flagship projects 6.5 (“Monitor implementation of the priorities of the EU-Russia strategy”) and 6.6 (“Monitor border situations”). The joint project, “Improve the connections with Russia and other neighbouring countries” (Priority Area 11), with a special focus on non-infrastructure facilitation of border-crossing and

development of gateways to Asia, is attractive for Estonia as a transit country.

Estonia hosted the First Annual Forum of the EUSBSR, which took place in Tallinn, on 14-15 October 2010. The Forum was opened by the President of the Republic of Estonia, Toomas Hendrik Ilves, and the Commissioner for Regional Policy, Johannes Hahn, and gathered about 500 representatives of stakeholders.

In its Non-Paper on the EUSBSR (2008), Estonia called for the strategy to be “ambitious instead of being a simple reorganisation and consolidation of current policies”. There were three main focus areas: spatial integration of the region, maritime environment and navigation, and a knowledge-based society, with the overarching goal of an effectively functioning internal market. The Chairman of the International Affairs Committee of Riigikogu, Marko Mihkelson, recognised that Estonia hoped that the “Baltic Sea Strategy would prove a strong framework of co-operation where the participating countries would all contribute to carrying out a small number of specific projects of common interest to the region and to securing EU funding”. This did not happen due to the global financial crisis, the EU budgetary framework (2007-2013), and a lack of support from non-Baltic Sea EU member-states. The hearings in Riigikogu showed that Estonia is critical of the added value of the EUSBSR and its lack of coordination. At the same time, Estonia is not interested in a failure of the EUSBSR and is committed to ensuring its viability in the next budget period. Estonia undertakes efforts to improve internal inter-agency co-ordination of the

strategy's implementation. Concerning priorities, economic issues will continue to play a primary role for Estonia, which should balance the traditionally environmentally dominated agenda of Baltic Sea co-operation.

Estonia is actively involved into other multi-lateral and bilateral collaborations in the region. In 2011, Estonia is chairing the Baltic Assembly and the Baltic Council of Ministers, with energy, transport and knowledge-based economy as its priorities. A meeting of the three Baltic Prime Ministers took place in the Vihula manor, in Estonia, on 11 February 2011, where the construction of a LNG terminal, a common Nordic-Baltic energy market, the new NPP in Ignalina, and the transport projects Via Baltica and Rail Baltica were discussed.

Estonia is in favour of deeper co-operation within NB8, which is viewed as an opportunity for co-ordination and elaborating common approaches in the EU and other international organizations. Welcoming the recent Wise Men Report, Foreign Minister Urmas Paet proposed the ambitious goal of including all NB8 members in the Nordic institutions. Estonia is also going to intensify Nordic-Baltic co-operation through bilateral relations with Finland, which chairs the Nordic Council of Ministers in 2011. The discussion in the media revealed a certain disappointment with the reluctance of the Nordic states to integrate more deeply with the Baltic states.

A presentation by the Latvian-Estonian Future Co-operation Report, which was handed over to Prime Ministers of both countries on 11 June 2010, propelled bilateral co-operation with Latvia forward. The document includes 65 proposals aimed at bringing the two countries even closer together, despite objective competition and present prejudices. Estonia may be seen as being an initiator and promoter of introducing such kind of studies and policy planning in bilateral relations in the Baltic-Nordic area since 2002. The relationship with Russia, which became strained after the events of April 2007, related to relocation of the Bronze Soldier (Monument to Soviet Soldier-Liberator), showed modest signs of warming. Exchanges of parliamentarians and business leaders took place. The trilateral cross-border co-operation program between Estonia, Latvia and Russia in the framework of the European

Neighbourhood and Partnership Instrument (ENPI) launched its activities after Russia ratified the cross-border co-operation agreements with the EU in July 2010.

Miscellaneous

The first EU agency will be set up in Estonia. On 2 December 2010, the EU Justice and Home Affairs Council approved the establishment of the headquarters of the EU IT Agency for Justice and Home Affairs in Tallinn. Despite an agreement to open new agencies in new member states for the sake of greater cohesion, Estonia's main rival happened to be France. After a lengthy competition, a two-nation offer was composed and, as a result, the operational management of the servers will remain in Strasbourg, France. On 22-23 April 2010, an informal meeting of NATO foreign ministers took place in Tallinn, which was the most high-level international event ever hosted by Estonia. The agenda included discussions on the new strategic concept, Afghanistan, NATO reforming and its relations with Russia. Estonia and NATO signed a memorandum of understanding on cyber defence.

Outlook

The new coalition agreement (2011) underlined the role of the EUSBSR, in carrying out the construction of new transport and energy networks; support to deepen the co-operation between the Nordic and Baltic states was expressed. The priorities of Baltic co-operation include maritime safety, the construction of Rail Baltica and Via Baltica, and the integration of energy networks. Estonia supports the idea that the EUSBSR should have a separate budget line in the next financial period. Estonia is interested in the implementation of a

short list of already progressing projects in energy and transport, rather than initiating new ones.



Toomas Alatalu and Leonid A. Karabeshkin

Finland

Population	5.38 million (December 31, 2010)
Surface area	303 892 km ²
Capital	Helsinki
GDP, 2010, per capita	33,608 Euros
Currency	Euro
Corruption level (<i>Transparency Inter-national</i> Corruption Perception Index 2010; 10 = very clean, 0 = highly corrupt)	9.2 (ranking: 4)
Current government	Conservatives (<i>Kokoomus</i>), Social Democrats (<i>SDP</i>), Left Party (<i>Vasemmistoliitto</i>), Greens (<i>Vihreät</i>), Swedish People's Party (<i>RKP</i>), Christian Democrats (<i>Kristillisdemokraati</i>)
Major cities	Helsinki (589,000), Espoo (248,000), Tampere (213,000)
Baltic Sea Coastal regions	Northern Ostrobothnia, Central Ostrobothnia, Ostrobothnia, Satakunta, South-West Finland, Uusimaa, Kymenlaakso, Åland

The Finnish parliamentary elections in the spring of 2011 were overshadowed by the global financial crisis and the EU's economic problems and resulted in remarkable changes in the Finnish political system. Especially the rise of the eurosceptic "True Finns" party has since then strengthened the role of domestic issues in Finland's EU politics. The Baltic Sea region (BSR) has been, is, and will be one of the most important regions for Finland in Europe, both economically and politically. From a Finnish perspective, the integration of Russia in the co-operation has been the most important, if not the exclusive goal of the whole BSR co-operation. In the future, a much stronger involvement and commitment by the Finnish government to the region will be necessary. The government could benefit from a far stronger co-operation, with actors participating in different BSR networks. The EU-wide strategy for the BSR should be taken seriously and used as a political "lever".

Government

Finland is a parliamentary democracy with a multi-party system. For decades, the party system was dominated by three *catch-all* parties – Conserva-

tives (*Kokoomus*), Social democrats (*SDP*) and the Centre Party (*Keskusta*) – supported by several minor parties. The new constitution in 2000 marked a gradual shift away from the strong presidentialism and toward a European parliamentarism.

The Finnish national elections in April 2011 can be described as an unparalleled political shock, not just for Finland, but for all of Europe. The electioneering was dominated by two issues. First, the reputation of the traditional parties, especially the Centre Party, led by the young Prime Minister Mari Kiviniemi, was severely damaged. Consequently, the Centre Party lost most in the elections, dropping from 23.1 % (2007) to 15.3 % (down 7.3 %), plunging from first to fourth place. The Conservatives rose to the biggest party (20.4 %), followed by the Social democrats (19.1 %).

The second issue, the crisis of the Euro and especially the question of bailing Portugal out of its fiscal crisis, played an even more decisive role in the electioneering. This question polarised both the Finnish electorate and the party system and was the most important reason for the huge victory of the relatively young party, the “True Finns” (*Perussuomalaiset*), led by Timo Soini. The “True Finns”, with their 19.1 % of the vote, (in 2007, they received 4.1 %) became the third largest party.

In the government coalition negotiations led by the leader of the Conservatives, Jyrki Katainen, the “True Finns” stuck to their no-bailouts position. On 12 May 2011, Soini announced the withdrawal of his party from the negotiations and

the party’s decision to remain in opposition. This decision helped Katainen to open the “Gordian Knot” of Portugal’s financial support and opened the way to coalition negotiations between the Conservatives and the Social democrats. The new government, nominated on 22 June 2011, is led by Prime Minister Jyrki Katainen and includes six [!] parties: Conservatives and Social Democrats, the Left Party (*Vasemmistoliitto*), the Swedish People’s Party (*Ruotsalainen kansanpuolue*), the Greens (*Vihreä liitto*) and the Christian Democrats (*Kristillisdemokraatit*) as junior partners. Only the Centre Party and the “True Finns” are currently in opposition, together holding 74 of 200 seats.

Policies

Both the EU in general and the BSR in particular, have been the most important trade areas for the Finnish export-oriented economy. Seven of Finland’s top ten trade partners are EU countries. Four of these trade partners – Sweden, Russia, Germany and Estonia – are BSR countries as well. This trade structure underlines the economic importance of the BSR for Finland. Taking the relatively small volumes of Finnish exports into





account, the high share (almost 60 per cent) of intra-EU trade is a double-edged sword. On the one hand, this trade created stability and steady growth during the last decade. On the other hand, economic problems in the EU, especially in Finland's most important export partner Germany, cannot be easily protected against.

Finland was severely hit by the global economic crisis in late 2008. In 2009, the GDP dropped over 8 per cent. In order to avoid a more severe economic crash, the government started fiscal political measures, a lesson Finnish politicians had learned from the deep recession in the early 1990s. Although the direct impact of these public measures is hard to measure, a majority of national economists judge them as appropriate and well-balanced. The Finnish economy started to recover in 2009 (GDP growth 3.6 %) and the unemployment rate rose only moderately from 6.4 % (2008) to 8.1 % (2009). Despite this positive news, the recovery is far from complete: in 2011, overall production is still almost 5 per cent smaller than it was in 2008.

The economic recovery has also been quite uneven. Especially the traditional strong sectors of Finnish industry – IT, telecommunication, shipbuilding industry, and the paper and forest industry – have faced difficulties during the recovery. Especially the telecommunication branch, which has been one of the success stories and backbones of the economic boom of the last decade, has been overshadowed by Nokia's difficulties. Nokia, once the world leader in mobile phone markets, is challenged by the redistribution of markets and looking for a new joint strategy with Microsoft in the era of smart phones.

The problems in the shipbuilding industry have been very severe in the Turku region. The world's biggest cruisers were once built in Turku, but since 2010, the shipyard has not succeeded in getting new international orders for post-panama

size cruise vessels. A central reason is seen in the shipyard's specialisation to build huge cruisers at the expense of other ship types, together with only weak technical developing of the shipyard during the last decade. Today, the demand is for smaller ships, and the Turku shipyard is not competitive with its most important competitors, i.e. Korean and Chinese, but also German shipyards. Since 2007, the shipyard has been owned by the Korean STX Shipbuilding company and the current company leadership seems to have clear plans for making the shipyard competitive again.

Finland and the Baltic Sea region

The Finnish BSR policies consist of two elements: the Northern Dimension Initiative (NDI) as the wider and the EU Strategy for the Baltic Sea region (EUSBSR) as the narrower framework. The NDI was a Finnish initiative launched during the Finnish EU presidency in the latter half of 1999, offering a multilateral framework for the EU's efforts to integrate Russia in regional co-operation with the European north. The NDI seeks to reinforce the dialogue between the EU and Russia in the Barents and the BSR, serving as a co-operative space connecting Russia and the EU. The fact that the NDI offers a wider, multilateral framework for efforts to integrate Russia in North European co-operation makes it clear why Finland conceives of its Baltic Sea policies as subordinated to the NDI.

The EUSBSR is geographically more limited. However, since the NDI had no special policies for the BSR, the Finnish government supported the idea for developing a special EU strategy for the BSR, which was realised during the Swedish EU presidency in 2009. The main motivation was both economical and environmental. Economically, almost half of the Finnish export and import is directly linked to the BSR. Further, up to 70 %

of direct investments to Finland come from other BSR countries. Additionally, the economic balance in the region was supposed to shift toward the east, when the rapidly growing city of St. Petersburg and the Leningrad oblast gained in economic importance. Considering environmental aspects, the Finnish government declared that closer pan-Baltic co-operation – including Germany, Poland and Russia – was the only effective way to rescue the badly polluted Baltic Sea. From a Finnish perspective, the EUSBSR should help integrate the most important players in this region – Russia in the east and Germany in the west – in a closer co-operation, first and foremost in the environmental domain, but also in the economic domain. This has been seen as especially important, since Germany and Russia are the most important players, but at the same time the least engaged countries in the BSR.

Considering concrete BSR policies carried out as part of this framework, one must admit that the results have been quite modest. On the one hand, this is due to the fact that the EUSBSR is just a strategy for coordinating existing co-operation, rather than a new institution for carrying out policies. Thus, concrete co-operation has remained non-governmental and been carried out by sub-regional forums, like HELCOM, the Baltic Sea Action Summit (BSAS), and CBSS. Although all Finnish governments support the efforts of these forums, the most relevant players in Finnish Baltic Sea activities are local or sub-national actors, like cities, counties, and non-governmental institutions. The political pressure from below is, however, relatively weak, because these actors are not capable of making binding decisions. The most important domestic goal setting, the integration of Russia in a close and binding co-operation, as a result, has not succeeded.

On the other hand, it is not completely wrong to state that Finnish Baltic Sea politics have been an attempt to *de-politicise* the BSR, i.e. to build politically neutral co-operation. Finnish governments have energetically tried to avoid political questions, even in cases in which political aspects are quite evident (e.g. the *NordStream* gas pipeline). This policy of de-politicisation has sought to prevent historic-political fault lines from emerging in the BSR. However, although a policy of avoiding politically difficult topics and questions might, in the short run, guarantee peaceful co-operation,

in the long term such a policy could be harmful. Political will is desperately needed to solve the most critical issues, such as binding agreements on pollution reduction, sharing of costs or maritime security. A good example is the Baltic Sea Action Summit, organised in Helsinki in 2010. The Summit brought together national leaders and non-governmental actors from the BSR, but focused on environmental questions only. President Halonen promoted the Summit as a model for other *environmental* forums.

Outlook

Currently, the Finnish Baltic Sea policy leaves concrete policies widely untouched. Finland might have respectable goals and priorities for the future of the BSR, but without the commitment of *all* partners involved, these cannot be realised. The central problem is Russia's weak commitment to co-operation. From a Finnish perspective, the integration of Russia has been the most important, if not the exclusive goal of BSR co-operation. The Finnish government must make a stronger commitment to involvement in the region. It could benefit from a far stronger co-operation with the most central national institutions, already actively co-operating in the BSR networks (for example, Centrum Balticum and the Baltic Institute of Finland). Such co-operation could help to establish the currently missing link between Finnish domestic policy and wider BSR co-operation. However, one should not overestimate the capabilities of Finnish Baltic Sea policies. The only way to establish a framework for binding and sustainable Baltic Sea policies is to convince all Baltic Sea coastal states of the benefits of closer co-operation. Finland has co-constructed good frameworks for such co-operation. The next step will be to fill these frameworks with concrete policies. Finland, together with other Nordic countries, should not hesitate to utilise the EUSBSR as a "lever" to force BSR co-operation to greater political, economical and environmental commitment in order to achieve binding decisions.



Kimmo Elo

Germany

Population (Statistisches Bundesamt 2009)	81.8 million
Surface area	357,021 km ²
Capital	Berlin
GDP (PPP), IMF 2010 estimate, per capita	USD 40,631
GDP (nominal), IMF 2010 estimate, per capita	USD 47,934
Currency	Euro (EUR)
Corruption level (<i>Transparency International Corruption Perception Index 2010;</i> 10.0-9.0 = very clean, 0.0-0.9 = highly corrupt)	7.9 (ranking: 15)
Current government	Centre-right coalition (Christian Democratic Union/ Christian Social Union, Free Democratic Party)
Three largest cities	Berlin, Hamburg, Munich (München)
Baltic Sea Coastal regions	Schleswig-Holstein, Mecklenburg-Western Pomerania

Germany quickly recovered from the global financial crisis in 2009 and has since seen remarkable growth, which makes the country an economic locomotive for the rest of Europe. The federal government, led by Chancellor Angela Merkel, had to go through difficult times, however. Its domestic power base eroded significantly due to a series of defeats in regional elections. Internationally, Germany caused consternation because of its role in the ongoing eurozone crisis, the abstention from the NATO-led intervention in Libya, and its decision to phase out nuclear power. In the Baltic Sea Region, Germany has been keeping a comparably low profile, which is unlikely to change as a result of its one-year presidency of the CBSS from 1 July 2015.

Government

Angela Merkel, Germany's first female chancellor, is halfway through her second term in office. The leader of the Christian Democratic Union (CDU) came to power as head of a 'grand coalition' with the Social Democratic Party (SPD) in November 2005. Following election victory in September

2009, Merkel formed the current government with the liberal Free Democratic Party (FDP) led by Guido Westerwelle, who became foreign minister. Contrary to expectations, the self-declared 'dream coalition' made a slow start during its first year in government. With the exception of modest tax cuts, it did not distinguish itself in terms of policy change. From autumn 2010, however, the

Merkel government began to seriously push for certain reform schemes, most notably with regard to the armed forces and energy policy.

The government's reforming zeal increased against the background of a series of defeats in regional elections. Of six state elections between May 2010 and June 2011, the Christian Democrats lost five. In three states, North Rhine-Westphalia (NRW), Baden-Württemberg (BW) and Hamburg, voters ousted CDU-led governments from office. In another two, Rhineland-Palatinate (RP) and Bremen (HB), the CDU failed to topple SPD-led governments. Only in a single state, Saxony-Anhalt (SA), the CDU was able to prevail as senior partner of a coalition with the SPD.

The FDP suffered even more. It was removed from power in two states (NRW, BW) and even from parliamentary representation in another

three (SA, RP, HB), where it failed to pass the five per cent threshold. As a consequence, the liberals renewed the party leadership. After ten years in office, Guido Westerwelle stepped down as party chairman. He was replaced by 38-year old Philipp Rösler, who also became minister for economic affairs, as well as Vice Chancellor.

Two state elections proved particularly painful for the ruling coalition – and trend-setting for the parties in opposition. Due to the loss of NRW, Germany's largest state, which accounts for about a fifth of the population, the government also lost its majority in the powerful Bundesrat, the upper chamber of the federal parliament, which can effectively obstruct almost any major legislative project. No less disappointing was the defeat in Baden-Württemberg, an economic power house of the nation and traditional stronghold of the CDU, which had ruled this state for the last 58 years. The Green Party became the main winner in Baden-Württemberg. The Greens more than doubled their share of the vote (24.2 %), thereby gaining a narrow lead over the SPD (23.1 %). It followed that the SPD had to content itself with the role of the junior partner in the new government, which is led by Winfried Kretschmann, the first green prime minister of a German state.

The positive trend for the Greens did not stop in Baden-Württemberg. Most national opinion polls in 2011 also showed support of over 20 % for the Greens. Some even indicated that the Greens could become stronger than the SPD and nearly on par with the CDU in the next general elections in 2013. Although the scenario of a green chancellor still seems unlikely, the strengthening of the Green Party undoubtedly signals the most profound change in Germany's domestic balance of power in 2011.

Policies

The growing popularity of the Greens profits from the fact that energy policy has become the dominant domestic issue in German politics. In response to the disaster in Fukushima in March 2011, the Merkel government decided to phase out all 17 nuclear power stations by 2022, thereby reversing its original plan to significantly extend the lifetime of nuclear energy production, which



had been adopted just a few months earlier in December 2010. In fact, the Merkel government returned to the original phase out policy, which had been carried out by a red-green government under Chancellor Gerhard Schröder in 2001.

Next to nuclear energy, the modernisation of the armed forces, the Bundeswehr, marks another substantial, albeit less controversial, policy change. The Merkel government set out to transform the Bundeswehr from a conscription army to a professional army. It also declared its intention to reduce the overall size of the Bundeswehr from its current 220,000 troops to about 185,000. At the same time, the Ministry of Defence has to reduce costs by 8.3 billion Euros by 2015. This far-reaching reform scheme was overshadowed by the destiny of the politician who had originally launched it – Minister of Defence, Karl-Theodor zu Guttenberg. Guttenberg appeared to be the rising star of the Merkel cabinet but had to resign in March 2011 because he had evidently plagiarised significant parts of his doctoral thesis.

The decision to abstain from voting in support of the military intervention in Libya in the UN Security Council in March 2011 damaged Germany's reputation among its NATO allies. It raised concerns about the country's reliability and willingness to live up to its global responsibilities as a promoter of freedom and democracy. While Libya caused relatively little domestic debate, the opposite was true with regard to the ongoing crisis of the eurozone. The Merkel government came under attack over its readiness to place billions of Euros in rescue packages for Ireland, Portugal and, most notably, Greece. The criticism culminated in several complaints filed before the constitutional court, questioning the constitutionality of the government's consent to both the short-term rescue packages as well as the long-term establishment of the European Stability Mechanism (ESM).

The debates on Libya and the Euro reveal an underlying dilemma for the Merkel government and, more generally, German foreign policy-making. On the one hand, Germany is increasingly confronted with calls for providing the political leadership that would reflect its economic power. On the other hand, corresponding attempts of the German government, especially in connection with the eurozone crisis, are likely to attract

widespread and heavy criticism – still a rather unfamiliar experience for German foreign policy-makers. As a result, Germany is struggling to find a balance between either becoming a 'huge Switzerland', i.e. an economic giant but political dwarf, or striving for old-fashioned great power politics.

Germany in the Baltic Sea Region

Germany's role in the Baltic Sea Region (BSR) mirrors the aforementioned contrast between expectation and reality. Economically, Germany is deeply integrated in the region, being the most important trading partner for most of the BSR countries. German exports into the countries around the Baltic Sea in 2010 exceeded those to the USA or China. Politically, however, Germany is punching below its weight. Lacking an explicit BSR policy, Germany appears to be a rather dispassionate participant in regional co-operation.

This overall picture is well-illustrated by recent developments. Germany is involved in two of the largest infrastructure projects in the region. One is Nord Stream, the first gas pipeline running through the Baltic Sea from the Russian port of Vyborg to Lubmin in Mecklenburg-Western Pomerania. The other is the Fehmarn Belt fixed link between Puttgarden in Schleswig-Holstein and Rødby on the Danish island of Lolland, which will create a direct transport connection between the metropolitan areas of Hamburg and Copenhagen-Malmö. Despite their importance for the region, neither project ranks high on Germany's foreign policy agenda. Nord Stream has been portrayed by subsequent federal governments as a purely private enterprise that does not require political dialogue in regional fora. As for the Fehmarn Belt project, Germany's commitment has been quite tepid and indeed dismissive to the effect that the estimated construction cost of about five billion Euros will entirely be shouldered by Denmark. Germany will only finance the rail and road connections in the hinterland.

The EU Strategy for the Baltic Sea Region (EUSBSR) is another case in point. Germany has taken the responsibility for three priority areas: natural zones and biodiversity in the environmental pillar, promotion of small and medium sized

enterprises in the economic pillar, and education and tourism in the accessibility and attractiveness pillar. While the two former priority areas will be coordinated by the federal government, the latter has been assigned to the state governments of Hamburg (education) and Mecklenburg-West Pomerania (tourism). Thus, Germany is the only BSR country where sub-national governments have attained a leading role for the implementation of the strategy. On balance, however, the overall commitment of Germany is quite modest. Its contribution is slightly stronger than that of the Baltic states and Poland, which will coordinate one or two priority areas each, but clearly weaker than that of the three Nordic countries of Denmark, Sweden and Finland, which will take care of four to five priority areas each.

