

Political State of the Region Report 2013

Trends and Directions in the Baltic Sea Region



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Political State of the Region Report 2013

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Published by Baltic Development Forum

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Language editing: Peter Dowdy
Layout: Bitdesign / Leena Närhi, Finland
Printing: InPrint / Laura Breimane

Photo credits

All photos, except mentioned below: Nordic Council of Ministers free photo data base
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ISBN 978-87-996254-1-3

Foreword by Edgars Rinkēvičs

Minister of Foreign Affairs of Latvia

Over the last two decades the Baltic Sea Region has solidified its common history and cultural identity through a rapidly expanding cooperation in the economic sphere. As a cornerstone of this process, the Baltic Development Forum Summit has become a common meeting place for high-level participants, and Latvia is, indeed, proud to host this year's Summit in Riga. Meanwhile, the Political State of Region Report has undergone a comprehensive expansion of covered topics and is now recognized as one of the main points of reference for most actors of regional development.

The acquaintance between the citizens across the Baltic Sea will once again be reinforced, when Riga and Umeå will share the title of the European Capital of Culture in 2014. By extension, one of the themes of the Report touches upon the perception of the Baltic Sea Region abroad.

As we are facing an increased number of global challenges together, how can we put ourselves for a stronger position in the future? The time is ripe for a forward-looking institutional architecture for effective regional collaboration in the 21st century. The Region is big enough to be a distinctive cultural and economic area, thus having a clear projection on the EU level and perhaps even globally. To this end, in 2015, Latvia will take over the Presidency of the Council of the EU with a commitment to strengthen even further the implementation of the EU Strategy for the Baltic Sea Region, which covers several EU policies in an integrated approach.

We can already anticipate the transfer of lessons learnt from existing strategies to other European peer regions.

The Report will address the involvement of subnational authorities in the transposition of EU directives. The objective is to promote a multi-layered and transparent approach to jointly tackle future challenges and increase the sense of ownership among different stakeholders. In the same vein, the current study offers a comprehensive analysis on the socio-economic and political situation of every country in the region.

The publication also showcases various funding programmes available in the Baltic Sea Region. With this in mind, we should work together to find solutions to reduce social and economic disparities between and within countries in the region. To make growth sustainable it needs to be transformed into the social equality by turning competitiveness for the benefit of a society at large.

I encourage you to thoroughly read this report, openly discuss it with your colleagues and apply its lessons in a committed and responsible manner.



Edgars Rinkēvičs
Minister of Foreign Affairs
of the Republic of Latvia

Foreword by Nicolai Wammen

Danish Minister for European Affairs

I would like to congratulate the Baltic Development Forum think tank for its third Political State of the Region report. The report offers interesting insights into a wide range of issues highly relevant to the dynamics in Baltic Sea Region.

Indeed, dynamics and potential are the first words that spring to mind when describing our region. They also describe developments in 2012.

In May, the 20th anniversary of the Council of Baltic Sea States (CBSS) was marked in Stralsund under German CBSS chairmanship. Founded in 1992 by former foreign ministers Hans-Dietrich Genscher of Germany and Uffe Ellemann-Jensen of Denmark, the CBSS has developed into a successful forum for regional, intergovernmental co-operation.

In June, the Danish EU presidency co-organized the 14th Baltic Development Forum Summit and the European Commission's 3rd Annual Forum on the EU Strategy on the Baltic Sea Region (EUSBSR=) in Copenhagen. This year's forum headline was "Connecting Europe – Smart and Green Partnerships in the Baltic Sea Region". The large-scale event, which brought together more than 800 stakeholders, provided a platform for representatives from government, political parties, business, academia and civil society to discuss co-operation possibilities and growth initiatives in the Baltic Sea Region.

In the final days of the Danish Presidency, the EU decided on the completion of the review of the EUSBSR. The decision called on the Commission and Member States to intensify actions to further enhance political support for EUSBSR implementation at all levels. It set in motion a review of the action plan under the EUSBSR, which has now been completed. And it recognized that an overall assessment of the two macro-regional EU-strategies (Baltic Sea and Donau) and evaluation of their added value would be undertaken in mid-2013. Also in the wide spectrum of other platforms and mechanisms for Baltic Sea cooperation activity levels were high.

These are all firm signs of a common will to intensify and deepen cooperation in our region to new levels. I welcome this development and hope that we will continue down this road. In particular, I hope for more synergies among the main cooperation for a, such as the CBSS, the EUSBSR and the Northern Dimension. And I hope for increased involvement of Russia in the regional context. Both of these aspects deserve additional attention.



Nicolai Wammen
Minister for European affairs.

Editors' Foreword

For some time, recognised experts from the Baltic Sea Region-oriented Thinktank *DeepWater* have been dealing with questions concerning the Baltic Sea Region, preparing to give advice and to initiate, develop and follow up political processes. The Baltic Sea Region is still an interesting and challenging area, not only for policy-makers also for researchers. Its promotion as a European macro-region and the launch and implementation of the EU Strategy for the Baltic Sea Region have placed the region into the spotlight as an innovative area in which certain European developments and trends start. Since these processes have, for the most part, not been concluded but are still works in progress, there is the possibility and the need for input and fresh ideas from the academic world to further develop different forms of regional cooperation in particular. With this in mind, the aim of the Thinktank is to contribute with its expert knowledge to the continuously necessary monitoring and analysis of regional developments.

Indeed, the Political State of the Region Reports are an attempt to make such a contribution and to provide such input. In October 2011 we launched the first Report in Gdansk, and in June 2012 the second in Copenhagen. Now, we are glad to be able to present the third Report of this kind. In it, we returned to the structure of the first report. In its first part, the report deals with all the countries of the BSR, even including Iceland and Norway, outlining and analysing recent political and economic developments within these countries as well as their activities in the BSR. The report's second part contains assessments of various issue areas and specific

themes relevant to the Baltic Sea Region. The reporting period was between September 2011 and April 2013. The chapters of this report primarily reflect the views of the individual authors and not necessarily those of the editors and sponsors.

We would like to thank the authors of the chapters of this report for their valuable contributions, input and efforts. We are indebted to Jan Redzisz of the BDF for all of his technical support during the editing process and to Peter Dowdy for the proof-reading. 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, especially Hans Brask, the Nordic Council of Ministers, the Konrad Adenauer Foundation (Riga/Berlin), especially Norbert Beckmann-Dierkes, the Department of Northern European Studies at Humboldt University (Berlin) and the German Institute for International and Security Affairs (SWP Berlin). We hope that this report proves persuasive to responsible persons and decision makers, and creates the possibility of future work.

Berlin, in May 2013



Bernd Henningsen, Tobias Etzold, Anna-Lena Pohl

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List of Acronyms

ACTA	Anti-Counterfeiting Trade Agreement	LG	Left Greens (Icelandic party)
AP	Arbeiderpartiet (Norwegian Labour Party)	LNG	Liquefied Natural Gas
BCM	Baltic Council of Ministers	MFA	Ministry of Foreign Affairs
BDF	Baltic Development Forum	MP	Member of Parliament
BEMIP	Baltic Energy Market Interconnection Plan	MSFD	EU Marine Strategy Framework Directive
BF	Bright Future (Icelandic party)	NATO	North Atlantic Treaty Organisation
BSAP	Baltic Sea Action Plan	NB6	Nordic-Baltic 6
BSAS	Baltic Sea Action Summit	NB8	Nordic-Baltic 8
BSR	Baltic Sea Region	NCM	Nordic Council of Ministers
BSSSC	Baltic Sea Sub-State Cooperation	NCP	National Contact Points
BSTF	Baltic Sea Tourism Forum	ND	Northern Dimension
CBI	Central Bank of Iceland	NDI	Northern Dimension Initiative
CBSS	Council of the Baltic Sea States	NIP	National Implementation Plan (of BSAP)
CDU	Christian Democratic Union (Germany)	NOK	Norsk Kroner (Norwegian crown)
CoDCR	Council of the Danube Cities and Regions	NPP	Nuclear Power Plant
CPI	Corruption Perceptions Index	NRW	North Rhine-Westphalia
DCSF	Danube Civil Society Forum	PA	Priority Area
DMO	Destination Management Organizations	PAC	Priority Area Co-ordinator
EaP	EU Eastern Partnership	PGNiG	Polish National Oil and Gas Company
EAM	Ecosystem Approach to Management	PP	Progressive Party (Iceland)
EC	European Commission	OECD	Organization of Economic Cooperation and Development
ECB	European Central Bank	RD	Research and Development
EDP	Excessive Deficit Procedure	RES	Renewable Energy Sources
EEA	European Economic Area	SC	Saskaņas Centrs (Harmony Centre – Latvian Party)
EFTA	European Free Trade Association	SD	Sweden Democrats
EP	European Parliament	SD	Social Democrats (Iceland)
ESM	European Stability Mechanism	SDP	Social democrats (Finland)
ETC	European Territorial Cooperation	SEBA	South Eastern Baltic Area
EU	European Union	SEK	Swedish Krona
EUSBSR	European Union Strategy for the Baltic Sea Region	SI	Swedish Institute
EUSDR	EU Strategy for the Danube Region	SIDA	Swedish International Development Cooperation Agency
FDP	Free Democratic Party (Germany)	SME	Small and Medium Enterprises
FDI	Foreign Direct Investment	SP	Senterpartiet (Norwegian Centre Party)
FrP	Fremskrittspartiet (Norwegian Progress Party)	SPD	Sozialdemokratische Partei Deutschlands (Germany)
GDR	German Democratic Republic	SV	Sosialist Venstre Partiet (Norwegian Socialist Left)
GDP	Gross Domestic Product	T&T Industry	Travel & Tourism Industry
GPFG	Government Pension Fund Global	UBC	Union of Baltic Cities
HA	Horizontal Action	UEFA	
HAL	Horizontal Action Leader	UK	United Kingdom (of Great Britain and Northern Ireland)
HDI	Human Development Index	UNWTO	United Nations World Tourism Organization
HELCOM	Helsinki Commission	USD	US Dollar
HLG	High Level Group	VAT	Value added tax
ICPDR	International Commission for the Protection of the Danube River	VL	Visu Latvījai (National Alliance – Latvian Party)
IMF	International Monetary Fund	WFD	EU Water Framework Directive
IMO	International Maritime Organisation	ZRP	Zatlers Reform Party (Latvia)
IP	Independence Party (Iceland)	ZZS	Zaļo un Zemnieku Savienība (Union of Greens and Farmers –Latvian Party)
ITQ	Individual Transferable Quota		
JCP	Baltic Sea Joint Comprehensive Environmental Action Programme		
KrF	Kristelig Folkepartiet (Norwegian Christian People's Party)		

Executive Summary and Introduction

In what state is the Baltic Sea region (BSR) in 2013? What are the current challenges and opportunities? What are the current priorities of its countries? How has the EU Strategy for the Baltic Sea Region (EUSBSR) developed since 2011? The third Political State of the Baltic Sea Region Report does a fresh attempt to answer these and other questions and to provide an analytical overview of the latest political developments in the region.

In its first part, the report sketches and analyses relevant recent political and economic developments in those countries that form the BSR - Denmark, Estonia, Finland, Germany, Latvia, Lithuania, Poland, Russia and Sweden – plus Norway and Iceland, being part of the wider region, over the period September 2011 until April 2013. 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 European) and the way the countries have been dealing with the recent economic and financial crises. On average, compared to other European regions, the countries of BSR proved economic stability. An interesting question within this context the country chapters attempt to answer is therefore what the BSR countries have done differently and better in comparison to countries in particular in Southern Europe, taking country and region specific circumstances and preconditions into account.

Furthermore, the report focuses on the countries' policies towards the BSR and the region's

place on their political agendas. In this respect, not so much has changed since 2011. The EUSBSR has revitalised most of the countries' interest in regional co-operation and gave this co-operation a fresh boost. However, the observation of earlier reports that to some countries the BSR is more important than for others is still valid. Also within some of the countries, differences in commitment are still obvious, most notably between national and sub-national levels. 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. Implementation of tangible projects is meanwhile well under way and an updated Action Plan, addressing the latest developments and challenges, has been adopted in February 2013. Overall, it is fair to conclude that BSR co-operation has stabilised and fostered in recent years.

In its second part, the report analyses a number of specific issues that are of high relevance for the BSR: the highly controversial issue of nuclear energy, which the region's nine countries handle in completely different and opposite ways; the challenging field of environment in which HELCOM and its Baltic Sea Action Plan continue to play an important role; tourism forming an important area for close regional co-operation and sustainable development in the future; the competitiveness of maritime clusters that also contain a great potential for co-operation and economic growth; and funding programmes without which much of the existing and future co-operation and tangible

projects would not be possible. In this part, the BSR is also put into a wider European perspective and compared with another European macro-region, the Danube region. Furthermore, Baltic co-operation as a specific form of regional co-operation and its place within the wider regional setting is to be analysed.

The report comes to the conclusion that the BSR and most of its countries are in possession of a very valuable good: 'soft power'. They are economically prosperous, they have sustainable welfare systems and solid democratic manifestations and they work hard to treat their natural environment gently. The challenge for the near future is to use this 'soft power' potential effectively and wisely, not just in the regional but also, and perhaps even more importantly, in a wider European context. The question is not how to impose ideas, experiences and features that perhaps work better in the countries of the BSR than in other European countries on the rest of Europe. The key question should be rather how to contribute

solving their and Europe's current problems, generating growth and helping the continent return to a sustainable path. In this respect, the countries of the BSR have an important role to play on the European stage and could jointly do even more to fill out such a role through close co-operation. This actually would be a very relevant part of European crisis management. That way, these two relevant processes, European crisis management and regional co-operation and development, would sensibly be linked together instead of competing with each other.



Tobias Etzold

The Countries of the Baltic Sea Region

Denmark

Population	5,602,628
Surface area	43,094 km ²
Capital	Copenhagen
GDP	USD208.5 billion (2012 est.)
Currency	Danish kroner
Corruption level (<i>Transparency International Corruption Perceptions Index 2012; 100-90 = very clean, 0-9 = highly corrupt</i>)	90 (rank: 1)
Current government	Minority government by Social Democrats, Social Liberals and Socialist People's Party
Three largest cities	Copenhagen, Aarhus, Odense
Baltic Sea coastal regions	Most southern and eastern parts of Denmark, e.g. Zealand, Fyn and Bornholm



Anders Wivel

Despite a change of government in September 2011, Danish politics have been largely characterised by continuity since the beginning of the economic crisis in 2008, although with an increased emphasis on reforming the welfare state in order to increase growth and create new jobs. A pragmatist turn in domestic and foreign policy priorities across the political spectrum has left economic austerity at centre stage, whereas the promotion of values at home and abroad plays a more marginal role than previously. The Baltic Sea Region (BSR) continues to play a role in Danish foreign policy, with the Danish policy framework for the BSR aiming to enhance co-operation among Baltic Sea states.

Government

Denmark has a long tradition of coalition governments. Its last single party government was in 1981-1982. In the Danish Parliamentary election on 15 September 2011, the incumbent centre-right coalition, led by Prime Minister Lars Løkke Rasmussen from the Liberal Party, lost to a centre-left coalition led by Helle Thorning-Schmidt from the Social Democrats. Lars Løkke Rasmussen had replaced Anders Fogh Rasmussen, the previous leader of the Liberal Party, as Prime Minister in 2009 when Fogh Rasmussen was appointed Secretary General of NATO. The centre-right government was a coalition of the Liberal Party and the Conservative Party, supported by the nationalist Danish People's Party and the small libertarian Liberal Alliance. The new centre-left government is a coalition of the Social Democratic Party, the Socialist People's

Party and the Social Liberal Party. This coalition is supported by the left-wing Red-Green Alliance. The election result was close, with the parties supporting Helle Thorning-Schmidt winning 50.2% of the vote as opposed to the 49.8% given to the parties supporting Lars Løkke Rasmussen. Thorning-Schmidt's victory was expected, and there was no major reaction from the financial markets.

The government coalition led by Helle Thorning-Schmidt, the first female Prime Minister of Denmark, has been troubled by internal divisions since the beginning, with the Social Liberal Party demanding a more liberal economic agenda than the two other parties, and a more liberal migration policy than the Social Democratic Party. The Social Liberal Party was the only party entering the coalition with an election victory, having won eight seats. The Socialist People's Party lost seven seats and the Social Democrats lost one seat. In

addition, the Social Liberal Party was the only coalition party with a credible coalition alternative. As the traditional centre party in the Danish Parliament, it has a long tradition of close co-operation with both left and right. The party succeeded in setting the agenda for government policies, and Social Liberal leader Margrethe Vestager, rather than Helle Thorning-Schmidt, was soon seen as the most influential member of the government. In contrast, the Socialist People's Party came into the government coalition with a substantial defeat. This was due mainly to the modification of the party's traditional left-wing policies, which had been reformulated in order to make the party ready for government participation in combination with the challenge from the Red-Green Alliance, which picked up many former Socialist People's party voters, winning eight seats at the election and continuing to gather support, according to opinion polls. As a result, the Chairman of the Socialist People's Party Minister of Foreign Affairs, Villy Søvndal, decided to step down as party chairman. This prompted a leadership election, which Member of Parliament Annette Vilhelmsen won in October 2012, signalling a return to a more traditionalist position and a victory for party grassroots. A number of well-known younger party members left active politics or the party altogether, but the result in the short run has been little change in substantial party positions or electoral support.

Policies

Danish politics are characterised by strong support for the welfare state across political parties, with only the small libertarian Liberal Alliance, occasionally supported by the Conservative Party and the Liberal Party, challenging the consensus. However, since the beginning of the economic crisis in 2008 and in particular since the change of government in 2011, a new regime of austerity has had a decisive influence on Danish political discourse. In particular, two cases receiving heavy media coverage in 2011 and 2012, 'poor Carina'



and 'lazy Robert', have influenced the political debate. In the first case, the debate focused on what it means to be poor in Denmark and to what extent citizens receiving unemployment benefits sometimes have economic opportunities exceeding those of citizens holding jobs. The second case focused on incentives for taking a job and the right of those unemployed to turn down job offers. In both cases government and opposition politicians, in particular from the Liberal Party and the Social Democrats, were united in their calls for citizens to contribute to society by taking up a job whenever possible. This focus on the individual responsibility of the citizen was combined with a focus on collective responsibility for the future of the Danish economy and society. Public spending was reduced in 2011 and 2012. In 2011 alone, public spending fell by 0.7%, the largest reduction in public spending since 1990. Except for the leftwing Red-Green Alliance, there was

widespread political consensus in the Danish Parliament on maintaining austerity policies. However, some of the traditional trade union allies of the Social Democrats were critical, in particular as the government decided to uphold the previous government's reform of unemployment insurance, which left an increasing number of unemployed with no right to receive insurance or government benefits after two years of unemployment. The unemployment level in Denmark was relatively constant from February 2010 to December 2012, only varying between 6.1 and 6.4% of the workforce.

In addition to austerity policies, government policies focused on education. Debates over primary school education in particular took centre stage in late 2012 and early 2013 over a government proposal to create longer school days with more variation between activities and subjects than in the existing school system with the goal to increase learning. The government saw this as a cornerstone for preparing Denmark for a globalised marketplace and as a response to international surveys on primary school learning, most notably PISA, placing Denmark far below the expectations of Danish politicians and decision makers. However, the proposal caused controversy among teachers, who were expected to teach more hours per week. Migration policies played a much less prominent role than in the previous government.

The most important Danish foreign policy priority in 2012 was the Danish EU Presidency. In accordance with the general priorities of the Danish government, stimulating growth and creating jobs were at the top of the Danish Presidency's agenda. From the beginning, the Prime Minister framed the Danish tenure as a 'bread and butter' presidency focusing on effectively facilitating continued co-operation on meeting current political and economic challenges, rather than a visionary presidency aiming to set a new agenda. Judged by these standards, the presidency was viewed as a success by most Danish and international observers. In general, the government has continued the so-called 'activist' agenda characteristic of Danish foreign policy since the end of the Cold War. This entails a strong engagement with European and global challenges and an active pursuit of Danish priorities through diplomatic, institutional

and military means. However, there is a change of tone and emphasis in foreign policy priorities compared to the past decade. Arguments about foreign policy activism as a means to defend and promote liberal-democratic values internationally are now less prominent and arguments emphasising activism as a means to pursuing more traditional foreign policy interests are more prominent in interviews and speeches by ministers.

Economic situation and anti-crisis strategies

Danish economic competitiveness declined by 20% from 2001 to 2011. This was mainly the result of Danish wages growing more quickly than wages in competing countries. From 2003 to 2008, a housing bubble developed in the Danish property market. The creation of the bubble is often attributed to the combination of lending practices by mortgage banks financing property loans and the decision by the Danish parliament to allow for a new type of housing loans, which allowed property buyers to pay interest only for a ten year period rather than start paying back their loan immediately, as was the traditional Danish practice. Also, central and local authorities repeatedly exceeded their budgets throughout the 1990s and calls for economic reforms by independent economists were largely ignored across the political spectrum during the reign of the Fogh Rasmussen governments of 2001-2009.

Current Danish economic policy is based on the government's so-called '2020 plan' published in May 2012. The plan identifies the major economic challenges until 2020 and how to meet them. The plan aims to improve conditions for economic growth and to enhance public finances between 2012 and 2020. The plan takes its point of departure from the economic policy of the previous centre-right government, and somewhat controversially, the reforms of early retirement and unemployment insurance that the Social Democrats and the Socialist People's party criticised heavily when in opposition. The 2020 plan entails labour market reforms, increased efficiency of the public sector and spending cuts across a number of policy areas. Defence cuts and planned reforms of the allocation of economic stipends for

students are among the policy areas expected to contribute most heavily to balancing the budget. One billion euros is expected as a rebate on EU membership. Also, government benefits for the unemployed without economic means ('kontanthjælp') will be reformed in order to enhance incentives for taking up a job. The centre-left government has maintained the overall tax policy of the previous centre-right government, which was intended to increase the economic gap between citizens inside and outside the labour market while keeping in sight the goal that Denmark should remain a country characterised by a high degree of economic equality.

Denmark and the Baltic Sea Region

Baltic Sea Region (BSR) policies played a prominent role in early formulations of Danish foreign policy activism. By the end of the Cold War, Danish support for Baltic independence and ensuing Danish-Baltic co-operation is viewed by Danish policy-makers as an early success story of Danish foreign policy activism and an important 'foreign policy lesson', wherein ambitious value promotion paid off in terms of international recognition and tangible results. Although co-operation continues in a wide range of policy areas, including traditional 'high politics' issues such as security and defence, Danish BSR policies no longer hold the prominence they held in the past. Still, Denmark hosted the annual forum on the EU Strategy for the Baltic Sea Region (EUSBSR) in Copenhagen in June 2012. It also continues to work on the implementation of the recommendations in the report with respect to promoting co-operation between the Nordic and Baltic countries, commissioned by Denmark and Latvia in their capacities as presidents of the Baltic Council of Ministers and the Nordic Foreign Policy Cooperation in 2010. Most importantly, the Danish framework for the BSR aims to strengthen co-operation among Baltic Sea states, including Russia, with a particular focus on creating economic growth and protecting the environment. Thus, Danish Baltic Sea policies reflect the focus on economic growth found in Danish domestic policies as well as Denmark's ambition to brand itself as a pace setter in international environmental and climate policy. The goals are pur-



sued primarily within the Council of Baltic Sea States, the EUSBSR and the Northern Dimension. This reflects the long-held Danish preference for working simultaneously within multiple multilateral settings in order to pursue its foreign policy interests and promote Danish values internationally.

Outlook

The strong support for economic austerity policies and welfare state reform from a large majority in the Danish Parliament and a more pragmatic debate on most policy issues means that Danish policy priorities are likely to remain stable over the years to come. Like other policy areas, Danish Baltic Sea policies are likely to reflect a pragmatic policy discourse and economic restraints.

Anders Wivel

Estonia



Population (<i>World Bank 2011</i>)	1.29 million
Surface area	45,227 km ²
Capital	Tallinn
GDP	EUR17 billion
Currency	Euro
Corruption level (<i>Transparency International Corruption Perception Index 2012; 100-90 = very clean, 0-9 = highly corrupt</i>)	64 (ranking: 32)
Current government	Reform Party and Union of Pro Patria and Res Publica
Three largest cities	Tallinn, Tartu, Narva
Baltic Sea Coastal regions	Ida-Virumaa, Lääne-Virumaa, Harjumaa, Läänemaa, Pärnumaa, Saaremaa and Hiiumaa



Andres
Kasekamp

Estonia has been one of the most successful and stable countries in the Eurozone during the past two years. Despite this, there has been a rising level of dissatisfaction in society directed at the political parties. In the EU and in Baltic Sea Regional co-operation, Estonia has promoted large infrastructure projects in transport and energy which would serve to connect the region.

Government

In 2012 Prime Minister Andrus Ansip's coalition government – the Reform Party (a member of Alliance of Liberals and Democrats for Europe) together with the Union of Pro Patria and Res Publica (European People's Party) – continued with its policy of fiscal responsibility and offering very few significant new reforms. There have only been two changes in the composition of the government. The first change in the cabinet came after Minister of Defence Mart Laar suffered a stroke and was replaced in May 2012 by Urmas Reinsalu. In January 2012 Reinsalu had succeeded Laar to the post of Chairman of the Union of Pro Patria and Res Publica (IRL).

The major tension in Estonian politics continued to be between the national government and the largest opposition party, the Centre Party. Its leader, Edgar Savisaar, is the mayor of Tallinn, the capital city where one-third of the population lives. The tension also has an ethnic dimension, since the Centre Party enjoys the support of the vast majority of the Russian-speaking population. The Centre Party and Tallinn city government offi-

cials were implicated in several cases of corruption. Five members of the Centre Party's parliamentary group resigned from the party because of Savisaar's authoritarian style of leadership and formed their own independent faction (The Democrats) in the parliament in early 2012. The Tallinn City government introduced free public transportation for Tallinn residents on 1 January 2013, the first capital city in Europe to do so. This step is expected to strengthen the Centre Party's chances of retaining a majority after local government elections, to be held in October 2013.

The political establishment was nevertheless shaken by the controversy over political party financing, which arose in May 2012, when former Reform Party MP Silver Meikar publicly accused former Reform Party secretary-general Kristen Michal, serving as minister of justice, of having pressed him to donate cash of unknown origin into party coffers. Michal rejected the claim, but after stonewalling for half a year, Michal finally resigned in December 2012. He was replaced by Hanno Pevkur, the social affairs minister, and Reform Party MP Taavi Rõivas was elevated to the latter's position.

Estonian political culture is generally rather subdued; street demonstrations and strikes are rare occurrences. Thus, the strong reaction and large protest against the government's intention to ratify ACTA (*The Anti-Counterfeiting Trade Agreement*) in February 2012 came as a surprise. In March, the first major strike in recent years was held by teachers demanding higher salaries. This was followed by doctors and nurses in October 2012. Both groups benefitted from widespread public support and the government eventually met many of the strikers' demands.

As a result of the above, the government, especially Prime Minister Ansip and Finance Minister Jürgen Ligi, is increasingly viewed as arrogant and out of touch with the public. 'Stagnation' and 'politicisation' are two of the most common terms used by commentators to characterise the current state of the Estonian public sphere. Despite this, the Reform Party remained the most popular political party in opinion polls until the end of 2012.

The party financing scandal and the refusal of the government to admit mistakes sparked "Harta 12" (Charter 12) in November 2012, a letter written by 17 Estonian intellectuals complaining about the lack of dialogue between the government and citizens and calling for greater openness. This in turn led to an unprecedented process of internet crowdsourcing known as the "People's Assembly" (*Rahvakogu*) under the auspices of the President's foundation. Proposed changes in legislation regarding political parties and elections were solicited from citizens at the end of 2012, with the aim of presenting these to the Parliament in spring 2013.

Policies

Foreign policy

In foreign policy, there has been little significant change in the bilateral relationship with Estonia's biggest neighbour, Russia. The past two years have been one of the calmest in Estonia's relationship with Russia, which in itself is a positive develop-

ment. This is partly a consequence of the US-Russia 'reset' policy and the EU-Russia 'modernisation partnership'. Prime Minister Ansip met Russian Prime Minister Medvedev in St. Petersburg on 6 April 2013 at the Baltic Sea Forum, the first visit of an Estonian prime minister to Russia in more than a decade.

Consultations between the Estonian and Russian ministries of foreign affairs began in October 2012 to explore the possibility of ratifying a border treaty which was signed in 2005. At issue is not the actual border itself, but the wording of the ratification law by the Estonian Parliament, which was rejected by Russia in 2005. The question is about reference to the legal continuity of the Republic of Estonia from the 1920 Estonian-Soviet Russian Peace Treaty.

In 2012, Estonia fulfilled its pledge to devote 2% of its GDP to defence expenditure, thus finally meeting NATO's standard. At the NATO summit in Chicago in May 2012, the NATO air policing



(patrolling) of the Baltic States' airspace, which had hitherto been on an ad hoc temporary basis, was confirmed as Alliance policy. This was showcased as an example of 'smart defence' and a major success for the Baltic states. Estonia continued to be committed to NATO's mission in Afghanistan, fighting alongside British troops in Helmand province. In March 2013, Estonia, in co-ordination with the Allies, announced the timetable for the withdrawal of its troops from Afghanistan in summer 2014.

On the international stage, Estonia was successful in its campaign to obtain a seat on the United Nations Human Rights Council (2013-2015). The other notable achievement in the global arena was the election of an Estonian diplomat as the President of the Assembly of Nations of the International Criminal Court.

EU policy

Within the EU, Estonia continued to champion initiatives to strengthen cyber security, energy security, the Eastern Partnership, the liberalisation of the energy market, transparency, innovation, the single market (especially free movement of services), and remained a staunch proponent of enlargement. Co-operation with the other Baltic states and the Nordic countries as a regional bloc within the EU was further developed. On 24 November 2011, the government approved Estonia's EU Policy 2011-2015. Its flagship initiative is to work towards the creation of an single EU market for digital commodities. The EU Agency for large-scale IT systems, located in Tallinn, became operational on 1 December 2012.

For the first time since accession to the EU, a serious public debate about Europe has arisen in Estonia. The initiator was Legal Chancellor Indrek Teder, who complained to the Supreme Court that one of the European Stability Mechanism's (ESM) procedures violated the Estonian constitution, which gives sole competence for deciding budget matters to the Estonian parliament. On 12 July 2012 the Supreme Court very narrowly decided in favour of the government, clearing the way for ratification of the ESM by the parliament. In order to mollify the opposition, the government broadened the role of the parliament in future ESM-related decision-making.

As the newest member of the Eurozone, Estonia was eager to be constructive. Nevertheless, there was growing public resentment that one of the poorest countries in the Eurozone would be obligated to help bail-out wealthier member states that broke the rules. The fact that a Greek pensioner earns more than the average salary of an Estonian became a prominent example widely discussed by ordinary citizens.

Estonia was quite pleased by the EU budget 2014-2020, which was agreed upon at the European Council on 8 February 2013. Though the budget will not increase, Estonia will receive more than it did in the previous period. Public attention was focused on two issues during the negotiations: the inequality endured by Baltic farmers and the Commission's Connecting Europe Facility for cross-border infrastructure, which could fund Rail Baltic and a Baltic regional LNG terminal.

Economic situation and anti-crisis strategies

GDP growth in 2012 was among the fastest in the EU: the economy grew by 3.2% in 2012 and unemployment decreased, though it remained high, at 10.2% in 2012. Having a small budget deficit and the lowest debt in the Eurozone, Estonia became one of the healthiest economies in the Eurozone, a positive example of fiscal discipline and the success of austerity measures. The Estonian economy was aided by the strength of the economies of Estonia's major trade partners, Sweden and Finland. The negative side of this picture was having the highest inflation in the EU: 3.9% in 2012, a trend which was undoubtedly influenced by the adoption of the Euro at the beginning of 2011. There is also increasing concern about the number of Estonians leaving the country to find higher paid jobs elsewhere, especially in neighbouring Finland, a serious worry in a country of less than 1.3 million inhabitants.

An economic policy milestone was the opening of the electricity market for competition on 1 January 2013. This initially caused great apprehension among the public and in the media, since on average, electricity bills increased by 25%. Estonia became the first country in Europe to be fully covered by a network of charging stations for electric cars. An issue of concern was the fate of the state-owned

national carrier Estonian Air, which received a government loan to save it from bankruptcy in early 2013.

Estonia and the Baltic Sea Region

Within the EU Strategy for the Baltic Sea Region, Estonia is specifically responsible for working on the development of the single market area. A major priority for Estonia in BSR co-operation is the construction of Rail Baltic, a high-speed railway that would connect Tallinn with Warsaw. This project can only be realised with EU funding and the full co-operation of the governments of Estonia, Latvia and Lithuania, as well as Poland and Finland. Thus, there are many hurdles to overcome, but in 2012 the project advanced significantly.

Estonia has been aiming to diversify its energy imports and reduce its dependence on Russian suppliers. A major element of this strategy is the construction of a Liquefied Natural Gas (LNG) regional terminal for the Baltic states. Since the European Commission has recommended a site on the Gulf of Finland, two rival groups of Estonian

investors have been competing with a proposed LNG terminal site in Finland.

In October 2012, the government rejected the application by Nord Stream to survey the seabed in Estonia's maritime economic zone in preparation for the construction of a third and fourth gas pipeline underneath the Baltic Sea connecting Russia and Germany. As in 2007, when an earlier request from Nord Stream was rejected, Estonians remained wary of the potential consequences for their security that a strategic Russian pipeline in their waters might entail. Thus, Nord Stream is not a project that integrates, but rather divides, the BSR.

Outlook

2014 will be a year of great responsibilities for Estonia in terms of institutionalised BSR co-operation. Estonia will face the challenge of a triple chairmanship – Estonia will hold the presidencies of the B3, NB8, and also the CBSS.

Andres Kasekamp

Finland

Population size	5.4 million (1 January 2012)
Area	303,892 km ²
Capital	Helsinki
GDP	EUR35,173 per person (2011, at current prices)
Currency	Euro (EUR)
Corruption level (Transparency International Corruption Perception Index 2012: 100-90 = very clean, 0-9 = highly corrupt)	CPI: 90 (2012)
Current government	Conservatives (Kokoomus), Social Democrats (SDP), Left Party (Vasemmistoliitto), Greens (Vihreät), Swedish People's Party (RKP), Christian Democrats (Kristillisdemokratit)
Three largest cities	Helsinki (595,000), Espoo (252,000), Tampere (215,000)
Baltic Sea coastal regions	Northern Ostrobothnia, Central Ostrobothnia, Ostrobothnia, Satakunta, South-West Finland, Uusimaa, Kymenlaakso, Åland



Kimmo Elo

The current government term has been overshadowed by the global financial crisis and the sovereign debt crisis in the Euro zone. The economic recovery has been relatively slow and the government has remained focused on maintaining fiscal balance. However, the government's activities are overshadowed by internal quarrels, especially between the Prime Minister's party, the Conservatives, and the Minister of Finance's party, the Social Democrats. The Baltic Sea Region (BSR) has been, is and will be one of the most important regions for Finland in Europe – both in economic and political terms. From a Finnish perspective, the integration of Russia in BSR co-operation has been the most important, if not the exclusive goal of the whole BSR co-operation. In this regard, the upcoming Finnish presidency of the CBSS in 2013-2014 is of interest. Considering the future, a much stronger involvement and commitment of the Finnish government towards the region is necessary. The government could benefit from a far stronger co-operation with actors participating in different BSR networks and from a national think-tank capable of providing high-quality policy analyses on the BSR.

Government

The Finnish national elections in April 2011 broke decades-old dominance by three catch-all parties – Conservatives (*Kokoomus*), Social democrats (*SDP*) and the Centre Party (*Keskusta*) – in the Finnish party system. Since then, the 'True Finns' (*Perussuomalaiset*), led by Timo Soini, has established itself as the fourth biggest party. Together these four parties accumulate almost 3/4 of electoral support.

The 'True Finns' continued their triumphal political march in the local elections in October 2012. Although the Conservatives succeeded in defending their position as the largest party by taking 21.9% of all votes (2008: 23.4%), the 'True Finns' took 12.3% of all votes (2008: 5.4%), thus exhibit-

ing the greatest gains relative to the last election cycle. In fact, all parties except the 'True Finns' lost share in the local elections relative to the last election. Currently, the 'True Finns' are present in a majority of Finland's municipal councils.

Against the background of a steady and stable support between 15-18% for the 'True Finns' in national opinion polls, the presidential election held in January/February 2012 was rather exceptional. The popular chairman of the 'True Finns', Timo Soini, had to resign himself to 9.4% and fourth place. In the second round, the favourite representing the Conservatives, Sauli Niinistö, competed against Pekka Haavisto, the candidate of the Greens, who surprisingly took 18.8% of all votes in the first round. In the second round,

Niinistö took 62.6% of all votes and became the 12th president of Finland.

Policies

The Euro crisis has made the internal tensions and discrepancies of the contemporary 'six-pack' government evident. Minister of Finance Jutta Urpilainen, representing the SDP, is in favour of public investments and tax increase, especially for the well-to-dos, whereas Prime Minister Jyrki Katainen has pressed for budget cuts together with stricter control of expenditures. The real fiscal policy has been an attempt to square off the circle by implementing both budgetary cuts and Keynesian methods of economic resuscitation.

The rise of the 'True Finns' has also had significant impact on Finland's EU policies, since the party has succeeded in profiling itself as the spokesparty for all EU critics. For the 'True Finns', EU policy is a matter of principle. As a reaction to the overall rise of Euro-scepticism in opinion polls, the government has begun to prioritise national interests in its European policies. Finland has also moved closer to the 'Nordic bloc' around Germany, which has pressed for stricter fiscal control and budget cuts. However, the government has had difficulties defending its EU policies, especially vis-à-vis the harsh criticism of Timo Soini on financial support to crisis countries in the southern EU. Although Soini also overestimates Finland's possibilities to influence certain decisions, the government has argued disharmoniously in many situations.

More generally, the smooth adaptation to the policies of the 'Nordic bloc' reveals a fundamental problem of Finnish EU policies: Finland's influence on the EU's decision making in general, and the Eurogroup's in particular, is quite weak. Traditionally, Finland has sought to compensate for its small size (and influence) by joining or supporting (expected) winning coalitions. The closest partner has been Germany. In the current situation, however, Germany's unpopularity has made it a politically not unproblematic partner, creating a new prob-

lem for the Finnish government. Supporting Germany's initiatives for stricter fiscal control and extended rights for the Commission not only bears the risk of losing popularity among EU member states, but also could feed domestic populist Euro-critical forces. Since leaving the 'Nordic bloc' is not an option for Finland, the Finnish government has tried to present EU-level developments as being in line with Finland's national priorities and goal-settings, but also with opinion polls.

Economic situation and anti-crisis strategies

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. Further, almost half of Finnish export and import is directly linked to the BSR and up to 70% of direct investments in Finland come from other BSR countries.

Such a 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 %) of intra-EU trade is a double-edged sword. On the one hand, this trade has brought certain 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 compensated for.

Finland was severely hit by the global economic crisis in late 2008. Its GDP in 2011 was 2.9% lower than in 2008. The largest decline occurred in 2009 (-7.2%), and since then GDP has been slowly recovering. In 2012, however, GDP contracted by 0.2%. The unemployment rate has also grown from 6.4% (2008) to 8.7% (January 2013). The Finnish government has tried to smooth the economic crisis with targeted fiscal political measures. The price of these measures is an increase in the national debt rate from 33.9% (2008) to 53.0% (2012). From 2009 to 2011, the Excessive Deficit Procedure (EDP) deficit of Finnish government decreased from -2.5% to -0.6%. In 2012, the EDP deficit changed slightly, to -1.9%. Despite these relatively positive fiscal figures, structural reforms are still needed in order to create a sustainable basis for government finances.

The intra-governmental quarrels also overshadowed the budget preparation negotiations in March 2013. In these negotiations, the government agreed on 'adapting measures' amounting to EUR600 million, consisting of EUR300 million in budget cuts and EUR300 million in tax increases. Since then, the so-called 'tax package' expected to boost national economic growth and to guarantee fiscal stability has been subject to harsh criticism from both inside and outside the government. In order to boost the domestic economy, the government plans to cut the corporate tax rate by 4.5 percentage points, from 24.5% to 20%. In order to compensate for the estimated one billion euro loss in corporate tax incomes, the government plans a significant increase in taxes on alcohol, tobacco, sweets and electricity. Additionally, dividends being currently exempted from taxes will be taxed according to the capital tax rate. Not only experts disagree about the expected impact of these measures. The plan to tax dividends in particular has made ideological fault lines in the government visible, since this reform favors bigger non-exchange-listed companies.

Finland and the Baltic Sea Region

The Northern Dimension Initiative (NDI) as the wider and the EU Strategy for the Baltic Sea region (EUSBSR) as the narrower framework continue to form the backbone of the Finnish BSR policies. Within this framework, the main motivation remains both economical and environmental. Considering environmental aspects, the Finnish government is committed to closer macro-regional co-operation in the BSR – including Germany, Poland and Russia – as the only effective way to rescue the badly polluted Baltic Sea.

Considering concrete BSR policies, one must admit that the results have been quite modest. The national BSR policy exists as a wide framework only, whereas regional, sub-regional and local actors should be responsible for concrete measures and actions. Consequently, Finnish BSR policies are carried out by non-governmental actors being rhetorically active and receiving only modest financial support from national and local governments. The political link between these non-governmental actors and the government has remained relatively weak.

Officially, all Finnish governments have been supporters of the work of the most important macro-regional organisations: HELCOM, Baltic Development Forum (BDF) and CBSS. Currently, the intergovernmental CBSS seems to be gaining in importance for the Finnish government. An obvious reason for this is the upcoming Finnish CBSS presidency. In June 2013, Russia will hand over the CBSS presidency to Finland. Finland will then host the next Baltic Sea States Summit in summer 2014 in Turku. Simultaneously, Turku will host the BDF summit. Both summits could strengthen Turku's status as Finland's most important hub for the BSR. It remains to be seen, however, whether this enthusiasm will last beyond or, like in Germany in 2012, diminish after the CBSS presidency.

This strong role of the CBSS in the Finnish BSR policy is consistent with Finland's wider EU policy. In the EU, Finland counts on the strong supporters of intergovernmentalism and subsidiarity. This, in turn, at least indirectly supports the very idea of the EUSBSR, which is not to create any new institutions, but to foster co-operation between existing ones. However, intergovernmental organisations are known for their consensus-seeking. Conflicting vital national interests might result in a deadlock, so they are seldom taken on the agenda.

One crucial weakness of the current Finnish BSR politics is the missing link between academic research and political actors, especially when policy analysis is considered. What is needed is a think-tank capable of producing independent, high-level policy analysis on BSR issues. In this respect, mostly due to its relatively long experience with BSR issues, *Centrum Balticum* located in Turku counts among the most promising institutions. However, this would require a strong investment in 'thinking', i.e. *Centrum Balticum* should shift its focus,

currently on Russia, back on the BSR, invest in building its own research staff and abandon the concept of just being a platform and forum for external actors. Taking the focal importance of the BSR for Finland into account, investing in such a think-tank would be a wise strategic decision.

Outlook

Currently, the Finnish BSR policy is not overflowing with concrete issues. Finland might have respectable goals and priorities for the future of the BSR, but as long as there is no region-wide commitment of *all* partners involved, Finland is left alone. The central problem is Russia's still weak commitment to co-operation and developing and fostering co-operation in the BSR. In this respect, the Russian presidency of the CBSS has been rather disappointing. It remains to be seen whether the Finnish CBSS presidency in 2013-2014 can turn over a new leaf in this respect. Because it is not realistic to expect any quantum leap forward during the Finnish presidency, Finland should avoid abstract manifestations and focus on achieving concrete and joint small steps. Due to its economic, political and cultural dependencies, it is in Finland's own interest to remain active in the region and to develop more uniform regional co-operation. In a wider European context, the EU decision making system, the whole region would benefit from a closer co-operation. This co-operation should build on an active exchange between governments and the dense network of non-governmental actors and organisations, bringing together both people and knowledge.

Kimmo Elo

Germany



Population (<i>World Bank</i> 2011)	81,726,000 million
Surface area	357,021 km ²
Capital	Berlin
GDP (PPP), IMF 2010 estimate, per capita	USD40,631
GDP (nominal), IMF 2010 estimate, per capita	USD47,934
Currency	Euro (EUR)
Corruption level (<i>Transparency International Corruption Perception Index</i> 2012; 10.0-9.0 = very clean, 0.0-0.9 = highly corrupt)	7.9 (ranking: 13)
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



Tobias Etzold

In managing the European sovereign debt crisis, Germany continues to play a lead role, causing some consternation among its European partners. The government urged South-European crisis states to implement far-reaching reforms and launched a fresh debate on EU reforms. The domestic power base of the current conservative-liberal government eroded significantly further due to a series of defeats in regional elections. The federal elections in September could result in a partial change of government. Economically, Germany continues to do fairly well. In the Baltic Sea Region, Germany has taken on a comparatively active stance during its one-year presidency of the CBSS in 2011/12. The country remains active within the EUSBSR and has rediscovered its interest in the CBSS.