On 1 July 2011, Germany took over the CBSS presidency from Norway. Highlights of the one-year presidency will be the celebrations of the 20th anniversary of several important fora of regional co-operation like *Ars Baltica* (established in 1991) or the CBSS itself, which was founded in March 1992 on a joint initiative of the then foreign ministers of Germany and Denmark, Hans-Dietrich Genscher and Uffe Ellemann-Jensen. The next CBSS summit in May 2012 will be designed to appreciate the achievements of twenty years of co-operation in the BSR.

Apart from these festive events, the programme of the German presidency is characterised by continuity and low ambition. The federal government will primarily continue to work on the five long-term priorities of the Council, namely economic development, energy, environment and sustainability, education and culture, as well as civil security and the human dimension. In this context, it wants to strengthen the operational ability of the CBSS with a view to implementing the EU's macro-regional strategy and developing a more coherent framework for co-operation in the BSR. Moreover, the German presidency intends to foster the development of the Kaliningrad area and the southeastern part of the BSR by means of initiating a number of private-public partnerships.

Germany's Baltic Sea coastal regions

Hamburg

Hamburg is home to Germany's largest port and, along with Bremen and Berlin, one of three city-states of the German federation. Though not being located on the Baltic coast, Hamburg can nonetheless be considered an integral part of the region, as it fulfils the function of a major maritime transport hub for trade exchange between the Baltic Sea and world oceans. Against this background, this state has developed a proactive approach to the BSR in recent years, with special focus on trade and transport affairs as well as cultural exchange. Hamburg co-operates primarily with St. Petersburg and with the south-western regions of the Baltic Sea in the framework of the so-called STRING co-operation between northern Germany, the Danish isles, and southern Sweden. A concrete expression of Hamburg's engagement is its participation in the EUSBSR.

Hamburg got a new government as a result of the last state election in February 2011. The SPD won a landslide victory, taking 48.4 % of the vote (up 14.3 %). This enabled Olaf Scholz, the new prime minister or 'First mayor', to form a government without support of a second party – indeed the only such state government in Germany for the time being. The comeback of the SPD can also be seen as a return to normality as Hamburg had been governed by social democrats in 51 of 65 years since 1945. The vote also put a definitive end to the first state government formed by the CDU together with the Green Party, even though it has to be noted that this 'black-green' coalition had already been terminated by the Greens in November 2010, which in turn led to the early elections of February 2011.

Schleswig-Holstein

Schleswig-Holstein is Germany's northernmost state. It is, like Denmark, characterised by a dual orientation towards the North Sea in the west and the Baltic Sea in the east. Schleswig-Holstein used to be a very dedicated actor in BSR co-operation, especially during the SPD premierships of Björn Engholm (1988-1993) and Heide Simonis (1993-

2005). After the coming to power in 2005 of the current Prime Minister, Peter Harry Carstensen (CDU), this commitment became less emphasised. However, while Schleswig-Holstein abstained from assuming the role of a priority area coordinator in the framework of the EU Strategy for the BSR, it is firmly involved in the implementation of several flagship projects, most notably with regard to 'clean shipping'.

Schleswig-Holstein's current government was formed by the CDU and the FDP following the last election in 2009. The coalition only obtained a narrow majority in parliament on the basis of a number of overhang seats, which in turn was made possible due to a lack of clarity in the state election law. In August 2010, the state's constitutional court ruled the election law unconstitutional, demanding its revision by June 2011 and early elections before October 2012. As a result, the next election is scheduled by the government to take place on 6 May 2012.

Mecklenburg-Western Pomerania

Mecklenburg-Western Pomerania has Germany's longest Baltic coastline. As a federal state, it only came into existence in 1990 in the context of German reunification. Economically, Mecklenburg-Western Pomerania is still in the process of catching up with the wealthier parts of Germany, which is evidenced in a GDP per capita that is 71 % of the federal average and is, in fact, the lowest of all German states (cf. Schleswig-Holstein at 87 %, and Hamburg at 162 %). Politically, however, the state has become an ever more visible and active participant in the BSR in recent years, particularly in connection with the preparation of the EU Strategy.

Mecklenburg-Western Pomerania has been governed by SPD-led coalitions since 1998. Until 2006 the junior partner in government was the ex-communist PDS, which became the Left Party in 2007. As a result of the 2006 elections, the SPD formed a 'grand coalition' with the CDU. In

the latest state elections of 4 September 2011, the SPD of Prime Minister Erwin Sellering became again the strongest party with 35.7 % of the vote (up 5.7 %) and will lead the next government in coalition with either the CDU (23.1 %) or the Left Party (18.4 %). Whereas the FDP clearly failed to pass the 5 per cent threshold (2.7 %), the Greens entered the state parliament for the first time (8.4 %). Next to Saxony, Mecklenburg-Western Pomerania is the only state where the extreme right-wing National Democratic Party (NPD) is represented in parliament (6 %).

Outlook

The next general election in autumn 2013 is likely to increasingly determine the policies of the Merkel government in the coming years. Internationally, the ongoing crisis of the eurozone might force the government to adopt and carry out further stabilisation measures, which are unpopular at home and which could lead to growing resistance even within the own rank and file. On the domestic front, the prospect seems to be more encouraging for the Merkel government. Although the new energy policy has caused confusion and irritation, it is basically welcomed by the general public and supported by the opposition parties, especially the Green Party. As the phasing out of nuclear energy removes the main obstacle for a closer relationship between Merkel's conservatives and the Greens, it could open up unprecedented possibilities for cross-party collaboration in the run-up to 2013. In the BSR, Germany appears to remain a dispassionate participant in regional co-operation.



Carsten Schymik

Latvia

Population	2.219 million
Surface area	64,589 km ²
Capital	Riga (Rīga)
GDP	18,267 million Euros
Currency	Lats
Corruption level (<i>Transparency International Corruption Perception Index 2010; 10.0-9.0 = very clean, 0.0-0.9 = highly corrupt</i>)	4.3 (ranking: 59)
Current government	Unity (Vienotība), Union of Greens and Farmers (Zaļo un Zemnieku Savienība)
Three largest cities	Rīga, Daugavpils, Liepāja
Baltic Sea coastal regions	Kurzeme, Zemgale, Riga district, Vidzeme

Latvia has seen a prolonged period of economic and political turbulence, and the second half of 2011 is unlikely to be different, with emergency elections coming up in September. Parliamentary elections were held in October 2010, and the then-minority coalition of "Unity" and the "Union of Greens and Farmers" won a majority in the parliament. Presidential elections were held in early June 2011, but a week before the scheduled elections, then-President Valdis Zatlers dissolved parliament. He was not re-elected, and the presidential election was won by Andris Bērzišs. Economic turbulence was marked by the initial contraction of Latvia's GDP by 25 % in 2008-2009, but Latvia's economy has recovered since then and is expected to grow in 2011. The importance of the BSR has increased in Latvia's foreign policy due to the EUSBSR.

Government

Latvia's political landscape has been marked by both continuity and change over the past few years. Its continuity, is the coalition government's ability to survive since March 2009, when the former Finance Minister and Member of the European Parliament, Valdis Dombrovskis ("New Era", *Jaunais Laiks* / JL), took over the reins of govern-

ment. His government has survived both the departure of the "Peoples Party" (*Tautas Partija* / TP) in March 2010, as a consequence of which Dombrovskis' government became a minority government, as well as persistent disagreements with coalition partners from the "Union of Greens and Farmers" (*Zaļo un Zemnieku Savienība* / ZZS) mainly over issues related to fighting corruption and the appointment of officials.

Parliamentary elections were held in Latvia on 2 October 2010. Before the elections, the Latvian electorate had three main choices: the ruling coalition, the former ruling parties, and parties representing the Russian part of the electorate, who had never been part of a ruling coalition. First, the “Unity” (*Vienotība*), which was formed in March out of the Centre-right parties “New Era” and “Civic Union” (*Pilsoniskā Savienība / PS*) as well as of the Centre-left party “Society for a Different Politics” (*Sabiedrība Citai Politikai / SCP*), won 31.22 % of the votes. Their coalition partner ZZS gained 19.68 % of the votes. Both parties together obtained 55 out of 100 seats in the Latvian Parliament (*Saeima*).

Second, Latvian voters did not support the two political parties “People’s Party” (*Tautas Partija / TP*) and “Latvia’s First Party/Latvia’s Path” (*Latvijas Pirmā Partija/Latvijas Ceļš / LPP/LC*), who were the key players in the previous government. This happened despite the fact that they joined forces before the elections. Their alliance – “For a Good Latvia” (*Par Labu Latviju / PLL*) – won only 7.65 % of the vote. Third, “Harmony Centre” (*Saskaņas Centrs / SC*), which has mainly attracted Russian-speaking voters, won 25.69 %

of the vote, thus becoming the second largest fraction with 29 seats in the Latvian parliament.

Prime Minister Dombrovskis is a technocrat, and he has quietly and efficiently worked his way down the government’s to-do list. Immediately upon taking office, Dombrovskis ordered a review of national finances, and by summer 2009 had already pushed through savings in annual government spending amounting to 500 million Lats (approx. 710 million Euros). Public sector salaries were cut, welfare spending was slashed, hospitals and schools closed. Another 500 million Lats of cuts in government spending followed in the 2010 financial year.

Latvian politics was shaken on 28 May 2011, when outgoing President Valdis Zatlers asked for a referendum to dissolve the parliament just seven months after its formation. This historic step was preceded by a parliamentary vote blocking the request of the prosecutor general to lift Ainārs Šlesers’ (an opposition member of parliament and former transport minister) parliamentary immunity in order to allow a search of his home. It seemed that President Zatlers decided in favour of dissolving the parliament after it became clear that his chances of being re-elected were low and – it was a populist



gesture to win him public support. Indeed, in the 2 June presidential election, the parliament selected ex-banker and serving Member of Parliament Andris Bērziņš as Latvia's President. Bērziņš represents ZZS, a political party which is closely connected to the Mayor of Ventspils, Aivars Lembergs, who is one of the most influential politicians in Latvia. Lembergs is on trial accused of money laundering, bribery and other crimes. It remains to be seen whether President Andris Bērziņš manages to distance himself from the influential political and business interests that elevated him to his current position. After all, Zatlers was elected in similar circumstances, yet managed to distance himself, as did Guntis Ulmanis, Latvia's first President after the restoration of independence.

Latvia has exhibited a considerable degree of political stability, which has allowed the government to implement unpopular reforms and brought the country back to growth. However, political stability has been achieved at a price, as the fight against high-level corruption has lagged behind. On 23 July, Latvian voters decided in favour of dissolving the Parliament. This means that the balance of power in Latvian politics will be reshuffled once more in September, when the emergency elections will be held.

Policies

Since the start of the economic downturn in 2008, Latvian politics have been mostly about economics. Latvian GDP contracted by 4.2 % in 2008, but there was more trouble ahead, as GDP shrank by a further 18.0 % in 2009. The economy stabilised in 2010 but there was nonetheless a further GDP contraction of 0.3 %. It is widely believed that the economy will rebound in 2011 and will even surpass the growth target of 3.3 % (Bank of Latvia forecast).

With the onset of the economic crisis in 2008, government revenues dwindled, creating a need to drastically cut expenditures. A programme by the International Monetary Fund (IMF) partly compensated for dwindling revenues, but it was made conditional upon the government's ability to reduce the budget deficit. As a result, the Latvian political landscape has been dominated by the debate on where and how to reduce the budget

deficit. Considerable cuts have been implemented since 2008, and it is very likely that the final cuts for the 2012 budget will bring the deficit down below the 3 % mark. However, there is some disagreement on this issue, as only minor cuts may be necessary if stronger economic growth resumes.

The Latvian government has stated that its aim is to join the Eurozone in 2014. This requires fulfilling the Maastricht criteria. Latvia's debt has reached 44.7 % of GDP (according to EKS 95 methodology) at the end of 2010, but is still relatively low in comparison with the EU average. Although a package that was assembled by the IMF, the European Commission and individual EU member states in December 2008 was worth 7.5 billion euro, Latvia has used only approximately 2/3 of the available money. Thus, government debt is smaller than initially expected. It is also likely that the Latvian government will be able to sustain a moderate budget deficit (below 3 % of GDP), therefore the main challenge is to curb the inflation that posed a major problem prior to the crisis in 2008, when it hit a high point of 15.3 %. Latvia experienced a period of deflation in 2010 with inflation of -1.2 %, but it is likely that the global surge in commodity prices will lead to increased inflation in Latvia. Thus, it remains to be seen whether Latvia will be able to meet the Maastricht criteria.

A key issue for the government has been restructuring the taxation system in order to compensate for falling revenues. Value added tax (VAT) was raised from 18 % to 21 % in January 2009 and then further to 22 % in January 2011. Both the real estate tax and the excise tax have also been raised considerably. The reduced tax rate for several product categories has also been raised (including natural gas and electricity). All in all, it is widely acknowledged that further tax hikes are unfeasible because it may increase activity in the shadow economy.

Economic growth in Latvia has resumed, but it will take time to trickle down to the most disadvantaged groups. Unemployment initially increased to a staggering 19.4 % in June 2010, but since then has fallen to 12.7 % in June 2011. Pensioners were the most disadvantaged group throughout the 1990s, but pensions have been left virtually untouched throughout the downturn. After initial attempts to cut pensions by 10 % and squeeze pensioners out of the labour market were

stopped by the Constitutional Court, no further attempts to cut social expenditures at pensioners' expense have been attempted. As a result, the share of social expenditure as a percentage of the budget has increased during the economic downturn. Latvia's economy bounced back in 2011, with growth mostly driven by exports. As a result of increased export volumes and weak private consumption, Latvia has managed to sustain a current account surplus. Although this may change once private consumption resumes, Latvia's return to economic growth has been possible due to the good economic performance of its key export markets in Europe.

Latvia and the Baltic Sea Region

The Baltic Sea region (BSR) has always been on the radar of Latvian foreign policy and Latvia has been involved in several sub-regional constellations. 2010 marked several important events and initiatives. On the sub-regional level, the Baltic Council and the Baltic Assembly jointly put forward several projects relevant for the BSR. One of the main priorities in 2010 was to strengthen co-operation between the Baltic States and the Nordic countries, which to a large extent was driven by the necessity to reinforce economic stabilisation programmes.

In April 2011, the Latvian government finally decided to resume its participation in the *Rail Baltica* project, which was interrupted as a consequence of the financial crisis. Initially, after President Zatlers' visit to Moscow, where Russian Prime Minister Vladimir Putin proposed reconstructing and building a new Riga-Moscow high speed link, the Ministry of Transport supported this project. However, the European Commission and regional partners saw it as an attempt to sabotage the *Rail Baltica* project. After sharp criticism from Latvian politicians, experts and the representatives of the EU institutions, the decision was taken to re-join the project.

The EUSBSR inspired renewed regional co-operation. In Latvia, the EUSBSR is co-ordinated by the Ministry of Foreign Affairs. Denmark and Latvia jointly co-ordinate the energy priority, which is high on the Latvian domestic political agenda. Thus, the implementation of the strategy meets both national and regional interests. Latvia

participates in several flagship projects, including the Baltic Energy Market Interconnection Plan (BEMIP) and the extension of the Nordic electricity model, which are considered vital for ensuring energy security. Latvia's main concern regarding the future of the EUSBSR is related to the possible financial sources of the Strategy and "privatisation" of the initiative by wealthier countries.

In January 2011, David Cameron, the Prime Minister of the United Kingdom, invited the heads of the Nordic Baltic 8 (NB8) states to a summit in London. Latvia saw the summit as an externalisation of regional co-operation and regarded it as an important political gesture that demonstrated the UK's interest in regional affairs in Northern Europe. Latvia initiated the drafting of a report revising co-operation among the NB8 countries. Latvia has already produced a joint report with Estonia, and a bilateral report with Lithuania is in the pipeline. The NB8 report was a demonstration of Latvia's long-lasting commitment to regional affairs. The former Latvian Prime Minister and Minister of Foreign Affairs, Valdis Birkavs, and the former Danish Minister of Defence, Søren Gade, produced the "NB8 Expert report", which included 38 recommendations for the improvement of regional co-operation, 16 of which were accepted for implementation in a short-term perspective.

Outlook

The existing Latvian Foreign Policy Guidelines (2006-2010) expired at the end of December 2010. In January 2011, Ģirts Valdis Kristovskis, Latvian Minister of Foreign Affairs, submitted the first report on foreign policy and EU issues to the Parliament. The report was supplemented by his speech in Parliament, where the new priorities were announced. The Baltic Sea region remains one of Latvia's key foreign policy priorities.



Andreas Klein, Zaneta Ozolina, Toms Rostoks

Lithuania

Population	3,215,000 (August 2011)
Surface area	62,302 km ²
Capital	Vilnius
GDP	27,410 billion Euros
Currency	Litas (1 Litas – 0.29 Euro)
Corruption level (<i>Transparency International Corruption Perception Index 2010; 10.0-9.0 = very clean, 0.0-0.9 = highly corrupt</i>)	5.0 (ranking: 46)
Current government	Conservatives (<i>Tėvynės sąjunga – Lietuvos krikščionys demokratai</i>), Liberal Movement (<i>Lietuvos Respublikos liberalų sąjudis</i>), Liberal Centre Union (<i>Liberalų centro sąjunga</i>) and National Resurrection party (<i>Tautos prisikėlimo partija</i>)
Three largest cities	Vilnius, Kaunas, Klaipėda
Baltic Sea Coastal regions	Klaipėda County (<i>Klaipėdos apskritis</i>)

2010 saw a swing in the political sympathies of the Lithuanian electorate, as opposition parties won local elections and now lead opinion polls before the 2012 parliamentary elections. The right-of-centre government continued austere economic and budgetary policies. The country's economy proved to be resilient and stands on the path to rapid recovery. Increasing emigration, swelling public debt and increasing energy prices occupy the thoughts of policy makers and the citizenry. Foreign policy became less ambitious, more pragmatic, and Nordic oriented, whereas relations with Poland soured. Energy security remains a hot issue on the political agenda. In turn, Lithuanian connections to the Baltic Sea region remain firm, but modest. Lithuania coordinates a number of priority areas and flagship projects in the EU Strategy for the Baltic Sea Region, but feels more attached to the Nordic-Baltic region.

Government

The general elections of 2008 changed the political scenery in Lithuania. The Social Democrats lost their grip on power after seven years in government. The Conservatives won 45 seats

out of 141 and formed a right-of-centre coalition government with two liberal parties - the Liberal and Centre Union and the Liberal Movement - and the populist centrist National Resurrection Party. The leader of the Conservatives, Andrius Kubilius, became Prime Minister. After a split of

the populist National Resurrection party in July 2009, the ruling coalition retained only a small majority in parliament (71 seats out of 141). The opposition consists of the Social Democratic Party, the centrist Labour Party, the Order and Justice Party, and the Christian Party – the latter is a splinter of the National Resurrection Party. A new president was elected in May 2009. Dalia Grybauskaitė, a former member of the European Commission, mustered 68.2 % of the vote, won the elections in the first round and has remained the most popular politician with approximately 80 % approval since. She initiated the replacement of people in major executive offices.

Local elections took place in February 2011. The Social Democrats won the elections, taking 21.5 % of the mandates in municipal councils and 32 % of mayoral posts, whereas the Conservatives lost one third of their seats and ended with 16.3 % of the vote, and 22% of mayoral positions. Labour got 11 % and Order and Justice 10 % of the seats. Opinion polls in May 2011 revealed that the opposition parties - Social Democrats (16.3 %), Labour (13.1 %) and Order and Justice (10.8 %) - have taken the lead against the governing Conservatives (9 %) and Liberals (3.1 %). Discontent with government policies sparked unrest within the Conservative party, which has led to competition for leadership. Andrius Kubilius won the re-election against the Speaker of Parliament (*Seimas*), Irena Degutienė. The leader of the largest opposition party, the Social Democrats, Algirdas Butkevičius, was re-elected for another two-year term in April 2011. After the President had expressed her dissatisfaction, the government replaced the ministers of foreign affairs, health, culture and economy. The opposition (fruitlessly) attempted to win votes of confidence and to remove the ministers of energy and environment.

Policies

The key government concerns in 2010 were the stability of the ruling coalition and public finances, unemployment, stimulation of economy, energy independence and corruption. Although the economic crisis appears to have receded, very few are optimistic. Lithuanians are, at times, seen as hypocritical whiners: they tend to snivel even

when the current state of affairs is improving. The most popular internet news portal, *delfi.lt*, asked its readers to pick a phrase characterising the year 2010. A sentence about the economic recession from an anonymous commentator answered the call: “the bottom has been reached – we are digging now”. Nonetheless, international agencies noted improvements in 2010-2011. The Fund for Peace observed the country’s good performance (28th place out of 177) in the Failed State Index. Among the Baltic Sea Region countries, only Germany and the Nordic countries were ahead, with Finland performing the best. The Transparency International Annual Report 2010 revealed that corruption in Lithuania has diminished and that the country moved from the 52nd to the 46th place from 2009 to 2010. The “Doing business” Report of 2011 revealed a jump from the 26th to the 23rd place among 183 countries in 2010. In turn, the World Economic Forum reported in its Global Competitiveness Report 2010-2011 that Lithuania rose from the 53rd to the 47th place among 139 countries. Despite financial difficulties in the Eurozone, the government endeavours to introduce the Euro around 2014. The budget deficit for 2011 is 5.8 % of the GDP. The Euro Forbes magazine stated in May 2010: “Lithuania is an unsung hero of the EU” because of austere economic policies, the absence of mass strikes and a relatively speedy economic recovery.

However, unemployment in 2010 grew by 4.1 % within a year and peaked at 17.8 %. The GDP, in turn, rose by 1.3 % in 2010 after 14.7 % contraction in 2009. Furthermore, the GDP swelled by 6.9 % in the first quarter of 2011, compared to the same period in 2010. This was the second best result in the EU in 2011. State debt increased from 15.6 % of the GDP in 2008 to 38 % at the end of 2010 and the public deficit comprised 7.1 %. Emigration rates remained high: over 83,000 people emigrated from Lithuania last year. Slightly over 3 million people lived in Lithuania in May 2011, according to the national census. The number in 1990 was 3.7 million.

Apart from the management of the economy and public finances, other important domestic political events in 2010 referred to changes of governance, moral conservatism and the relevance of recent history. The government abolished the administrations of counties, the intermediate

governance level between municipal councils and the central government. These changes will come into force in July 2011. However, the Parliament did not approve the direct elections of mayors who are elected by a ruling majority in the municipal councils. Another event that evoked heated public debates was a parade of homosexuals and their supporters in May 2010. Some members of parliaments from the Conservative Party and the Order and Justice Party openly opposed gay rights. Also worth mentioning is the political odium of the Communist and Nazi past which is seen as an often overlooked “evil”. The Parliament instituted fines for approval or negation of crimes of the Soviet Union and Nazi Germany.