Government

In Germany, the parties forming the federal government, Christian Democrats (CDU) and Liberal Democrats (FDP), continued 2011's trend of suffering defeats in state elections. In two states, Schleswig-Holstein in May 2012 and Lower Saxony in January 2013, voters ousted CDU-led governments from office. Although in both states the CDU remained the largest party in parliament and the FDP did much better than expected, they lost marginally to the Social Democrats (SPD) and the Green Party. In Schleswig-Holstein, the latter were able to form a coalition government jointly with the Danish Minority's Party, while in Lower Saxony they obtained a one seat majority. In tiny Saarland, Germany's first ever 'Jamaica coalition' of CDU, FDP and Greens was terminated by CDU Prime Minister Annegret Kramp-Karrenbauer in January 2012 due to internal problems within the FDP. In snap

elections in March 2012, the CDU became the largest party in parliament, while the FDP lost its parliamentary representation. Consequently, the CDU formed a grand coalition government with runner-up SPD. A coalition of the same kind was formed in Berlin after regional elections in September 2011. Snap elections were also held in North Rhine-Westphalia (NRW) in May 2012. The red-green minority government had collapsed a couple of months earlier owing to a lack of support from the opposition parties for the budget. In the elections, SPD and Greens gained an absolute majority and were able to form a stable government. The CDU suffered a resounding defeat, receiving just 26% of the overall votes. This was the party's worst ever result in NRW.

After their victory in Lower Saxony, the federal red-green opposition gained the absolute majority in the *Bundesrat* (federal assembly) which can effectively obstruct almost any major legislative project. This constellation makes it difficult

for the federal government to get any legislative act through the chamber.

In February 2012, federal President Christian Wulff resigned after facing harsh criticism on his blurry private financial activities. He was already the second President under the Merkel government who resigned, or was forced to resign, within less than two years. He was succeeded by Joachim Gauck, a protestant vicar and former GDR civil rights activist from Rostock.

Currently, the conservative-liberal government and the red-green opposition do not have an absolute majority in most national polls. However, owing to the unbroken popularity of federal chancellor Angela Merkel, the CDU remains the biggest party in recent polls by far, leading the SPD by more than 10%. The modest public support for the SPD is partially due to problems with its front-runner, Peer Steinbrück. The positive trend for the Green Party has continued. Although the party's electoral support has shrunk to some 15%, compared to some polls in 2011, the party scored highly in state elections and has entered power in several states. In the upcoming federal elections, the party is likely to achieve its best ever federal electoral result. A coalition of CDU and Greens has not been completely excluded; it is in the current situation, however, still rather unlikely. The FDP continued to do poorly in the polls due to a lack in a clear political line and contents, party internal power struggles and ongoing disputes with the CDU, affecting the government's performances considerably. The party even risks missing the 5% threshold. In such a case, a revival of a CDU/SPD grand coalition would be the most likely power option.

Policies

The so-called '*Energiewende*' that has been adopted since the Fukushima disaster in spring 2011 still forms one of the major challenges for the government. This essential reform, involving the phasing out of nuclear energy and a massive increase in the share of renewable energies, has recently slowed



down considerably and still faces much resistance from industry, politics and society. The costs for its implementation will be tremendously high.

Germany's federal electoral law has been questioned, due to inconsistencies and complexity, by the Constitutional Court, which consequently urged the federal parliament to develop a reform. In February 2013 a large majority of parliament adopted a new law, but it is a classical compromise between most parties. It will create compensation for the other parties if one party gains more seats through votes for direct candidates than it would be entitled to on the basis of the percentage of votes for the party. In many policy areas, the trend continues that the Constitutional Court works out the outlines for legislative acts. The same phenomenon occurred in February 2013 when the Court issued a groundbreaking judgement, urging the equal legal treatment of homosexual couples, in particular concerning fiscal law and the right to adopt children.

Within the EU, Germany continues to play a leading role without intending to dominate; however, it is frequently accused of such by other countries. The government sets the tone in the management of the European sovereign debt crisis and also pushed for EU-institutional reforms and a fresh constitutional debate. In 2012, Foreign Minister Westerwelle initiated a thinking process by inviting several of his EU colleagues to discuss the future of Europe and to elaborate ideas and proposals for reform.

After a short interruption in 2011 when Germany did not follow the international line on Libya, Germany's foreign policies returned to traditional lines. In autumn 2012, the government sent some troops and patriot missiles to the Turkish-Syrian border in order to support NATO partner Turkey in case of a Syrian attack. German troops have not been involved in the French-led military operation in Mali in winter 2013, but Germany supports France and its African allies politically and materially.

Economic situation and anti-crisis strategies

Compared to most other Eurozone countries, Germany is doing well economically. While having been the 'sick man' of Europe in economic terms until only about ten years ago, Germany now stands as the 'strong man' at the top of Europe in many respects, economically and politically. The current government profits from some essential reforms and measures the previous red-green government, as well as the 2005-9 grand coalition, put in place. These reforms have started to have an effect, in particular on the labour market. The current unemployment rate is 7.4% (less than 3 million), which is comparatively low. However, the CDU/FDP government has done little in terms of economic reforms on its own initiative, to a large degree due to coalition internal squabbles. That the country has by and large gone fairly untouched through the European crises is mainly due to the country's solid economic infrastructure and a huge demand for products of German quality, not so much to wise and reform-oriented political actions. While the German government urges other European countries to implement far-reaching economic and political reforms based on the principle

of austerity, specific measures to cut national public spending significantly have not been too obvious. The country continues to suffer from high public debt levels. Many cities and several states are practically bankrupt. The German tax system is unnecessarily complicated and inefficient and is in urgent need of a radical reform.

Germany and the Baltic Sea Region

Germany's interest, engagement and commitment in the BSR were revitalised during its Council of the Baltic Sea States (CBSS) Presidency in 2011/12. Since then, the federal government seems to have rediscovered its interest in the CBSS, emphasising the Council as the most important political co-operation structure in the BSR. Its active presidency has been much appreciated by its partners around the Baltic Sea. Nonetheless, the country's engagement in the BSR slightly decreased again after handing over the presidency to Russia. Overall, the federal government continues to lack an explicit and coherent BSR policy. The three northern states Schleswig-Holstein, Mecklenburg-West Pomerania and Hamburg remained active in Baltic Sea affairs during 2012/13 and continue to play an important role in the implementation of the EU Strategy for the Baltic Sea Region (EUSBSR) through their leading roles in several priority areas. Overall, the BSR-related activities of both the federal government and the states need to be linked and co-ordinated better in terms of an efficient division of labour.

According to the new EUSBSR action plan, Germany has taken on the responsibility for four priority areas: natural zones and biodiversity, innovative education and youth, tourism and culture. While the former priority is co-ordinated by the federal government, the latter three have been assigned to the state governments of Hamburg (education) and Mecklenburg-West Pomerania (tourism). The new action plan introduced a new priority area dealing with the BSR's common culture and cultural identity. Schleswig-Holstein was among those that pushed for that new priority area and will take on the role of priority area co-ordinator, jointly with Poland.

During the German CBSS Presidency, the government was fairly active and (co-) organised an

impressive number of conferences, meetings and workshops covering a broad thematic range. In a series of special events, the CBSS's inauguration on 6 March 1992 was commemorated. The priorities of the German Presidency covered the five long-term priority areas of the CBSS, continuing ongoing activities in all those areas. Additionally, Germany put an emphasis on the south eastern Baltic Sea Region, including Kaliningrad, striving for modernisation through co-operation. In order to be able to conduct tangible and innovative projects, primarily with a focus on small and medium enterprises and public-private partnerships, a CBSS project fund and a credit line of EUR100 million have been established by the German Bank for Reconstruction and its Russian counterpart. Another priority of the German Presidency was the creation of a 'coherent framework for co-operation' in the region, linking the various structures of Baltic Sea co-operation more closely together and striving for a 'smart division of labour'. The German CBSS Presidency has made a valuable effort in this respect, starting a discussion and consultation process. The Baltic Sea Days in Berlin in April 2012 formed an impressive highlight of the Presidency. They attracted hundreds of stakeholders from the entire BSR and even high-level participation, contributed to BSR branding and provided proof of a potential to increase the awareness of the region among the German public, politics and media. The Baltic Sea States Summit of heads of government in Stralsund on 30

and 31 May 2012 discussed primarily energy and demographic development. Overall, the German Presidency has achieved its goals and revitalised the regional political dialogue.

Outlook

The next general election in September 2013 is likely to slightly change the political constellations. Since both the right-wing and the left-wing blocks are unlikely to gain a majority of their own, a new grand coalition of CDU and SPD may result. A black-green, a red-red-green and a Jamaica coalition are in theory plausible but are in practice rather unrealistic. As long as Germany's economy is doing comparatively well, the country will continue to play a leadership role within the EU. In the BSR, owing to various dependencies, it is in Germany's own interest to remain active and to develop more sustainable and uniform regional policies. Germany and the other countries of the region share various political and economic interests and values. On that basis, they would be natural allies in a wider European context, provided that Germany is ready to co-operate more closely with them, also with an eye on relevant EU decision-making processes. Germany will play a key role in utilising the soft power potential of the BSR in order to contribute to solving the EU's current problems.

Tobias Etzold

Iceland

Population	319,575
Surface area	103,125 km ²
Capital	Reykjavík
GDP	USD12.61 billion USD35,999 per capita (2011), purchasing power parity
Currency	Icelandic krónur
Corruption level (<i>Transparency International Corruption Perceptions Index 2012; 100-90 = very clean, 0-9 = highly corrupt</i>)	82 (ranking: 11)
Current government	Minority government by Samfylkingin (social democratic) and Vinstri Græn (left green)
Three largest cities	Reykjavík, Kópavogur, Hafnarfjörður
Baltic Sea coastal regions	-



Christian
Rebhan

The latest political developments in Iceland have been marked by the general elections in April 2013, changing the country's political constellations considerably. Further negotiations on EU membership have been halted during the election campaign. With a change in government, accession negotiations could be postponed and their continuation referred to a referendum. Iceland has begun to recover from the financial crisis, but finding a solution to the problem of homeowner debt remains the dominant election topic. The future of the króna is undecided, while capital controls remain in place. The potential reform of the fisheries management system and of the Icelandic constitution have gotten stuck, while Iceland's bilateral dispute with the UK and the Netherlands on the repayment of Icesave account holders was resolved in Iceland's favour. Iceland's involvement in the Baltic Sea Region continues along traditional lines.

Government

In 2009, Iceland's first left-wing government, consisting of the Social Democrats (SD) and the Left Greens (LG), came into power. Following a number of shifts in party affiliation among its MPs, the government lost its majority at the end of 2012. It has served as a minority government since then and has occasionally been backed by the three MPs of the Citizens' Movement or two MPs who have joined the new social liberal party 'Bright Future' (BF). The cabinet has been reshuffled several times, following a reform of the cabinet structure, which reduced the number of ministries from twelve to eight. Árni Páll Árnason replaced Prime Minister Jóhanna Sigurðardóttir as SD chairman in February 2012. In the 2012 presidential elections, Ólafur Ragnar Grímsson was re-elected for a fifth consecutive term as President of Iceland, defeating his strongest opponent,

Þóra Arnórsdóttir, 53% to 33%. This makes him Iceland's longest-serving president. It was the first time in Iceland's history that an incumbent president was seriously challenged, which was largely a consequence of Grímsson's controversial politicisation of the Presidency.

General elections have been scheduled for April 2013. Support for the government has declined significantly. Latest polls see the SD at 10-15% (2009: 29.8 %) and LG at around 10% (2009: 21.7%). Opinion polls indicate a massive victory of the centre agrarian Progressive Party (PP), which polls solidly at 25% (2009: 14.8%). The Independence Party (IP), traditionally Iceland's most influential party, polls at 20-25% and is set to suffer another record low after its worst-ever result in the 2009 elections (23.7%). Nevertheless, a return of the long-standing pre-crisis coalition government of IP and PP (1995-2007) is the most likely scenario, the question

only whether this will be under the leadership of IP chairman Bjarni Benediktsson or PP chairman Sigmundur Davíð Gunnlaugsson. However, the PP could also opt for a centre-left government. Among the other parties, only the BF (polling at 10%) is certain to pass the 5 % hurdle. The Pirates (polling at 5-10%) also have a good chance.

Policies

Iceland's EU membership application has dominated the political agenda in 2012. So far, 27 of 33 negotiation chapters have been opened and 11 been closed. Negotiations on the most controversial chapters for Iceland, fisheries and agriculture, have not yet begun. In January 2013, the government declared that it would not initiate any new negotiations during the election campaign. Negotiations on the 16 chapters currently opened will continue unchanged. The continuation of EU accession negotiations is very controversial and supported by SD, BF, LG and the Pirates. The IP and PP want to stop negotiations and make their re-start dependent on a referendum. Two corresponding proposals were rejected in parliament in 2012. Polls indicate that a majority of Icelanders rejects EU membership, but supports continued accession negotiations.

Relations with the EU have been strained to some extent because of the mackerel and Icesave disputes. With mackerel stocks moving from EU and Norwegian into Faroese and Icelandic waters, Iceland raised its quota for mackerel from 2,000 tons in 2008 to 116,000 tons in 2009, topping out at 155,000 tons in 2011 (the total quota in the North Atlantic being 500-600,000 tons). The EU and Norway have blamed Iceland for their allegedly unsustainable catch and threatened to impose EU-wide trade sanctions in 2012. Repeated rounds of negotiations between the EU, Norway, Iceland and the Faroes have remained unsuccessful. Nevertheless, Iceland reduced its quota to 145,000 tons for 2012 and to 123,000 tons for 2013.

The Icesave dispute was resolved in January 2013. The European Free Trade Agreement (EFTA)

Court ruled in favour of Iceland's decision not to guarantee minimum levels of compensation for UK and Dutch account holders in the collapsed Icesave bank in 2008. The British and Dutch governments had compensated their citizens and called on the Icelandic government to repay the compensation. Although the Icelandic government had approved two bills to repay the compensation, President Grímsson had refused to ratify them and referred the British and Dutch governments to referenda held in 2010 and 2011, in which compensation had been rejected by the Icelandic electorate. The EFTA Court ruling legitimised this process in retrospect and provided a strong boost to the PP before the elections, as it had been the only party to reject both bills.

In 2012, the government proposed to reform the existing fisheries management system of 1984 based on Individual Transferable Quotas (ITQ). The proposal challenges the centralisation of fishing rights in large companies. It would author-



ise the government to take 3 % of the quota off the private market in order to redistribute it according to social interests. It would also limit the maximum time period for the individual transfer of quotas to 20 years. Agreement on the reform has not been reached so far. However, the Icelandic parliament adopted a bill for the introduction of fishing fees, being paid directly to the government. Iceland's fishing companies and the opposition parties have fiercely campaigned against all of these changes. The latter intend to adapt the fees and abolish plans for a reform of the ITQ system upon their potential return to government.

In July 2011, the Constitutional Council submitted its proposals for a new constitution. They include, among other things, changes to the role of political organs and enhanced elements of direct democracy. In October 2012, a 73.5% majority of Iceland's electorate declared in a special referendum that they wished the proposals to form the basis of a new draft constitution for Iceland. However, there has been a lot of disagreement among Icelandic politicians and academics on the implementation of many of the proposals. In addition, some aspects of the proposals and the procedure itself were criticised by the Venice Commission of the Council of Europe. The parliament failed to adopt the new draft constitution before the end of the legislative term, but it approved a law changing the modalities of the current constitution so that the new draft constitution can be adopted until 2017, if supported by two thirds of the MPs of the next parliament and a simple majority in a referendum with a turn-out of at least 40%.

Economic situation and anti-crisis strategies

Iceland has begun to recover from the financial crisis. In 2011, Iceland's GDP increased for the first time, by 2.6%, after having declined by -6.6% in 2009 and -4.0% in 2010. Investment is also on the rise again, increasing by 12.8% in 2011, following a decline of -54.4% in 2009 and -8.6% in 2010. Iceland's GDP is expected to grow by a further 2.7% (2012) and 2.5% (2013), investment by 10.3% (2012) and 4.3% (2013). Moreover, the financial situation of Icelandic companies and households has improved. In 2012, the debts

of Icelandic companies accounted to 185% of the GDP, compared to 375% in 2008. Household debt decreased from 132% (2009) to 109% (2012). Inflation has stabilised at 4-5%, after peaking at close to 20% in 2009. Unemployment remains on a historically high level for Iceland, of over 7%. However, it is expected to drop to 5.7% in 2012 and to 5.3% in 2013.

Iceland's recovery continues relatively unaffected by the poor economic outlook for its trade partners in Europe. Fishery exports have been increasing during the last two years due to the depreciation of the króna, a good market price for fish, quota increases, the mackerel boom and a good recruitment period for capelin, which is the main food source for Icelandic cod. The depreciation of the króna has also made 2011 and 2012 record years for Icelandic tourism. The government has adopted an investment plan for Iceland until 2015, focusing on sustainable growth, research and innovation, creative industries, tourism and a green economy. The government's 'Iceland 2020' strategy defines a number of priority goals for continued economic development, which are among others to reduce unemployment to 3%, inflation to 2.5%, and public debt to 60% of the GDP. The aim is to have Iceland return to the top five nations in the United Nations Human Development Index (HDI) by 2020.

Although Iceland's economic recovery overall seems underway, it has remained the most dominant political issue in the 2013 general election for all major parties. The most important problem is that homes and companies continue to hold high levels of debt. Both IP and PP focused their campaigns on the correction of consumer loans, which have grown abnormally due to indexation. While the PP wants to abolish indexation completely, the IP campaigns on its reduction and lower taxes. SD and BF prioritise the adoption of a stable currency in order to stabilise the debt problem. They emphasise the possibility of adopting the euro under a potential Icelandic EU membership, which also the Central Bank of Iceland (CBI) considers to be Iceland's only realistic option in the long run. IP, PP and LG back the króna for the time being. Capital controls, which were installed in 2008 in order to stabilise the exchange rate of the króna, remain in place. Although the CBI has planned to lift the controls in

cautious, unscheduled steps until the end of 2013, all parties remain cautious with taking this step, as they fear the collapse of the króna.

Iceland and the Baltic Sea Region

Iceland's involvement in the policies of the Baltic Sea Region has continued along traditional lines (see Rebhan PSORR 2012). Without being at the forefront of new policy initiatives, Iceland has contributed to new activities of the Council of the Baltic Sea States (CBSS) such as to the new CBSS 'toolbox', a three-year project support facility for co-financing regional co-operation, or to the South Eastern Baltic Area (SEBA) economic development project.

Outlook

The result of the general elections in April 2013 will determine the future course of Iceland's main policy lines. On the one hand, an unexpected vic-

tory of the incumbent government and a strong election result for BF would represent a clear sign that the Icelandic people support its course on the continuation of EU accession negotiations, the potential adoption of the Euro, a new constitution and a new fisheries management system. On the other hand, a victory of the opposition would put an end to or at least delay all those plans. It would signal that Iceland's electorate see no alternative to Iceland's traditional economic policy, based on the króna, for some time to come. Irrespective of the electoral outcome, the debt problem of homes and companies will remain Iceland's biggest economic handicap, although Iceland's economic recovery will continue, its effectiveness depending on the well-being of the fishing, aluminium and tourism sectors. Iceland's involvement in the Baltic Sea Region will continue unchanged.

Christian Rebhan

Latvia



Population size	2.070 million
Surface area	64,589 km ²
Capital	Riga (Rīga)
GDP	EUR22,083 million
Currency	Lats
Corruption level (<i>Transparency International Corruption Perception Index 2012: 100-90 = very clean, 0-9 = highly corrupt</i>)	49 (ranking: 54)
Current government	Unity (Vienotība), Reform Party (Reformu Partija), National Alliance (Visu Latvijai)
Three biggest cities	Rīga, Daugavpils, Liepāja
Baltic Sea coastal regions	Kurzeme, Zemgale, Riga district, Vidzeme



Žaneta Ozoliņa



Toms Rostoks

September 2011 snap elections became necessary after President Valdis Zatlers, in anticipation of not being re-elected for a second term, decided to dissolve the Parliament. Latvian politics saw continuity as Valdis Dombrovskis retained his post of Prime Minister, although the composition of the governing coalition was substantially reshuffled. Since then, his government has overseen a period of sustained economic growth which is also marked by relative political stability. Prime Minister Valdis Dombrovskis has earned endorsements from other European heads of government for his achievements, although there are challenges ahead. 2013 will be marked by preparations for the adoption of the Euro in 2014, for which public support is still somewhat lacking, and municipal elections that are scheduled for 1 June 2013. The BSR continues to feature prominently on Latvia's foreign policy agenda, but mainly in the context of Latvia's upcoming EU Presidency in 2015.

Government

The most important two political events since mid-2011 in Latvia were, first, snap elections in September 2011 that were organized after then-President Zatlers decided to dissolve the Parliament and, second, the referendum on Russian as the second official language, which took place in February 2012. After the dissolution of Parliament by the President's decree in May 2011, extraordinary elections were held on 17 September 2011. One of the arguments advocated by the ex-president Valdis Zatlers was to change the composition and tradition of the political landscape by making it free from oligarchs. Shortly before the elections, Zatlers formed a new political party, 'Zatlers Reform Party' (ZRP), later renamed 'Reform Party'.

After the elections, seats in parliament were divided as follows: the Harmony Center (Saskaņas Centrs/SC) won 32 seats in the 100-member Latvian parliament, the ZRP won 22 seats, Unity (Vienotība) won 20 seats, the National Alliance (Visu Latvijai/VL) won 14 seats, and the Union of Greens and Farmers (Zaļo un Zemnieku Savienība/ZZS) won 13 seats. During the political consultations regarding the coalition there were attempts to include SC in the government. This would have been the first time after restoration of Latvia's independence that Russian interests would be represented in government. The outcome of the elections had several important aspects. Firstly, parties formed as instruments to represent the business and political interests of two influential politicians – Andris Šķēle and Ainārs Šlesers – did not make it to parliament, and ZZS

was not included in the coalition. Second, ZRP proved to be weak and split a day before the vote on Dombrovskis' government, when six deputies left the fraction and formed a group of independent MPs. Third, 63 MPs from the dissolved Latvian Parliament were re-elected. Fourth, as a result of controversies over formation of the government coalition and exclusion of SC from it, there was a high level of discontent among the Russian speaking population, which culminated in the initiation of a referendum on the amendments to the Latvian Constitution with an aim to grant the Russian language the status of the second official state language in Latvia.

On 18 February 2012, about 1.1 million eligible voters (71.49%) took part in a referendum on Russian as the second official language. This referendum had the highest voter turnout since restoration of independence exceeding even the number of participants in 2003 EU accession referendum. The majority of voters, 74.8%, rejected Russian as Latvia's second state language and 24.88% supported two state languages. After the referendum, Prime Minister Dombrovskis invited ministries to draw up proposals on how to consolidate the society. However, these attempts did not result in tangible improvements of integration policy.

Policies

After the implementation of strict austerity measures and reforms, Latvia adopted the national Euro changeover plan in September 2012 and appointed a high-level steering committee to manage the process. On 31 January 2012, Parliament passed the law on the adoption of the Euro in a 52-40 vote. The Latvian public remains sceptical with regard to accession to the Eurozone. In November 2012, only 8% (42% in favour but at the later stage) of the public were in favour of a quick introduction of the Euro, while 41% being absolutely opposed to it. However, support for the adoption of the Euro has increased recently. In March 2013, Prime Minister Dombrovskis requested that the European



Central Bank (ECB) and European Commission (EC) draft the convergence reports on Latvia's readiness to enter the Economic and Monetary Union (EMU). In the event of a positive response from the ECB and EC, Latvia will join the Eurozone on 1 January 2014.

An important aspect of Latvian politics is the preparations for the presidency of the Council of the EU in 2015. Latvia decided to start discussion on its presidency priorities early, and the first initiatives were put forward in 2012 when the first public debates on the presidency took place. The Ministry of Foreign Affairs and its social partners organised 13 discussions, with the participation of more than 1400 representatives from the government, public sector, NGOs and experts on prospective priorities of Latvia's presidency in 2015. One of the results of the public discussions was the consensus that enhancing co-operation in the BSR should be one of the EU presidency's priorities.

Economic situation and anti-crisis strategies

In 2011 the Latvian economy grew by 5.5%, and the year 2012 was no less successful: it grew by 5.6%, which made Latvia the fastest-growing economy in the EU. Latvia succeeded in proving that austerity measures work, if implemented consistently. The strong economic growth in the past two years was accompanied by a number of other positive trends. Manufacturing grew by 6% in 2012 and exceeded pre-crisis levels. Latvia's retail trade turnover increased by 9.7%. The State Revenue Service collected more taxes than expected. In late 2012, Latvia managed to repay the IMF loan of more than EUR700 million. Also, Latvia has been working to be admitted as a full member to the OECD. According to the media monitoring report prepared by the Latvian Institute, 74.2% of online media publications on Latvia in 2012 were positive. This is a major improvement, because Latvia was frequently used as an example in 2009 and 2010 of how bad things can get.

The economic outlook for 2013 is mostly positive. The budget for 2013, which the Latvian parliament adopted in November 2012, envisaged an increase for several budget areas, such as demographics, and a remuneration increase for public servants for the first time since the beginning of the economic downturn. The Bank of Latvia forecasts that economic growth will slow down and will average 3.6%, and it is likely that inflation will be as low as 2%. Taxes were increased during the economic downturn, but started decreasing from 2012 onwards. The value added tax was reduced from 22% to 21% starting in 1 July 2012. The government plans to decrease the personal income tax from 25% to 20% by 2015; the first reduction – to 24% – took effect on 1 January 2013. The government plans to increase the rate of social insurance instalments from 2% in 2012 to 6% in 2016.

Although Latvia has been a shining example of the ability to implement harsh austerity measures and return to solid growth, some economic indicators have been lagging behind. The rate of unemployment has climbed down from 19.4% in June 2010 to 13.5% in the beginning of 2013, but progress has not been impressive. As a consequence, in terms of unemployment Latvia is lagging behind its Baltic neighbours Lithuania and Estonia. So-

cial inequality is widely regarded as an important problem, because recent economic growth has not trickled down to some parts of society. Moreover, a number of businesses, including the national carrier Air Baltic and Liepājas Metalurgs, have asked for government financial assistance in the wake of the economic crisis.

Latvia and the Baltic Sea Region

The BSR still features highly among Latvia's foreign policy priorities, and this is likely to remain the case at least until Latvia's EU Presidency in the first half of 2015, when Latvia will host a major international forum on the EU Strategy for the Baltic Sea Region. The commitment to include the BSR in the agenda of Latvia's Presidency was supported and emphasized by Edgars Rinkevics, Minister of Foreign Affairs during parliamentary debates on foreign policy in January 2013. The BDF Summit 2013 in Riga is considered to be a contribution to elaboration of a more detailed and all-encompassing agenda for the EU presidency in 2015, allowing all relevant stakeholders to express their views.

Also, recent years have witnessed further progress in terms of Baltic co-operation. Indeed, there are some examples of Baltic co-operation that are truly commendable. The Baltic States have reached an agreement within the Baltic Assembly on common procurement of vaccines. In 2012, the defence ministers of Lithuania, Latvia and Estonia decided to press ahead with preparations for establishing a joint Baltic military headquarters. Also, Baltic militaries are planning common military procurement. The Baltic States have agreed to co-operate on building a new nuclear power plant in Lithuania, although it remains to be seen whether this project will ever materialize. Latvia's interest in Baltic co-operation is further strengthened by the fact that Latvia is holding the presidency in both the Baltic Council of Ministers and the Baltic Assembly in 2013.

Although Baltic co-operation has delivered tangible results, the wider BSR also features prominently among Latvia's foreign policy priorities. The Nordic-Baltic 8 (NB8), which is the 5th largest economy in the EU and 10th largest economy in the world, has become a regional format for discussions. A memorandum of understanding was signed in 2011 on the placement of diplomats in embassies of NB8 coun-

tries. This agreement is very important for Latvia because its foreign policy has been caught between a rock and a hard place during the crisis. On the one hand, there has been a drive to use foreign policy as an instrument for advancement of economic contacts and interests, but, on the other hand, the budget cuts left the Latvian Ministry of Foreign Affairs with fewer diplomatic staff and financial means for representation of Latvia's economic interests abroad.

Another important event related to the BSR is the annual meeting of the Northern Future Forum, consisting of NB8 + UK, which took place in Riga on 28 February 2013. While British interest in forming a 'Northern Alliance' has been largely prompted by its willingness to redefine relations with the EU and, thus, look for like-minded allies in Northern Europe, it is hard to deny that there is also some willingness to expand co-operation with the UK on the part of the NB8 countries, including Latvia. The Forum provided a platform for discussing issues relevant to the country as well as to the region and to Europe at large, namely the competitiveness of green economy and the digital divide in society.

Outlook

For the time being, Latvia seems to be on a good path. Not only is Latvia a viable candidate for joining the Eurozone in 2014, its neighbours and most important trade partners in the BSR are also doing well. Latvia has experienced two years of sustained economic growth. Although it is likely to slow down in 2013, Latvia's economic outlook is mainly optimistic. However, there are challenges ahead, the most important of these being Latvia's EU presidency in 2015. It should be noted that the economic crisis has dealt Latvia's civil service a heavy blow. At this point, it is too early to tell whether the BSR will be among Latvia's key EU presidency priorities, but it is quite likely that the BSR will form an important part of the presidency's agenda. Thus, it is up to Latvia to consult with other EU member states in the BSR and look for ways to take regional co-operation one step further.

Žaneta Ozoliņa and Toms Rostoks

Lithuania



Population size	2,970,000 (December 2012)
Surface	65,302 km ²
Capital	Vilnius
GDP	EUR32.553 billion
Currency	Litas (1 Litas – 0.29 Euro)
Corruption level (<i>Transparency International Corruption Perceptions Index 2012; 100-90 = very clean, 0-9 = highly corrupt</i>)	54 (ranking: 48)
Current government (parties forming the government)	Social Democrats (Lietuvos socialdemokratų partija), Labour Party (Darbo partija), Order and Justice Party (Partija Tvarka ir teisingumas), Electoral Action of Poles in Lithuania (Lietuvos lenkų rinkimų akcija)
Three biggest cities	Vilnius, Kaunas, Klaipėda
Baltic Sea coastal regions	Klaipėda County (<i>Klaipėdos apskritis</i>)



Mindaugas
Jurkynas

The year 2012 marked a change in the government and revealed Lithuania's improved economic performance. Social Democrats won the parliamentary election and formed a coalition left of the centre with Labour, Order and Justice and Electoral Action of Poles in Lithuania. The electorate supported the policies of economic austerity proposed by the former conservative government in the wake of the financial crisis. Lithuania's economic growth was among the highest in the EU. GDP and FDI grew, whereas inflation and unemployment plummeted. However, increased public debt and high energy prices dogged political debates. Foreign policy remained traditionally anchored in the eastern neighbourhood, energy security and EU-transatlantic affairs. In regional terms, a Nordic-Baltic orientation was politically cherished and lukewarm relations with Poland appeared to warm up. The Baltic Sea Region is especially important for Lithuania in 2013, as the EU Strategy for the Baltic Sea Region is one out of four major priorities for the country's upcoming EU presidency, starting 1 July 2013.

Government

In the sixth regular parliamentary elections in October 2012, the left-wing parties ejected the conservative-liberal coalition from power. The Social Democrats scooped up the largest share of MPs. Holding 38 out of 141 seats in the parliament, they have formed a left-of-centre constitutional majority (more than three fifths) coalition government with the centrist Labour Party (29 seats), the leftish Order and Justice Party (10 seats) and the nationalist and overtly catholic Electoral Action of Poles in Lithuania (8 seats). The Conservatives resiled with the second largest parliamentary faction, of 33 MPs. Considering the years of economic downturn, this electoral result came next to a standing ovation among the right-of-centre enthusiasts. Two parties waned

and two political rookies furnished the political scenery. The Liberal and Centre Union and the populist National Resurrection Party – both part of ruling coalition in 2008-2012 - did not cross the 5% threshold. A new and somewhat anti-systemic party, the Path of Courage, gained 8% of the votes and 7 MPs. Last but not least, the Polish Party has finally stepped over the 5% barrier, despite their earlier flops. Alongside general elections came a non-binding vote on a planned new nuclear reactor at Visaginas near the Belorussian border. The Social Democrats opposed the Conservative-backed nuclear plant to be developed by the Japanese company Hitachi. 62.7% of the electorate voted against the foreseen nuclear power facility. The Social Democrats, led by Algirdas Butkevičius, promised the creation of jobs, social justice, solidarity, equal opportuni-

ties, green growth, reduction of VAT for certain goods, energy efficiency and progressive taxation.

The formation of a new coalition has taken some time, as President Dalia Grybauskaitė objected to the inclusion of the Labour Party into the government, arguing that the party had been under judicial scrutiny and that some of its members may have paid for votes during parliamentary elections. Therefore, the President addressed the Constitutional Court asking whether all the election results were fair. With the court's positive judgment on the results at the national tier, the formation of the cabinet could proceed. The President had to accept the integration of the Labour Party in the government, but rejected several of its candidates before the final approval of the cabinet. The Social Democrats control the office of the Prime Minister and seven ministries, whereas the Labour Party holds the chairperson of the Parliament and four ministries, the Order and Justice gained two and the Polish Party one ministry.

Just before the election there were a couple of politically interesting events in 2012. The Minister of Interior, Raimondas Palaitis, bolstered by the President, dismissed the head and his deputy of the Financial Crime Investigation Service who, in contrast, were backed by the Conservatives opposing the President. In the aftermath, the minister had to resign and a new minister Artūras Melianas took his place in April 2012. Furthermore, following a court decision, a police storm and takeover of a child from a temporary custodian Neringa Venckienė, who campaigned against a purported paedophile conspiracy, drew media attention and helped the Path of Courage become a parliamentary party.

Policies

The government adopted the budget for 2013 and increased the minimum wage from 850 Litas (246 Euro) to 1000 Litas (290 Euro), starting 1 January 2013. The programme of the coalition is leftist: the cabinet emphasises the welfare state, the growth of public sector, progressive taxation, increasing so-



cial entitlements, fiscal stability, renovation of energy inefficient apartment blocks and the introduction of euro by 1 January 2015. The government established a number of working groups to foresee further political changes and launched neo-corporatist consultations with employers' organisations and trade unions and the like.

Lithuania's three strategic foreign policies priorities - the eastern EU neighbourhood and Russia, transatlantic relations, and energy security - remained unchanged, although the country has become less active than it was some years ago. In the area of energy security, Lithuania has focused lately on the development of a liquefied natural gas terminal, future electricity grids to Sweden and Poland, and the construction of a new nuclear power plant. The latter's perspectives turned hazy after the consultative referendum. The leftist government pledged to come up with clear answers about nuclear energy in May 2013, whereas other

projects seem to be continued with gusto. Lithuania has been an active NATO ally, being in charge of the provincial reconstruction team in the Ghor province of Afghanistan for a number of years. Nonetheless in October 2012, the government decided to withdraw from Afghanistan by the end of 2013. In a similar vein, Lithuanian troops pulled out from Iraq in late 2011. In October 2012, the NATO North Atlantic Council endorsed the decision to transform the Energy Security Centre in Lithuania into a NATO centre of excellence.

Economic situation and anti-crisis strategies

Looking at the larger bills for heating for apartment blocks across the country, it comes as little surprise that energy security was among the top priorities in politics and everyday life. The dependency on Russian gas sparked the Lithuanian government's appeal to the arbitration court in Stockholm in October 2012 against the Russian company Gazprom for nearly a EUR2 billion overcharge and invitation of the company Chevron to look and possibly drill for shale gas in the country in 2013. Therefore, it hardly comes as a surprise that former Prime Minister Andrius Kubilius' statement 'Perspectives of [centralised apartments'] heating are not bad, weather gets warmer, spring is coming' won laurels as a phrase in 2012. Another issue was relatively high unemployment, which became the main political target of the new government. The Social Democrats pledged to activate public investment programmes via the public sector and thus create new jobs by stimulating, rather than saving. Furthermore, the statistical office reported that the number of country's inhabitants dropped below 3 million due to emigration and a trend of low birth rates. In addition, after the bankruptcy of one of the smaller banks, Snoras, in 2011, Ūkio bankas followed suit in February 2013. Both banks were regarded as dodgy, Russia-related players in the Lithuanian financial market.

Nevertheless, Lithuania turned out not such a bad place to live in 2012. The Fund for Peace established the country's good performance (29th place out of 177) in the Failed State Index. Among the Baltic Sea Region countries, only Germany and the Nordic countries surpassed Lithuania. Accord-

ing to the World Bank's 'Doing business' report for 2012, in a year's time the country fell just one place, down to the 27th position among 185 states. The World Economic Forum's Global Competitiveness Report 2012-2013 observed that Lithuania rose from 47th to 45th place in two years among 144 countries. The country is geared up for a transition to the euro, as the planned public deficit for 2013 is 2.5% of the GDP and public debt should not exceed 39.2% in 2013. In 2012, unemployment fell by 2% to 13.3%, and is projected to fall to 11.5% in 2013. Inflation followed suit, dropping from 4.1% to 3.2%. GDP growth has increased for the 3rd year in row, reaching 3.6% – one of the highest results in the EU in 2012. GDP per capita in PPS (EU-27=100) in 2011 reached 66%. This result, compared to neighbouring countries, was 1% lower than in Estonia and 2% higher than in Poland. Foreign direct investments increased from 10.8 to 11.7 billion euros over the course of 2012. The Doing Business Report described Lithuania as an upper middle income country.

Lithuania and the Baltic Sea Region

Lithuania has an increased interest in the BSR due to developing projects of regional collaboration in a number of soft security areas. Lithuania still co-ordinates three priority areas with other countries in the EU Strategy for the Baltic Sea Region (reinforcement of sustainability of agriculture, forestry and fisheries, improvement of internal and external transport links and reduction of the volume of harm done by cross border crime) and co-ordinates 11 flagship projects. Perhaps the most important thing for Lithuania's Baltic Sea regional profile is the EUSBSR's inclusion among its four top priorities (next to energy security, Eastern partnership and management of external borders) for Lithuania's EU presidency, starting 1 July 2013. Lithuania sees the BSR as an area of co-operation in low politics, emphasising energy, transport and environment.

The previous right-of-centre government emphatically bolstered Lithuania's higher interdependence with the Nordic countries – a wise men report on enhanced Nordic-Baltic co-operation was approved by all eight countries in 2011, and Lithuania envisaged a 'Lithuania 2030' strategy where a

Nordic orientation was tangible. Moreover, Lithuania was an NB8 co-ordinating country in 2012. The outgoing conservative-led government and the President claimed they intended to keep Lithuania on a Nordic track, whereas the Social Democrats explicitly pinpointed a stalemate in relations with Lithuania's neighbours.

Outlook

The key concerns of the new government are the survival of the coalition and its economic policies. The Labour and Order and Justice Parties are about to merge, thus theoretically becoming the largest faction in the parliament. The new party could not pin their hopes high on the support of the President, whose distaste for the Labour party has been obvious. This should keep the Social Democrats in charge of the government. Besides, the general prosecutor's office pressed charges against the La-

bour party, which, if not acquitted, may withdraw from the coalition. On the other hand, the leftist government intends to focus primarily on the creation of jobs, social security and social justice with the help of spending in the public sector. Unless the budget deficit exceeds three percent of the GDP, the government will not have extra money for funding social entitlements, in which case strict budgetary policies will be pursued in order to introduce the euro by 2015. The reduction of Lithuania's dependence on imports of fossil fuels from Russia will stay among its top priorities, as the construction of a nuclear power station remains unclear. The government's other plans are changes in education law by replacing the competitive 'student basket' system introduced by the Liberals, an efficient EU presidency, a reform of taxation and improvement of relations with neighbouring countries, first of all in the BSR.

Mindaugas Jurkynas

Norway



Population	5,051,275 (11 April 2013), of these 710,465 immigrants; net migration from abroad: 47,034 (2011)
Surface area	385.199 km ²
Capital	Oslo
GDP	USD499.8 billion (2012 est.) USD55,300 per capita (2011), purchasing power parity
Currency	Norsk kroner (NoK)
Corruption level (<i>Transparency International Corruption Perceptions Index 2012; 100-90 = very clean, 0-9 = highly corrupt</i>)	85 (ranking: 7)
Current government	Coalition government of Arbeiderpartiet/AP (Norwegian Labour Party), Sosialist Venstre Partiet/SV (Socialist Left) and Senterpartiet/SP (Centre Party)
Three largest cities	Oslo, Bergen, Trondheim
Baltic Sea coastal regions	-



Wolfgang
Biermann

Norway decided twice not to join the EU but is a member of the European Economic Area (EEA) and the Schengen zone. The Norwegian Parliament (*Storting*) has adopted roughly $\frac{3}{4}$ of all EU legislation, implementing it more effectively than many member states – except in agriculture and fisheries –, fully applies the whole EU ‘*acquis communautaire*’, and over 80% of Norwegian exports go to EU member states, but there is no relevant support for joining the EU. Norway is even seen as the “most active outsider” of the EU (German Foreign Minister Guido Westerwelle in a speech in Oslo on 24 August 2012). Despite some impact of the Euro crisis for Norwegian trade, the government has managed successfully to increase Norwegian GNP, employment, and income by between two and three per cent every year. Economic forecasts indicate that this will continue. Since 2011, polls have predicted a change of government as a result of the national elections to be held in September 2013.

Government

Since 2005, the government has been led by the *Arbeiderpartiet* (AP) and Prime Minister Jens Stoltenberg with his left coalition partners, the *Sosialistisk Venstreparti* (SV) and the *Senterparti* (SP). Before the 2005 and 2009 national elections, polls predicted conservative majorities, but the strong organisation of AP and an enormous grassroots mobilisation capability during the final phases of the election campaigns eventually secured their victory. The question is if this will help AP become the strongest party in *Stortinget* once again. The 2013 scenario is different from earlier national elections:

First, the conservative party *Høyre* has, since 2009, developed a more ‘social democratic’ image, supported by the new liberal-conservative think-

tank “Civita”, which presents *Høyre* as one of the founding fathers of the Nordic Welfare State rather than that of a privatisation party. Second, *Høyre* is prepared to form a coalition with the Progress Party (Fremskrittspartiet - FrP). In former election campaigns, a coalition with the right-populists was strictly excluded, by all parties. Meanwhile, even the other small ‘bourgeois’ parties, the Christian-democratic KrF and the Liberal Party (Venstre), with a continued voter support in an average range of 4.5 to 5.2% since 2012 (Poll of Polls), have decided to explore the possibility of such a coalition. Third, on 22 July 2011 Norway suffered the worst terror attack since World War II. The attack on the Norwegian government and the mass killing of 69 young people in Utøya, and the follow-up have overshadowed Norwegian public confidence in the government.

During the first week after 22 July, Jens Stoltenberg's management of the crisis raised support for the AP from 31.3 to 40.5% (TNS Gallup/TV2 01. Aug. 2011). But a few months later, support decreased to a level between 34% in September 2011 and 30.5% in April 2012 (Poll of Polls). A year later, polls gave *Høyre* around 30% while the FrP, down from over 22% in 2008, still gets 13 to 17% (Poll of Polls). Thus, the two right-wing parties might well be able to gain a majority in the upcoming elections.

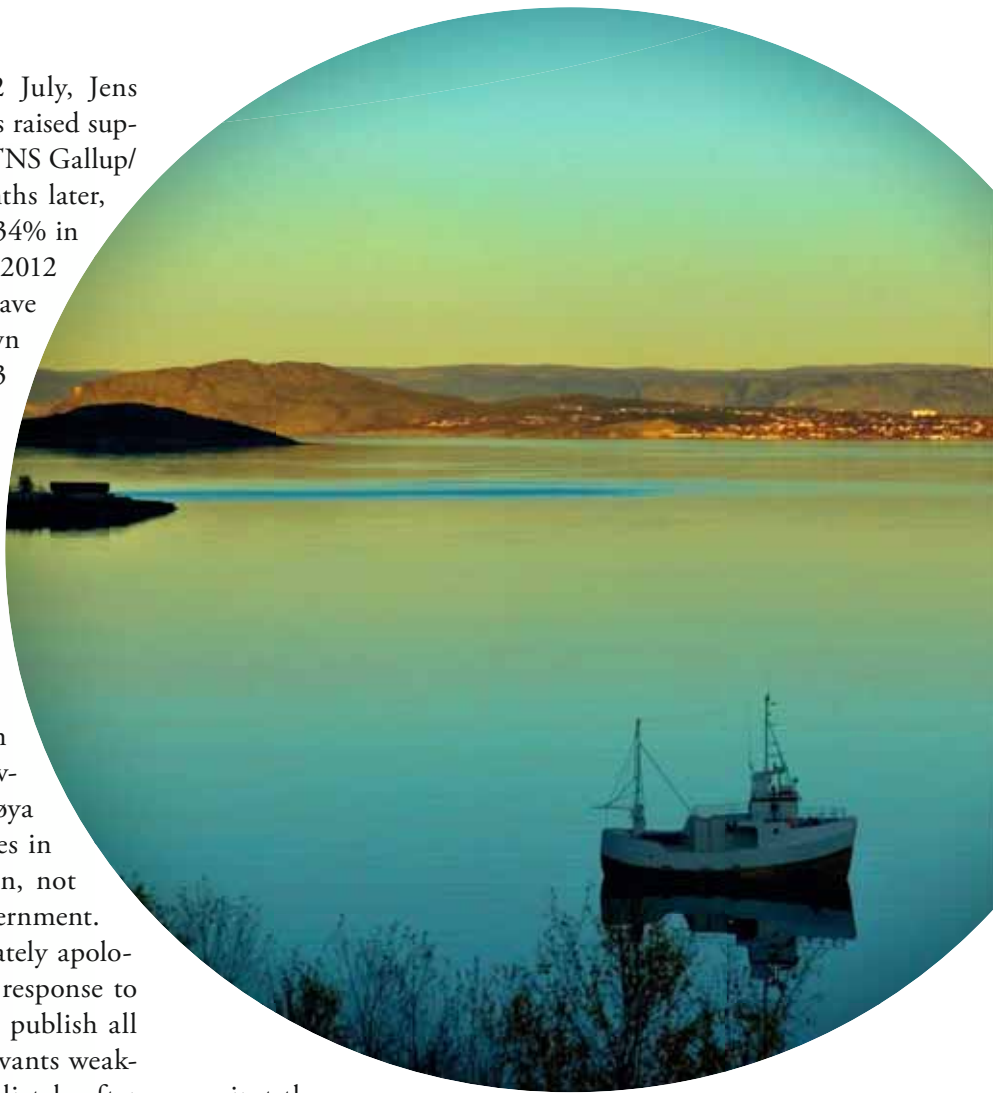
The changes in public attitudes reflected a series of challenges for the government: the independent Gjørsv Commission, headed by the lawyer Alexandra Bech Gjørsv, set up by the Prime Minister "to review and learn from the terrorist attacks on the Government Complex in Oslo and on Utøya Island", revealed dramatic weaknesses in structures and ways of collaboration, not only in the police but also in the government. Prime Minister Stoltenberg immediately apologised for failings in the authorities' response to the terror attacks. But reluctance to publish all statements by ministers and civil servants weakened the government further. Immediately after this, in October 2012, public support for AP was only 27.8%, both SV and SP were close to the 4% threshold, and *Høyre* and FrP had a clear poll majority with 33.9 and 17.2%, respectively (Poll of Polls).