Lithuanian foreign policies currently focus on three facets: the eastern EU neighbourhood and Russia, transatlantic relations, and energy security in the EU. Since January 2011, Lithuania chairs the Organisation of Security and Co-operation in Europe. President Grybauskaitė decided to ‘reset’ the Lithuanian value-laden foreign policy to be more pragmatic. Lithuanian activities in the eastern EU neighbourhood, Ukraine and Georgia, receded. Politicians made attempts to improve the hitherto lukewarm relationships with Russia and Belarus. The Lithuanian President and Prime Minister met Russia’s Prime Minister Vladimir Putin and the Belarusian President Alexander Lukashenko. On the other hand, Dalia Grybauskaitė declined an invitation to meet US President Barack Obama at a meeting with other heads of Central and Eastern European countries in Prague. She criticised the previous Lithuanian government for allegedly allowing the US to install ‘CIA prisons’ in the country, evidence for which has never been found. Lithuanian positions in the EU were meek, without a trace of their earlier troublemaker past, when the country maintained hard positions on EU-Russian co-operation and tried to hamper negotiations for a renewed Partnership and Co-operation Agreement.

Energy security remains one of the country’s top priorities. Lithuania decommissioned the Ignalina nuclear power plant in 2009 and considers future electric grids to Sweden and Poland as important to increase the diversification of energy imports and to turn them into channels for exports of electric energy, provided that a planned new nuclear power plant starts operating around

2020. Estonia, Latvia and Poland remain the main regional partners in this venture and participate in all the events related to the selection of a strategic investor for the planned Visaginas nuclear power plant. Lithuania received two bids – from the Japanese Hitachi-GE Nuclear Energy and the American Westinghouse Electric Company – to build a new nuclear power plant, both close to the Lithuanian border. On the other hand, Lithuania became increasingly concerned about the possible emergence of nuclear power stations in the neighbouring Kaliningrad region and Belarus, close to Lithuanian borders, and raised its worries in international and bilateral venues. Domestically, the government exerts its efforts to implement the EU’s third energy package and to separate the production and transportation of energy resources, of which virtually 100 % come from Russia. The government is under pressure from lobbyist and interest groups, especially related to the Russian company *Gazprom*, which is one of the major shareholders in the gas delivering enterprise *Lietuvos dujos*. Currently, Lithuania pays 15 % more for gas than Estonia, Latvia and even Germany.

Lithuania and the Baltic Sea region

Lithuania increasingly sees itself as attached to Northern Europe. The country’s orientation towards the Nordic states got back in vogue in 2010. The President and Prime Minister often refer to the north as the “home market”. Their frequent contacts with Nordic politicians at traditional Nordic-Baltic 8 meetings, at the margins of EU summits and during bilateral meetings, reinvigorated Nordic-Baltic co-operation. The opening of the electricity exchange in January 2010, based on the NordPool platform, was an important step towards regional integration of the Baltic and Nordic electricity markets. On the other hand, relations with Poland became tense. Politicians of Polish origin claimed that the educational conditions of Lithuanian Poles have worsened since the Lithuanian ministry of education decided to increase the number of classes taught in Lithuanian in Polish schools in the country. Even the Polish ministry of Foreign Affairs expressed its dissatisfaction with the amendments of the education law. Moreover, the Parliament rejected an

offer from the government to allow people living in Lithuania to write their names with diacritic signs that are not part of the Lithuanian language, using the Latin alphabet in official documents (for example passports). This concerned mainly Poles living in Lithuania. Relations with Germany remain important, and the German Chancellor Angela Merkel paid a visit to Lithuania in September 2010.

Lithuania was in charge of the presidency of the Council of the Baltic Sea States (CBSS) from July 2009 until June 2010. The presidency focused on innovation, cross-border co-operation, a clean and safe environment, and the active participation of the neighbouring Kaliningrad region and Belarus. The CBSS summit took place in Vilnius on 1-2 June 2010 and announced a vision to transform this region into one of the most prosperous, innovative and competitive regions in the world. Overall, Lithuania has been interested in the BSR because of ongoing co-operation and presidencies within the CBSS, the Nordic-Baltic dimension of political partnership, transport, environment and energy projects, and the adjacent Kaliningrad region. On the other hand, the country's interest in the region was limited, since Lithuania's primary security and welfare concerns are attached to the EU and NATO, rather than to the BSR. Very few people would associate themselves with the BSR in terms of identity.

Lithuania coordinates three priority areas with other countries in the EU Strategy for the Baltic Sea Region (EUSBSR): reinforcement of sustainability of agriculture, forestry and fisheries (with Finland and Sweden), improvement of internal and external transport links (with Sweden) and reduction of volume harm done by cross border crime (with Finland). Furthermore, Lithuania coordinates 11 flagship projects. The main focus lies on soft security issues such as transport, communication, energy, research and development, and innovation.

Lithuania faces several challenges in the context of the EUSBSR. Lithuania increasingly sees herself as a Baltic or Baltic-Nordic country and BSR identity is, in general, weak. The economic recession depleted funds for public investment and domestic economic concerns might come at a price of participation in BSR projects. Russia, despite recent Lithuanian attempts to warm up

relations, is still viewed with suspicion because of hard and soft security concerns.

Miscellaneous

Several events changed the nation during the discussed time period. Ex-Communist Algirdas Brazauskas, leader of the Social Democrats and the country's first President, elected in 1993, passed away in June 2010. The Catholic Church declined to bring his coffin into the main cathedral during the mass because of, as some say, his second marriage. This caused controversy and heated debates. On a brighter note, the national basketball team won the bronze medal at the basketball world championships in September 2010 with a new generation of players. Basketball has been the most popular sport in Lithuania since the interwar period. Lithuania celebrated its 20-year anniversary of independence in March 2011. It has not been as heralded as the 1000-year anniversary of Lithuania's name in 2009, but was nevertheless marked by various celebrations and visits of high ranking representatives from various countries.

Outlook

The government will carry on with strict budgetary policies in order to introduce the Euro, to reduce borrowing costs and to exert a great deal of effort in the fields of energy security and unemployment. The year 2011 will gradually become a battleground for the parliamentary elections in October 2012 and preparations for the Lithuanian presidency in the Council of the EU. The BSR does not seem to gain more prominence on the foreign policy agenda. Anxiety about soft security and Russia will remain politically salient in the years to come.



Mindaugas Jurkynas

Poland

Population	38.2 million
Surface Area	312,685 km ²
Capital	Warsaw (<i>Warszawa</i>)
GDP (PPP) 2010	354.1 billion Euros and 9,269 Euros per capita
Currency	Złoty (PLN)
Corruption level (<i>Transparency International Corruption Perception Index 2010; 10.0-9.0 = very clean, 0.0-0.9 = highly corrupt</i>)	5.3 (ranking: 41)
Current government	Coalition of liberal-conservative Civic Platform with the centrist, agrarian Polish People's Party
Three largest cities	Warsaw (<i>Warszawa</i>), Cracow (<i>Kraków</i>), and Lodz (<i>Łódź</i>)
Baltic Sea coastal regions	Pomerania, Varmia-Masuria, West Pomerania
Baltic Sea Coastal regions	Schleswig-Holstein, Mecklenburg-Western Pomerania

Between January 2010 and July 2011, Poland has witnessed unexpected and tragic events. In April 2010, the Polish President, Lech Kaczyński, and 97 other senior Polish figures were killed in a plane crash in Smolensk. Two floods hit the country hard in summer 2010. They have had a serious impact on Polish society and have tested the stability of the Polish political and administrative system. The presidential and local government elections that followed have consolidated the power of the major party in the ruling coalition, the Civic Platform. Economically, Poland has experienced continuous GDP growth and large-scale investments in infrastructure. Simultaneously, the government has undertaken actions to diminish its mounting public debt. In the Baltic Sea region (BSR), Poland has continued to develop sound, bilateral relationships with other countries. Multilateral BSR co-operation has been driven by engagement on the regional, rather than central, level. The role of the region will increase during the Polish Presidency of the Council of the EU due to the revision of the EU Strategy of the BSR (EUSBSR).

Government

The government of Poland has been led by Prime Minister Donald Tusk from the liberal-conservative party, the Civic Platform, which has been part

of a government coalition with the centrist, agrarian Polish People's Party since November 2007. In the presidential and local government elections in 2010, the Civic Platform consolidated its power. Its candidate, Bronisław Komorowski, won in

the second round against Jarosław Kaczyński, the leader of the main opposition party, Law and Justice, and the twin brother of the deceased President. Self-government elections held in November and December 2010 have shown that the Polish political scene is relatively stable. Again, the Civic Platform received the most support, followed by Law and Justice, the Polish People's Party, and the Alliance of the Democratic Left.

The stability of the political system has not been hampered by the fact that both major parties, governmental and oppositional, are divided. In November 2010, a member of the Civic Platform left the party to form the 'Movement for Support'. A group of members of Law and Justice have left the party to form the parliamentary club 'Poland is the Most Important' (established in December 2010, registered in March 2011).

Policies

The GDP of Poland has continued to grow in 2010, largely due to investments supported by EU funds, and the grandiose scale of infrastructural projects, including road construction, wastewater treatment plants, ports in Gdańsk and in Świnoujście, and stadiums for the European Football Championships in 2012. At the same time, the government had to address the problem of rising public debt by introducing a reform of the pension system, continuing the privatization of state enterprises, and temporarily raising the VAT. The crisis in the euro zone has had an indirect impact on the Polish economy and has been closely followed by Polish decision-makers, due to the Polish Presidency of the Council of the EU in the second half of 2011. The government has also had to react to the floods. The long-awaited reforms of the army and higher education were rather cautious.

In foreign affairs, the government has continued efforts to strengthen the position of Poland in the EU and to maintain sound relationships with Germany and Russia. In terms of relationships with its neighbours, the Polish government has prioritised the eastern dimension over the northern dimension.

However, the national debate has predominantly focused on the plane crash in Smolensk

and its aftermath. On the one hand, it has showed the stability of the administrative system of Poland. On the other hand, it has resulted in controversies concerning the investigation as well as in a lack of consensus over the form of commemoration of the deceased. These have further polarised the Civic Platform and Law and Justice. To some extent, they have also resulted in a fissure within Polish society. These controversies have become the main issue of concern within Law and Justice.

Poland and the Baltic Sea region

The BSR, although defined in the 2011 Annual Address of the Minister of Foreign Affairs of Poland to be a "natural area of co-operation"¹, has a comparably low priority on the political agenda of the central administration. No single document defines the interests of Poland in the BSR. However, the preparation of the revision of the EUSBSR has put the BSR higher on the agenda of the Polish MFA. Overall, Poland's relations in the region are mainly developed bilaterally and on an *ad hoc* basis. The northern regions of Poland are the driving forces for the country's activities in the BSR. The share of the BSR countries in the total trade of Poland is relatively high, ranging up to 35 %.

Energy security was one of the most important regional issues for Poland. This included the Nord Stream pipeline and the demarcation of the route of the pipeline in the area of the passage to the liquefied natural gas (LNG) terminal in the Szczecin-Świnoujście port complex. Its construction is intended to enhance the energy security of Poland through a diversification of gas supply routes. The Polish government has renegotiated the route of the Nord Stream pipeline to allow the passage of the gas-transporting Q-flex boats to the port. Additionally, to secure gas supplies, in October 2010 Poland signed a long-term contract with the sole importer of gas to Poland, Russia, for the gas import until 2022 and gas transit until 2019. Another project aimed at the creation of a common electricity

¹ This is a direct translation from the speech in Polish. In the English version, however, the speech reads: "The Baltic Sea region is also an area of Polish interest". Radosław Sikorski, *The Minister of Foreign Affairs on Polish Foreign Policy for 2011*, published on 16.03.2011 at: <http://mfa.gov.pl/Ministers,Annual,Address,2011,42005.html>.

market and connecting the Baltic states directly to the European Continental Network, the Lit-Pol Link between Lithuania and Poland, is due to be completed by 2016. However, delays in the project, as well as changing conditions for Polish engagement in the construction of the nuclear power plant in Visaginas (Lithuania), and the low economic viability of oil refinery *ORLEN Lietuva* (the biggest Polish capital investment in Lithuania), have had a negative impact on the two countries' bilateral relationship.

High standing Polish politicians paid visits to Germany, Russia, Sweden, and Norway. Poland's bilateral relationship with Sweden has been significantly enhanced. In May 2011, the King of Sweden paid a state visit to Poland, during which the Ministers of Foreign Affairs signed the Declaration on Political Co-operation in Areas of Strategic Importance between Poland and Sweden, focusing on specific projects within EU, bilateral, and global relations. They include current internal EU-related issues: financial recovery, implementation of the Europe 2020 strategy, removal of

the single market barriers, the EUSBSR, and EU enlargement. Bilaterally, the countries will enhance security and defence co-operation, consular co-operation, and energy efficiency and renewable energy projects.

In Polish-Russian relations, the efforts of the Polish-Russian Group for Difficult Matters have resulted in a comprehensive joint publication on history, showing the point of view of the two countries (Rotfeld and Torkunow 2010). The invitation from Russia to Poland to jointly commemorate the victims of the Katyń massacre and the immediate reactions of Russia after the disaster in Smolensk raised expectations for renewed Polish-Russian relations. This relationship was later strained by controversies concerning the investigation of the plane crash. In 2010, Poland granted a loan of 100 million Euros to Latvia. At the same time, bilateral relations with Lithuania have worsened. The challenges include the status and rights of the Polish minority in Lithuania, as well as energy projects (see above).



From the start, Poland has been actively involved in the elaboration of the EUSBSR. From the very outset, the Office of the Commission of European Integration (currently under the MFA) has conducted extensive research on the strategy. Although the strategy lost its momentum in Poland in 2010, the government resumed its responsibility for the strategy in 2011, due to the approaching revision of the EUSBSR under the Polish Presidency of the Council of the EU.

Poland coordinates two priority areas in the strategy, focusing on the reduction of nutrient inputs to the sea to acceptable levels (with Finland) and on the exploitation of the full potential of the region in research and innovation (with Sweden). It leads horizontal actions on defining and implementing the Baltic Sea basin component of the European Marine Observation Data Network and improving socio-economic data. The flagship projects led by Poland range through the different areas of the strategy and include removing remaining single market barriers and sustainable rural development. The other flagship projects include assessing the need to clean up contaminated wrecks and chemical weapons, the creation of a network of centres of excellence for maritime training, a pre-study on possible funding for a formal risk assessment of LNG carriers in the Baltic Sea Area, engagement in maritime accident response projects and soft security, developing deeper co-operation on environmental technology to create new business opportunities, making the BSR a leader in design and on shorter plane routes. The Marshall Office of Pomorskie Voivodship leads a flagship project on the promotion of the cultural heritage and unique landscapes. Warsaw will also host the Youth Resource Centre for Eastern Europe and Caucasus under Lithuanian leadership.

The implementation phase of the EUSBSR encounters many challenges in Poland; some of them result from the strategy's principles of "no new money, no new institutions, no new legislation", the others from internal preconditions. First, the strategy in itself lacks clarity and comprehensibility. Second, a lack of additional financial and human resources to develop the projects followed by scarce promotion results in a lack of motivation on the part of the involved parties. Third, there is no comprehensive

national strategy towards the BSR. Unless the latter is created, the EUSBSR has only a small chance of being recognised as an important tool for regional co-operation. These issues, as well as the question of governance of the strategy, will be addressed in the revision of the strategy in the second half of 2011.

Polish Baltic Sea regions

Three of the Polish regions have either direct (West Pomerania and Pomerania) or indirect access to the Baltic Sea (Warmia-Masuria via Vistula Lagoon). They all are active in Baltic Sea co-operation. The Voivodeship of Pomerania is even a driver of Baltic Sea co-operation, using well developed networking links with a majority of Baltic Sea organizations. In 2011, Pomerania will host the IX Forum of the South Baltic Parliaments. Gdańsk will host the EU Maritime Day Conference, the Baltic Development Forum Annual Conference, the Annual EUSBSR forum, and the meeting of the Polish ambassadors to the BSR states. Gdańsk, Gdynia and Sopot participate in numerous projects around the BSR. West Pomerania, together with German and Swedish regions, forms the Association of the Councils of the Pomerania Euro region. The regional parliament participates in the Forum of the South Baltic Cities, and cooperates with Mecklenburg-West Pomerania, Skaane, and Kaliningrad. At the end of 2010, the Marshall Office has organised a Business Forum to attract investors from Denmark. The Voivodeship of Warmia-Masuria co-operates with neighbouring Kaliningrad.

Self-government elections in 2010 have upheld the political *status quo* in the aforementioned regions. The acting presidents were re-elected in the capital cities of these regions. At present, the main administrative posts in these cities (of a Voivode, Marshall and the majority in the regional parliaments) are occupied by members of the ruling coalition: Civic Platform and/or Polish People's Party.

Miscellaneous

Other events that moved the Polish nation refer to the main characteristics of the Polish people: their revolutionary spirit, religious engagement, enthusiasm for sports, and abstract sense of humour. The 30th anniversary of the foundation of the Solidarity Trade Union that led the peaceful revolution, culminating in the end of communism in 1989, evoked political struggles and was boycotted by the former leader of Solidarity and Nobel Peace Prize Winner, Lech Wałęsa. In May 2011, the beatification of the former pope and Polish national, John Paul II, has united Polish Catholics. Polish sportsmen have been successful both in water and winter sports, winning the world kite surfing RSX class competition in Denmark in 2010 and scoring six medals at the Winter Olympics in Vancouver in cross-country skiing, ski jumping and speed skating.

During the reporting period, the traditional, national element of men's fashion, the moustache, has twice become an issue of national concern. The first time was when, during the presidential campaign rumours about plans of Civic Platform candidate, Bronisław Komorowski, to shave off his moustache resulted in a debate as to whether or not this would make him win or lose the elections. (Eventually, the moustache remained and the candidate succeeded). The moustache hit the news for the second time, when the popular ski-jumper and proud owner of a moustache, Adam Małysz, retired. In a tribute to his sports career many Polish internet users joined the campaign "Grow a moustache for Małysz!" and put a moustache on their profile pictures on the social website Facebook – women included!

Outlook

The next parliamentary elections are due on 9 October 2011, during the Polish Presidency of the Council of the EU. They will most likely result in the continuation of the current Polish government and its current foreign policy. In respect to the BSR, steps have been undertaken to define the interests of Poland and to create a comprehensive national strategy towards the BSR. For this reason, a meeting of the Polish ambassadors to the BSR countries will be convened by the MFA in September 2011. In bilateral terms, the improvement of the political relationship with Lithuania and Russia poses the biggest challenge. At the same time, the regional trade potential, especially with the Nordic countries, can be better exploited. The joint cooperation with Denmark on developing the EU internal market is one of the means to achieve that. The EUSBSR is seen as an important tool for the development of regional projects. However, its future will largely depend on the significance the other littoral states attribute to it and an improvement of the strategy's mechanisms.



Lidia Puka

Russia

Population	142,914,136
Surface area	17,075,400 km ²
Capital	Moscow (Москва)
GDP, 2008, Bln USD (Parity of Purchasing Power)	2,262.7
Currency	Rouble
Corruption level (<i>Transparency International Corruption Perception Index 2010;</i> 10.0-9.0 = very clean, 0.0-0.9 = highly corrupt)	2.1 (ranking: 154)
Current government	United Russia
Three largest cities	Moscow (11,551,930), St. Petersburg (4,868,520), Novosibirsk (1,485,267)
Baltic Sea coastal regions	Kaliningrad and Leningrad Oblasts, St. Petersburg

During the period 2010-2011, Russia's development was rather controversial and complicated. Russia tried to demonstrate its loyalty to democratic/market values, its willingness to continue a reformist course and its ability to develop an efficient anti-crisis strategy. However, the Russian leadership was unable to maintain a democratic dialogue with political opposition and to support the development of civil society institutions and independent mass media. Moscow's most important reformist initiatives, such as military and police reforms, and an anti-corruption campaign, either completely failed or were stonewalled by resistance from interest groups and a lack of funding. EU-Russia co-operation in the context of the EU Strategy for the Baltic Sea Region (EUSBSR) is far from being dynamic and should be intensified.

Government

The current configuration of the Russian government was designed after the 2007 State *Duma* (the lower house of the parliament) and 2008 presidential elections. Four parties are currently represented in the legislature: the official Kremlin party, United Russia (which dominates *Duma*), and the so-called 'systemic' opposition formed by Just Russia, the Liberal Democratic Party, and the Communist Party.

The executive branch is shaped in a rather unusual way. In fact, President Medvedev and Prime Minister Vladimir Putin operate in tandem, with the Prime Minister playing a leading role and the president attempting to present an image of being a real decision-maker. During this period, the prime minister, president and their protégés in all three branches of government have exercised tight control over the federal government, parliament, judiciary, most regional leaders, mass media, and much of civil society. Similar to

the Putin presidency, the strongest grouping in the country's political elite was made up of former and active officers of security, intelligence and law-enforcement agencies (the so-called *siloviki*). According to prognoses, *siloviki* would remain in power for the foreseeable future.

The Putin administration invented a special sort of ideology - *sovereign democracy* – that lies behind the current system of government. According to this doctrine, Putin has restored both domestic stability in Russia and its former international authority. He did this not by abandoning democratic values and institutions, but adapting them to Russian traditions, which, according to international experts, appear to have little in common with Western notions of democracy.

Policies

In December 2008, President Medvedev initiated the first constitutional amendment to extend the presidential term from four to six years and terms of the State Duma's deputies from four to five years. Many experts believe that this change was made to benefit the ruling elites that plan to stay in power as long as possible. In addition to amending the constitution, the Kremlin also changed the electoral law. Instead of the previous system of electing the Duma through half party-list seats and half single-member districts, a new system that relies exclusively on party lists has been introduced. Moreover, the Kremlin increased the threshold number of votes a party needs to enter the parliament from 5% to 7%. Since few registered parties were able to meet this criterion, the effect has been that only the four aforementioned parties are currently represented in the Duma.

Russia's regional and local elections in the reporting period have also proven controversial. They were seen by many experts as a farce and have spurred outrage among the electorate and political parties. For example, in the October 2009 electoral cycle, according to Central Electoral Commission statistics, the authorities removed a considerable number of candidates from the opposition parties from the ballot. The protests, however, did not affect the president.

He described the party system as consolidated and almost efficient. Rather than introducing a radical reform, he announced a series of small changes in the electoral legislation, which facilitated access for the smaller parties to regional and local legislatures. At the same time, the Kremlin took into account the decline of United Russia's popularity. To expand the electoral support for pro-governmental forces, in May 2011, premier Putin has initiated a new political alliance – All-Russian People's Front – on the basis of United Russia.

The Russian government's general performance was also controversial. The Putin-Medvedev duo was unable to successfully implement their anti-crisis strategy and to reform the country in a democratic way. Russia's track record shows that an economic opening without political reform simply feeds kleptocratic authoritarian institutions. The postponement of reforms only intensifies the need for them and – similar to the Middle East - could result in a serious crisis of the ruling regime.

Several *international issues* were in the focus of Russia's political debate:

- *Global financial-economic crisis*. Similar to other countries, Russia used its accumulated reserves to alleviate the immediate financial and social consequences of the crisis. Priority was given to supporting the banking sector. In parallel, the Kremlin tried to persuade the G-20 to develop a common anti-crisis strategy. Specialists, however, point out that an exit from the crisis in Russia can be found if the country returns to high rates of economic growth and overcomes its dangerously high social disparity.
- *NATO-Russia rapprochement*. Russia cooperates with NATO on issues such as nuclear non-proliferation, mutual threat assessment, the alliance's military transit to and from Afghanistan *via* Russian territory, training anti-drug policemen from Central Asian countries and fighting piracy at sea. However, Russia is still concerned about NATO's plan to create a European ABM system, the future of the Conventional Forces in Europe Treaty, which has not been ratified by its Western partners, and potential NATO extension to post-Soviet countries (Georgia).