Jens Stoltenberg reshuffled his government to regain confidence. Among others, Jonas Gahr Støre became new Health Minister. As Foreign Minister, Støre was very popular and widely seen as the 'Crown Prince' of Jens Stoltenberg. Hadia Tajik, AP member of *Stortinget*, became new Minister of Culture and Integration. Daughter of Pakistani immigrants, Tajik could attract voters from the large immigrant community as well as from young voters in general.

Still, the repercussions of 22 July and the changed strategy of *Høyre* and other opposition parties form challenges for the government. In April 2013, *Aftenposten* reported that parents of 19 children killed in Utøya now consider a legal case against the police for failure to stop the killing. A legal case

against the police during the election campaign could further undermine confidence in the government. However, economic growth can become quite a convincing factor for the government. There are risks for the Norwegian economy in particular if oil prices go down. In addition, during the past few years of low interest rates and climbing prices for real estate, private sector debts in Norway have increased a lot.

To conclude, even though polls since 2012 have indicated a majority in favour of the oppositional parties, election campaigns and the economic development are likely to make the Norwegian elections in September 2013 interesting.



Policies

The basis for the Norwegian government's work still is the so-called 'Soria Moria II' coalition agreement between AP, SV and SP of 2009.

In domestic politics the government managed well in implementing Soria Moria: 90% of all children aged two to five receive all-day day-care within the promised maximum price, the birth rate continues to be high (1.9 per woman), the employment rate increased in 2012 to 77% for men and 73% for women (OECD Better-Life Index). As well, integration of immigrant groups has improved: in Oslo schools in 2012, 79% of female Muslim students finished school with the highest secondary education. Additionally, since the 40% quota law was passed, female representation in company boards increased from 7 to 45% (Studvest.no).

These policies and reforms strengthened the economy and in particular the role of women in Norwegian society. However, there are unfinished domestic policy programs and unsolved problems which are subject to political controversies. The 'Soria Moria' reform of the health system is far from finished. Huge investments in centralised hospitals were accompanied by rising costs, lower capacities and longer waiting time for non-prioritised treatments in some regions. The conservatives use these deficiencies to attack the government and promise to solve the problems by transferring more public money to private hospitals.

Other controversies relate to possible oil exploration in Northern Norway. Environmental and fishers' interest oppose opening up these areas. The AP is divided in the issue.

Another point of controversy is the SP decision that Norway should leave Schengen and the EEA treaty. Even though there are no partners to realise such a policy, the SP demand to leave Schengen and close the borders to illegal immigrants may be a populist point for the upcoming elections.

Concerning Norwegian foreign affairs, there is a principal consent on NATO and EEA among all major parties. However, in a speech on 19 April 2013, the new Foreign Minister Espen Barth Eide presented the government's foreign policy as a proactive foreign policy of change, for example by a policy of redirecting NATO to her basic tasks of defending its member nations, or by suc-

cessfully organising the international campaign to ban cluster bombs. In March 2013, Norway hosted an international conference to promote the ban of nuclear weapons, and in April 2013 it organised, together with South Africa, a global conference in Oslo opposing discrimination against homosexual people.

Economic situation and anti-crisis strategies

Despite the challenging global economic and European sovereign debt crises, the Norwegian economy continues to perform well. Low interest rates, high income growth and high oil prices have fuelled the economy.

Even though the competitiveness of Norwegian industries is challenged by the slowdown in Europe, high wage costs and a strong krone exchange rate, developments in the Norwegian economy stand in stark contrast to this. Growth in the Norwegian economy is expected to continue. Mainland GDP grew by 3.7% in 2012 and is forecasted to grow 2.9% in 2013. The labour market remains strong, with higher than expected employment growth and continued low unemployment at a rate of just over 3%. This stable development in an instable European economic environment is, to quite some extent, the result of Norwegian fiscal policy. Since 2001, fiscal policy guidelines stipulate a gradual and sustainable use of petroleum revenues in accordance with the assumed real return of the **Government Pension Fund Global** (GPFG), estimated at 4% per year. This limit was introduced by Jens Stoltenberg when he was briefly Prime Minister in 2000/2001 and is now accepted by all Norwegian political parties, except the FrP.

In times of crisis and downwards business cycles, the guidelines allow additional fiscal stimulation measures to be spent by means of the GPFG to counter economic fluctuation. The government has, over the years, made use of this flexibility: during the crisis year of 2009, the use of petroleum revenues increased rapidly to mitigate the effects of the global recession on production and unemployment. This stabilised the Norwegian economy, which recovered and has grown since 2010 (World Bank). In 2011 and 2012, spending of petroleum revenues was again brought below the 4% mark.

Norway and the Baltic Sea Region

Norway has been engaged in various forms of northern European co-operation, such as the Nordic Council of Ministers (NCM), the Council of the Baltic Sea States (CBSS), the Barents Euro-Arctic Council and the Arctic Council. Norway has been a member and active participant in the CBSS since its establishment in 1992 and has been engaged in radical political, economic and social changes since the early 1990s, by assisting in democratic institution-building to the Baltic countries and preparing their membership in NATO and the EU.

Norway has a continued, but limited interest in the Baltic Sea Region (BSR) through active support of the Baltic Sea Parliamentary Conference. Norway contributes actively to reduce emissions in the region (Stoltenberg) by converting ships to run on Liquid Natural Gas (LNG).

The Norwegian commitment in the BSR is part of a wider High North commitment. In October 2011, the government declared the northern regions to “be the Government’s most important strategic priority area for foreign policy” (Soria Moria II). This High North commitment is in the national Norwegian, as well in the European, interest.

The issue of maritime delimitation between Norway and Russia in the Barents Sea and the Arctic Ocean was the object of extensive negotiations for 40 years. Finally, on 15 September 2010 the Treaty concerning Maritime Delimitation and Co-operation in the Barents Sea and the Arctic Ocean was signed by the foreign ministers of the two countries in Murmansk. Under the agreement, the disputed area of 175,000 square kilometres was divided into two parts of approximately the same size. In addition to establishing the delimitation line, the historic agreement contains provisions that ensure close Norwegian-Russian fisheries co-operation and protection of live resources in the High North.

The Maritime Delimitation and Co-operation Treaty opened the way for many opportunities for co-operation between Norway and Russia. For example, Russian Rosneft and Norwegian Statoil agreed to jointly develop deposits in Russia’s energy rich Barents and Okhotsky Sea zones. In December 2012, Norway and Russia put around EUR1.5 mil-

lion into joint Arctic research ventures, and in February 2013 the two countries’ ministers of defence agreed to expand military co-operation and to prepare a joint security agreement on the exchange of classified information (Barents Observer).



Outlook

From a Norwegian point of view, Baltic Sea co-operation has become part of a High North Strategy with international dimensions. As the ice melts, the Arctic is becoming more accessible. There are major oil and gas deposits under the northern seas, particularly in Russian areas. New, shorter shipping routes will open up across the Arctic between Asia, Europe and North America. The rapid pace of change poses considerable challenges in the management of the High North, but also opens up new opportunities. Norway wants to maintain a low level of tension in the area through close co-operation with the other countries involved in the Arctic. In the High North, Norway and Germany, with their respective political and economic expertise, have a specific interest in engaging Russia in a peaceful and profitable co-operation for Europe.

Wolfgang Biermann

Poland

Population	38.15 million
Surface Area	312,685 km ²
Capital	Warsaw (Warszawa)
GDP (PPP) 2011	EUR369.6 billion
Corruption level (<i>Transparency International Corruption Perception Index 2012; 100-90 = very clean, 0-9 = highly corrupt</i>)	41 (ranking: 58)
Current government	Coalition of centre-right Civic Platform with the centrist, agrarian Polish People's Party
Three largest cities	Warsaw, Cracow, Lodz
Baltic Sea coastal regions	Pomerania, Varmia-Masuria, West Pomerania



Lidia Puka

Since September 2011, the situation in Poland developed against a backdrop of European economic turmoil and political scepticism towards European integration. Domestically, it was characterised by political continuity and relative economic stability. For the first time in modern Polish history, the government has been re-elected. The GDP has been growing, although more slowly than before. Poland's interests have been linked more closely, and more vocally, with the EU and the major European players: Germany and France. Poland has tried to position itself in the new EU governance structure in an effort to avoid the worst-case scenario of being left aside in the widening double-speed Europe. These pro-integration aspirations were inspired by the Polish EU Presidency in 2011 and the 2012 UEFA European Football Championship. However, the popularity of the government is decreasing, while domestic economic growth slows down, showing the need for economic reforms. In this context, the relatively healthy northern European economies are a possible source of growth and best practice sharing – an incentive for enhanced co-operation.

Government

The coalition government of Donald Tusk of the centre-right Civic Platform and the centrist, agrarian Polish People's Party, is approaching its mid-term. The re-election of the government coalition on 9 October 2011 was unprecedented in the post-Cold War history of Poland. The coalition remains stable, and has not been affected by an unexpected change of the leader of the Polish People's Party last November. Nevertheless, since the re-election, opinion polls have shown decreasing support for the government. In March 2013, the Civic Platform had only a 1% lead over the main opposition party, right-wing conservative Law and Justice. To a large extent, the popularity of the opposition increases because of the worsening economy, rather than targeted political actions. The latter – such as a vote of no confidence,

or the creation of the 'external government of experts' – have so far been unsuccessful.

The elections of 2011 have also brought about a qualitative change in the social and political debate in a traditionally catholic and conservative society. Entry into Parliament of the social-liberal and anticlerical party resulted in highly debated motions, such as on granting rights to homosexual partners, or liquidation of some of the financial privileges of the Catholic Church.

Policies

The second term of the Tusk government has provided continuity in both domestic and foreign policies. The major problem of this middle-sized country, dependent on the European markets and aspiring to gain more power within the EU, was

how to react to the European economic slowdown, and at the same time to strengthen Poland's impact within the EU. As an answer to this challenge, the government has been consequently communicating a pro-European stance. The EU has been presented as a platform for exerting greater political and economic power during the Polish Presidency of the EU Council, and in the time of the Multiannual Financial Framework negotiations. Moreover, Poland used the occasion to express ideas for shaping European affairs and ally with the 'majors', like Germany and France. In a speech in Berlin in December 2011, Foreign Minister Sikorski presented his vision of strengthening the EU's governance system, and called for a more active role of Germany in the process. At the same time, the enthusiasm of Poland was limited by economic feasibility. On the one hand, the country confirmed the will to join the Eurozone by 2017, and gave a green light to the fiscal pact in February 2013. On the other, due to a fear of losing competitiveness, Poland opposed the Commission's proposal on setting binding CO₂ reduction goals for 2030, regarded as having a limiting effect on the energy-intensive sectors.

In addition to the above, Poland has maintained its traditional focus on the Eastern dimension within its foreign policies. In Polish-Russian relations, the government upheld a moderate discourse while Foreign Minister Sikorski underlined that the EU should be the right forum of solving the controversies with Russia. Additionally, in contrast with political hardships, in 2012 Poland has rediscovered the Eastern export markets: Russia, Ukraine and Belarus.

Domestically, the opposition interpreted these pro-European politics as a 'loss of sovereignty', an argumentation supported by a quarter of Poles. The critique also concerned the discontinuities between the Polish and Russian reports on the governmental plane crash in Russian Smoleńsk in 2011, and the fact that the plane has not yet been returned to Poland. The government has also been criticised by Law and Justice, which raised allegations of linkages between the government with the bankruptcy



of the lender and investment firm, Amber Gold, and its daughter airline company, OLT, in 2012.

Economic situation and anti-crisis strategies

Domestic economic policy was just one of the factors which contributed to the continuous growth of the GDP in Poland. In general, the economic policy has been based on the ideas of liberalisation, rather than protectionism, with measures undertaken to stimulate consumption by, e.g. lowering the interest rates in 2012 while avoiding tax increases.

The robust infrastructural investments in transportation and energy have remained the drivers of the Polish economy. In a public address in October 2012, Prime Minister Tusk stated that the government wishes to spend eight times more



on infrastructure than on sciences while at the same time maintaining a high level of investment in the modernisation of army equipment, liquidation of a part of the pension privileges, and introduction of a 'mineral tax' for companies, partially as an answer to the activities of foreign oil and gas companies in Poland. Despite the crisis, the Poles continued spending.

At the same time, a set of *external* factors have diminished the effects of the crisis on Poland. Firstly, tying the exchange rate of the Polish Złoty to the Euro helped stabilise the national economy. The weakening Złoty (between September 2011 and May 2012) has increased the competitiveness of Polish exports. As a result, in 2012, despite a general slowdown in trade exchange, the national trade balance remained positive, with an improvement of export to the majority of the European markets (including Germany, France, and Great Britain) as well as to developing countries and emerging powers, such as India and Brazil. This was further enhanced as Germany's economic recovery – Poland's main economic partner – has provided a boost to the Polish economy. Secondly, undoubtedly, the absorption of EU funds had a positive effect on the Polish economy. As the Multiannual Financial Framework 2014-2020 increases the payments for Poland up to EUR105.8 billion, this trend is likely to continue. Thirdly, small and medium enterprises (SMEs) played a balancing role during the crisis. In general, SMEs are responsible for generating over half of the GDP in Poland. They are flexible, and have an easy time adjusting to changing market conditions.

On the other hand, these factors show that the Polish economy strongly depends on external fac-

tors. Moreover, the future may not be that rosy. Internal consumption has slowed down with the rise of the unemployment rate to above 14% in 2013. Also, governmental rhetoric has changed in the end of 2012. The government underlines that difficult economic times will come in 2013 and 2014 and that Poland no longer presents a 'green island' on the map of crisis-hit Europe.

Poland and the Baltic Sea Region

Poland's political interest in Northern Europe has increased. It is an element of the North-South Axis between the Baltic/Nordic and Visegrad countries. The first meeting of these 12 countries' foreign ministers in Gdańsk on 20 February 2013 was a starting point for dialogue between these countries.

Moreover, Poland seeks to redefine its interests in the changing paradigm of regional co-operation, caused by the renewed interest of Russia in energy and transportation investments, and close co-operation between Russia and Germany, and adjust to the changing role of the regional institutions, such as the CBSS. The country can benefit from the modernisation of the Russian Baltic Sea regions. It is, however, in Poland's interest to preserve the regional values of democracy and the human dimension of the co-operation. Additionally, the country also seeks to develop existing EU instruments for regional co-operation, including the EU Strategy for the Baltic Sea Region (EUSBSR). Its revision under the Polish Presidency of the EU Council resulted in an improvement of the strategy's mechanisms. Additionally in the strategy's new action plan, Poland took on the role of co-ordinator of the new priority area 'culture', jointly with Schleswig-Holstein.

At the same time, the crisis triggered the development of bilateral political relations in the Region, especially with Sweden and Finland. For example, co-operation with Sweden on the Eastern Partnership and security policy has continued, while the two countries built a closer administrative co-operation within the framework of the "Declaration on political cooperation in the areas of strategic importance" from 2011. Interestingly, in spite of the political stalemate with Lithuania, economic relations have been historically the strongest for Poland – last year, exports increased by over 16%, and im-

ports decreased by over 31%. Poland has also improved its trade balance with the other Baltic states.

Branding and communication of the BSR in Poland is a recent process. It came as a reaction to the process of creation, revision and implementation of the EUSBSR. Moreover, the BSR cooperation is of a meticulous, dispersed grass-root or administrative nature, and thus has difficulty being 'medially catchy'. However, in order to better understand regional needs and problems, and to increase the region's visibility in the politics of Poland, since 2011 the Polish MFA has been organising annual meetings of the Polish ambassadors to the BSR. These meetings take place in the Northern voivodeships, with the involvement of local administrations, Polish trade and cultural institutes in the region and representatives of science. It is also noteworthy, that since 2007, the capital of Warsaw has participated in the regional branding projects "Baltmet Promo" and "One BSR".

Outlook

The relative stability of the Polish economy gives reason to expect continued interest in playing a greater role in the EU. Although the economic situation in Poland will depend on European developments, in the short term perspective, the coun-

try should benefit from its privileged position of stability, predictability and economic growth – a magnet for foreign investments and for bilateral co-operation.

In the 2020 perspective, the priority will be given for wise spending of EU funds. At the same time, the government should search for alternatives to infrastructure investments sources for growth and competitive advantage, strengthen the SME sector and continue the search for new export markets. The models for these solutions are already available in the BSR and Poland should include the aspect of the models of modernisation and sustainable development into the co-operation with Germany, Estonia and the Nordic countries. Joining the Eurozone will undoubtedly have a significant economic impact. At the same time, a definite governmental stance on it in the time of crisis, as a sign of Polish determination, should not to be discounted. In domestic policies, however, should the crisis continue, and the unemployment and migration rates rise, there is a risk that this will create ripe soil for populist slogans possibly attractive for the group of 'indecisives'. The first litmus test for their preferences comes with the elections to the European Parliament in 2014.

Lidia Puka

Russia

Population	142,823,000
Surface area	17,075,400 km ²
Capital	Moscow (Москва)
GDP, 2011 (Parity of Purchasing Power)	USD3,015.4 billion, USD19,833 per capita
Currency	Rouble
Corruption level (<i>Transparency International Corruption Perceptions Index 2012; 100-90 = very clean, 0-9 = highly corrupt</i>)	28 (ranking: 133)
Current government	United Russia
Three largest cities	Moscow (11,551,930), St. Petersburg (5,227,567), Novosibirsk (1,473,737)
Baltic Sea coastal regions	Kaliningrad and Leningrad Oblasts, St. Petersburg



Leonid
Karabeshkin



Alexander
Sergunin

The Russian electoral cycle of 2011-2012 has been completed with United Russia, a pro-Kremlin party, retaining its control over the Parliament and Putin's 'second advent' to the presidential office. To consolidate its power and improve its image – domestically and internationally – the Putin regime has undertaken some electoral reforms and anti-corruption measures. The Kremlin also tries to prevent the country's slide into a new economic crisis, although it is still reluctant to implement any serious structural reforms. In contrast with early expectations, Russia's CBSS presidency entailed neither a new Russian strategy for the BSR nor better co-ordination of Moscow's BSR policies with the EUSBSR. However, the BSR will retain its strategic importance for Russia and a deeper EU-Russia dialogue on regional issues will be in demand.

Government

The current composition of the Parliament has resulted from the 4 December 2011 State *Duma* election. Four parties are currently represented in the *Duma*: the official Kremlin party, *United Russia* (which dominates the chamber), and the so-called 'systemic' opposition formed by the *Communist Party*, *Just Russia*, and *Liberal Democratic Party* (238, 92, 64 and 56 seats respectively). As a result of the 2011 elections, the *United Russia* party has lost both a fourth of its 2007 share of votes and constitutional majority (two-thirds of the seats) but managed to keep an absolute majority that allows it to pass major bills sponsored by the executive branch.

On 4 March 2012, Vladimir Putin was elected as a President for the third time, replacing Dmitry Medvedev, his close political ally, who moved to the position of Prime Minister. The Putin-Medvedev tandem has continued in a different configura-

tion. Similar to the previous administration, this tandem tries to exercise tight control over the federal executive, Parliament, judiciary, most regional leaders, mass media, and much of civil society. In spite of a series of the largest popular protests since the early 1990s during and after the parliamentary and presidential elections of 2011-2012, the Putin administration has managed to discipline the so-called non-systemic political opposition and consolidate its power.