- *EU-Russia rapprochement.* Moscow appreciated that, along with the US, the EU supported Russia's application to the WTO. Brussels also favoured Moscow's ideas for the EU-Russian Partnership for Modernisation and the gradual facilitation of the visa regime (with the final aim to introduce a visa-free regime). Amongst controversial issues, the EU views establishing a visa-free regime with Russia as a rather distant perspective while Moscow pushes the Union for earlier action. The Kremlin refuses to ratify the European Energy Charter, which is seen as discriminatory against Russia. It is suggested either to revise the Charter on Russian conditions or to sign a special EU-Russian energy agreement. Both sides are discontent with the slow progress of the negotiations on a new co-operative agreement (the previous one expired in late 2007).
- *Russian-Polish rapprochement.* Even before the tragic death of the Polish president Kacinsky in the plane crash in Smolensk in April 2010, Moscow and Warsaw made great efforts to solve bilateral trade and historical disputes (including Russia's formal apologies for the Molotov-Ribbentrop pact and Katyn killings). Both countries continue this co-operative 'path', although some mutual conflicts still occur occasionally.
- *Russian-Latvian rapprochement.* Trade between these two countries is booming: the trade turnover increased by 50 per cent in 2010 as compared to 2009. Moscow and Riga plan to develop the harbour infrastructure in Latvia to accommodate tankers with liquefied gas and to build a fast train track between the two capitals by 2018 (Football World Cup in Russia). The two countries plan to create a Joint Historical Commission to conduct research on the past of Russian-Latvian relations. The Russian-Latvian rapprochement culminated in a visit of the Latvian President Zatler to Moscow in December 2010. Then, the two sides agreed to co-operate in areas such as trade, investment, transportation, and humanitarian issues.

The most disputable *domestic issues* included the following themes:

- *Russia's modernisation.* According to Medvedev's plan, the technological renovation of the entire sphere of production should be the basis of the country's modernisation strategy, in part with help from foreign investors and imported know-how. The key technology areas identified by the president include medicine, energy, information, aerospace, telecommunications, and energy efficiency. To promote progress, the approval process for investment projects would be streamlined. The tax system and mandatory insurances should be reformed in order to create favourable conditions for investors. However, the presidential plan of modernisation was heavily criticised for its adherence to the catch-up model of development (instead of inventing a model of its own), making emphasis on technocratic rather than social and humanitarian aspects of modernisation as well as for the lack of a proper implementation mechanism.
- *Fighting terrorism.* A series of terrorist attacks in the Moscow subway, Domodedovo airport, long distance trains, and in the North Caucasian regions resulted in animated discussions on the need to urgently solve the problem of Islamic extremism and for increased security measures in the Russian transport system.
- *Fighting corruption.* President Medvedev continued the previous administration's fight against corruption. On 14 April 2010, Medvedev announced a new national plan to combat corruption. All these efforts led to a series of individual measures, including enhanced law enforcement, an improved legal system, higher salaries for civil servants, improved financial supervision, and increased public involvement in anti-corruption efforts within an international context. These were useful initiatives, but their implementation leading to sustainable improvement requires a long time, great efforts by the whole society and financial resources.
- *Police reform.* A series of presidential decrees have been issued to reform the Ministry of Interior's structures, to reduce its headcount and to raise salaries (to prevent corruption). In late 2010, *Duma* has passed a new law

that renamed the *militia* to 'police' to entirely change its image. However, the reform of the police, which Medvedev himself had pursued with considerable energy, showed no immediate visible results.

- *Military reform.* The main purpose of the reform is to make the armed forces more compact, mobile, better equipped, trained and prepared. In the long run, conscripts should be gradually replaced by professionals. A series of federal programs were launched to rearm the military with new, more sophisticated weapons. Social/humanitarian aspects of military service (including better salaries, pensions and housing) have been given more attention. However, the financial-economic crisis hampered the implementation process; concrete results of the reform remain to be seen.

Russia and the Baltic Sea region

The BSR is not a high priority among Russian national interests. Bilateral relations with the US and EU, the Arctic and East Asian regions are much more important for Moscow. Nevertheless, the BSR still has a considerable significance for Russia:

- This region is the only one where Russia has a common border with the EU and, hence, serves as a natural gateway for the transit of goods, services and people between Russia and the EU.
- The region's importance has considerably increased with the launch of the Nordstream project, which aims to ship Russian gas from the High North to the EU *via* a pipeline on the bottom of the Baltic Sea.
- The Kaliningrad Region forms both a challenge and an opportunity for Russia in its relations with the EU. On the one hand, its enclave/exclave status creates various problems related to freedom of movement of goods and people between Kaliningrad and mainland Russia. On the other hand, the region surrounded by EU territory can be seen as a promising venue for various co-operative projects.
- Russia is still concerned about the status of the Russian-speaking minorities in Latvia and Estonia.

- NATO enlargement has brought the alliance's military structures closer to Russian borders, led to the modernisation of the armed forces of the Baltic States and Poland as well as to the deployment of military aircraft in Lithuania and US Patriot missiles in northern Poland (just 70 km from the Kaliningrad Region). These moves made Moscow suspicious about NATO's real intentions, and even generated a Russian discussion on a possible rearmament of the Kaliningrad area. These developments forced Moscow to see the region again as a source of potential threats.
- Russia shares the BSR countries' environmental concerns.

It should be noted that Russia lacks a special Baltic Sea strategy. Moscow did not react formally to the EUSBSR. Moscow prefers to deal with regional issues either on a bilateral or multilateral level (Northern Dimension, CBSS, HELCOM and the Nordic institutions). However, Moscow does not reject the possibility of EU-Russia co-operation in specific areas that are covered by the EUSBSR:

- *Environment protection.* Russia takes part in the Baltic Sea Action Plan (adopted by HELCOM in 2007) which is an ambitious program to restore the good ecological status of the Baltic marine environment by 2021. In addition, many actions and projects in water, wastewater, solid waste and energy efficiency with Russia are implemented in the framework of the Northern Dimension Environmental Partnership. Together with Belarus, Russia also partakes in a comprehensive regional pollution risk assessment (EUSBSR flagship project 1.5).
- *Energy co-operation.* Moscow is involved in flagship project 5.2 on increasing energy efficiency.
- *Trade.* To support and facilitate the development of trade between the EU and Russia and economic co-operation, and to combat customs fraud and enhance security and safety of the supply chain in trade, a series of practical measures are planned. The first step to be taken would be to reach an EU-Russia agreement on good governance in the tax area. The flagship project 6.5 aims at improve-

ment of the EU and Russian customs and border procedures. According to the flagship project 6.6, the so-called "Laufzettel" project should be re-launched with the objective of measuring border crossing/clearance times and identifying bottlenecks, as well as opportunities to improve control procedures at the EU-Russian border.

- *Improvement of the BSR transportation system.* Moscow's and Brussels' plan to further develop pan-European transport corridors to increase the BSR's potential as the EU's gateway to Asia. According to the EUSBSR's priority no. 11, a special focus should be on removing non infrastructure-related bottlenecks, including those associated with border-crossing.
- *Maritime safety.* The increasing trend towards transport of oil and liquefied natural gas by tankers *via* the BSR brings risks for the environment, especially in difficult winter conditions (iced sea). Under the strategy's priority no. 13, the EU and Russia plan to develop a system of joint measures on maritime safety.
- *Tourism, education, youth.* The strategy's priority no. 12 outlines a regional environmentally-friendly tourism strategy that aims at the harmonisation of standards, the development of similar projects in different regions, joint marketing of the region and co-operation on projects. The ongoing Erasmus-Mundus and Tempus-Tacis programs are quite helpful in developing student mobility, inter-university co-operation, and the reform of the Russian higher education system in line with the standards of the Bologna process. Also, a Baltic youth resource centre should be established to include Russia in regional co-operative schemes.

It should be noted, however, that most of these projects exist only on paper. Some issues, such as energy co-operation or trade, customs, and border regimes are basically discussed and solved either at the EU-Russia top level or on a country-to-country basis rather than within the EUSBSR.

Russia's Baltic Sea coastal regions

There are three Russian regions – the Kaliningrad *Oblast*, St. Petersburg and Leningrad *Oblast* – that belong to the BSR. In this period, the most interesting developments took place in Kaliningrad. Three major issues were in the focus of regional politics:

Boos governorship. Georgy Boos' socio-economic policies were perceived by the Kaliningraders as inefficient and led to a series of mass protests in early 2010. At some point, a massive rally that has been provoked by the dissatisfaction with regional authorities turned to the protest against the federal government's inefficient anti-crisis strategy and demands for the resignation of Premier Putin were voiced. As a result of this discontent with the governor's policies, Boos has not been reappointed for a new term and was replaced by Nikolai Tsukanov.

Construction of the Baltic nuclear plant. To solve the problem of energy supply for the region, Moscow decided to build a nuclear plant near Kaliningrad by 2016. Despite the numerous concerns about possible ecological risks, Moscow consistently supports the project. All local initiatives to hold a referendum on this issue were effectively blocked by federal and regional authorities.

Visa-free regime for Kaliningraders. Facing the EU's strong opposition to a visa-free regime for entire Russia, in August 2010, Moscow (supported by Poland) suggested a pilot project - to

introduce such a regime only for residents of Kaliningrad. However, the EU and the Baltic States that fear the influx of migrants and smuggled goods opposed the idea. The general migration situation in Europe, where some countries favour the temporary suspension of the Schengen rules and restoration of border controls, is not conducive for such initiatives as well.

Outlook

As recent developments demonstrate, the BSR's significance for Russia will not only be maintained but it will even increase due to factors such as the growth of trade in goods and services, the expansion of transport infrastructure, the compelling need for solving ecological problems and the intensification of contacts. To encourage and secure positive trends in the region, Russia should intensify its co-operation with the EU within the EUSBSR.



Alexander Sergunin

Sweden

Surface area	450,295 km ²
Capital	Stockholm
GDP (PPP), IMF 2010 estimate, per capita	USD 36,502
GDP (nominal), IMF 2010 estimate, per capita	USD 47,934
Currency	Swedish Krona (SEK)
Corruption level (<i>Transparency International Corruption Perception Index 2010</i> ; 10.0-9.0 = very clean, 0.0-0.9 = highly corrupt)	9.2 (ranking: 4)
Current government	Centre-right coalition (the Moderate Party, the Centre Party, the Liberal Party and the Christian Democrats)
Three largest cities	Stockholm, Gothenburg (Göteborg), Malmö (Malmö)
Baltic Sea Coastal regions	Halland, Skåne, Blekinge, Kalmar, Gotland, Östergötland, Södermanland, Stockholm, Uppsala, Gävleborg, Västernorrland, Västerbotten and Norrbotten counties

Just recovering from the global financial crises, one of the main campaign themes in the 2010 Swedish general elections revolved around the country's economy and the future of the Swedish welfare state. The election was the first in a long time when a right-wing coalition government that had served a full term was re-elected; both a weak and fragmented political opposition and the recent recovery of the Swedish economy have been presented as explanations for this outcome. The election also saw the populist right-wing Sweden Democrats entering parliament for the first time, combining an anti-EU agenda with anti-immigration rhetoric. In December 2010, the Swedish public also woke up to the threat of home-grown terrorism, when a suicide bomber detonated two bombs in central Stockholm. As for Baltic Sea co-operation, 2011 came with promises of more distinct Swedish activity within the framework of the EU Strategy for the Baltic Sea Region.

Government

The 2010 Swedish general elections were held on 19 September 2010. The main contenders were the governing centre-right coalition, The Alliance – made up of the Moderates, the Centre Party, the

Liberal Party and the Christian Democrats – and the oppositional coalition, consisting of the Social Democrats, the Left Party and the Green Party. The Alliance attracted some 49 % of the total votes (173 seats in the parliament) whereas the leftist-green coalition received just below 44 %

of the votes (156 seats in the parliament). The Alliance and Prime Minister Fredrik Reinfeldt thus lost the absolute majority in parliament that they had received in the last election, in 2006. The voter turnout was, as expected, fairly high, 84.6 %.

The election outcome was a disaster for the Social Democrats, who dropped almost 5 percentage points compared to the 2006 elections. With below 31 % of the votes, this was the worst election outcome since the early decades of the 20th century. As a result, party leader Mona



Sahlin subsequently resigned in early spring 2011. Her successor, Håkan Juholt, assumed office on 25 March and is generally considered to belong to the party's left wing. There has been a public debate about the crisis of Social Democracy and the need for ideological renewal. As well, 28 February 2011 marked the 25th anniversary of the assassination of Prime Minister Olof Palme. This uneasy anniversary reiterated a debate about the still-unresolved crime, the legacy of Palme, and the future of Social Democracy.

The election outcome may partly be explained by the tentative recovery of the Swedish economy. Traditional Swedish export industries, producing machinery and transport equipment, iron ore, steel and paper, suffered in 2008–2009 when exports decreased; however, in 2010, increasing demand from the global market boosted the export industry. Also, tax cuts introduced by the centre-right coalition government and low interest rates have strengthened the domestic market. The governing Prime Minister and his Minister

for Finance, Anders Borg, managed to stand out as credible caretakers in the difficult financial situation, in contrast to the leftist-green coalition, who came across to voters as lacking a common agenda.

The leading party of The Alliance, the Moderate Party, received over 30 % of the total vote. The election outcome confirmed the party's successful strategy to remodel itself into the "New Moderates", changing its old image as a conventional right-wing upper-class party to a catch-all party using rhetoric conventionally associated with the Social Democrats. At the same time, the centre-right government has heavily cut welfare state arrangements, like sick pay and unemployment benefits.

The 2010 elections also saw the Sweden Democrats (SD), a xenophobic, anti-EU party, enter parliament for the first time. Party leader Jimmy Åkesson has, to some extent, managed to change the image of the party, distancing it from its extreme right wing and even from its racist roots. With 5.7% of the votes, SD is presently the sixth largest party in the Swedish parliament, the *Riksdag*. With a strong appeal, especially among unskilled labourers, the unemployed, and young people, SD as appears to be a typical populist or protest party.

Policies

The elections overshadowed most other political issues in 2010 and the rise of the Sweden Democrats, in particular, provoked controversy. In recent years, Sweden has experienced refugee and family reunification immigration, rather than labour immigration. SD has tried to capitalise on tensions caused by this unprecedented multicultural challenge, which has occasionally resulted in sharp reactions. Before the elections, all parties represented in parliament pledged not to seek support from the SD, regardless of the electoral outcome. Privately owned TV network TV4 refused to air an SD campaign video, portraying a Swedish pensioner competing in a fictive race with a horde of burqa-clad women with prams, suggesting that immigration is a direct threat to the Swedish welfare state. The video was not banned in any other way, but SD tried to present itself as the victim of political censorship. Right-wing

populists in neighbouring Denmark, the Danish People's Party, claimed that Sweden violated democratic rules. As a result of the controversy, the clip became frequently viewed on YouTube, also by people who otherwise would probably not have noticed the campaign video.

During the election campaign, SD also tried to capitalise on its role of underdog, which was made easier by the many instances of disrupted rallies and counter-demonstrations, organised most notably by political activists associated with the extreme left-wing and anti-racist movements in Sweden. At the same time, in the major Swedish cities, ordinary citizens also took to the streets by the thousands, in protest marches against xenophobia and intolerance.

The economy remained an important domestic issue in 2010, even when the crisis debate receded. Despite noticeable levels of unemployment, economic growth in 2010 was the highest in Western Europe. Unemployment fell from 8.3 % in 2009 to 7.8% in September 2010; but at the same time, youth employment remained disproportionately high – some 28% of young Swedes (15 to 24) are currently standing outside the labour market.

In the 2010 Foreign Policy Statement, the Swedish post-war doctrine of staying out of military alliances in peacetime in order to remain neutral in the event of war was re-defined, as the Reinfeldt government acknowledged that EU membership entails a responsibility for European security. Sweden is a member of NATO's Partnership for Peace, but, for the time being, not a contender for NATO membership. However, Sweden has participated in a number of international peacekeeping operations in recent years, including the NATO-led forces in the Balkans (KFOR) and the International Security Assistance Force (ISAF) in Afghanistan. In spring 2010, injured and killed Swedish soldiers provoked a public debate on the future presence of Swedish soldiers in Afghanistan.

2010 ended on a darker note. On 11 December, two bombs exploded in central Stockholm, killing the bomber but no one else, thus avoiding a bloodbath in the crowded city centre, full of Christmas shoppers. The perpetrator, a Swede of Iraqi origin, was supposedly driven by the desire to avenge the presence of Swedish troops in Afghanistan. To the Swedish public, the incident reminded of the assassinations of two prominent Swedish politicians – Olof Palme in 1986 and





Anna Lindh in 2003 – in the sense that the violence of “the outside world” made itself present on the streets of Stockholm.

Sweden and the Baltic Sea Region

Sweden has strong economic interests in the Baltic Sea Region (BSR). Sweden’s main trading partners include Baltic Sea countries Germany, Denmark and Finland as well as Norway, the UK and the USA. Being an economy heavily oriented towards foreign trade, the financial crisis of 2008–2009 hit Sweden hard, because of reduced export demands. However, in 2010, the Swedish economy recovered, as exports increased and the banking sector returned to profitability.

Swedish banks have, for a number of years, been important actors in the Baltic countries. As the recent financial crisis hit the Baltic region particularly hard, Swedish banks suffered considerably. In 2008, a designated bank support package was introduced by the Swedish state, to minimize damages and to secure the survival of the banks. The strategy proved to be successful, and all Swedish banks passed the EU stress test in

summer 2010, when the Committee of European Banking Supervisors (CEBS) assessed the ability of 91 European banks to survive future economic shocks. And, in July 2011, the major Swedish banks – Nordea, SEB, Svenska Handelsbanken and Swedbank – all passed the stress test carried out by the European Banking Authority (EBA), the successor of CEBS.

2011 came with promises of a more determined Swedish contribution to the EU Strategy for the Baltic Sea Region (EUSBSR), originally presented by the European Commission in summer 2009 and subsequently endorsed by the European Council in October 2009, under the Swedish EU Presidency. In February 2011, the government organised a meeting for the national and regional agencies, and the municipalities, that will deliver on the Swedish contribution to the EUSBSR, discussing goals and indicators to assess the progress towards a fully implemented strategy. Among the manifold instances of regional Baltic Sea co-operation, Sweden has assumed particular responsibility for StarDust, a project on research and innovation, and the country coordinates the Baltic Transport Outlook, a study on all forms of transportation in the region.

At the same time, for Sweden, Baltic Sea co-operation is not restricted to the EU agenda. For example, from July 2010 until June 2012, Sweden holds the Helsinki Commission (HELCOM) Chairmanship, which provides a platform for intergovernmental co-operation on environmental issues in the region. Upon taking the position, Chairlady Gabriella Lindholm promised that Sweden and HELCOM would ensure that the Baltic Sea Action Plan (BSAP) – adopted in 2007 and aiming at restoring the ecological status of the Baltic marine environment by 2021 – will tie in neatly with the EUSBSR.

On 11 March, the Baltic Year 2011 was kick-started as the Baltic Development Forum (BDF) and the Stockholm Chamber of Commerce arranged a conference on growth and competitiveness in the BSR. In her opening speech, Swedish EU Minister Birgitta Ohlsson noted that political co-operation is not enough; in order to develop a viable strategy for the future of the BSR, civil society and private enterprise need to be included as well. The Baltic Year 2011 is a joint Nordic-Baltic celebration of the 20th anniversary of the restoration of diplomatic relations, made possible by the dissolution of the Soviet Union and the independence of Estonia, Latvia and Lithuania. The Baltic Year will entail a number of Nordic-Baltic top meetings, including the Council of the Baltic States (CBSS) meeting in Oslo on 7 June, and the 20th Baltic Parliamentary Conference and the NB8 Foreign Ministers' meeting in Helsinki in late August. In Sweden, the main event was a meeting on 15 August hosted by Fredrik Reinfeldt, followed by a ceremony in the parliament.

Miscellaneous

For years a non-issue in Sweden, 2010 and 2011 saw a more animated public debate on the monarchy. The main event of last year entailed a PR success for the royal family; on 19 June 2010, Crown

Princess Victoria married Daniel Westling, and the televised fairytale wedding was followed by some 3 million Swedes. However, the honeymoon was short-lived. In November 2010, a controversial book revealed an allegedly seedier side to the traditionally rather popular Swedish King – Carl XVI Gustav of the House of Bernadotte – telling stories of wild parties and love affairs in his past. Throughout spring 2011, the tabloid press has discussed alleged photographic evidence of such inappropriate behaviour, something the King himself officially denied in a televised interview in late May 2011. The affair has nevertheless brought about a public debate about the transparency of the Royal Family and the future of the King as the Head of State.

Outlook

In the 2010 Foreign Policy Statement, the Reinfeldt government confirmed Sweden's commitment to the EUSBSR, and 2011 has so far seen a distinct Swedish policy at work in Baltic Sea matters, starting with Fredrik Reinfeldt attending the UK Nordic Baltic Summit in London, hosted by British Prime Minister David Cameron on 19–20 January. In the summer, the Baltic Year 2011 celebrations and the related top meetings have further demonstrated what is certain to be an important part of Sweden's foreign policy in the years to come: a firm commitment to face common challenges in the Baltic Sea Region, especially in terms of jobs, welfare, gender issues, and climate and environmental issues.



Joakim Ekman

The Wider Baltic Sea Region

While the Baltic Sea contains a political logic of its own based on a unique combination of political actors, institutions and historical legacies, it nevertheless is dependent on developments in the greater European region as well as globally. Hence, the region cannot be fully conceptualised by looking only at the internal dynamics of the region. Rather, it is also significantly influenced by – and to some degree impacts on – actors and processes around it. The regional order must thus be seen as a second-rank structure, which is affected, but not determined, by forces and processes at higher levels of interaction. In such a light, the region fruitfully can be understood as placed in a strategic triangle encompassing the EU, the US and Russia. That means that Baltic Sea politics are not only about interaction and perceptions stemming from inside the region, but also to some extent the result of strategic interaction between the EU, the US and Russia. This affects the room of manoeuvre and the political logic of intraregional actors. Turning the perspective around, it is also important to note how the Baltic Sea region (BSR) attracts interest from parties outside of what the region has been conventionally understood to be. Specifically, this concerns Belarus and Ukraine as countries in the immediate vicinity with an expressed interest in closer relations with the region.

The Baltic Sea Region and European geopolitics

Three major dimensions of what could be labelled European geopolitics significantly shape the political dynamics of the Baltic Sea. The first one

concerns the development in recent years towards what could be called the regionalisation of European space. This trend indicates that regional developments within Europe – and significantly within the EU, but also in the border regions of the EU – seem to carry greater weight. A prominent example of this is the development of macro-regional strategies in the EU. These novel forms of interaction rest on the assumption that politics to some degree should be governed at a regional level rather than centralised to EU institutions. This idea may seem to run counter to the assumption that the Brussels institutions seek to govern the politics of the EU. It can be understood, however, both from the perspective of a realisation that regional politics may be important in terms of effectiveness as well as democratic legitimacy, and from that of insignificance in the form of limited political importance mirrored in the minor financial and institutional implications for the EU. Which of these perspectives will prevail is too early to say. The EU Strategy for the Baltic Sea Region (EUSBSR) is the first one of the EU macro-regional strategies, but others are about to be realised (the Danube) or are in different stages of planning (Alps-Adriatic, North Sea).

More generally, regionalisation of European space can be observed in how the European Neighbourhood Policy (ENP), established in 2004, more recently has been developed - or undermined – by the idea of a Union for the Mediterranean and the launching of the Eastern Partnership (EaP). What are the implications of these regionalisation developments? While naturally different in character, all the examples above illustrate how there is manoeuvring room for regional actors in terms of

agenda setting and leadership. There is a window of opportunity for regional actors and, to some degree, also an expectation for various countries to fill a void. Simultaneously, one should not ignore the competitive aspects of regionalisation in the form of regions, competing for attention at the centre, i.e. EU institutions. Finally, the cross-border nature of the process is paramount – both in the case of macro-regional strategies (designed with an EU-internal scope) and in the ENP developments, interaction with non-EU members is a key aspect. For the BSR, the EU-Russian dimension is naturally the one in focus.

Russia-EU relations, marketed as a strategic partnership, can be summarised as highly institutionalised but with limited progress in terms of manifest and well-functioning co-operation schemes. The biannual summitry system and contacts at various administrative levels increasingly resemble a routinisation game, where leaders and civil servants meet to express their common and conflicting views on a set of issues, and decide to disagree on key political topics while maintaining the value of continuing diplomacy. The prolonged negotiations for a new contractual relationship after the Partnership and Co-operation Agreement speak in this direction. Moreover, ideological incompatibility surfaces from time to time and, at least rhetorically, puts a lid on making progress in concrete terms. The most prominent example for this concerns the opposing perspectives on the Russian-Georgian conflict culminating in the war of August 2008. But here the competition for normative superiority regarding conceptualisations of democracy and European security (architecture) could be mentioned.

A related point concerns the lack of a common EU policy on Russia. This reflects the diverging national interests regarding Russia in the EU circle. EU member states are split on an array of issues, ranging from energy (reflecting dependence patterns and concerns over security of supply) to how to react to Russian democracy developments. Generally speaking, preferences regarding Russia are more intense among Baltic Sea EU members than others, but given the diverging interests in the group of Baltic Sea EU members (illustrated for instance by the North Stream project), what could have been a possibility for leading the EU in an important policy area is now largely missed.

The point to make in the context of this chapter is that there is an overriding EU-Russian logic that has an effect – one has to call it generally negative – on regional politics. This means that the interests of Baltic Sea states not only clash internally in the region but also from time to time with considerations by leading EU members as well as with Russia. Interestingly enough, at the same time, the Northern Dimension (ND) – which is only one aspect of the EU-Russian relationship but naturally an important one for the BSR – seems to grow in importance and is incrementally filled with substantive content.

The third aspect of the strategic environment influencing the BSR revolves around the United States, both in the form of its bilateral relations with the EU, Russia and other individual Baltic Sea states and by way of the NATO dimension. Individually, the US has had a long-standing interest and engagement in Northern Europe and the Baltic Sea through its Enhanced Partnership in Northern Europe (e-PINE) policy, but in recent years increasingly so also through the establishment of an Arctic strategy. In the perspective of the enhanced profile of Russia's engagement in the Arctic and the EU's development of an Arctic strategy, the European North has gained renewed strategic interest. For the BSR, this development implies that some of the regional actors shift their attention from the region as such to the High North. That may challenge the interest in developing institutions and policies for the BSR, but simultaneously may imply a new power configuration inside the region.

The United States' interest and presence in the region through NATO carries divergent implications for Baltic Sea NATO members, cooperative partners and the primary non-member (Russia). Moreover, the development of the institutional links between the EU and NATO preconditions developments of the Common Foreign and Security Policy (CFSP) of the EU. Taken together, this means that the security situation in the region is shaped by institutional developments as well as bilateral strategic partnerships. These processes may reinforce each other or be of competitive nature. The current situation is complex, including simultaneous but contrasting trends, as indicated by the development of NATO's new strategic concept, the bilateral rapprochement between the US and Russia and the increasing interest in the Arctic.

Other countries' interest in and relations with the Baltic Sea region

The BSR is constituted not only of the strategic interaction of global actors, as discussed above, but also by the interest in interaction that other countries and organizations show towards the region. One indication of this is the pattern of external states' association with Baltic Sea organizations. As an example, the Council of the Baltic Sea States (CBSS) has granted observer status to ten countries outside the region, including Belarus, France, Italy, the Netherlands, Romania, Slovakia, Spain, Ukraine, the United Kingdom and the United States. The observer states, invited by consensus, are consulted on a yearly basis and invited to specific events and projects. In the case of the Northern Dimension, the same kind of arrangement exists: the United States and Canada are official observers, while also other states outside the BSR take part in the different partnerships of the ND.

Among those observer states, Belarus and Ukraine occupy a special position. In addition to the CBSS observer status noted above, they are also observers to the Helsinki Commission (HELCOM). Moreover, Belarus is a member of both the ND environmental partnership and the ND partnership on transport and logistics. In addition, both countries are covered by the Eastern Partnership (EaP), which is an EU-level initiative but with a clear Baltic Sea connection in terms of logic as well as concrete engagement (primarily by Poland and Sweden). That Ukraine and Belarus occupying such a primary position is not only a reflection of their seeking closer contacts with the region but also that the region itself is dependent on the policy choices of these states. An important example of this concerns the environmental field, where the Baltic Sea is vulnerable, for example, to pollution emanating from or travelling through Belarus and Ukraine. Regarding Belarus, the complexities of interdependence are exacerbated by the divergent regime types of Belarus and most BSR states. Striking an efficient balance between an inclusionary logic based on co-operation and interdependence and a resistant posture against the Belarus government proves a difficult task for the democratic governments of the BSR (and for the EU).

Summary and outlook

The main argument of this chapter is that the BSR cannot be fully conceptualized by looking only at internal dynamics of the region. Rather, it is also significantly influenced by and to some degree impacts on actors and processes around it. Three major dimensions of what could be labelled European geopolitics significantly shape the political dynamics of the BSR: the regionalization of European space (as evident in the EUSBSR and the EaP), EU-Russian relations, and US engagement in Northern Europe, primarily with Russia and the EU. The region's dependence on higher-order developments involving actors that have a wide set of priorities beyond Baltic Sea development leaves the region vulnerable. The current outlook in economic, political and security-related terms is that is that other items top the strategic agenda for the foreseeable future. As a consequence, BSR actors need actively to promote intra-regional development on their own (this cannot be assumed to be granted from the outside), potentially including reshaping the institutional landscape at hand. Expressed differently, the lack of strategic attention simultaneously creates windows of opportunity for policy entrepreneurs to make an impact. The BSR also attracts the interest of states in its vicinity, in particular Ukraine and Belarus as members of, or observers to, a number of the regional institutional arrangements. As the region is dependent on policy choices of these countries, promoting further co-operation and association with them is called for. However, with a more ambiguous European orientation in Ukrainian politics and the Lukashenko government remaining in place in Belarus, comprehensive initiatives are unlikely to get off the ground – better, then, to aim for sectorally limited and politically less ambitious forms of engagement.



Rikard Bengtsson

Security

The end of the Cold War profoundly altered the meaning of geographical proximity within the Baltic Sea region (BSR). Whereas the region has, during most of its history, been regarded as a conflict zone, and has been shaped by conflict as well as enmity, the end of the Cold War provided an opportunity to emphasise some of the region's more positive history. The quite co-operation-oriented Hanseatic period was one of the images employed for this purpose. Instead of focusing on dividing lines, it became possible to focus on commonalities and joint endeavours, an emphasis which was used widely. Consequently, various political, economic, social, and cultural contacts were established mainly in the sphere of 'low politics', albeit it would be an overstatement to argue that the outcome has been one of deep integration and the emergence of supranationality.

Regional security concepts

Whilst security, as a constitutive argument, lost some of its previous standing, it has nonetheless remained formative in impact. Moreover, it is problematic in the sense that different actors tend to view security differently and in unique ways. Their interests and agendas vary to a considerable degree, creating occasional mismatches of mutual expectations. Whereas some of the actors in the region have elevated comprehensive and cooperative security into key concepts, with a focus mainly on non-military issues, and increased the visibility of environmental, economic, human, and social concerns, others have largely stayed with the pre-eminence of more traditional under-

standings, with an emphasis on various military issues. Germany and the Nordic countries have predominantly belonged to the former group, whereas the Baltic countries, Poland and Russia have mainly belonged to the latter one. Particularly in the Baltic countries, security has stood out as a major concern. The manifestation of this is their quest for hard security guarantees by joining NATO, as well as the EU. This is to say that, rather than relying on local dynamics, they have aspired to link up with broader constellations in order to gain the safety that they hope for.

The lack of a common stance and focus on security has had crucial consequences for the development of the BSR. It has, in one of its aspects, derailed any joint and explicitly agreed upon efforts at de-securitisation. In fact, 'hard' security has been hitherto deliberately excluded from the joint agenda and there is thus a lack of a common platform for furthering a security-related discourse, as well as no region-specific agreement in spheres such as arms control and disarmament. Various endeavours exist in the context of the Council of Baltic Sea States (CBSS) pertaining to civil security, including, among other things, co-operation to counteract cross-border crime. There are also annual and joint naval exercises (Baltops) with the leadership of the US Navy and with participation from all of the navies in the Baltic Sea.

Nonetheless, it appears that co-operation in the sphere of security actually stands out as the least developed aspect of Baltic Sea togetherness. Due to the divergences in views as well as lacking institutionalised co-operation in this field, the situation has, in general, remained quite volatile, as waves of securitisation clash with competing

de-securitisation trends. In particular, the Georgian-Russian war in August 2008 led to a renewed interest in security topics. Co-operation in the spheres of energy, economy, environment or migration have mostly been interpreted as reducing the constitutive impact of security as an argument while these same issue areas have, in other contexts, been cast precisely in terms of security. The debate concerning the Nord Stream gas pipeline is a case in point with different readings and understandings of security clashing with each other.

It should also be pointed out that particularly intensive instances of co-operation have, more often than not, been directly related to security. Increasing connectedness across previous dividing lines reduces the importance of security, resulting in less security-oriented politics. This trend has obviously been facilitated by Russia withdrawing its troops from the Baltic countries in 1994. Likewise, almost all of the remaining border issues of the region have been settled, except for the one between Estonia and Russia, with the parliaments failing so far to successfully pass the agreement reached at the level of the respective governments.

The prevalence of security as a constitutive argument notwithstanding, space has also been left for region-specific endeavours, to such an extent that the BSR has even earned the distinction of being a “microcosm”, a “laboratory” or even a “model” for co-operation in post-Cold War Europe. The rise of co-operation in the early 1990s was seen specifically as the direct result of a much less confrontational security environment. In this area, the rather rigid interaction patterns, imposed by the bipolar overlay, gave way to a broader range of exchanges in the political, economic, and social realms, involving actors beyond the state level – both from above, as in the case of European institutions – and from below, in the case of non-governmental and sub-state actors. Some Nordic scholars in this phase made a powerful and refreshing case for “regionality” as embodying a new form of interaction, which did not aim to replace nation-states and national identity, but to complement it. The regional activism of business associations, municipalities, and NGOs corroborated the impression that this fledgling regional “we-feeling” was indeed gradually defusing security as a constitutive argument for interdependence in the area.

Accordingly, the Baltic would become something of a “security community”, characterised by integration, sense of community and “dependable expectations of peaceful change”. However, in addition to this definition, formulated in the 1950s by German scholar Karl Deutsch, this post-Cold War model of a security community would go beyond the state as a primary or, indeed, unitary (given the increasing role of local authorities) actor in the international arena. Ever since the demise of the Soviet Union, regional co-operation has followed this general pattern in a remarkably smooth way. Regional ties have grown and deepened at all levels, and state actors followed suit, e.g. by creating regional confidence-building bodies such as the Council of the Baltic Sea States, launching EU regional initiatives such as the Northern Dimension, and even accompanying the historic expansion of the European Union towards the former communist states of Central and Eastern Europe, which in this region implied the accession of Poland and the three Baltic States of Estonia, Latvia and Lithuania. Even the typically problematic relationship with Russia has become less confrontational, with Moscow being more willing to get involved in regional projects concerning some of its northwestern regions, most notably Kaliningrad.

Regional security co-operation

This notwithstanding, the more visionary aspects of the “regionality” program have materialised in different ways around the BSR. The clearest example of this is security, where a distinction between ‘hard’ and ‘soft’ security arises. While some of the oppositional constellations survive in the sphere of ‘hard’ security, matters pertaining to territorial integrity, sovereignty and military capabilities have moved to the backburner of regional interdependence (with, as outlined below, some notable exceptions). Security has instead turned into an interesting meeting ground for co-operation on “softer” issues, leading regional actors to pool resources in joint efforts at fighting crime, corruption, preventing the spread of transmissible diseases, and counteracting environmental hazards. Of the myriad programs and projects where this dynamic can be witnessed, nowhere is this more



visible than in Northern Dimension Partnerships. This is where the regionalist aspirations of Baltic Sea actors meet the growing foreign policy aspirations of the EU and Russia's enduring great power ambitions. The first Northern Dimension Partnership was launched in the field of environmental protection in 2001. This project—indirectly acknowledging pollution as one of the most significant apolitical problems widely shared by actors throughout the region—includes participation of littoral governments, regional bodies, European institutions and international financial institutions. These actors agree upon, fund, and implement common projects—an elaborate process that appears to lead to better co-ordination and rationalisation of resources around the region. Since then, the Partnership model has been extended to the fields of public health and social wellbeing, culture, and most recently, transport and logistics.

Although the relationship between waves of securitisation and de-securitisation has remained volatile, it appears more recently that the concepts of common and co-operative security have gained increasing credence. This is exemplified in the Nordic countries by the report prepared by Thorvald Stoltenberg in 2009 for the Nordic foreign ministers. In general, he advocated closer foreign and security policy co-operation. Most of the proposals, such as the establishment of a Nordic maritime monitoring system, maritime response force, a satellite system for surveillance

and communications, a disaster response unit or intensification of co-operation on Arctic issues have been well received. Moreover, steps have been taken to implement and materialise these proposals. He also suggested that the Nordic governments issue a mutual declaration of solidarity in which they commit themselves to clarifying how they would respond if a Nordic country were subject to external attack or undue pressure. As a response, the Nordic foreign ministers pronounced, in April 2011, an agreement amongst the Nordic countries as to security-related solidarity in case of catastrophes caused by nature or pertaining to human action, digital attacks and terrorist actions.

Notably, in some of his proposals Stoltenberg was able to draw upon a report, prepared by the Finnish, Norwegian and Swedish defence chiefs, containing suggestions for co-operation to ensure that their defence budgets are used as cost effectively as possible. Still another reason for closer co-operation is the result of the rising price of modern defence technology, making it more difficult for individual countries to fund a modern defence system. The latter factor, taking into account the recent economic crisis, presumably works as an incentive for further and perhaps also broader co-operation among the military establishments. This will presumably not only be the case for the three Nordic countries initiating the co-operation but will also apply to the Baltic-Nordic constellation at large.

Whereas the emphasis of the report produced by Thorvald Stoltenberg was on the north, with most of the attention devoted to issues pertaining to northern sea areas and the Arctic in particular, the NB8 Wise Men report, established in 2010 on the initiative of Denmark and Latvia, aimed at advancing co-operation between the Nordic and Baltic countries with co-operation in the Baltic Sea area as a major concern, fearing that, otherwise, the Baltic Sea area might be left out. The authors of the report, Søren Gade and Valdis Birkavš, presented their findings in August 2010, advocated increased foreign political dialogue, co-operation in the spheres of diplomatic representation, civil security, including cyber security as well as matters of defence. In general, they proposed a considerably more goal-oriented Nordic-Baltic co-operation.

Conclusions and outlook

Considerable progress has been made in the dialogue on security-related co-operation between the Nordic countries. Various ideas have been proposed for a similar track to be followed between the Nordic and Baltic countries. However, the concepts of common and co-operative security have yet to be extended to apply to the BSR at large, which would also include Germany, Poland, and Russia. Such endeavours appear increasingly feasible, taking into account overall developments in the relationship between the United States and Russia, the EU and Russia, as well as NATO and Russia. The rapprochement between the US and Russia is, as such, conducive to such a trend, possibly prompting further talks on Conventional Forces in Europe (CFE), with issues pertaining to the US-Russia talks on

strategic missile defence also on the agendas of the countries of the Baltic Sea area.

These issues are very much about security, but predominantly in a co-operative sense. There is much evidence that the security agenda could now be extended to increasingly include issues pertaining to 'hard security'. Following the model of the Stoltenberg Report, as well as the NB8 Wise Men Report, a similar exercise could be introduced thereby expanding the BSR agenda to cover those aspects of security thus far omitted from common endeavours.



Pertti Joenniemi and Fabrizio Tassinari

The Baltic Sea Region as a Consumer, Producer and Transit Area of Energy

Energy consumption in the Baltic Sea region

The energy consumption of the Baltic Sea region (BSR) countries varies greatly (Table 1). Fossil fuels are by far the most important source of energy production in almost all countries. Estonia meets its energy consumption needs with oil shale, whereas Russia uses natural gas, and Poland uses coal. Lithuania has been forced to rely increasingly on imported energy, mainly natural gas, after the closure of the Ignalina nuclear power plant in

the end of 2009. Various renewable energy sources have a large share in the energy mix of several countries of the region: hydropower in Norway and Sweden, wind power in Denmark, biomass in Finland and Latvia, and geothermal energy and hydropower in Iceland.

Although Finland, Iceland (non-EU member), Latvia, Norway (non-EU member) and Sweden already meet the EU's goal to have a 20% share of renewable energies in their final energy consumption, for the rest, excluding Denmark, reaching the goal by the end of 2020 is hardly realistic.

Table 1 The division of primary energy consumption in the Baltic Sea region in 2009

	Oil	Solid fossil fuels	Natural gas	Nuclear energy	Renewables	Others	Total (mtoe)	Total (toe)/capita	Total (mtoe)/GDP*
Denmark	39 %	21 %	20 %	0 %	18 %	2 %	19.2	3.5	0.06
Estonia	15 %	69 %	9 %	0 %	6 %	2 %	5.4	4.0	0.28
Finland	25 %	17 %	10 %	19 %	23 %	6 %	31.8	6.0	0.13
Germany	35 %	22 %	22 %	11 %	9 %	1 %	320.0	3.9	0.10
Iceland	26 %	3 %	0 %	0 %	72 %	0 %	3.9	12.2	0.32
Latvia	31 %	2 %	27 %	0 %	38 %	2 %	4.5	2.0	0.17
Lithuania	29 %	2 %	26 %	34 %	9 %	0 %	8.6	2.6	0.23
Norway	23 %	1 %	9 %	0 %	68 %	0 %	42.5	8.8	0.11
Poland	24 %	56 %	12 %	0 %	5 %	2 %	97.5	2.6	0.23
Russia	20 %	13 %	55 %	6 %	6 %	0 %	635.3	4.5	0.52
Sweden	32 %	3 %	2 %	26 %	34 %	2 %	48.8	5.2	0.12
BSR average	27 %	19 %	17 %	9 %	26 %	2 %	110.7	5.0	0.21
EU	36 %	16 %	24 %	14 %	9 %	1 %	1693.9	3.4	0.21
Belarus	39 %	< 1 %	61 %	0 %	< 1 %	0 %	23.9	2.5	0.49
Ukraine	13 %	31 %	38 %	17 %	2 %	0 %	112.7	2.4	0.99

Sources: BP 2010; Eurogas 2010; Eurostat 2011; World Bank 2011. * USD billion

Still, the countries relying on fossil fuels are required to modernise their power generation in order to reduce their carbon dioxide emissions. The improvement in energy efficiency is also among the central goals of the EU's energy strategy. In particular, buildings and the traffic sector have a significant potential for more efficient energy use. For example, in the beginning of 2011, the new 95 octane E10 petrol, containing up to 10 % v/v ethanol, was introduced in Finland. The E10 petrol has also been introduced in Germany, but has caused difficulties there, as consumers have been concerned about the safety of the new petrol. Because of the renewable energy goal adopted by the EU for transport fuels, it is expected that E10 petrol will be adopted in most EU member countries within the next few years.

New energy production and transmission projects

Several new energy production and transmission projects are underway in the BSR. Nuclear power has been seen as a way to cut carbon dioxide emissions and several countries in the region plan to increase their nuclear power production. For example in Finland, a fifth nuclear reactor, Olkiluoto 3, is under construction and the Finnish parliament has approved the permits for the construction of two more nuclear units. Following the shutdown of the Ignalina nuclear power plant, Lithuania has intended to construct a new nuclear unit in Visaginas, together with Estonia, Latvia and Poland. However, the Visaginas nuclear plant project suffered a setback last year when South Korean investors decided to withdraw from it and the final decision on the nuclear power plant is still pending. Furthermore, Poland also has its own nuclear energy programme and is planning to build its first nuclear reactor. In Kaliningrad, the construction of the first nuclear unit has already started and is planned to be completed by 2016. In Belarus, a preliminary agreement regarding the Russian-financed nuclear power plant in Ostrovets was made in the beginning of 2011 and the construction is to begin later this year, provided that the financial details can be settled.

Following the nuclear accident in Japan's Fukushima, some countries have adopted a more

cautious approach to nuclear energy and are re-considering the necessity of building new nuclear reactors. In the BSR the rise of anti-nuclear opposition has been visible, particularly in Germany, where recent state elections in several states were dominated by Japan's nuclear crisis. The success of the anti-nuclear Green Party in state elections signalled a shift in German energy policy and the German Government decided that all the country's nuclear power plants will be decommissioned by 2022. In Sweden, a phase out of nuclear power was accepted in a referendum in 1980, following the Three Mile Island accident in the USA. Although the ban on new nuclear reactors in Sweden was lifted last year, nuclear energy has been a topic of debate there for a long time. Swedish nuclear power plants have also suffered from malfunctions and it remains to be seen how the Fukushima accident will affect Swedish energy policies.

The shutdown of Ignalina has not only affected Lithuania but also Belarus, Kaliningrad and Latvia, to which Lithuania used to export electricity. The Baltic states have suffered from isolation from the European energy market, and according to the European Commission's Baltic Energy Market Interconnection Plan (BEMIP), they are to be integrated into the EU energy market. This will promote the development of a common European electricity market and increase the reliability of energy supply, especially in the Baltic states. There are several concrete projects underway which will reinforce the connections between the Baltic states and Nordic countries, and the energy networks of Continental Europe. Estlink 1, an underwater electricity transmission cable connecting Estonia and Finland, has been operating since 2006 and has a transmission capacity of 350 megawatts (MW). Estlink 2, due to be ready in 2014, will have a transmission capacity of 650 MW and will thus increase the total transmission capacity between the countries to 1,000 MW. NordBalt, an interconnection between Lithuania and Sweden with a capacity of 700 MW, is planned to be completed in 2016. The LitPol Link between Lithuania and Poland will interconnect the power systems of the Baltic States and Western Europe. It is scheduled to start operating in 2015 with a capacity of 500 MW and its capacity will be increased to 1,000 MW by 2020. SwePol



Link, connecting Poland and Sweden, was put in operation in 2000 and has a capacity of 600 MW. An extension of the existing Fenno-Skan cable between Finland and Sweden is underway as well – Fenno-Skan 2 is scheduled to start operating with a capacity of 800 MW in late 2011.