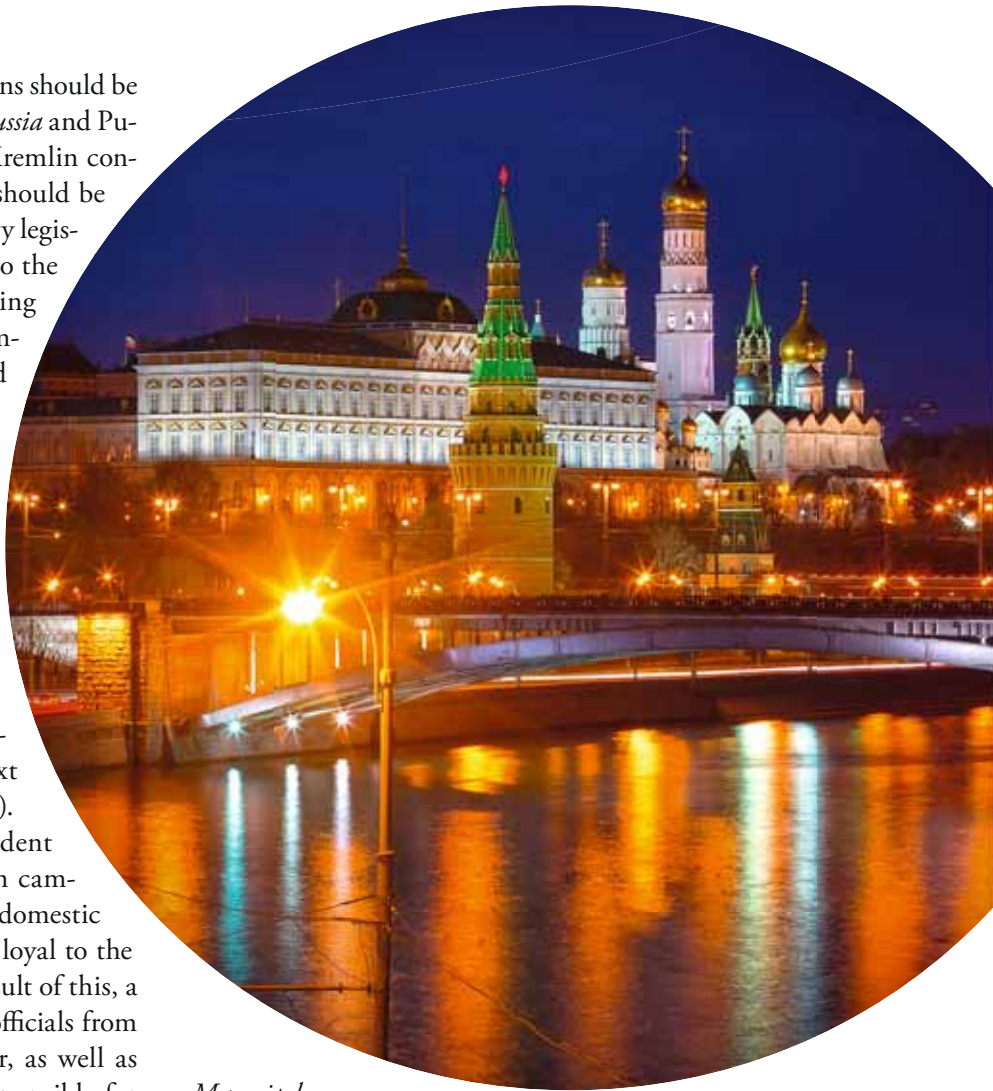
Policies

The March 2012 presidential election completed the electoral cycle that began with the parliamentary elections of 2011. On the domestic front, the Kremlin's main political purpose was to calm down (where possible) or discipline political opposition and consolidate its power. There were no concessions to the main demands of the protestors that

both the *Duma* and presidential elections should be cancelled and repeated while *United Russia* and Putin should step down. However, the Kremlin conceded that the electoral system itself should be changed and by early 2012 the necessary legislation had already been introduced into the *Duma*. For example, along with keeping a party-ticket system, the single-member constituencies would be revived to provide ordinary electors with the opportunity to bring their personal representatives in the legislature. The 'electoral barrier' for political parties will be decreased from seven to five percent. The governors will again be directly elected, although the federal centre will have some ability to filter the gubernatorial candidates beforehand. Most of the above changes, however, can only take effect when the next parliamentary elections are held (2016).

After his 'second advent', President Putin launched a new anti-corruption campaign with the aim to persuade both domestic and international audiences that he is loyal to the principles of good governance. As a result of this, a number of top-ranked governmental officials from the ministries of defence and interior, as well as from state corporations that were responsible for construction of facilities for the APEC summit in Vladivostok (2012) and forthcoming winter Olympic games in Sochi (2014) were fired, arrested or sued. Many analysts, however, doubt that the rampant corruption can be curbed by these sporadic measures while the whole system of nepotism, 'state capitalism' and the lack of a proper civilian control over the bureaucracy (main sources of corruption) remains intact.

Internationally, Putin's course was a combination of status quo (defensive) policies and assertiveness (where the Kremlin felt its interests were threatened). For example, Moscow tried to further develop its relations with the EU in areas such as trade, investment, Partnership for Modernisation, visa facilitation regime, research, education and culture. At the same time, the Kremlin took a firm stand on issues such as Western criticism of the human rights situation in Russia, ABM system's deployment in Europe, Syria or Iran. US-Russia relations were heavily damaged by the so-called



Magnitsky

act (2012), which

has introduced certain sanctions against Russian officials involved in human rights violations. Russia responded with the *Dima Yakovlev act* which not only has introduced similar measures against US officials but also prohibited the adoption of Russian orphans by US citizens. The act subsequently led to further tensions between the two countries.

In February 2013, President Putin signed a new Russian foreign policy concept which is notorious for its introduction of the 'soft power' concept. Similar to other 'great powers', the document invites Russia to rely on 'soft power' instruments (economic, diplomatic, cultural) rather than 'hard power' tools (military, economic and political pressure). However, in contrast to the original concept, the Russian version of it is more instrumentalist and pragmatic. It boils down to a sort of foreign policy 'technology' that can improve Russia's international image and secure its positions in the post-

Soviet space. It does not come as a surprise that the new concept has met with lukewarm reception and evoked some concerns among international audiences (especially in the post-Soviet countries).

Economic situation and anti-crisis strategies

Similar to many other countries, Russia's anti-crisis strategy included the following elements: manoeuvring with accumulated financial resources, support for the banking sector, attraction of foreign investment, promotion of innovative sectors of the national economy, and streamlining government spending. As a result of these policies, the Russian economy started to recover in 2010, although it slightly stagnated in 2012.

However, according to some assessments, there are a number of factors that may again send the Russian economy into a new and protracted crisis: the dependence of the economy on energy exports and the dominance of often inefficient state-controlled companies; rising public expenditure (especially in the defence sector); social inequality; severe regional disparities; depopulation and labour shortages (which Russia tries to compensate for by the inflow of migrants from the CIS countries). To prevent a new crisis, deep economic, administrative and social reforms are required, some of which may affect the interests of the pro-Putin clans and eventually destabilise his regime.

Russia and the Baltic Sea Region

The regional actors expected from the Russian CBSS presidency (1 July 2012-30 June 2013) two main innovations: a new Russian Baltic doctrine and Russian proposals on how to better co-ordinate its policies with the EUBSR. These expectations, however, did not materialise. It appeared that Moscow neither developed a new conceptual approach to its BSR policy nor planned to interact with Brussels' regional strategies.

The programme had two major sections. In the first chapter, the Russian presidency's *main priorities* were outlined: co-operation in the field of modernisation and innovation with a focus on clusters of growth; establishment of a network of public-

private partnerships (PPP) as a platform for sustainable growth; Promotion of tolerance as a means of combating radicalism and extremism; promotion of people-to-people contacts (visa regime).

The programme, as well as Russia's BSR policies in general, comes across as a rather paradoxical mixture of general declarations (main priorities) and instrumentalist/technocratic approaches (long-term priorities) that often were not interlinked with each other. For example, Russia pays great attention to BSR modernisation programmes. However, it should be noted that Moscow and Brussels have different philosophies of modernisation. While Russia's approach is rather instrumentalist and pragmatic (more investment and innovations are needed to develop the regional economy, i.e. interest-driven approach), the EU is also concerned about the rule of law, good governance, anti-corruption and anti-crime measures and human rights (value-based approach).

Despite its ambition to be maximally specific, Russia's BSR strategy has a number of rather strange lacunae. For example, the aforementioned programme almost lacked descriptions of concrete projects within the SEBA (South-Eastern Baltic Area) aegis. SEBA itself was mentioned only once *in passim* and this could not but confuse Germany, which launched this programme during its CBSS presidency (2011-2012) and hoped that Moscow would work hard to complete it. The document's sections on economy and energy were vague and lacked specific details.

As compared both to the initial German plans for SEBA and the Russian presidency's priorities, the implementation process has brought about rather modest results. Among the most significant projects, the presidency focused on the following:

- Within SEBA, funds have been made available for supporting small and medium-size enterprises (SMEs) in North-West Russia. Russia and its BSR partners regard support for SMEs as an important priority for successful implementation of modernisation programmes and strengthening the Russian middle class as the main social base for democratic reforms.
- The creation of a tourist cluster around the lake Vyshtynets at the border of the Kaliningrad Region, Poland and Lithuania, aiming at developing a transnational nature park, which will introduce new models of sustainable tourism,

environmental education and active participation of the local population. The idea is to make this cluster a role model for the entire BSR.

- In the field of youth co-operation and higher education, efforts have been undertaken to successfully continue the summer camp 'Baltic Artek'. It focuses on support for the initiatives of talented and creative young people, promoting healthy lifestyles, civic and legal education of youth, and fostering sustainable youth co-operation in the BSR.
- The second phase of the Pskov Eurofaculty project (2012-2015) to develop bachelor and masters programmes in economics, finance and law along the Bologna process education standards has been started. While St. Petersburg-based universities are capable of reforming their curricula according to European standards by themselves, the Russian north-western provincial universities require international support and expertise.

A number of important long-term CBSS priorities, such as democracy promotion and human rights (except children rights) have not been in the focus of the Russian presidency. As far as the Russian presidency's priority on visa regime liberalisation in the BSR is concerned, it is simply irrelevant for the CBSS format because the Council does not deal with visa issues. Obviously, this point was picked up from the EU-Russian bilateral agenda where it is normally discussed. Finally, under the Russian presidency, no proposals on a better division of labour and co-ordination between the CBSS and other regional initiatives/programmes/institutions,

such as EUSBSR, Northern Dimension, HELCOM, BSSSC, UBC and Nordic institutions have been made. Without this institutional setting, Russian BSR policies look isolated and non-contextual. During its CBSS presidency, Moscow tried to represent itself as an emerging 'soft power' in the BSR, emphasising that Russia no longer poses any military security threat to the countries of the region. On the contrary, it tried to create an image of a responsible and attractive regional actor that can offer mutually beneficial economic, research, educational and cultural projects to other BSR countries. Whether or not Russia's new branding and communication policies are efficient remains to be seen in the near future, although concerns regarding Russia's role as a 'soft power' in the BSR have already been expressed.

Outlook

Three major issues will remain as high priorities on Putin's future agenda: further consolidation of his political power, prevention of a new economic crises and the need to ensure a favourable international environment for Russia's domestic reforms. Irrespective of the success or failure of these endeavours, the BSR will retain its growing significance for Moscow as more or less the only place where Russia can directly interact with the EU, its most important international partner. This necessitates a further EU-Russia dialogue on co-ordinating (at minimum) and integrating (at maximum) their strategies in the BSR.

Leonid Karabeshkin and Alexander Sergunin

Sweden

Population (2012)	9.54 million
Surface area	450,295 km ²
Capital	Stockholm
GDP (PPP), per capita (Economist 2013)	USD43,710
GDP (nominal), per capita (Economist 2013)	USD55,430
Currency	Swedish Krona (SEK)
Corruption level (<i>Transparency International's Corruption Perceptions Index 2012; 100 = very clean, 0 = highly corrupt</i>)	88 (world 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



Joakim Ekman

Sweden in 2013 may be described as a country muddling through. The ruling Centre-right coalition, headed by Prime Minister Fredrik Reinfeldt, cannot muster a majority in parliament, whereas the main opposition, the Social Democratic Party, is still suffering from the problematic developments of recent years. The political newcomers, the populist far-right Sweden Democrats, have by no means become a legitimate coalition partner, even though the party's popular support seems to be stable. For the next parliamentary elections in 2014, any outcome would seem possible. The economy will presumably continue to grow, but at a rather modest pace. The country's commitment to Baltic Sea co-operation remains firm, even if it runs the risk of becoming too ambitious and ultimately being watered down, as it tends to encompass everything from strictly internal EU initiatives to foreign security concerns regarding Russia.

Government

Sweden is in between elections, a fact that might come as something of a relief to the ruling Centre-right coalition, as well as to the leftist-green bloc: 'the Alliance' remains a minority government, facing the potential challenge of the far-right populist Sweden Democrats becoming the fourth largest party in parliament in 2014, whereas the Social Democrats, the Left Party and the Green Party have yet to come up with a viable common agenda for the next parliamentary elections. Indeed, it is far from certain that there will in fact be a common electoral platform in 2014.

The last Swedish general elections entailed something of a disaster for the Social Democrats. The once-dominant party was defeated for the second time in a row by the remodelled 'new

Moderates' and the centre-right coalition 'the Alliance', which is currently in office. As a result, party leader Mona Sahlin resigned in spring 2011. Her successor Håkan Juholt assumed office in March 2011, only to resign not even a year later, in January 2012, following massive internal opposition and unfavourable opinion ratings. On 29 January, former trade union leader Stefan Löfven replaced Juholt, which resulted in a temporary boost in support for the Social Democrats. However, Löfven kept a very low profile for most of 2012, and only after his formal appointment as party leader, at the Social Democrat party congress in early April 2013, has he entered the stage as the main opposition leader. As such, he tries to strike a balance between being an advocate of traditional social democratic values and a supporter of the industrial sector. In the spring of 2013,

popular support for the Social Democrats was on the rise, according to various opinion polls.

2012 saw a few new faces in Swedish politics, in addition to Löfven. Just a couple of weeks before Juholt's resignation, the Left Party chose a new leader as well to replace veteran Lars Ohly: Jonas Sjöstedt. Nonetheless, the party will have a hard time achieving more than about five per cent of the votes, as it had in the last elections.

As for the small parties within the ruling coalition, the party leaders have weathered their fair share of internal criticism. In early 2012, a moral conservative fraction within the Christian Democrats tried to ouster long time party leader Göran Hägglund. The attempt ultimately failed, but indicated a divided party and a general impression among the own ranks that Hägglund stands out as too dependent on the main party of the coalition government, the Moderates.

Just like the Christian Democrats, the Centre Party seems to be moving downwards below the four per cent threshold, which would prevent them from entering parliament in 2014. Party leader Annie Lööf has generally failed to meet the expectations of her rank-and-file. A number of controversial suggestions in late 2012 and early 2013, as a part of the attempt to formulate a new party program, have further added to internal opposition.

The right-wing populist Sweden Democrats (SD) have experienced a turbulent period as well, having been heavily monitored in Swedish mainstream media throughout 2012–2013. In November 2012, tabloid *Expressen* published a video clip of two top SD politicians – Kent Ekeröth and Erik Almqvist, alongside party member Christian Westling – behaving like thugs in the street, dropping uncouth racist and sexist remarks and carrying large iron bars to threaten an opponent. The 'iron pipe scandal' evoked a public outcry, and both Ekeröth and Almqvist were given new assignments, but were in the end not forced to leave the parliament. However, at least in the short run, the incident did not alter public support for SD and party leader Jimmie Åkesson.



Policies

The financial crisis in Europe and the 'between elections' mood have contributed to the somewhat mundane character of Swedish politics. If anything, 2012 has been a year of political scandals and replacements. In addition to ever-present domestic issues like the economy, unemployment and refugee and family immigration from outside of Europe, the political debate has focused a lot on the welfare sector. The question of profits for companies operating in the public sector, for example health care providers and independent (private) schools have given rise to occasionally heated debates.

The present Swedish foreign policy follows in the footsteps of the 2010 Foreign Policy Statement of the Reinfeldt government. Sweden is a member of NATO's Partnership for Peace, but for the time being not a contender for NATO membership. Recently, cutbacks in the Armed Forces have provoked some controversy. In spring 2013, the Rein-

feldt government and Foreign Minister Carl Bildt faced criticism for not reacting to Russia's current military build-up. Such accusations have generally been considered to be an attempt on behalf of the opposition to highlight divides within the Alliance.

Economic situation and anti-crisis strategies

Why is Sweden not 'Greece', to use the well-known contemporary symbol of a European country struggling to survive in the face of severe economic problems? Prime Minister Reinfeldt and his Minister of Finance Anders Borg have in recent years managed to stand out as credible caretakers during this difficult financial situation, and the Swedish banks have remained more or less intact over the past years, even though various support packages and measures have been introduced by the government. Sweden came out of the early years of the crisis (2008–2009) somewhat shattered, but since 2010, the country's traditional heavy export industries have been able to capitalise on increasing demand from the global market, and tax cuts and low interest rates have strengthened the domestic market. Still, unemployment remains a serious challenge, and in late 2012 and early 2013 a number of large business enterprises announced huge layoffs. Unemployment is currently about 8 per cent but disproportionately high among young people (15 to 24), presently some 25 per cent. Also, heavy cuts in Swedish welfare state arrangements in recent years (e.g. sick pay and unemployment benefits) have of course come with a certain social price. In conclusion, Sweden is not 'Greece', but certainly not immune to the present European sovereign debt crisis.

Sweden and the Baltic Sea Region

In line with the post-war national self-image of a modern Northern European democracy, staying outside of military alliances in peacetime in order to remain neutral in the event of war, Sweden has tried to portray itself as a leader in Baltic Sea co-operation. The country is eager to contribute to peaceful joint Baltic and Northern European initiatives to face common challenges like un-

employment, environmental issues and security concerns in the region. Accordingly, prominent politicians have hailed the EU Strategy for the Baltic Sea Region (EUSBSR) as a project of utmost importance to Sweden.

In reality, Sweden's actual involvement in the Baltic Sea Region has never been restricted to the EU agenda. For example, from July 2010 to June 2012, Sweden held the Helsinki Commission (HELCOM) chairmanship, which provides a platform for intergovernmental co-operation on environmental issues in the region. In line with this, the Swedish Environmental Protection Agency co-ordinates, in co-operation with HELCOM, the EUSBSR Priority Area Hazards, in order to prevent hazardous substances from entering the Baltic Sea. Also, there have been a number of national instruments set up in recent years to promote regional co-operation, for example business development, environmental protection and civil society collaboration. The academic Visby programme was set up as early as 1998, and both SIDA's Baltic Sea Unit (2005) and the business leadership Management Programme (2008) have fostered Baltic Sea co-operation independently of one another. In 2011, the Swedish Institute (SI) was formally given the assignment of focusing on the EUSBSR. However, at the same time, SI was also given an assignment by the government to work with regional co-operation within the framework of the EU Eastern Partnership (EaP) as well as within the framework of the EU–Russia partnership.

While this may be seen as a way of uniting a number of independent activities under a single umbrella, making perfect sense for Sweden which has long viewed Russia as the key to successful BSR co-operation, there is always the risk of making practical work too complicated and ultimately watering it down. On the other hand, this compromise is admittedly one way of including the EU and Russia within the same BSR framework, which in the end could benefit both the EU Cohesion and the Neighbourhood Policies.

Outlook

In 2013–2014, Sweden will remain firmly committed to BSR co-operation, both within and beyond the EUSBSR. The country co-ordinates

four of the 15 Priority Areas of the EUSBSR, and focuses in particular on three key areas promoted by the Reinfeldt government: protection of the Baltic Sea environment, infrastructural integration and increasing the wealth of the region. In particular, the maritime environment has been highlighted by EU Minister Birgitta Ohlsson as one of the most important issues for Sweden to

deal with. In 2013, there will also most likely be a more animated political debate in Sweden, as the main contenders start to prepare for the 2014 European Parliament elections, as well as the September 2014 national parliamentary elections.

Joakim Ekman

Regional Issues

Chances, Opportunities, and Challenges

Nuclear Policy: A fall-out between Germany and Poland / the Baltic states?



Peer Krumrey



Kinga
Dudzinska

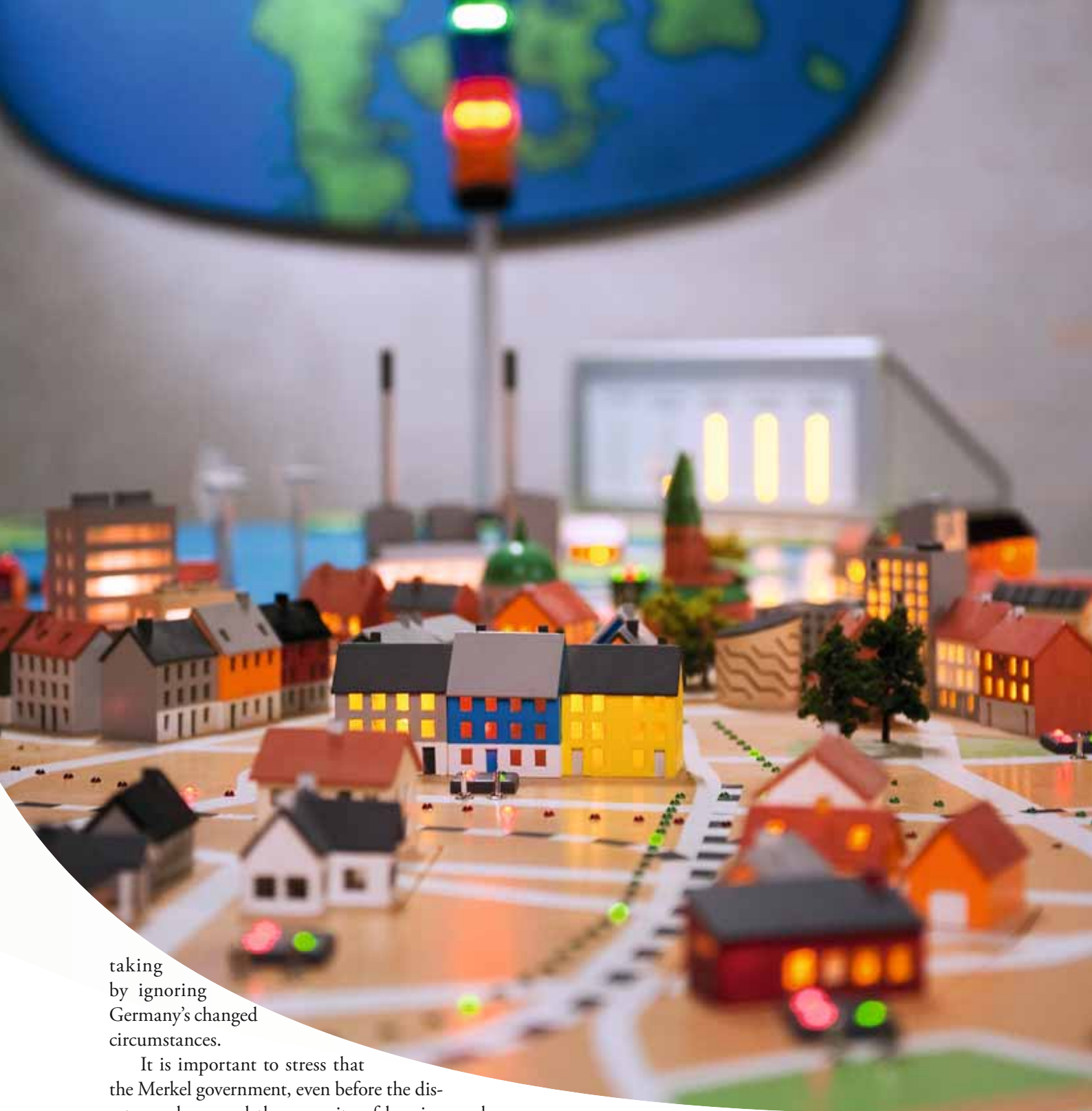
The EU has agreed upon a long-term objective to minimise emissions and strive together for a low-carbon economy. This energy transition path is, for instance, reflected in the EU's Climate and Energy package.¹ However, the devil is in the details, because the implementation measures to meet the second target remain largely within the jurisdiction of each member state. Hence, a broad variety of options and strategies is thinkable, drawing on various historical developments and economic settings, yet not stating anything about the country's commitment per se. How much strategies and generation mix may differ even in otherwise economically rather homogeneous regions is nicely illustrated by nuclear energy. Along the Baltic Sea shores, one can find all sorts of approaches to the issue. Countries have chosen not to use nuclear energy at all (Denmark) or to entrust the technology with a major share of their energy provision (Finland, Russia). Some have experienced public uprising against their chosen path (Sweden, Germany) while others decided to pursue a proactive nuclear policy (Poland, Lithuania) or at least to be open-minded (Latvia, Estonia). Why is that the case and how is nuclear energy and its future role framed? Germany and the states adjoining the south-eastern coastline of the Baltic Sea Region have recently altered their nuclear policies but arrived at quite opposite results.

Phase out - a German angle

Nuclear energy does not have a future role for Germany's energy system because it is perceived as unsustainable, dangerous, but above all outdated and inconsistent with the country's energy transition needs. To phase out nuclear energy is a – if not the – key feature of the *Energiewende* concept, which up until now has focused almost exclusively on the electricity sector, sidelining the transportation and heating sector. To understand Germany's stance, two defining layers need to be taken into consideration: domestic constraints and future needs.

When Chancellor Merkel, in the wake of the Fukushima Daiichi catastrophe in March 2011, proclaimed the nuclear phase-out, many foreign analysts tended to see a uniquely German mixture of *angst* and technology mistrust at work. While it is indeed true that domestic considerations are likely to have influenced this U-turn, their constraining capacity was widely exaggerated. Certainly, mass protests and electoral shifts accelerated the process. This became most obvious in the federal state election of Baden-Württemberg, where the conservatives endured a crushing defeat in one of their heartland states while Germany's first Green Party minister-president assumed office. To trace back nuclear policy turnaround solely to this, however, misses the point, as it fails to take into account a shift in the larger discourse. Environmental risk perceptions, which are now used to provide reasons for this policy makeover, were surely also included into risk assessments conducted only the year prior. Yet this did not deter the centre-right government from a – even at that time fairly unpopular – lifespan extension of German nuclear power plants in October 2010. If the Fukushima Daiichi catastrophe indeed played a part in the policy turnaround, it did so by opening a window of opportunity to mitigate a societal cleavage and to correct a misjudgement the government was

¹ The Climate and Energy package is a set of binding legislation which aims to ensure that the EU meets its so-called '20-20-20 deal' (a 20% cut of greenhouse gas emissions, to source 20% of overall energy consumption from renewable energy sources and a 20% increase in energy efficiency by 2020).



taking
by ignoring
Germany's changed
circumstances.

It is important to stress that the Merkel government, even before the disaster, only argued the necessity of keeping nuclear power plants (NPP) online in order to bridge, in an economically sound manner, the gap to the period when renewable energy sources (RES) would be capable of fully supplying Germany. The long-term vision of converting electricity generation entirely to RES was accepted by the governing parties, with nuclear energy being part of the old fossil fuel trajectory to be replaced. The argument to keep it temporarily was that already-amortised NPPs could make a crucial contribution to the supply security and affordability of electricity, and thus cushion the transition. To this

end, a tax was implemented aimed at generating extra funding for RES projects. Building new NPPs was not considered at all, as long-term planning and economic risk rendered such a project infeasible.

The key drivers were not public opposition but economic considerations. Quite to the contrary, by extending the operating licence of all German NPPs by between 8 and 14 years, the centre-right government had deliberately defied the traditional anti-nuclear opposition before. While a major share of the German population certainly viewed nuclear energy

critically, they were not willing to gamble with the economic rationale. This argument, however, took a serious blow when the government, after the lifetime extension, met significant protest from stakeholders like communal energy providers, certain industry interest groups, policy advisors and scientists, all of whom were rather untainted by green ideology. Their economic reservations undermined the credibility of the argument that nuclear energy was indispensable in terms of economic efficiency. The societal consensus had shifted. It did not only dilute the government's line of argumentation but also put them close to the reproach of pursuing private interests instead of general social welfare.

Alongside this shift in public debate, the pace of conversion towards a RES-based supply system has created a new reference framework. In 2012, the share of RES in electricity generation almost equalled the share of pre-phase out nuclear energy. Since the generation capacity is predominantly made up of intermittent sources, such as solar and wind, they pose a challenge in terms production planning. In light of unlimited precedence by law for RES-generated electricity, typical baseload² power plants like NPPs are more often pushed out of production, rendering the traditional understanding of baseload rather useless. Instead, demand-side management and power plants capable of responding flexibly and instantly to generation needs are required.

Taken together, these two factors – a changed public debate and altered generation mix requirements – have disposed the Christian Democrats to subscribe to the nuclear phase out, following the lead of the Greens and Social Democrats. Its junior partner, the Free Democratic Party, is indifferent. Arguments against this course have largely proven inapplicable. Germany neither endured a major wintertime black-out nor did the decommissioning of eight nuclear reactors directly increase greenhouse gas emissions from electricity production. In terms of economic costs, the record is still indeterminate, but according to the German Renewable Energies Agency, Germany was able to omit fossil fuel imports of EUR6 billion in 2011 because of installed RES capacity.

To draw a conclusion, Germany's nuclear policy is borne by broad societal consensus denying the technology a part in the future energy system. The Fukushima incidents, however, are not its source, but

rather a late stage in its evolution, marking the end of economically-founded objections. There are, indeed, flaws in this perception. One might question the economic cost-benefit calculation by a shut-down of existing and well-functioning NPPs. The partial substitution of low-carbon nuclear energy with lignite is another potential objection. Germany also takes advantage of its central location, exporting some costs to its neighbours. On the other hand, one should not underestimate the symbolic value of closing ranks in society with respect to the *Energiewende* vision. To gather an overwhelming part of industry, politics and society behind a common vision may prove valuable, and the consensus seems to be rather stable. To give up nuclear power thus appears to be a price worth paying.

Phase in? – a Polish and Baltic angle

Since the shutdown of Lithuania's Ignalina NPP in 2010, neither Poland nor any of the Baltic states possess a NPP. However, unlike in Germany, nuclear energy is deemed expedient from a strategic angle. It is regarded as an instrumental tool for achieving energy independence, particularly from Russia, and for diversifying energy sources, as well as a means to comply with economic objectives and – especially in the case of Poland – low carbon targets. The general framework differs substantially from that of Germany. The focus is not on changing an existing network, but on fully integrating into the European network and improving in terms of performance. The Baltic states, for instance, have currently only one power bridge – EstLink 1 – between Estonia and Finland, and a second (EstLink2) is in the process of being built.

To overcome this situation, the Baltic Energy Market Interconnection Plan (BEMIP) was issued by the EU. BEMIP includes a new NPP – a project in Visaginas – as an integral part in order to increase power generation capacity and supply security. Based on strong Soviet traditions, a construction of a new NPP is believed to be feasible in terms of experience and know-how, as well as relatively high social acceptance.

Despite basic similarities and the shared goal of increasing energy independence the premises of the states of the South-Eastern Baltic Sea shores are diverse. Due to its own oil shale resources for energy

2 Baseload means the constant or permanent load needed in power supply during every time of the day.

production, Estonia is the most independent. To a great extent, Latvia has its own energy policy based on gas, owning underground storage facilities in Inčukalns, and RES, making the country one of the 'greenest' in Europe. Lithuania is in the most difficult situation, as it transformed from an energy exporter into a net importer when Ignalina went offline. The latter also worsened the general situation, as it left the Region with a deficit of electrical power. As a consequence, the Baltics are forced to increase electricity imports and thus added electricity dependence to gas imported from Russia. Lithuania, for instance, currently depends on Russian energy sources for 80% of its needs.

As consumer prices of electricity and heating rise significantly, the goal of energy independence is confronted with economic constraints. Since the public debate had long framed nuclear power energy as cheap, and the NPP in Visaginas consequently presented as a source of energy that was above all cheap, stable and clean, public support was expected to be stable. After signing a first draft of partnership in 2006, however, internal disagreements, delays in implementation and changing external conditions complicated the plans. Poland, which at one stage joined the Visaginas project, withdrew later. A failure may impact Lithuania's energy security adversely and, in the long term, even regional energy co-operation.

Apart from these self-imposed considerations, there is also an external driver: Poland and Estonia, in particular, need to reduce greenhouse gas emissions, as their energy production is largely based on coal and shale oils, respectively. With regard to EU climate policy related to CO₂ emissions, the need to reduce the share of coal in the energy mix poses an even bigger challenge for Poland. Seeking to develop a NPP, even despite the international protests by some, including Germany, offers an exit option from this predicament, especially in light of the unrealised expectations of shale gas.

The downside to this strategic motivation is economic reality. Competing NPP projects in Kaliningrad Oblast and Belarus, currently planned or already being built, potentially undermine the economic foundation of a new construction like Visaginas, especially if Russia aims at selling electricity to Germany, and/or Lithuania and Poland. In light of high investment and operating costs, which are also hard to calculate, it is difficult to reach a compromise

among potential shareholders, currently all three Baltic states and Hitachi. Moreover, the project's benefits are hard to be shown to the commonality. As a result, the population, suffering from the economic crisis, increasingly questions the merits of expensive energy projects, which in turn get gradually politicised. Lithuania's new government, for instance, got into a delicate situation because of a non-binding referendum on the construction of Visaginas, which rejected the project by a vast majority (63%). Although the government has criticised former Prime Minister's Kubilius mantra to decrease Lithuania's energy dependence at almost all costs, they see NPPs still as an option to be developed alongside RES.

Poland struggles with a similar situation, i.e. uncertainties in terms of financing and public support, which have postponed a NPP's construction, and not for the first time. There is still no clarity as to under what conditions a NPP could be built. So far, the plans of the Polish Energy Group (PGE) involve the construction of two NPPs with a capacity of about three thousand MW each, with the first block to be launched at the end of 2023. According to a recent poll, however, Poles prefer energy from shale gas to nuclear energy. The failure of the Fukushima NPP has caused some reservations, with the result that half of the respondents (52%) oppose the construction of a Polish NPP. Only slightly more than one third (35%) would accept such. As well, the economic objections have not disappeared. The high investment costs pose the biggest challenge and PGE has already announced that it will apply for a government loan.

Conclusions

When comparing both approaches to each other, the similarities become apparent. All countries develop their policy against similar constraints and drivers. Most of the objections obviously stem from economic concerns. Differences can be pinpointed at the public acceptance layer, with the German population being far more sceptical about nuclear energy, especially in terms of environmental concerns. Most striking is the difference in the perception of future needs. While east of the Oder-Neiße line, objections against one's own nuclear policy are disregarded due to a strategic dilemma, Germany has tended to bet everything on RES development.

Peer Krumrey and Kinga Dudzinska

The HELCOM Baltic Sea Action Plan: Challenges of implementing an innovative ecosystem approach



Michael
Gilek

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Fanny
Engkvist

Kristine
Kern

For almost four decades, HELCOM has been an important hub for regional collaboration on the Baltic Sea environment. The Helsinki Convention (1974; 1992) defined the structure of inter-governmental co-operation, while the joint action plans, the Baltic Sea Joint Comprehensive Environmental Action Programme (JCP) of 1992 and the Baltic Sea Action Plan (BSAP) of 2007 served as ambitious and concerted efforts to address the most important marine environmental problems in the region. The JCP approach was rather traditional in the sense that experts in marine sciences identified problem areas and substantial amounts of money were raised in order to invest in more environmentally friendly technologies and processes. However, the BSAP follows a different approach. Instead of targeting individual problem areas and increased investments, a holistic perspective is adopted where the ecosystem approach to management (EAM) stands at the forefront. In EAM the status of the entire ecosystem rather than threats to individual species is seen as the primary basis for developing protection targets and management measures. These changes are radical as they require a new integrative approach (collaboration between as well as within sectors), new decision-making mechanisms including new actors (stakeholders from the private sector, the public sector and civil society) and new forms of knowledge (through synthesis of traditional scientific, practitioner and local stakeholder knowledge). The new approach, on which the BSAP is based, has had impacts not only in the BSR but also for the development of, for example, the EU Marine Strategy Framework Directive (MSFD).

The ecosystem approach and the Baltic Sea Action Plan

At a first glance the inclusion of the ecosystem approach to management (EAM) in the Baltic Sea Action Plan (BSAP) seems to have implied a fundamental change in the approach to marine environmental governance. However, a closer look at the action plan gives a more nuanced picture. First, in the BSAP the contracting parties agree to achieve a Baltic Sea in good environmental status by the year 2021. Descriptors for this are further defined in four segments linked to eutrophication, hazardous chemicals, biological diversity and maritime activities. Thus, the BSAP includes elements of a sectoral approach and the question is to what extent interdependencies among environmental risks and pressures (i.e. among segments) are considered. Second, even though HELCOM's definition of EAM includes a reference to necessary trade-offs between use and ecosystem integrity, the main implementation tools are firmly based in the ecological dimension of sustainability, thus more or less neglecting the social and economic dimensions of sustainability. Third, although substantial effort has been put on reaching a harmonized operational understanding of the EAM, there are still diverging opinions on how to define and prioritize EAM implementation among experts and stakeholders. For example, similar to the general setup of the BSAP, experts and practitioners tend to define EAM as primarily being based on scientific knowledge relating to ecosystem pressures and impacts. On the other hand, various stakeholder groups such as farmers and other practitioners mention sector and knowledge integration, as well as arenas for stakeholder input as key components (and possible implementation bottlenecks) of EAM.

National Implementation Plans (NIPs) – Structure and shortcomings

The execution of the Baltic Sea Action Plan (BSAP) framework was formally initiated in 2010, although all National Implementation Plans (NIPs) had not been made available until March 2011. The BSAP framework gave the countries quite extensive flexibility to choose the most cost-effective measures to reach the objectives and to adapt concrete plans to national considerations and pre-conditions. Consequently, it comes as no surprise that the NIPs differ quite substantially in terms of content, structure and detail, as well as in respect to implementation of EAM-related measures.

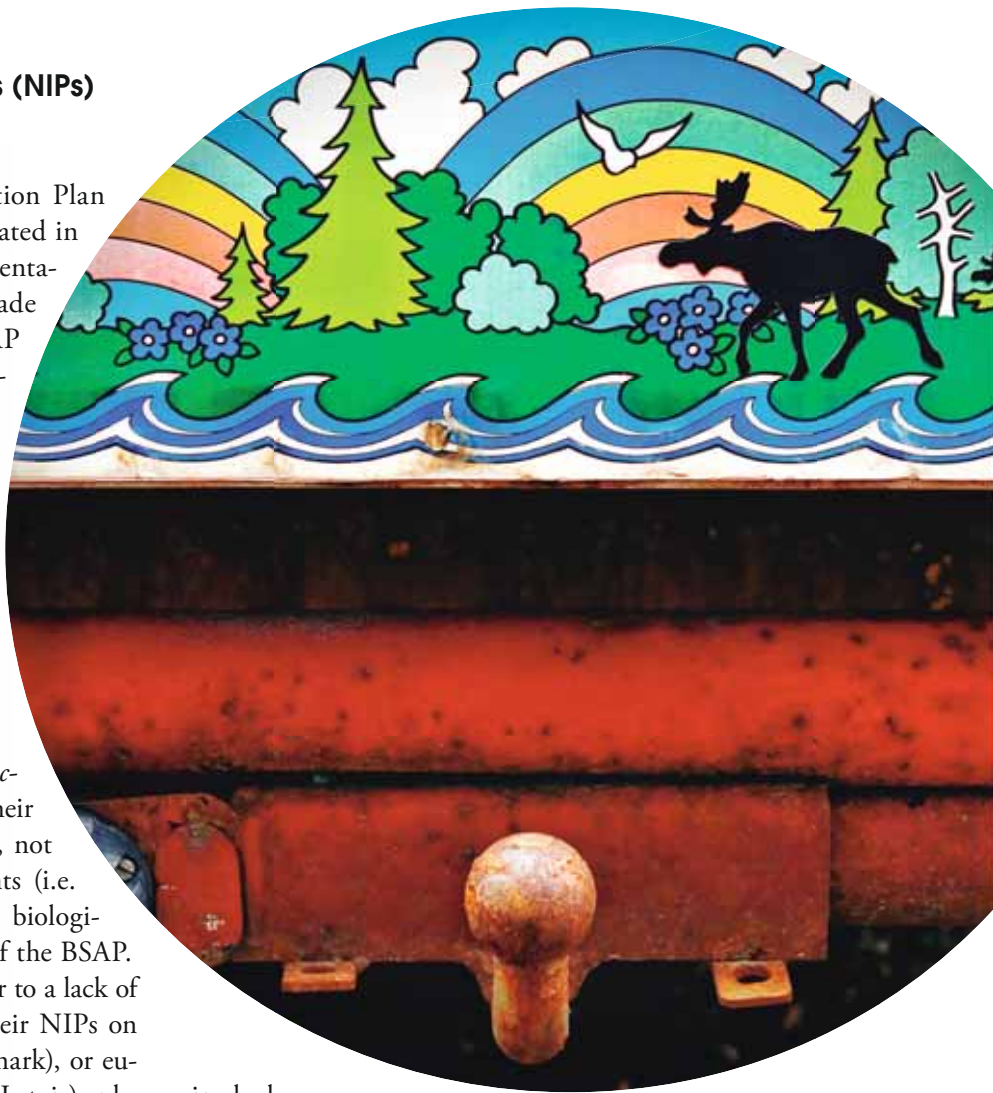
First, in relation to *content and structure*, the NIPs differ substantially in their general outline and structure. In fact, not all countries address all four segments (i.e. eutrophication, hazardous chemicals, biological diversity and maritime activities) of the BSAP. For example, Denmark and Latvia refer to a lack of administrative resources and focus their NIPs on eutrophication and biodiversity (Denmark), or eutrophication and hazardous substances (Latvia) only.

Second, in relation to *level of detail* in the eutrophication segment, this varies in several respects. For example, some countries mainly describe management objectives (e.g. Lithuania), whereas for example Sweden provides rather detailed accounts of planned projects and intended measures. Furthermore, there is a discrepancy in detail regarding the extent to which the plans include concrete new measures contrary to a compilation of already planned ones linked to EU Directives such as the Water Framework Directive (WFD). Denmark, for example, argues that measures linked to River Basin Management Plans under the WFD will be sufficient for meeting their nutrient reduction requirements under the BSAP. While most countries do not separate already planned and new measures in their NIPs, primarily Estonia (but also Poland and Sweden) provides clear information on such new measures.

Third, with regard to *financing*, only about half of the NIPs (e.g. Russia, Estonia and Sweden)

include specific descriptions of costs and financing (albeit with varying levels of detail). On the other hand, several countries (i.e. Germany, Denmark, Finland and Latvia) do not mention anything about financing in their NIPs. In those cases costs are specified, measures linked to the reduction of eutrophication are generally identified as the most expensive (e.g. 50% of costs for Estonia and 70% for Russia).

Fourth and finally, four of the countries (Denmark, Finland, Russia, and Latvia) do not explicitly mention the *ecosystem approach to management (EAM)* in their NIPs, whereas the others describe the associated principles and in some cases provide plans for how to operationalise EAM into specific tasks. In general, it is in the biodiversity (rather than in the eutrophication) segment where references to the EAM occur (e.g. linked to spatial planning and fisheries management). Regular implementation meetings between different ministries, agencies and groups indicate that the BSAP



in a way has stimulated some top-level co-operation across sector borders. For example, Latvia has established inter-ministerial and inter-institutional working groups for the coordination of the implementation and Sweden has established a new cross-sectorial authority for water management (i.e. the Swedish Agency for Marine and Water Management). Stakeholder inclusion in environmental management is also in a process of development in the BSR. However, most of these developments are not primarily linked to the NIPs but rather to national implementation of binding EU legislation, such as the Water Framework Directive, the Marine Strategy Framework Directive and regional fisheries management in the BSR through the EU Common Fisheries Policy.

The ecosystem approach in BSAP implementation

The implementation of the Baltic Sea Action Plan (BSAP) through the National Implementation Plans (NIPs) has been initiated, but the achievements so far differ significantly among the HELCOM countries, i.e. there is still a lack of a common implementation strategy. The way the NIPs have been formulated differ substantially, which makes comparisons difficult and joint monitoring schemes a challenge for successful implementation. Among the BSAP segments, eutrophication dominates in terms of level of ambition and degree of concreteness in suggested measures. Following a HELCOM meeting in 2011, discussing the challenges regarding financing, reporting and monitoring, the system for implementation monitoring (BSAP index of action) has been updated to improve possibilities for comparisons. The need for the contracting states to develop more detailed plans for concrete measures and to secure funding for their implementation was also identified. However, the integration of the EAM's (ecosystem approach to management) key components into the implementation of the NIPs largely remains to be done. Substantial efforts have been undertaken regarding nutrients in terms of finding ways to identify implementation strategies based on the BSAP and within the framework given by the MSFD on reduction of nutrient inflows to the Baltic Sea. Although a substantial proportion of the suggested

measures had been planned before the signing of the BSAP, for example, to build new wastewater treatment plants, step up the effectiveness of existing plants, to reduce agricultural run-off in different ways and to work for stricter regulation of pollution to the air from marine transportations, many new initiatives have been suggested as well.

However, in terms of EAM implementation, it is striking that issues related to cross-sector co-operation, stakeholder inclusion and adaptive governance have been given scant interest in most countries' NIPs. Similarly, integration of scientific, traditional and practitioner knowledge is largely missing in decision-making processes. Rather than attempting to achieve co-production of new knowledge and to emphasize stakeholder influence over implementation strategies, the approach in most cases has been top-down information. More of the same, rather than a new approach to marine governance, dominate most national BSAP implementation plans. Since traditional ways to reduce nutrient inputs to the Baltic Sea such as increasing the effectiveness of nitrogen removal in wastewater treatment plants are increasingly expensive and hard to achieve, shortcomings in terms of systemic change towards EAM may mean that the significant reductions needed for fulfilling BSAP and MSFD (Marine Strategy Framework Directive) goals could become problematic to reach.

Key challenges and policy recommendations

Based on the review of national plans for BSAP implementation, several key challenges and policy recommendations can be identified:

Achieving concreteness and financing of suggested measures: Measures to reduce eutrophication stand out as more concrete and fully-elaborated than the other BSAP segments. To ensure that this build-up of momentum is not lost, national authorities need to step up this level of concreteness in all other NIP segments, preferably while at the same time harmonising reporting with the other countries to improve comparability and joint monitoring. Costs and financing of suggested measures also need to be more explicitly addressed.