Several natural gas infrastructure projects have been planned in the BSR. The first pipeline of Nord Stream is scheduled to be operational in 2011 and if the second pipeline is constructed, it will be ready in 2012. The total capacity of two pipes would be 55 billion cubic meters (bcm) of natural gas. After Germany's nuclear decision, public discussion of the third Nord Stream pipe has begun. Furthermore, the possibility of building the Baltic Connector offshore natural gas pipeline between Finland and Estonia has been examined, as well as the Amber pipeline connecting Lithuania and Poland. Poland intends to construct a liquefied natural gas (LNG) terminal in Świnoujście at the Baltic Sea coast. The terminal would allow Poland to diversify its sources of natural gas supply and thus improve the country's energy security. The terminal, which is due to be operational in 2014, will have an initial import capacity of five bcm of natural gas

and may later be expanded to nearly 8 bcm. As Poland currently uses around 14 bcm of natural gas per year, it would be able to receive a large share of its gas supplies as seaborne shipments of LNG. However, as LNG projects are expensive, LNG is currently not economically feasible in gas trade within the BSR. Latvia and Lithuania have also expressed their interests in building LNG terminals.

A recently published report of the U.S. Energy Information Administration (EIA) (*World Shale Gas Resources: An Initial Assessment of 14 Regions outside the United States 2011*) indicates that several BSR countries, particularly Poland, hold significant shale gas reserves. Poland may possess recoverable shale gas reserves of 5,300 bcm, which would be enough to supply Poland for nearly 400 years at present consumption rates. Active exploration and leasing of gas shales is underway in Poland by many large international companies, smaller independent companies, as well as the Polish national oil and gas company (PGNiG). First estimates of the shale gas fields are expected by the end of 2011 and more thorough data on the profitability of shale gas exploration in 2012–2013. In Poland, currently heavily



depending upon Russia for its gas supplies, the success in shale gas production could significantly increase its self-sufficiency and thus enhance its energy security. Shale gas exploration wells have been drilled in other BSR countries as well, such as Sweden. However, shale gas exploration is still in an early stage in Europe and has not led to any revolution yet. Moreover, the possible negative environmental impacts of shale gas production can complicate the exploitation of shale gas resources in Europe.

The Baltic Sea – an important energy transit area

The Baltic Sea is an important transit area for energy, especially for Russian energy bound for Europe. The Baltic Sea is the second largest export route for Russian oil after the Black Sea, but the Baltic Sea will become number one after the opening of the Ust-Luga oil terminal. The Baltic Pipeline System 2 is under construction and is planned to be operational by 2012. Around 20 oil harbours are located on the shores of the Gulf of Finland. Currently, the Russian port of Primorsk, to which Russian oil is transported via the Baltic Pipeline System, has the largest volume of oil shipments, around 75 million tonnes.

The Baltic Sea is among the world's busiest sea areas, accounting for up to 15% of world cargo transport. According to the Helsinki Commission (HELCOM) there are about 2,000 vessels underway on the Baltic Sea at any given moment, and every month some 3,500–5,000 ships sail across the Baltic Sea. The Baltic Sea is occupied by ships of different type and size – oil tankers and other cargo ships as well as passenger ferries and fishing vessels. In recent years, both the size and number of ships have been growing and particularly oil shipments have been increasing. According to HELCOM, in 2007 approximately 4,400 oil tankers entered or left the Baltic Sea, carrying altogether 170 million tonnes of oil. Each day about 50 vessels leave from the Gulf of Finland, of which every fifth is an oil tanker.

Simultaneously with the steadily growing number and volume of oil shipments, the risk of oil accidents has been increasing. In addition to the busy maritime traffic, narrow straits and shallow depths, archipelagos and challenging ice conditions in wintertime create challenges for navigation and increase the risk of accidents. Despite the double hull requirement for oil tankers, which decreases the risk of oil spill to the sea, oil accidents are still possible. In addition to oil accidents, the risk of spillage of other hazardous substances that are transported as a cargo is present at the

Baltic Sea. Improving the maritime safety in the Baltic Sea is an essential means of preventing oil and other shipping accidents in the area. In Finland, a tanker safety project was launched in 2009 as a co-operation of public and private sectors in order to reduce the risk of a major oil disaster in the Gulf of Finland. The project aims at adopting a proactive vessel traffic guidance system, the Enhanced Navigation Support Service (ENSI), on all tankers in the Gulf of Finland by 2013.

A large scale oil disaster in the Baltic Sea could destroy the ecosystem of the sea and sea shores for decades and thus have an impact on all the coastal states. Readiness to respond to oil and chemical spills has been improved in the Gulf of Finland but it is still inadequate. Finland has set a target of being able to respond to a major oil spill of 30,000 tonnes in the Gulf of Finland, of 20,000 tonnes in the Archipelago Sea and of 5,000 tonnes in the Gulf of Bothnia in open water conditions within three days of the accident, or in ice conditions within 10 days of the accident. Although a new oil and chemical spill response vessel was recently christened in Finland, it is estimated that Finland, Russia and Estonia would still need in total six more similar types of response vessels just in the Gulf of Finland in order to meet the target.

Conclusions and outlook

The BSR is both an important transit area for energy and a consumer of energy. The countries in the region differ in their energy consumption patterns and energy policies. Furthermore, there are several new energy production and transmission projects underway, many of which aim to

strengthen existing connections, particularly between the Baltic states and Nordic countries, and the energy networks of Continental Europe. The events in Fukushima seem to have had the largest impact on countries in which nuclear energy has already been an issue of some debate, reinforcing anti-nuclear opposition in those countries, such as Germany and Sweden. However, public opinion is an important factor in the international nuclear industry and it remains to be seen whether Fukushima will affect the nuclear policies of other countries as well. On the other hand, the events in Fukushima will likely have less impact in energy policies of countries, such as Russia and Belarus, where civil society is much weaker and public opinion is not a driving factor behind the nuclear decision-making. All in all, in case of freezing new nuclear power plant projects, the growing demand for energy has to be met in different ways. This could lead to an increased need for natural gas in the BSR countries. If the wide-ranging use of renewable energy sources proves to be too expensive in the near future, the share of natural gas in the countries' energy structure might also increase because of natural gas' lower carbon dioxide emissions. Moreover, if the unconventional gas production proves to be feasible, it might increase the production and use of natural gas in some countries of the region.



Kari Liubto and Hanna Mäkinen

Environment

Environmental problems in the Baltic Sea region

The ecosystem of the Baltic Sea is a shallow and semi-enclosed sea and one of the largest brackish water bodies in the world. It is divided into several basins (such as the Gulf of Finland) and has a drainage basin which is four times larger than the sea itself and includes non-coastal countries such as Belarus and Ukraine. Ecosystems in the region are unique and fragile, contain a low number of species, and are highly sensitive to pollution. The pressure on the system is high because the sea harbours some of the busiest shipping lanes in the world and is surrounded by many large cities (such as St. Petersburg, Stockholm and Riga) and regions with intensive industrial and agricultural activities. As water exchange between the Baltic Sea and the North Sea takes several decades, the concentration of toxic substances is much higher in the Baltic Sea than in open seas and oceans. The main risks to the Baltic Sea's coastal and marine environment are (cf. HELCOM, 2007):

- *Eutrophication:* Excessive nutrient inputs, originating from both diffuse sources (e.g. agriculture) and point sources (e.g. from sewage treatment plants), have disrupted the natural balance of the Baltic Sea. Symptoms include algal bloom and marine dead zones on the seabed.
- *Toxic substances:* Despite all efforts to reduce pollution, concentrations of hazardous substances (mainly from industrial activities) remain high in the Baltic Sea. Levels of dioxins in fish, for example, are above EU safety levels for foodstuffs.

- *Biodiversity:* Natural characteristics limit the biodiversity of the Baltic Sea and make the ecosystem(s) exceptionally sensitive to pollution. The activities of commercial fisheries, offshore activities, and invasive species represent the most important threats.
- *Maritime activities:* With the growth in the economies of the countries around the Baltic Sea, traffic in the Baltic Sea has intensified. This increases the pressure on the marine environment and the risk of a potentially disastrous oil spill.
- *Over-exploitation of marine resources:* Degraded water quality and over-fishing has had an impact on the fish stocks in the Baltic Sea, and the recovery of depleted resources and damaged habitats require co-operative actions.

Recently, HELCOM published its first so-called 'holistic assessment', in which various indicators for environmental status were assessed and integrated (HELCOM, 2010). This evaluation of available environmental monitoring data clearly demonstrates that the environmental status of the Baltic Sea, despite substantial efforts to improve the situation, still can be considered as being generally poor. In fact, none of the open basins of the Baltic Sea exhibit an environmentally acceptable status and only a few coastal areas along the Bothnian Bay can be considered healthy. The HELCOM report also concludes that the major underlying concerns are linked to eutrophication in all areas of the Baltic Sea except some parts of Kattegatt and the Bothnian Bay, hazardous chemicals (e.g. PCBs, heavy metals, TBT and

dioxins) in bottom living organisms, and biodiversity impacts (mainly related to large fish).

Environmental governance in the Baltic Sea region

Reducing these risks depends on the governing system of the Baltic Sea region (BSR). The regional governing system now involves a variety of public and private actors at different levels: (i) the national governments of the riparian states that still form the basis for environmental policy at the national level; (ii) international and intergovernmental environmental organizations that have developed since the 1970s (in particular HELCOM); (iii) the EU, which has recently become more important, in particular since its enlargement in 2004; and (iv) transnational organizations that have provided fertile ground for the development and implementation of innovative new forms of environmental governance (Kern 2011).

First, national environmental governance in the states surrounding the Baltic Sea varies considerably. While the Nordic countries and (West) Germany have gained a well-deserved reputation as environmental pioneers, as environmental issues appeared on the political agenda and social movements started to influence environmental policy since the 1970s, in Poland, the Baltic States and Russia the political institutionalisation of environmental concerns started much later. Although environmental movements played an important role in some CEE countries (Galbreath, 2010), the region is still divided into two distinct clusters of countries with regard to environmental/post-material values. The development of related political institutions shows a similar pattern. While in the Nordic countries and (West) Germany environmental governance and environmental awareness evolved gradually and incrementally over several decades, EU influence during the accession phase became an essential driving force for the shift towards modern environmental governing systems in the former socialist countries (Kontio & Kuitto, 2008).

Second, regional environmental co-operation started long before the end of the Cold War. The establishment of the Helsinki Convention in 1974 was the first attempt to foster international envi-

ronmental co-operation between all of the riparian countries and was mainly driven by environmental concerns about increasing pollution levels in the Baltic Sea. The main goal of the Helsinki Commission (HELCOM) that implements the Convention is to protect the marine environment of the Baltic Sea from all sources of pollution and to restore and safeguard its ecological balance. In 1992, the convention was revised, updated and broadened in scope due to the changing regional circumstances. In 2007, the HELCOM Baltic Sea Action Plan (BSAP) (HELCOM, 2007) was adopted. Its ambitious target is to restore a healthy ecology to the Baltic marine environment by 2021 (HELCOM, 2007). This action plan is remarkable for several reasons: (i) it is based on an ecosystem approach, i.e. the usual sectoral pollution reduction approach was replaced by a cross-sectoral approach that starts from the vision of a healthy sea with a healthy ecology; (ii) it emphasizes a broader view of sustainable development and thus combines ecological sustainability and a healthy environment with aspects of sustainable socio-economic development; (iii) it is the result of the active participation of all major stakeholder groups in the region, i.e. the shared vision of a healthy Baltic Sea has been defined together with all relevant stakeholders; (iv) it starts from a multi-level approach and thus distinguishes between measures that can be implemented at national level, at the EU level (e.g. Common Fisheries Policy, Common Agricultural Policy) and at an international level (e.g. shipping control by the International Maritime Organization).

Third, EU enlargement also had an impressive impact on national environmental governance and triggered crucial changes in the region. The process of complying with the *acquis communautaire*, the entire body of EU legislation, in Poland, Latvia, Estonia and Lithuania led to a relatively high degree of compliance in the area of environmental policy. One of the priority areas of EU Strategy for the Baltic Sea Region (EUSBSR), adopted in 2009, is to make the BSR an environmentally sustainable place. However, although there are good reasons to believe that the EUSBSR can improve regional co-operation linked to the strategy's various goals, the added value of the strategy may well be lowest linked to the environmental pillar, since this issue already is well covered by the ambitious

HELCOM BSAP, agreed to by all nine riparian states, including Russia (Bengtsson, 2009). In fact, there is wide agreement that the EUSBSR should facilitate the implementation of the BSAP. Apart from these specific programs for the BSR, the EU has also developed more general programs for all regional seas in Europe, such as the Marine Strategy Framework Directive (MSFD) that aims to restore a healthy environment to the EU's marine waters by 2021. The MSFD establishes marine regions on the basis of geographical and environmental criteria and has acknowledged that HELCOM's BSAP could become instrumental to the successful implementation of the MSFD.

Fourth, the BSR is characterised by a high degree of trans-nationalisation (Kern et al., 2008), which has provided a fertile ground for other forms of trans-border co-operation in the region. After the end of the Cold War, the BSR developed into a highly dynamic area of cross-border co-operation and transnational networking. Numerous new organizations, often based on hybrid arrangements (including governmental, sub-national, and non-governmental actors) (Joas et al. 2007, p. 241), have focused their initiatives on environmental policy and sustainable development initiatives. Three different forms of trans-nationalisation exist in the BSR: (i) the transformation of existing organizations such as HELCOM (inclusion of non-governmental and sub-national actors); (ii) the establishment of new organizations which aim to introduce non-governmental and sub-national actors into the policy-making process (e.g., Baltic 21, promoting sustainable development in the BSR); (iii) the emergence of transnational networks (e.g., the Union of the Baltic Cities). The co-operation between sub-national governments in the region, in particular, appears to be a rather unique feature of the Baltic Sea area (Kern et al., 2008).

Challenges ahead

Clearly several challenges can be identified relating both to implementing the already agreed-upon environmental aims and management plans (e.g. BSAP), as well as improving the functioning of the regional environmental governance system.

Looking first at the implementation of the ambitious management actions of the BSAP, it

is quite evident that implementation is lagging behind the set timetable in many areas and varies to some extent among countries (Ahvenharju et al., 2010). It is also commonly being argued in scientific evaluations (for example in numerous papers and key-note presentations at the recent 8th Baltic Sea Science Congress in St. Petersburg) that the aim of restoring a healthy ecosystem to the Baltic Sea by 2021 will require not only quite substantial investments and new regulations, but perhaps even more importantly even societal and life-style changes. Thus, scientists modelling the eutrophication status of the Baltic Sea in various future scenarios conclude that non-point sources of nutrients (e.g. linked to agriculture and meat production/consumption) need to be reduced to enable environmental goals to be met. Such measures would obviously be very challenging to implement in all riparian states, but this will most likely prove most challenging in Poland because of its (compared to the other countries) very high nutrient reduction targets and large agricultural sector.

Second, governing regional seas requires the establishment of a governing system for the entire region. Apart from the fact that the boundaries of an ecosystem are sometimes difficult to determine, the boundaries of ecosystems are not always compatible and seldom identical with the boundaries of political and administrative systems. This is most evident in relation to the drainage basin of the Baltic Sea. Although countries such as Belarus have observer status in several regional environmental institutions, the inclusion of such states in the governing structure poses considerable problems. European integration has changed the geopolitical situation in the region fundamentally and has simultaneously facilitated the emergence of a more appropriate governing system. Nonetheless, serious problems remain. St. Petersburg is the biggest metropolitan city in the region, and the situation of the Russian exclave Kaliningrad poses serious problems for the development of a strong environmental governing system. Moreover, decisions made in Brussels may not always fully consider the situation in the region and, therefore, need to be adjusted to regional conditions. Contrary to EU policies targeting only member states, the scope of HELCOM and Baltic 21 appears to be more appropriate in this respect because of their focus on the entire region,

including Russia. However, the development of the EUSBSR led to a more regionalised version of European integration, which may strengthen the regional governing system.

Third, the existing governing system of the Baltic Sea region is characterised by horizontal and vertical interaction (cf. Young, 2002; Gehring & Oberthür, 2008), which requires a certain degree of co-ordination to avoid overlap. Co-ordination problems may result from the increasing Europeanization of the BSR because all of the riparian states (except Russia) are now directly influenced by decisions made in Brussels. Thus, the implementation of the European Union's agricultural and fisheries policies, the implementation of the Marine Strategy Framework Directive, and the development of the EUSBSR require close co-ordination with the approaches chosen by HELCOM, in particular the implementation of its BSAP. The dynamic development of a variety of new organizations in the BSR may lead to institutional overlaps and serious problems if several organizations focus on the same issues and do not co-ordinate their approaches sufficiently.

Conclusions and outlook

It may be concluded that the progression of the BSR towards sustainable development depends on widening the scope of existing environmental programs and strengthening the regional governing

system, which needs to become more integrated, both horizontally and vertically. The state of the environment can be regarded as an important test case for the effectiveness of regional co-operation, because environmental policy is much higher on the political agenda of the riparian states in the Baltic Sea region than in other regional sea areas in Europe. The increasing Europeanisation of the region requires that the EU first balance and integrate its own policies and, second, coordinate them with other regional environmental institutions, namely HELCOM and its Baltic Sea Action Plan. Moreover, the EU will have to focus its initiatives even more intensively on sub-national governments. Even though most EU legislation and essential provisions of international agreements are eventually implemented at the local and regional levels, the latter's role in the sustainable development of the BSR has long been neglected. If the main actors in the region master these challenges, the BSR may serve as a model for other comparable regions, both in Europe and throughout the world.



Michael Gilek and Kristine Kern

Migration

Migration is a frequently debated issue within Europe and the European countries. Although a lot of attention has been drawn to migration to the countries of Southern Europe, it is also an issue in several of the states around the Baltic Sea. In many countries, political parties have gained ground with the message that migration should be reduced. This was a big issue in the recent parliamentary elections in both Sweden and Finland. In Estonia, a recent study of public perceptions shows that the pervading opinion of the Estonian people is that immigration has a negative impact on the situation in Estonia. This negative general opinion is facilitated by the idea among the population that immigration is a burden on the Estonian social system, increases unemployment, and poses a risk to Estonian language and culture.

European Governance

Since all the states around the Baltic Sea but Russia are members of the European Union and migration is a policy area where the EU has competence for decision making, the migration policies of the member states will be influenced to some degree by policy making at the European level. This does not apply to Denmark, since it has an exemption in this policy area and therefore is not bound by EU decisions.

Two major policy frameworks guide the work of the EU within the migration area. The Euro-

pean Council adopted the European Pact on Immigration and Asylum in October 2008, which is based on five basic commitments: organising legal migration with consideration for member states' labour market needs and the integration of immigrants; fighting illegal migration, particularly by ensuring the effective repatriation of illegal immigrants; protecting Europe better by improving external border security; creating a single European asylum system and focusing on comprehensive partnership with countries of origin and transit countries to promote their development.

In December 2009, the European Council decided on a new multi-year plan with guidelines for justice and home affairs of the member states for the years 2010 through 2014 (later referred to as the Stockholm Programme). The programme follows the Tampere and Hague Programmes. The key focus of the Stockholm Programme is to protect citizens' fundamental rights and to improve security. The Programme comprises six substantive chapters: citizens' rights, law and justice, protecting citizens, border policy, migration and asylum policy, and external relations in justice and home affairs.

Starting in 2015, Europe's working-age population (age 15-64) will begin to shrink, with estimates suggesting that the number of economically active people in the labour force could decrease from 240 million today to 207 million in 2050. If immigration from third countries to EU27 were halted altogether, the decline would be even more dramatic, down to just 169 million by 2050 (for a more detailed account see Münz 2009). There will be more elderly than young people in society, with the elderly living longer than previous generations.

This article is based on the national policy reports for 2010 from the EU countries around the Baltic Sea – Finland, Sweden, Germany, Poland, Latvia, Lithuania and Estonia – produced within the European Migration Network (EMN): <http://emn.intrasoft-intl.com/Downloads/prepareShowFiles.do?sessionId=8911382266455CCFB97B7568B0829DF9?entryTitle=01>. Annual Policy Report 2010

This will pose serious challenges for European societies, given that for every 100 Europeans of working age today, there are 25 senior citizens aged over 65. By 2050, this ratio will even rise to 50 senior citizens for every 100 Europeans of working age. This European trend, of course, also applies and has implications for the Baltic Sea countries. One of the answers to this challenge is migration.

Similarities and differences in the Baltic Sea Region

Looking at the policy area of migration in the Baltic Sea countries, several common trends can be seen, but also many differences. As to similarities, a discussion that gets a lot of attention in many of the countries concerns the long-term need for migrant workers. In many of these countries, there is a raising awareness that as the population ages, the need for a foreign labour force increases. Of course, EU citizens can work and live in any member state of their choosing, but this is not seen to be sufficient in a long-term perspective. What differs in this respect is how far this concern has resulted in legislative amendments. In Sweden, a new law on labour migration came into force in December 2009. This new legislation makes it much easier for third-country citizens to get a residence and work permit as long as the person is employed in the country (with terms of employment that are equal to those of a Swedish collective agreement or what is customary within the profession or sector). In short, anyone can apply for a position in Sweden and as long as the terms of employment are fair he or she will get a residence and work permit. There are no further requirements on either the employer or the employee. After having worked for four years in Sweden, the migrant can get a permanent residence permit. Also in Finland, there are ongoing amendments of the legislation as part of a broader project launched in 2007 to reform the employed persons' residence permit system. This project is closely linked to the objective of promoting employment based immigration to Finland. In Germany, this has also been discussed but there the debate focussed on the lack of skilled labour. In Estonia, there is a similar debate on the open-

ing of the labour market to foreign labour by discussing the requirement for the salary criteria set forth in the Aliens Act. Also here, the government is foremost supporting migration of high-skilled labour within sectors important to the country. This can be seen as a common trend for the entire EU. The European Commission will present suggestions within this policy area during 2012.

The effects of these policy changes are still hard to detect in many of the countries. In Sweden, the number of residence permits issued due to work related reasons has increased with the new legislation but not by as much as expected. The global financial crisis can here also be an important explanation.

A closely connected discussion concerns the increasingly popular concept of circular migration. In line with attracting foreign labour, this concept has been introduced to illustrate the possibility of moving to a country for a period of time and then return to their country of origin. In Sweden, a Parliamentary committee has elaborated several proposals to facilitate this type of migration. Examples include making it easier for migrants to transfer their pension to their country of origin and making the rules concerning the time that can be spent outside Sweden without affecting the possibility to get a permanent residence permit less strict. It also became easier for former asylum seekers to get a residence permit as a labour migrant.

While circular migration mostly refers to migration of third-country nationals, the three Baltic countries are also affected by the free movement of labour within the EU. In Lithuania, departure was declared by 83,500 Lithuanian residents during 2010 (3.8 times more than in 2009). The increase was determined mostly by economic factors (unemployment) and by the obligation to pay compulsory health insurance imposed on permanent residents of the country, which encouraged also the residents who had departed earlier to declare their departure. The majority of emigrants indicated that they departed to the United Kingdom (50 %) and Ireland (16 %), while the number of emigrants to Norway considerably increased to 4900 in 2010. In Estonia, emigration has led to policy campaigns to attract Estonian citizens, having moved abroad to work or study, to move back to Estonia.

Another aspect of migration that is discussed in many of the countries of the BSR concerns return and repatriation. In several countries, voluntary return is highly prioritised. The problem of illegal migration has received a lot of attention in many of the states and within the EU. In the BSR, some countries (such as Estonia) are considered to be mostly transfer countries for migrants and asylum seekers, continuing primarily to the Nordic countries. Closely connected to this is the system of international protection. Concerning the number of asylum seekers, there are considerable differences between the countries of the region. In a historical perspective, more than two million people have applied for asylum in Germany since 1990. In 2010, Germany was still at the top with more than 41,000 asylum seekers, while Sweden had almost 32,000. On the other end of the scale, in Latvia and Estonia only 55 and 30 respectively applied for asylum, closely followed by Lithuania with 373. Poland (6534) and Finland (4018) are in between. Also trends in developments of the number of asylum applicants took different paths. While Sweden and Germany saw a big increase in 2010, Finland and Poland saw a decrease. The number in Estonia remained high (in relative terms for Estonia) compared to the years before. The reasons for these diverging trends can only be subject to speculation but there is reason to believe that one explanation could be the approval rate of both the country itself and its neighbours. In Estonia, 17 persons were granted international protection in 2010, which is four times higher than during the previous years. In Finland, one reason for the decrease could be that Sweden has been more attractive for asylum seekers. In Sweden and Germany, one explanation for

the increase is assumed to be the lifting of the visa requirements for citizens from Serbia, Macedonia and Montenegro. The number of asylum seekers from Serbia and Macedonia in Germany rose with 757 % (Serbia) and 2162 % (Macedonia), in Sweden even around 1000 % compared to the previous year. In Sweden, the number of asylum seekers from the main countries of origin - Iraq, Somalia and Afghanistan - remained at a high level. In Germany, the same countries of origin are the most common but here the trend, with the exception of Iraq, is increasing. In Germany, the ratio of granted protection decreased with over 10 % compared to the year before, while in Sweden the ration was the same both years. In total, 8742 persons were granted asylum in Sweden in 2010.

Outlook

In the coming years, migration policy is likely to be a frequently discussed topic within the BSR. Perhaps the greatest problem will be the paradox that while labour migration is needed in the region due to demographic changes, public opinion towards migration is largely negative at the same time (as was noted in the introduction). The political challenge will be to balance these two diverging perspectives.



Marie Bengtsson

Labour Migration and Demography – Challenges and Chances for the Baltic Sea Region

There are several challenges for the supply of labour in the Baltic Sea region (BSR), resulting from demographic changes and the enhancement of free movement of labour in the European Union effective from 1 May 2011. The number of people of employable age will seriously decline in the BSR during upcoming decades. At the same time, there is the fear that emigration from countries in the eastern part of the BSR could continue, affecting labour markets in receiving countries and implying intensified brain drain in sending countries. Both aspects are expected to have a lasting impact on socio-economic developments in the BSR and call

for policy actions suited to deal with potential negative impacts. However, there are also arguments against mass migration from the eastern part of the BSR that take into account the possibility for low-income countries to catch up economically.

Demographic change and labour mobility

It appears that the number of inhabitants of employable age will decline in the coming decades as part of the demographic changes taking place

Table 1:

	Demographic indicators					
	Fertility rate	Expectancy of life at birth in years				migration balance
	2009	2000 ¹		2009		1998–2008 ²
		Men	Women	Men	Women	
Denmark	1,84	74,3	79,0	76,5	80,8	120 502
Germany	1,36	75,4	81,2	77,3	82,5	1 223 305
Estonia	1,62	65,1	76,0	69,8	80,1	-11 647
Finland	1,86	74,1	81,0	76,5	83,1	80 566
Latvia	1,31	64,9	76,0	68,3	78,1	-30 457
Lithuania	1,55	66,8	77,5	67,5	78,6	-46 272
Poland	1,40	69,7	78,0	71,5	80,1	-200 050
Russia	1,54	59,0	72,3	62,8	74,7	479 707
Sweden	1,94	77,4	82,0	79,4	83,4	351 418
EU 27³	1,60	74,5	80,9	76,1	82,2	not specified

¹ German data from 2002

² Estonian data from 2004 till 2008; Russian data from 2005 until 2008

³ Fertility rate from 2008; life expectancy from 2002 and 2007

Sources: Eurostat (2010); Federal Statistical Office (2010); calculations HWWI.

in the BSR. These demographic changes are the result of a continuous increase in life expectancy, low birth rates and regional differences in migration patterns (cf. Table 1). Fertility rates in all Baltic Sea states are below the “conservation level”, which is an average of 2.1 children per woman. Denmark, Estonia, Finland, and Sweden show high fertility rates, above the EU average (1.6). In other countries, fertility rates vary between 1.31 and 1.54 (cf. Table 1).

Life expectancies in Denmark, Finland, Germany and Sweden are much higher than in the countries in the eastern part of the BSR. However, life expectancies there have also been continuously rising since the early 1990s, mainly due to better environmental, employment, and nutritional conditions. Life expectancies there are approaching the level of the western states. In 2000, for example, the life expectancy at birth in Estonia was 65.1 years for men and 76 years for women. By 2009, these figures had risen to 69.8 years for men and 80.1 years for women. At an average of 81 years for both genders, Sweden has the highest life expectancy of all countries in the BSR.

The migration patterns of people at employable age are a critical factor for deepening cross-

border labour market integration in the BSR. At the same time, it differentiates the process of demographic change between the countries. While the Baltic nations and Poland have had to deal with great losses due to emigration over the last ten years, the countries in the western part of the Baltic Sea region are a destination for immigrants. The pattern within the BSR therefore shows people migrating from low-wage countries to those which offer high wages. Comparatively low wages in Poland and the Baltic states are crucial for emigration of labour from these countries (Brücker et al. 2009).

The consequences of the previously low fertility rates and losses due to migration in the Baltic nations and Poland can clearly be seen in the population trends between 1998 and 2008 (cf. figure 1). While Sweden reported growth of 3.8%, the population in these countries declined. The population in Germany hardly changed, with an increase of 0.2%.

Altogether, population growth in the BSR is below the EU average (+3.5%). The demographic trends of the last several years will continue in the near future: the population is getting both smaller and older. Eurostat forecasts that only Denmark,

Figure 1



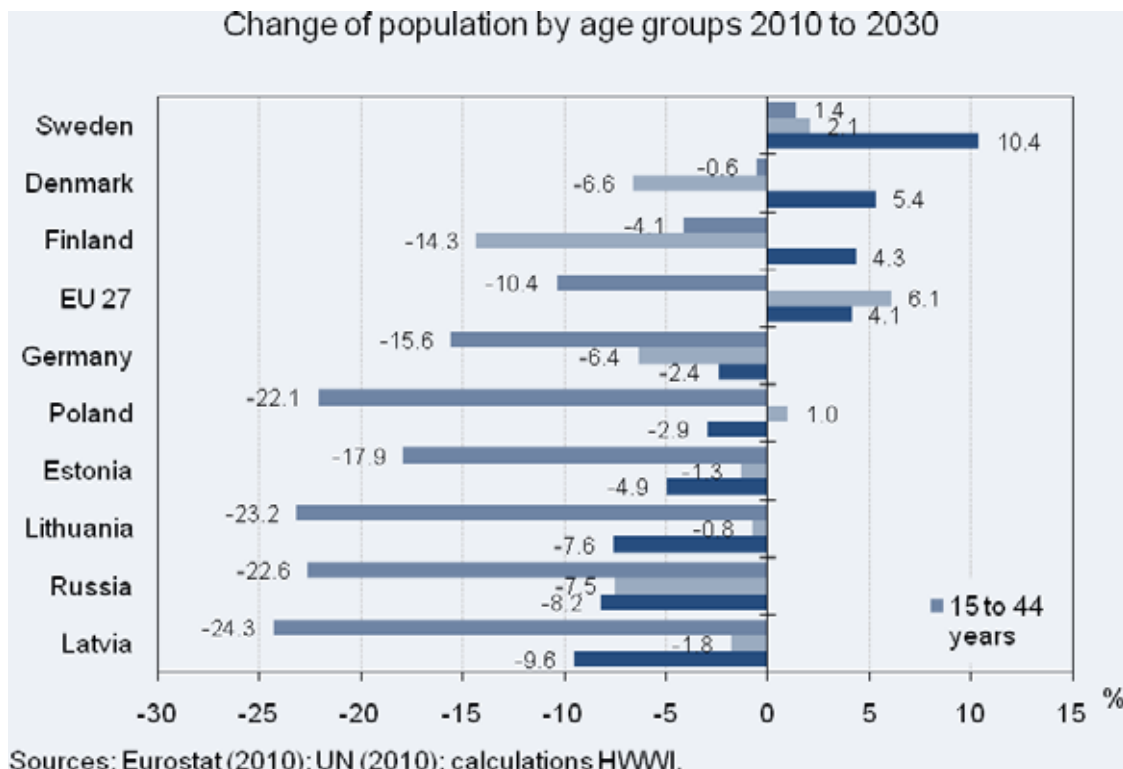
Finland and Sweden will show a strong population growth between 2010 and 2030. Populations will shrink, primarily in the countries in the eastern part of the Baltic Sea region, especially Latvia (-9.6 %). It must be noted, however, that the assumed future migration numbers are critical parameters for the findings of population forecasts. If the countries which are projected to lose population are able to stem emigration, this would decelerate the rate of the population decline. Their success in this will depend largely on these countries' ability to develop economically.

It is not only the number of people of employable age which is shrinking. The age distribution will also change. The proportion of people of working age under 45 years old will diminish. In the eastern countries, this is forecast to shrink between -7.9 % and -24.3 % (cf. Figure 8). In general, the decreases in and ageing of the number of people of employable age presents a challenge for the future economic development of the Baltic Sea states. There are empirical studies which suggest a negative correlation between the age of a labour force and its average productivity – especially in industrial occupations (cf. Skirbekk 2008; Börsch-Supan et al. 2006). This will have a negative

impact on the competitiveness of the companies in the BSR if steps are not taken to positively influence productivity.

It is probable that the states in the Baltic Sea area will be differently affected by the migration of labour. The provisions for labour market integration in the EU changed on 1 May 2011 when freedom of movement for people (and freedom to provide services) was extended. Immigration forecasts indicate that up to 240,000 people could migrate annually from the more recent EU Member States (excluding Bulgaria and Romania) to the EU-15 through 2020. The same forecasts indicate that around 190,000 will immigrate from Bulgaria and Romania into these EU countries annually through 2020. For example, since 2006, more Polish workers in total have immigrated to the UK than to Germany. Unlike in the UK, Germany did not allow citizens from new EU member states to work in the country for several years after EU enlargement in 2004. In 2009, however, the migration preferences of the Poles shifted away from the UK and towards Germany (cf. Iglicka 2010). Then it started to become easier to get a working permit in Germany.

Figure 2



Conclusions and outlook

Generally, the future dimension of emigration from the Baltic states and Poland to EU countries with higher wages crucially depends on the speed of development processes in these countries and the corresponding development of the wage level. If emigration continues, the eastern part of the Baltic Sea Region will be confronted with the serious challenge of brain drain. However, there are several arguments against expecting mass migration from the Baltic States and Poland. First of all, a lot of people at employable age already left their countries before 1 May 2011. Additionally, it can be expected that demographic trends in Poland and the Baltic states will also slow down the emigration of people at employable age. It is also a

fact that, in these countries, the labour force will shrink due to a population decline during upcoming decades. If these countries succeed in catching up, incentives for remigration may add to the supply of labour. An increasing number of attractive jobs, especially for high-skilled workers, as well as higher wages could instead contribute to a brain gain in these countries in the medium term.



Silvia Stiller

Transport and Communication

EU as a driving force of transformation

The EU is a leading actor promoting the integration of European transport networks, including those that are part of the Baltic Sea region (BSR). The EU transport guidelines are expressed in the newly presented White Paper “Roadmap to a Single European Transport Area – Towards a Competitive and Resource Efficient Transport System” (Brussels, 28.03.2011), the TEN-T Green Paper “Towards a Better Integrated Trans-European Transport Network at the Service of the Common Transport Policy” (Brussels, 04.02.2009) and the Maritime Transport Strategy (2009, Commission Communication “Strategic Goals and Recommendations for the EU’s Maritime Transport Policy until 2018”). The EU 2020 Strategy supports greater resource efficiency and innovative transport development, which can be achieved inter alia through developing green corridors.

The Trans European Transport Networks (TEN-T) takes a lead role in the integration of EU transport systems. TEN-T supports a number of projects in the BSR: Fehmarn Belt Link, Rail Baltica, Nordic Triangle, Baltic Motorways of the Sea (MoS), and Mona Lisa. Alongside with TEN-T, investments into transport infrastructure are made through EU Cohesion and Regional Development funds, available for new member states in the region. The EU is attempting to increase the importance of railways and multimodality in transportation. Investments in railway infrastructure amount at more than 60 % of current TEN-T financing.

In the framework of the European Regional Development Fund (ERDF), the Baltic Sea

Program (BSP) is financed with a total budget exceeding EUR 200 m for the period 2007-2013. One of its four priority areas is aimed at an encouraging, sustainable, cooperative, and balanced approach to transportation development with a general objective of improving internal and external accessibility in the region. The project TransBaltic, carried out within the framework of the BSP, is an example of pan-Baltic efforts aimed at harmonising national and sub-regional transport policies.

Transport-related targets are among the sectoral priorities and horizontal issues raised by the EU Strategy for the Baltic Sea Region (EUSBSR). The role of transport is recognised to be crucial for ensuring prosperity, competitiveness, accessibility, territorial cohesion, and an environmentally sustainable development in the region. This can be achieved through enhancing co-operation among the Baltic Sea states in transport development, eliminating internal and external bottlenecks, encouraging mobility and economic growth through greater integration with EU transport networks and ensuring accessibility of peripheral areas. The flagship projects include finalising already agreed projects (Rail Baltica, Nordic Triangle, Baltic Motorways of the Sea, Baltic Transport Outlook 2030 etc.), the Northern Dimension Partnership on Transport and Logistics (NDPTL), as well as the development of functional airspace blocks (FAB) and green transport corridors.

The Northern Dimension is viewed as a mechanism of external co-operation for the EUSBSR. The NDPTL was established in December 2009 and opened a secretariat under the auspices of the Nordic Investment Bank (NIB) in Helsinki in

2011. It is expected to promote activities towards the implementation of the Barents Link, connecting Northern Scandinavia, Finland and Russia.

Overview of transport sectors

Maritime freight. Maritime freight is a backbone of the regional transportation system. It amounts to 15 % of worldwide cargo shipment. Most of this serves intraregional trade. The loads of main ports demonstrated a growth of 10-16 %. The EU supports the policy of making the Baltic Sea more attractive for transcontinental shipments, first and foremost from Asia. It also aims to decrease road traffic congestion by means of moving cargo flows from road to sea and rail. In early 2011, the TEN-T appropriated 28.4 million Euros for the development of the port infrastructure of the Twin Gothenburg/Aarhus Hub and the Port of Tallinn in the framework of the 'Motorways of the Sea' (MoS). The hub will serve as a transshipment hub for other feeder ports of the Baltic Sea. The growing demand for a north-south freight railway link could be a by-product of growing transcontinental maritime shipment. There are three other Baltic projects of MoS under implementation which are aimed at strengthening north-south ferry links:

Karlskrona to Klaipeda and Gdynia, Trelleborg to Sassnitz. These projects would contribute to co-modality of transport in the region. EU policies aimed at the reduction of sulphur and nitrogen share in ship fuel in the Baltic Sea could have a controversial effect on the industry. New restrictions may reduce the competitiveness of the region and cause an increase of its freight rates up to 50%, relocation of cargos to the regions not subject to emission control (e.g. Mediterranean ports) and shift of short-distance shipment to road rather than railway, as hoped.

Ferries. The volume of ferry passengers in the region has been steadily growing. The largest ferry company, "Tallink Silja" (47 % of 18m total ferry passengers in the BSR) announced an increase of 4 % in the 2009/2010 financial year. This trend continued in 2011. In the period of December 2010 to February 2011, the company witnessed a 23 % growth of passengers compared to the same period in 2009-2010. New ferry lines which connect St. Petersburg with Helsinki, and Stockholm with Tallinn were re-opened by the Russian operator "St. Peter Line" in 2010-2011. Passengers arriving by ferry are entitled to stay in St. Petersburg up to 72 hours visa-free.

Cruise shipping. The BSR is among the most attractive areas for cruise shipping worldwide,



along with the Caribbean and Mediterranean Seas. The Cruise Baltic international project was launched to promote the region worldwide. The number of cruise passengers in 2010 exceeded 3 million people, despite a decrease of 1.3 % in comparison with 2009. It is expected that the number of cruise travellers will reach 3.5 million in 2011. The main points of gravitation are Copenhagen, St. Petersburg, and Stockholm. The largest infrastructural project for cruise shipping, 'Marine Façade', is carried out in St. Petersburg, where a specialised cruise and ferry port is almost complete.

Rail. Although all Baltic Sea states except Russia had become members of the EU by 2004, the transport gap between the East and West of Europe (or the North-South link) is still a matter of fact. East-West railway freight connections in the BSR, connecting Russia and EU member states, have had the greatest commercial prospects so far, e.g. they constitute 85 % of freight shipment on Latvian Railways. At the same time, Russia's governmental policy is to re-orient export/import cargo towards Russian ports in the Gulf of Finland. The largest infrastructural project in Ust-Luga (southern shore of the Gulf of Finland) has progressed well. Its potential capacity is to reach 180 million tonnes by 2018. In 2010, its cargo transshipment volume increased by 14 % (12 million tonnes) and is expected to increase up to 20 million tonnes by 2011. Ust-Luga will become the terminus of the BPS-2 pipeline, with 30 million tonnes reload capacity, which expectedly decreases carbon transit through the Baltic states.

The "Rail Baltica" project is a priority project of TEN-T (with financial support of EUR 124 million). It is to enhance the north-south connections which are politically as important and relevant in terms of EU cohesion. It can contribute to a better cohesion of the Baltic states and to improve their transport integration with the rest of Europe alongside the "Via Baltica" motorway. Currently, reconstruction works are underway to allow 120 km/h speed across the three Baltic states by 2013. Seemingly, the current approach to the project implementation has its deficiencies, exacerbated by budget reductions. Co-financing of TEN-T is not sufficient, while the national units of the project are of different priority for the countries, and are not synchronised by speed.

Only Estonia has mostly finished the reconstruction of the existing gauge between Tallinn and Valga. Latvia and Lithuania lagged behind in the project implementation due to financial shortages and/or lack of political commitment. In late April 2011, the Latvian government decided to resume financing Rail Baltica, although the total sum of investment was reduced. The double gauge track from the Polish border to Kaunas in Lithuania is to be completed by 2013. "Rail Baltica" will hopefully be able to shore up the deficiencies in intraregional passenger rail. After the break-up of the USSR, the previous rail connection between the Baltic states and other former Soviet republics has been deteriorating. The trains from the Baltic capitals to Moscow (and St. Petersburg) mostly survived. Currently there are signs of a gradual restoration of the system. A high-speed connection between Vilnius and Minsk is elaborated by the railway administrations of Belarus and Lithuania. It needs reasonable investment and can rely on sufficient passenger traffic. The train communication between Riga and Minsk was restored in summer 2011. The Estonian Railway company GoRail is investigating opportunities for restoring train links from Tallinn to St. Petersburg and Riga. Currently, this role is predominantly played by bus coaches, which are losing the competition on longer distances to air transport.

Alongside the reconstruction of the existing lines (1520 mm), a feasibility study was commissioned by the Baltic states to investigate opportunities for construction of an ambitious new European standard gauge (1435 mm) from Tallinn to Kaunas. Its conclusions, presented in June 2011, suggest that this railway could be viable, if it received EUR 2.5 billion co-financing from the EU funds of EUR 3.7 billion. The 728km railway could be completed by 2025 if such a decision were taken by the governments of the three Baltic states. Keeping in mind that the costs are comparable with the Fehmarn Belt Link between Germany and Denmark, (EUR 4.5 billion, only 25 % of construction co-financed by the EU), as well as very hypothetical forecasts of freight and passenger traffic, there are strong doubts that such a project can be completed.

Nevertheless, the project corresponds with the EU's general idea to develop railway communication. This was expressed in the EU White



Paper on Transport of 2011, which claimed that “by 2050 the majority of medium-distance passenger transport should go by rail” (European Commission White Paper, COM (2011) 144 final, 28.03.2011). The competitiveness of railway transport is to improve as a result of making ship fuel more expensive through tightening environmental requirements, and the rising tax burden for international truck carriers.

One of the ways of making rail transport more attractive and competitive supposes development of high-speed communication. The train “Allegro” has been launched jointly by Russian and Finnish Railways between St. Petersburg and Helsinki. The Finnish part of the railway track is a part of the TEN-T Nordic Triangle project. Together with “Sapsan” train, it establishes a high-speed communication from Nizhny Novgorod through Moscow and St. Petersburg to Helsinki. The idea of a high-speed train from Moscow to Riga is also under discussion. However, the estimated costs of EUR 6-8 billion seem to be too high to become economically viable.

Air traffic. Air traffic in the region was substantially reduced by the global economic recession, resulting in some companies withdrawing from the market (e.g. “FlyLAL” and “Star1” in Lithuania) or their nationalisation (“Estonian Air”), and a decrease in passenger volumes in

airports (e.g. in Vilnius in 2009 at 36 %). The largest regional air carrier SAS made profits, while Finnair suffered a decrease in passenger traffic and generated losses exacerbated by a personnel strike. Due to its geographically central position among the Baltic states and activities of the national carrier “Air Baltic”, Riga Airport was gradually acquiring hub status (in 2010, 38 % of traffic was provided by transit passengers, in relation to 5 % in 2007) and demonstrated sustainability in the face of crisis, increasing its turnover by 10-15 % annually. The other regional airports were recovering as well; Tallinn even grew at a record pace (37 % in January-July 2011). The airport of St. Petersburg (“Pulkovo”) added 25 % to its previous numbers and started an ambitious reconstruction project. One of the visible trends of air transportation refers to the revival of small regional airports. They often receive support from EU funds and benefit from incoming low-cost airlines, whose start-up is often supported by local authorities.

Road transport. Road transportation in the BSR preserved its importance and was gradually recovering after a decline of more than 20 % in 2009. The EU continues to pursue the line of increasing tax burden on the road transport sector. The new regulations, which allow national government to charge trucks for air and noise pollution as well as regulate congestion and fair price-

making through varying rates for heavy trucks, were approved by the European Parliament in June 2011. Alongside environmental benefits, they may result in additional money invested into road maintenance and raise the attractiveness of other modes of transport. International transport of goods by road is a meaningful business for the Baltic states, especially Lithuania. They pursue a cautious approach to launching new taxes, which may result in reciprocal steps by Russia and other partners.

Prospects

The implementation of the EUSBSR will not drastically change the trends in the development in BSR transportation. It will hardly become a new strong financial mechanism to implement infrastructural projects. At the same time, the priority status of transport in the EUSBSR could raise the attractiveness of projects for international financial institutions. The EUSBSR is helpful in creating a new vision for transport through a comprehensive approach of sustainable development with its environmental, social and economic elements. The EUSBSR is a tool of overcoming transport 'nationalism' and ensuring greater national commitment to common targets and joint projects. However, it will hardly be able to eliminate competition among BSR countries, for example to attract transit from Russia, China and other Eastern countries. The existing list of priority projects are implemented as long term projects and are to be supported mainly through current schemes – TEN-T, ERDF and Cohesion Fund, although the scope of available funding for new member states could decrease in the new financial period.

The EUSBSR could become instrumental in eliminating bottlenecks on the border with Russia, which is not only an infrastructural but also

an operational and political problem, in particular on Russia's borders with Latvia and Estonia. The conclusion of a border treaty between Latvia and Russia as well as a general positive atmosphere in bilateral relations affected operations at the border. In 2010, an Agreement on Co-operation in Border Arrangement was signed, aiming at synchronisation of border procedures and the development of infrastructure. Due to political tensions, Russian-Estonian co-operation in this issue is not progressing.

There are expectations that macro-regional logic to be added to the EU's budget could improve the co-ordination of existing financial instruments and concentration on cross-border projects. The discussion on the TEN-T Policy (as a follow-up of the Green Paper) assumes the idea of prioritising and concentrating resources on the core network projects of European added value, expanding the role of European coordinators and employing the 'corridor' approach, involving a wide range of stakeholders (European Commission, SEC (2011) 101 final, 19.01.2011). On the one hand, it may increase the EU's financial leverage for the projects which would be recognised as a part of such a network. On the other hand, there is a danger of discriminating projects in the Baltic Sea, if general selection criteria are to be applied, since the nodes (e.g. capitals and ports) here are relatively small and population density is low. So, the selection mechanisms should be tailored for the BSR's specificities, taking into account the growing role of the region as an interface for the EU's trade with the East.



Leonid Karabeshkin

Branding the Baltic Sea Region – Image, Identity and Brand

In the decade following the demise of the Soviet Union, the policy environment in the Baltic Sea region (BSR) was to a large extent focused on providing basic security and political stability to the region and its countries. The creation of institutions and partnerships focusing on security and political dialogue, military aid and ‘soft security’ assistance from the Nordic countries and Germany to the Baltic states and preparations for membership of the Baltic states and Poland in NATO and the EU characterised this era. Other policy mechanisms were activated too, such as cultural exchange and economic support.

An important milestone in this phase of the development of the BSR was Poland’s accession to NATO in 1999. This phase culminated when the three Baltic states joined NATO and, together with Poland, the EU in 2004. In order to create a new impetus for the region, allowing it to become an integrated economic and political entity, the region was in need of a new mission; regional policy and decision makers began looking for a new *raison d’être* and driving force for the region-building project. Indeed, internal integration, growth and competitiveness soon became the main drivers for regional co-operation. Further deepening of trade and business relations and co-operation in areas such as transport and infrastructure and research and innovation moved to the very forefront of regional policy deliberations.

At the same time, there was a growing realisation and concern among decision makers in the region that the BSR lacked a clear profile and image. There was a missing link – despite many successful efforts aimed at building a new region, the BSR had remained a diffuse and unknown

concept. It was argued that the low visibility came at a price – at a time when the global competition between countries and regions was heating up, being unknown or having a weak image becomes a serious handicap. It was claimed that the BSR was too much of a ‘well-hidden secret’ to the outside world, that it ‘deserved’ to be known for all its qualities and that it could be seen as a ‘global frontrunner’, ‘a region of excellence’, the ‘Top of Europe’, and a ‘magnet for capital, talent, tourism and innovative thinking’. In short, the BSR had to be put on the global map.

The idea to raise awareness of the BSR in Europe and beyond through systematic marketing and branding emerged in the discourse of regional decision-makers and opinion leaders around 2000. The first time it was discussed in an official setting was at the 2000 Baltic Development Forum (BDF) Summit in Malmo. At the 2001 BDF Summit in St. Petersburg, one plenary session was devoted to the topic of “Branding the Baltic Sea Region”, where branding experts and policy makers discussed how branding could be used to improve the image of the region. One of the speakers was Toomas Hendrik Ilves, then Foreign Minister and currently President of Estonia, who drew parallels with Estonia’s efforts to brand itself as an IT nation, and suggested this theme as a possible core element for marketing of the entire BSR.

At the end of 2005, the Baltic Strategy Working Group of the “Baltic Europe” Intergroup of the European Parliament, a working group of seven MEPs issued a report on “Europe’s Strategy for the Baltic Sea Region”, which formed the basis for the EU Strategy for the Baltic Sea region (EU-BSR). This report contained a chapter on “image

and identity”, pointing out the need for marketing of the region, not only to raise its political profile, but also to open up considerable mutual economic benefits. It also called for measures that can restore the region’s identity while supporting the rich cultural diversity within the region.

Indeed, the very launch of the EUSBSR has given new impetus to and a framework for the discussions about the marketing of the BSR. Several priority areas of the strategy included components of region marketing, most notably in policy areas such as tourism co-operation and cluster, research and innovation policy. In addition, one can also claim that the strategy in itself has given the region an unprecedented political identity – and hence image – in a European context. It will of course take time before this identity trickles down to the citizens, and it remains to be seen what the longer-term image effects may be.

Approaches to branding the region

There are, however, many examples of other projects and activities that aim at marketing the BSR. In 2004, the first concrete activity that aimed at marketing the BSR to target groups outside the region, “Cruise Baltic” began. In the following years, a range of projects containing components of region marketing ensued. The first step to put the idea of branding the BSR into practice on a larger scale were taken by BDF in collaboration with a range of regional stakeholders in 2005. Nation-branding expert Simon Anholt was consulted; he drafted the “Pearl Necklace Strategy for Branding the New Hanseatic League”, which devised something like the following step-by-step strategy (modified by Andersson, 2007):

1. There is a need for a brand story for the whole region. This story has to be inspiring and ‘magnetic’, but also credible. The story needs to be devised by a small and qualified team who are in constant consultation with a wide group of stakeholders.
2. The story needs to be spread to ‘infect’ as many organisations and people as possible. It needs to be explained why it is in the interest of all stakeholders to promote this story in their own activities and communications.

3. The next stage involves the selection of a number of initiatives, institutions, companies, events, individuals or other components of the brand strategy from each point of the so-called branding ‘hexagon’ (the six aspects of culture, policy, tourism, export brands, people, and investment).
4. The co-ordination team should provide every possible encouragement and incentive to help these independent “pearls” to succeed and to gain a high international profile.
5. Help to publicise the success of all the “pearls”, by seizing every opportunity to promote their achievements in the region.

Gradually, these growing ‘pearls’ will inspire other individuals, organisations and bodies around them to do the same and to pursue the same branding strategy. According to Anholt, if this strategy is pursued successfully, within five or ten years the region could possess a “pearl necklace” of great value.

It has been argued that any branding effort in the region needs to tackle two specific challenges faced by the BSR: there is a lack of one single decision-making authority and a lack of unity of purpose among potential stakeholders. To compensate for this, one approach might be to build different sub-brands or ‘pearls’, as suggested by Anholt, either in the sense that each sub-brand aims at covering the whole region, or that each sub-brand aims at covering smaller regions of the larger macro-region, and then co-ordinating them in an alliance. In both cases, but maybe to a varying degree, some kind of unity of purpose — a core idea or a brand story — building on common denominators and a sense of a common identity is needed. This sense of common identity must be strong enough to act as a co-ordinating element so that stakeholders in the brand-building process want to pursue it. The author of the present article has, however, reached the conclusion that the BSR cannot yet exhibit a common identity to the degree necessary for a full-fledged branding effort to work (Andersson, 2007).

One project that did take its starting point in the idea of a common identity was the Balti-ness project during the Latvian presidency of the CBSS in 2007-2008. This was the first time that a project, aimed at discussing identity and

brand, had been initiated by one of the governments in the region. The purpose of the project was to highlight and discuss a common Baltic Sea identity. According to the Latvian presidency, the BSR possesses an environment of common values and objectives, and it was claimed that regional integration cannot be just a bureaucratic concept; it necessitates a feeling of belonging to a common set of values. The project strove to project the countries of the region as competitive, creative, dynamic, multicultural states populated by professional, skilful, and truthful people. Concretely, the project consisted of a travelling photo exhibition, a series of jazz concerts, and a series of round-table discussions on the themes of regional development, regional identity and the prospects of building a common BSR brand. These various events were held in several major cities of all Baltic Sea states.

In contrast, the project BaltMet Promo or “Creating promotional Baltic Sea Regional products for tourists, talents and investors in the global markets” (planned in 2007-2009 and initiated in 2010) is based on a different underlying assumption. As the region cannot be said to have a widely held common identity yet, it is not feasible to aim to build an overall brand for the region, but rather to promote different parts or sectors of the region. In doing so, it assumed that such an exercise will help build both an identity internally and an image externally. In that sense, it echoes the line of thinking that is described above; that a plausible strategy would be to market a range of sub-brands in an alliance, without striving to build an overall, umbrella brand. BaltMet Promo is based on the collaboration of the Baltic Metropolises Network and the BDF. The overall aim is to join forces in marketing the entire BSR, with a special focus on its metropolitan areas, on a global scale.

Many have seen branding the BSR as a direct competitor to city or nation branding, and BaltMet Promo strived to shift the focus from competition to co-operation between cities and countries. Initial results from the project show that supra-national branding benefits from a bottom-up approach that tries to develop concrete products and services as the core of the brand identity that one wish to project. Nevertheless, the project has faced difficulties in engaging the national-level government agencies, both in product

development and policy deliberations, especially in the field of tourism promotion (Andersson and Paajanen, 2011).

More recently, place-branding expert Jeremy Hildreth proposed a set of ideas for how the region could work with branding. His approach to branding is that it essentially is about making claims that are credible, not boring and, maybe more importantly, make a point. Taking a more pragmatic approach than for example Anholt, instead of developing a brand story for the whole region, he envisages that a simple and smart identification of the mission for and benefits of branding the region is sufficient. He also asserts that the region does not need a complicated brand strategy, but rather a co-ordinating team or network that can help highlight all the ongoing initiatives that are working to promote the region, and thereby help making the BSR as a concept more relevant to more people.

Is there a BSR brand today?

To what extent have these efforts and ideas helped established a BSR brand? Does the BSR have a distinguishable ‘brand image’ today? It is difficult to answer these questions with certainty, as an overall image study of the region never has been conducted. There is also a methodological problem: previous studies use different methods and/or selection, making comparisons and tracking of changes over time difficult. However, by compiling the different accounts of how the region is perceived or portrayed, one can see indications as to what extent the region has a brand image. The short answer is that there is little evidence to support that there is a clear image of the region in the public mind: the surveys and studies that have been carried out point in the same direction – there is no clear brand image, either internally or externally.

For example, a study of international media perceptions of Estonia, Latvia and Lithuania upon NATO and EU accession, covering the period 2004 to 2007, indicates that the BSR has a weak image. The study looked at what regions were mentioned together with the three Baltic states when they were mentioned in news coverage. In, on average, 26 % of cases, the three countries

were assigned to the region 'Baltic states', in 8 % of cases to 'Eastern Europe', in 0.8 % of cases, to 'Northern Europe' and only in 0.25 % of cases to the 'Baltic Sea Region' (Mockuté, 2008). Also taking an outsider's perspective, a study carried out by the BalticStudyNet in 2006 reached the conclusion that the BSR has not – for the world at large – become a visible and separate identity, either in politics or as a market place, let alone as a higher education area (Schymik, 2007). Another study, published by the Swedish International Development Co-operation Agency (SIDA) in 2006, measured the Swedish public's view of BSR integration. This study concluded that the Swedish public does not generally see the region as a separate entity, and that the name does not evoke many positive associations. Most people do not even seem to have a clear idea of which countries form the region (Dahlander, 2006). Conducted in 2008, a Polish opinion poll, to some extent inspired by the approach in the aforementioned Swedish study, confirms this notion (Pilecka, 2008). In 2010, the BaltMet Promo project researched the perceptions of the main BSR cities among potential Japanese travellers and arrived at the conclusion that the perceptions held by the Japanese public of these cities are so diverse that it does not make any sense to market them as one coherent entity, but rather as three sub-entities (the Nordic cities, the Baltic cities and Warsaw/Berlin) (BaltMet Promo, 2010). Finally, collected this year, preliminary research results from the AGORA 2.0 project indicate that the region cannot showcase one, widely held image, but rather a set of common features (Steingrube, 2011). Thus, it is not difficult to imagine the challenges entailed in building an image for a place that to a large extent is not seen as a coherent entity either by outsiders or by its own population.

Conclusions and outlook

Is there a change in sight? Can one somehow discern a change over time; i.e. is the region becoming more known and visible? Have the activities

aimed at profiling the region since 2004 had any impact? The short answer is that we do not know. It is sometimes said that creating or changing an image of a place through systematic branding, unless one has extraordinary tools and resources at hand, takes up to a decade. In addition, an overall perception and image analysis of the region remains to be done. Until then we can only speculate about the developments of the BSR image.

One thing is clear, though: there is no lack of initiatives. The projects and activities described above only account for a small part of all the different initiatives that try to market the BSR (for a comprehensive overview of different marketing activities in the BSR, see Andersson, 2010). Several projects are underway, too. A successor to BaltMet Promo labelled BaltMet Brand-ID is planned for 2012. Taking a more explicit branding and identity-building approach, it includes, among other things, a well-needed image study, and, in collaboration with a range of regional stakeholders, a process to elaborate a branding and communication platform that can be used by all projects and organisations that feel compelled to use it. There are also promising initiatives under way to market creative industries in the region and, as part of the EUSBSR to create collaboration platforms for joint attraction of tourists and for investment promotion in global markets. If all the efforts continue and work well and the region continues its endeavours to become an integrated area, the BSR may be a recognised and attractive region in the public mind in a few decades. Perhaps we can then talk about the BSR as a place as we talk today about the Mediterranean region, the Caribbean or Scandinavia.



Marcus Andersson

Key Messages and Outlook on 2012

This first Political State of the Baltic Sea region Report has been an attempt to provide a comprehensive overview of political and economic developments in the Baltic Sea region (BSR). In order to achieve this goal, the report identified and analysed important trends within the countries of the region and within several specific issue areas. In order to conclude the report, a number of questions need to be addressed. First, what are the key messages of the report? Second, which topics and events have been of particular relevance for the entire region and for its countries in the reporting period 2010-2011? Third, what could be learned from the region's experiences in this period for the near future and what challenges and topics are likely to remain relevant in 2012 and beyond?

On the domestic level, all the countries have felt the consequences of the international economic and financial crises from 2008 onwards. 2010 and 2011 have been characterised by the countries' efforts to deal with the harsh consequences of the crises and to regain their economic strength and stability. This consolidation phase will be continued into 2012, so the current European and international developments permit. Despite all the problems, on average, the region and most of its countries proved economically relatively stable and resilient and seemed to have managed the crises better than other European regions. Nonetheless, consolidating their economic and financial situation and possibly tackling new emerging problems will remain one of the main challenges for the countries of the region, in particular for those that participate in the European Monetary Union.

Politically, several countries of the region had to face increasing right wing populist, anti-migration and anti-European tendencies, culminating in the terrorist attacks in Norway in July 2011. It will remain a particular challenge for the countries of the region to effectively tackle those tendencies, to strengthen the democratic traditions of their countries and to integrate minorities in their societies. Energy has been and will remain very high on the political agenda of the region and of all its countries. Restructuring their energy systems, reducing their dependence on fossil and nuclear fuels, reducing CO² emissions, and increasingly promoting and making use of renewable energies will remain major challenges on the European, regional and the domestic levels in the future.

On the regional level, the start of the implementation phase of the EU Strategy for the Baltic Sea Region (EUSBSR) was one of the most relevant recent developments. The adoption and the start of its implementation turned the EU into the probably most relevant regional player. The strategy is, although far from perfect, the "new game in town". In contrast, the relevance and the political impact of several of the regional actors seem to have diminished. To some extent, it will depend on the regional actors and their members whether they will be able to regain some of their previous relevance. An organization such as the Council of the Baltic Sea States (CBSS) will have to be more effectively reformed and formally allocated a role within the implementation of the EUSBSR in order to be re-established as a relevant regional actor.

Developing and adopting the EUSBSR has been a promising move to revitalise regional co-operation, to tackle the common regional problems and challenges, to utilise the region's potential and opportunities, and to involve the EU more closely and actively in regional processes. The initiation of the EUSBSR represents the single most important political process in recent years and establishes an important link between regional Baltic Sea and European developments. More than ever before, this puts the BSR into a wider European context. However, enthusiasm and commitment of many stakeholders, in particular national governments, towards the strategy have already started to decrease. 20 months into its implementation, the actual achievements of the strategy are modest and not clearly visible. These factors create the risk that no one is really carrying the strategy and that its stakeholders incrementally lose interest. This would be the worst case scenario for the region as in such a scenario the solution of many of its problems would be in danger of being further delayed.

Thus, in the near future the main challenge will be to retain the political commitment and interest in the region and the strategy, emphasising the political rather than just the administrative character of the strategy more strongly. In order to be able to really achieve something and to make a difference, the initial ambitions of the strategy will have to be preserved. Pressure to continue the process in a positive and productive manner will have to be created by the regional actors, in particular those of a non-governmental and parliamentary kind (for example, Baltic Sea Parliamentary Conference, Nordic Council, Baltic Assembly, national parliaments, Members of the European Parliament from the region) in the first place. Those at the ground and with presumably the greatest interest in developing the region and finding solutions to its problems should keep acting as driving forces for regional co-operation. They are the ones that can identify the common problems, challenges and opportunities. Due to their expertise and experience, they will be able to assist the EU in effectively dealing with the relevant issues within the framework of the EUSBSR. Also the mechanisms of the strategy will have to be improved. Once these pre-conditions are met, there might be a real chance that the strategy will

stay on the EU's political agenda for the coming years, might be filled with more life and concrete content and eventually could lead to concrete success and sustainable achievements in its four priority areas in the medium to long term.

It could be beneficial that two consecutive presidencies of the Council of the EU are held by Baltic Sea countries. Currently, Poland is in charge of the presidency and is preparing the first evaluation of the implementation of the EUSBSR. Denmark will take over from Poland on 1 January 2012. The BSR is expected to increase in importance and political attention in Denmark in the coming years. The Danish presidency plans to enhance the implementation of the strategy. Both Poland and Denmark have been reluctant partners in regional institutionalised co-operation in the past, but have been fairly active in developing and implementing the strategy within an EU context, proving the point that currently the EU seems to be the preferred regional actor for many of its member states in the BSR.

An important factor in the region for the success of regional co-operation is Russia. Although the BSR does not have a high priority among Russian national interests (as compared to other regions and countries) it still has some significance for Russia. The region's importance continues to increase due to factors such as the growth of trade in goods and services, the expansion of transport infrastructure, and the compelling need for solving ecological problems. Simultaneously, Russia still lacks a coherent strategy for the BSR. To enhance and secure positive trends in the region, Russia should be encouraged to intensify its co-operation with the EU within the EUSBSR and beyond, and vice versa. The EU will have to find ways to involve Russia in the implementation of the EUSBSR more closely.

Regarding the issues of regional co-operation, several will remain relevant, others will possibly gain increasing significance in the future. The protection of the BSR environment has always been an important topic on the regional agenda and a driving force for regional co-operation. Since many of the environmental problems still have not been settled and the Baltic Sea is continuously in a bad ecological state, the environment will retain its prominent status in regional co-operation. The state of the environment could even be considered

an important test case for the effectiveness of regional co-operation and the implementation of the EUSBSR. The urgent solution of the regional environmental problems is in the interest of all riparian countries but they will not be able to achieve a lot on their own. Only effective joint European and regional efforts could help improve the fragile state of the region's environment. If the main regional actors in the environmental field master these challenges, the BSR may serve as a model for other comparable regions in this respect. However, due to lacking progress, there still is the possibility that the joint efforts to restore the environment fail which would imply a failure of regional co-operation in general.

In the field of transport, the EUSBSR could be helpful in opening a new vision through developing a comprehensive approach towards sustainable development, including its environmental, social and economic elements. The EUSBSR could be regarded as a tool to overcome 'transport nationalism' and to ensure greater national commitment to common targets and joint projects. However, it will remain difficult to eliminate competition among BSR countries, for example, in attracting transit from Russia, China and other Eastern countries. In the coming years, migration policies and labour migration in the context of demographic change are likely to become frequently discussed topics, not just within a national and European but also within a regional context. In the security field, following the model of the Stoltenberg Report as well as the NB8 Wise Men Report, a similar exercise could be introduced to the BSR by expanding the regional agenda to also cover aspects of hard security. Regional energy co-operation is also likely to become more important in the near future as the BSR is both an important transit area for energy and a relevant consumer of energy. When acting on their own, it might become more difficult for the countries to pursue their own interests owing to fierce international competition over energy sources. The countries could also learn from each other how to master the restructuring of their domestic energy systems, the reduction of emissions and the promotion of renewable energies, and support each other in these difficult endeavours. Branding the region will continue to be on the agenda for

the BSR. If all the current branding efforts will be continued and work well, the BSR may be a recognised and attractive region in the public mind in a few decades.

The regional actors, including the EU, will have to consider how they will be able to accommodate these for the region relevant themes in their structures and how they could effectively deal with them in the near future. Furthermore, the future relevance of regional organizations in the BSR will depend to a considerable extent on how they will manage to become effective players within the implementation of the EUSBSR and to help creating a coherent system of regional co-operation in which each of them has an essential part to play. This is a great challenge but also an opportunity. Despite numerous problems of competition, co-ordination, commitment and of a financial kind, compared to other regions in Europe, the basis for advanced multilateral co-operation at the regional level in the BSR is generally fairly favourable.

The BSR has every perspective to grow in economic and political importance to all the states of the region in the coming years. However, the only way to develop the region and to establish a framework for binding and sustainable regional co-operation is to convince all Baltic Sea riparian states of its benefits and to feed it with concrete policies and stronger political, economical and environmental commitment. If it is possible to integrate Russia in regional co-operation and to create a coherent effective and efficient system of regional co-operation, the BSR has a fair chance to master its challenges and problems and to develop into an environmentally sustainable, prosperous, accessible and attractive, and safe and secure place.



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About the BSR think tank

Not least with the adoption of the EU Strategy for the Baltic Sea Region in 2009, the debate on the future of the region and the relationship between the countries of the region has attracted new and wider interest. Not since EU enlargement towards Central and Eastern Europe in 2004, the interest in regional and European integration has been so vivid, despite the recent economic and financial crises.

In order to maintain the EU strategy and regional integration as a long term process (and a vision for other European regions), we consider it necessary to establish an open and more integrated forum for open discussions on the *state of regional affairs* and to create a *forum of experts*. The idea to establish a (virtual) Thinktank for the Region emerged a few years ago and has been discussed at different forums such as the BDF-summits. It was intended as an attempt to create a common cross-border platform, aiming at raising awareness, mutual understanding and greater visibility, enhancing the political dialogue in the Baltic Sea Region, and offering expert advice to politics, administrations and various stakeholders in the region.

With the support of the Baltic Development Forum, the Konrad-Adenauer-Foundation (Riga/Berlin), the Centre for Baltic and Eastern European Studies (CBEES) at Södertörn University (Stockholm), and the Department of Northern European Studies at Humboldt University (Berlin), this first (virtual) endeavour could be realised. Still there is no haptic space or established institution, but a vivid collaboration and intellectual exchange of experts around our common sea has materialised since 2010. The first result of our joint ambitions and endeavours is this Political State of the Region Report. For the first time, the political developments of the region, mainly of the last year, have been evaluated, and domestic developments within the countries of the region have been put into a wider regional perspective. By means of this report, the (virtual) Thinktank is about to become known to a wider public. We are prepared to continue our endeavours – as a group of experts entirely independent of governments, international organizations and corporate actors.

Baltic Development Forum
The leading high-level network for
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politics, academia and media
in the Baltic Sea Region.

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