Promoting wider EAM implementation: So far, the place-based ecological components of EAM

have mainly been included in the NIPs. The lack of integrated arenas for stakeholder input in particular may hamper BSAP implementation and outcomes in terms of 'goal attainment'. To ensure that EAM becomes a fundamental and integral part of BSR environmental governance, aspects related to social systems and to interactions within socio-ecological systems need to be turned into concrete measures. Existing initiatives to stimulate interaction over sector borders on a national as well as a regional level also need to be nurtured. State-of-the-art examples of, for example, successful cross-sector collaboration and stakeholder inclusion initiatives should be identified and communicated to relevant audiences. HELCOM has put a lot of effort into reaching an operational understanding of EAM and would be an appropriate agent for such an increased effort to identify and share model examples of EAM in the BSR.

Strengthening synergies with EU marine governance: The complex interactions between the implementation of the BSAP on the one hand, and EU legislation (such as the MSFD) on the other,

need to be better understood in order to facilitate the co-ordination of the implementation of both regulatory frameworks. Since the MSFD has been influenced by the BSAP, synergies between them are most obvious when comparing decision-making in Brussels and Helsinki. However, there is still a lack of knowledge with respect to the co-ordination of the implementation at national (and subnational) levels, and awareness of the options available to harmonise implementation strategies and develop a common implementation strategy for the whole sea. Strategies to integrate different sectors at a national level and to institutionalise this integration within national agencies are urgently needed. This should be accompanied by EU and HELCOM initiatives that facilitate the exchange of national experiences and the transfer of best practice among national agencies, thus possibly helping to reduce implementation gaps.

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Tourism in the BSR: Current state and future perspectives



Maria Erashova

Tourism is a fast-growing sector: in 2011, it demonstrated a 3.9% global growth in real terms. In 2012, more than one billion tourists crossed a border during their travels, which stands in stark contrast to the 435 million in 1990, and only 25 million in 1950, who did the same. Taking these trends into consideration, experts estimate an increase of international tourism arrivals to Europe from 500 million to 750 million by 2030 (Pierret 2012). This raises questions: who will host these additional 250 million tourists in the coming decades? Is the Baltic Sea Region (BSR) ready to receive parts of this market within its borders?

Tourism in the economies of the Baltic Sea States

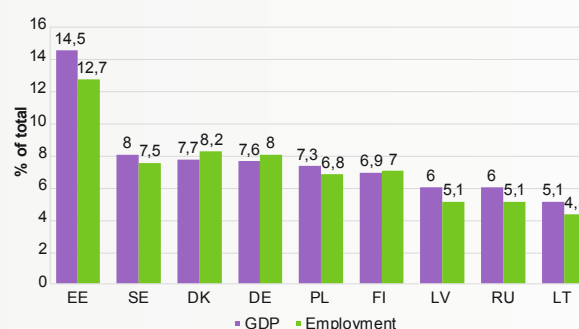
According to the World Tourism Organisation, the countries of the Baltic Sea Region gained 9% of the world international arrivals (89 million) and 9% of the world total receipts from international tourism (EUR 63 billion) in 2012. However, when only coastal regions of the bigger countries (Germany, Poland and Russia) are considered in the calculation, these figures drop to 3.5%, which means approximately 34 million of international arrivals and EUR 24 billion in terms of receipts.

In the context of national economies, there are relatively high revenues coming from the *direct contribution* of the Travel & Tourism (T&T) industry (output of tourism-characteristic sectors such

as accommodation, transport, food and beverage services, travel agencies, culture, sport and recreation services that deal directly with tourists) to the Baltic Sea states' economies, composing on average of 2.1% of national GDPs and total employment rates (see Graph 1).

Moreover, when adding indirect (investments, government spending, domestic purchases, etc.) and induced impacts (spending of those who are directly or indirectly employed by the T&T industry) (WTTC 2012), the total contribution of T&T becomes as high as 7% of GDP and total jobs in the BSR (see Graph 2).

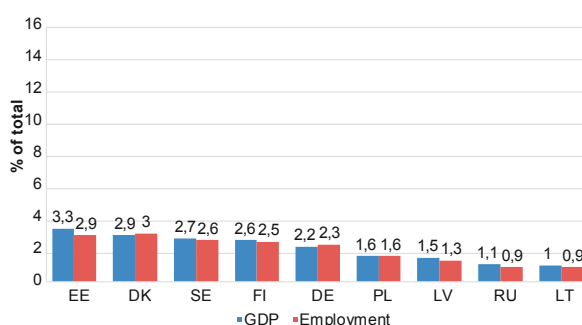
Graph 2. T&T economy in BSR, 2012 estimates



The contribution of tourism to social development of the areas in question should not be underestimated either. Tourism matters when it comes to the employment of young people and women, preservation of cultural heritage and enhancing the creative cultural capital of smaller and rural territories. Tourism also promotes sustainable development, including protection of natural heritage sites and involvement of local population in economic activities. Cross-border travelling also positively enhances mutual inter-cultural understanding.

The relatively high growth rate of the tourism sector in the region notwithstanding, the Baltic Sea countries face challenges related to competition for tourism markets, especially against 'sunny destinations' such as the Mediterranean and developing countries (Thailand, Indonesia, Latin America, etc.). The extremely short high season (three-four months)

Graph 1. T&T industry in BSR, 2010 estimates



1 Author's work based on data from WEF 2011

and expensive manpower render the tourism offer of the BSR uncompetitive in price terms. The Baltic Sea countries thus strive to focus on their comparative advantages in relation to other global destinations, such as sustainability, highly developed infrastructure and rich opportunities for active and cultural experiences. They also tend to facilitate BSR domestic demand, probably counting upon the similar Nordic mentality of their sea-neighbours, but also on the capitals of German and Russian tourists, who are among the top 10 spenders (1st and 7th respectively) in the world (Pierret 2012).

International tourism co-operation around the Baltic Sea

In this process of approaching new tourism markets and boosting domestic tourism flows, the BSR countries are inclined to cooperate with each other at different levels, depending on their geo-political positions and historical relationships.

The first type of international tourism co-operation in the BSR occurs at the **cross-border level**. Neighbouring regions aspire to work together when creating cross-border tourism infrastructure. Relatively developed co-operation exists in the western part of the region, between the Scandinavian countries, and in the north, between Finland and the Leningrad region. The latter intersects with the eastern area, which is composed of the three Baltic states (Estonia, Latvia and Lithuania) which work closely with the entire north-west region of the Russian Federation. Finally, transnational co-operation in the south of the Baltic Sea, stimulated mostly by the Pomorsky Voivodeship in Poland and Mecklenburg-Vorpommern in Germany, also engages the partly coastal Polish region Warmia-Mazury, the Kaliningrad region in Russia and Klaipeda and its surroundings in Lithuania. It is worth noting that at this level the shape of the relationship is stipulated not only by historical grounds but substantially by the structure of cross-border and transnational operational programmes of the EU.

The second layer of transnational co-operation in the region takes place on the EU level and is governed by the EU Strategy for the Baltic Sea Region

(EUSBSR).

The EUSBSR Priority Area (PA) Tourism, co-ordinated by the German state Mecklenburg-Vorpommern, is intended to facilitate coherent networking of tourism stakeholders around the Baltic Sea. The ultimate objective is to institutionalise tourism co-operation in the BSR by creating a permanent co-operation platform for stakeholders from the entire region, including Russia and Norway, both at operational and political level (European Commission 2012). However, so-called flagship projects within this priority area cover not only multi-level governance issues but also specific tourism topics which are the most challenging and prominent for the BSR. The emphasis lies on cruise tourism and accompanying land excursions, tourism in rural and coastal areas, sustainable tourism and promotion of cultural and natural heritage.

EU Member States also fall within the scope of the European tourism policy (European Commission 2010), meaning that the EU BSR Member



States may take part, individually or jointly, in various activities of this policy. The most interesting for trans-national co-operation are the Cultural Routes programme implemented together with the Institute of Cultural Routes of the Council of Europe, the European Destinations of Excellence Programme, the ICT & Tourism Business Portal, the European Job Mobility Portal EURES, the network of research institutes (Virtual Tourism Observatory), the European Tourism Quality Label and the Destination Europe programme and its website, visiteurope.com.

Finally, the third level of international co-operation in the BSR expands to the regional scale with its own institutional framework. In terms of political dialogue between the BSR countries, the Council of the Baltic Sea States (CBSS) plays a key role in the region. Without a special emphasis on tourism it, however, touches on different areas related to the sector through its activities, which are dedicated to sustainable development (supported by the Baltic 21 Unit), cultural heritage protection, labour mobility and education. The political role of the CBSS in facilitating the integration of Russia in the BSR co-operation process is also essential. In this regard, the thematic partnerships of the Northern Dimension (ND) as well as the business development projects of the Nordic Council of Ministers (NCM) must also be noted as frontrunners in successful operational networking with Russian authorities and SMEs.

As concerns co-operation between BSR countries dedicated specifically to tourism, the Baltic Sea Tourism Forum (BSTF) deserves particular attention. The BSTF is an annual *ad hoc* conference for tourism co-operation at the macro-regional level, which convened for the fifth time in 2012, providing a platform for dialogue to more than 100 participants. Initiated from the bottom up, slowly but steadily, the Forum is creating conditions for permanent and consistent co-operation between na-

tional and regional tourism boards and ministries, research and educational institutes, representatives of the private sector and diverse pan-Baltic networks directly or indirectly dealing with tourism-related topics. Further important actors are, among others, the Baltic Sea Tourism Commission, which works with business, academia and project leaders and the Baltic Metropolises Network and Baltic Development Forum which facilitate joint promotion, marketing and branding of the region through their BaltMet-Promo and ONE BSR projects. The Union of the Baltic Cities (UBC) also contributes to sustainable tourism and education in smaller cities through the activities of its Commission on Tourism.

A possible way forward

Joining forces of the BSR countries would facilitate their entry into new tourism markets, as it would permit them to relish their respective comparative advantages while keeping costs down. However, co-operation among international tourism stakeholders on the macro-regional level has so far been rather fragmented. A consistent approach towards multi-level governance might considerably enhance the competitiveness of the BSR tourism industry. Further institutionalisation of tourism co-operation around the Baltic Sea would require the development of at least three complementary bodies, which could start up on the basis of the BSTF being so far the most prominent platform for regional dialogue and collaboration in the tourism sector.

First, the representatives of national and regional Destination Management Organizations (DMOs), cluster initiatives, networks and cross-border project managers which have been actively participating in the BSTF could compose a *core team* of tourism co-operation around the BSR. These practitioners would work on identifying fields of common action and trying to 'sell' the destination as a whole. At some point, permanent working groups could be established. Their activities would address the key tasks of traditional destination management, namely developing more competitive and innovative *multi-destination products*; improving the *quality of tourism products and services* by working together on easing research, use of technologies and mobility of skilled (or cheap when needed) human resources, as well as making transport and information connections



more comprehensive; and creating a stronger and more vibrant *brand of the BSR* by combining promotional efforts. Each working group could be led by a certain region or other stakeholders who show the best performance in their respective fields.

Evidently, the activities taking place at the operational level should be supported by a coherent political strategy. Therefore, secondly, a regional *steering group* should be established. Such a group would be indispensable for successful lobbying for the concept of the 'BSR destination', both on national and international (EU, OECD, UNWTO) levels. Moreover, such an approach would facilitate not only the connectivity of national and regional tourism policies but would also lead to more coherent communication between tourism actors and decision-makers in other related areas, namely culture, education, innovation, environment, transport infrastructure and visa policies. The steering group should comprise high-level representatives of national and sub-national ministries for tourism, the co-ordinator of the EUSBSR PA Tourism, as well as representatives of the most relevant transnational actors, for example European Commission, CBSS and NCM.

The mainstreaming of international activities in the tourism sector would require comprehensive administrative support. Thus, a third step should be to establish a permanent *secretariat* which would ensure permanent communication between stakeholders and provide the possibility of fundraising on behalf of the BSR.

In the first instance, the process of institutionalisation could be developed with financial support of the next INTERREG BSR Programme. In a long term, the operation of the secretariat could be ensured through membership fees from national and regional DMOs around the Baltic Sea and the revenues from project development and implementation.

Before the EU Operational Programmes are launched, which will probably not occur earlier than the middle of 2014, the co-operation platform of the PA Tourism may become a proper forum for communication among BSR tourism stakeholders. PA Tourism supports the organisation of the Baltic Sea Tourism Forum and has already taken active measures to organise a steering group this year. Moreover, the inter-sectoral governance structure of the EUSBSR offers an advanced framework for collaboration with other areas related to tourism, especially with PAs Culture, SME, Innovation, Agri and Horizontal

Actions (HA) Promo and Neighbours. In addition, the PA Tourism website (www.baltic-sea-strategy-tourism.eu) is so far the largest BSR level web platform, containing professional information on the most prominent recent developments of tourism governance in the region.

Technical assistance from the EU provides a possibility to the co-ordinator of PA Tourism to organise feasibility studies which help regional tourism stakeholders orient themselves in strategic trends of the BSR, as well as to consult them on relevant project development. Several so-called seed money facilities are also available for the elaboration of new projects of the BSR scope, such as of the Swedish Institute, the NCM, the EUSBSR and the SEBA modernisation programme and the Project Support Facility of the CBSS.

Conclusions

The investigation of tourism development around the Baltic Sea revealed the promising potential of this sector to contribute to regional economic and social growth. In order to exploit the whole capacity of the tourism industry, relevant BSR stakeholders tend to join their efforts regarding the development of competitive cross-border tourism products and their advertisement in the global market. However, so far international dialogue and related activities are carried out mostly on the level of DMOs and transnational networks with active assistance from the EU. The lack of commitment of governments from around the region affects not only tourism but also other fields of BSR co-operation. An effective transnational integration around the Baltic Sea would be successful only if it were based on a proper multi-level governance structure which, in addition to already active stakeholders, would facilitate an engagement to include parliamentarians, local authorities, NGOs and the private sector on a permanent basis. Non EU member states – Russia and Norway – should also be part of this structure and share ownership of joint strategic views together with the EUSBSR participants. The slogan 'steering not rowing' should be the basis for partnership between different levels of governance, which hopefully will lead to successfully profiling the BSR as a unique destination on the global tourism scene.

Maria Erashova

Common challenges for the Baltic Sea region maritime clusters: How to overcome them together?



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Hanna
Mäkinen



Kari Liuhto¹

The maritime clusters² in the Baltic Sea Region (BSR) face various challenges. Global competition in shipbuilding is constantly intensifying – the competitive advantage of the European shipbuilders, together with their subcontractors and suppliers, lies in producing specialised solutions and technologies, whereas their Far Eastern competitors produce series of standardised vessels at low costs. Indeed, keeping one step ahead of their Asian counterparts requires constant development from European companies. The changing local environment poses further challenges for the region's other maritime actors: shipping companies, ports and port operators. For instance, tightening environmental regulations as well as rising cost levels are currently influencing the business environment of the BSR maritime clusters. Political decision makers, as well as various interest groups and associations, also play a strong role in shaping the context in which the maritime actors operate. All these developments have their impact on cluster competitiveness.

Sulphur directive – both a challenge and an opportunity

Maritime clusters of the BSR are connected to a common sea, which creates a special business envi-

ronment for them. For instance, ships and shipping companies operating in the area have to take into account the special requirements set by the shallow but densely run Baltic Sea. The risk of accidents, such as oil catastrophes, concerns all coastal states and boosts investments in technologies and processes aimed at increasing the safety of navigation. On the other hand, the business environment of the BSR maritime clusters faces various changes. The legal framework for vessel traffic is becoming tighter: environmental regulations, particularly the tightening sulphur limit for the Baltic Sea area, will affect all maritime actors. In 2012, the European Parliament passed the Sulphur directive, which will limit the maximum sulphur content of the fuels used by ships operating in the Baltic Sea to 0.1% starting in 2015. The decision regarding the sulphur limitation was originally taken by the International Maritime Organisation (IMO) in 2008. Sulphur emissions are among the main pollutants originating from fossil fuels, causing, among other things, acid rain and having a negative effect on human health. Switching to low sulphur fuels in cars has decreased the sulphur emissions from transport significantly and now the same is to be applied to vessel traffic as well.

Complying with the sulphur limitation will require changes for ships. Currently, the most likely options for old ships are either to use low sulphur fuel, i.e. diesel, which is significantly more expensive than the currently used heavy fuel oil, or to continue to use heavy fuel oil and use scrubbers to reduce sulphur emissions. For new ships, liquefied natural gas (LNG) is the most feasible fuel solution as it produces practically zero sulphur emissions. However, the large-scale use of LNG as shipping fuel is likely to take time, and it requires investments from all stakeholders, including ports, shipping companies and shipyards, as well as LNG providers. For instance, many ports in the BSR lack the LNG bunkering infrastructure and its supply still remains a problem. Furthermore, the price of LNG in large scale use remains a question mark. In the longer term, bio-

¹ The authors are grateful for the financial support of the Central Baltic INTERREG IV A Programme 2007–2013 by the European Union. This article has been written as a part of Project SmartComp – Smart competitiveness for the Central Baltic region.

² What is meant by 'maritime cluster' is companies and other entities acting in close interaction with each other in the field of maritime industry. The maritime cluster includes shipping companies, other shipping related business, ports and port operations, shipbuilding and offshore industry, partial and turnkey suppliers of maritime industry, public sector (e.g. maritime training and research, maritime authorities), interest groups and associations, as well as associated fields, e.g. finance and insurance. This article focuses on companies, i.e. the aforementioned actors excluding associated fields and public sector.

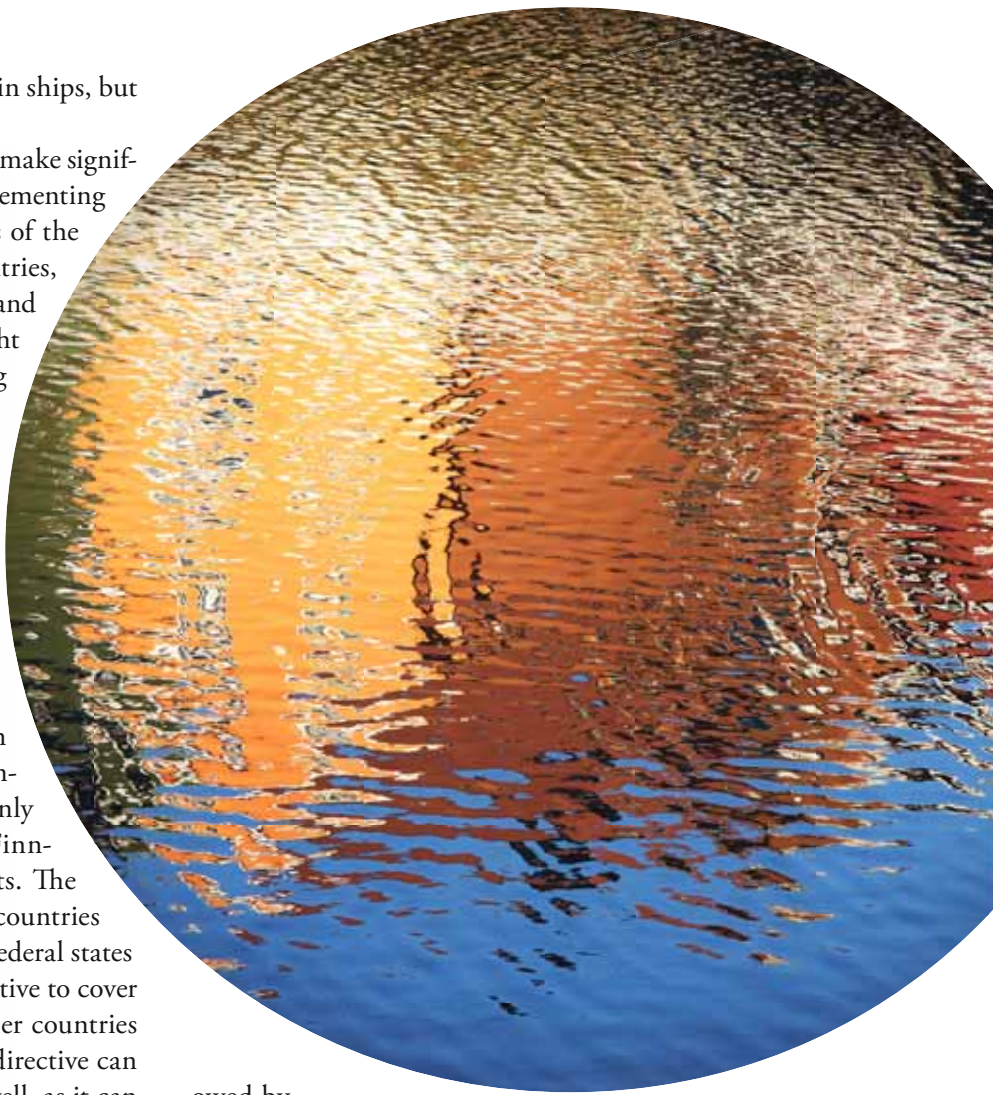
fuels are an interesting option for use in ships, but they still need further development.

The BSR maritime clusters have to make significant investments in finding and implementing new solutions to meet the regulations of the sulphur directive. In many BSR countries, seaborne trade plays an important role and the directive is likely to increase freight costs and cause challenges for shipping companies, as well as export industries. For instance in Finland, where foreign trade is 85% seaborne, the sulphur directive has been estimated to increase freight costs by even 30%–50% and thus might threaten the competitiveness of the export industry. The forest industry has even warned that the directive will speed up the withdrawal of paper production from Finland. The discussion concerning the sulphur directive has been mainly centred on its negative effects for Finnish industries, i.e. the increasing costs. The problem is shared in the other BSR countries as well: for instance, in Germany the federal states presented a request to extend the directive to cover the whole EU area, putting all member countries into an equal position. However, the directive can be seen as a business opportunity as well, as it can boost the development of environmental-friendly technologies and solutions in the maritime sector and even make BSR maritime companies forerunners in this field. Once viable solutions have been created, there will definitely be demand for them elsewhere as well. Moreover, cutting ship emissions is expected to contribute significantly to reducing air pollution and thus improving people's health, particularly in the coastal areas of the Baltic Sea.

New ideas and solutions needed in shipbuilding

The BSR maritime clusters also face other common challenges. As production costs have risen throughout the region, profitability has become a real challenge for the shipbuilding industry, particularly because the Asian clusters are competing with lower production costs. For instance, the Finnish maritime industry has been overshadowed by

a state of uncertainty during recent years despite its high level of competence in shipbuilding. Shipyards have suffered from poor profitability and breaks in order books, and their subcontractors have had to look for business opportunities elsewhere, even outside the maritime sector. Indeed, cost-effectiveness currently remains one of the main challenges to the Finnish shipbuilding industry. The industry experienced its most recent blow just before Christmas 2012, when STX Finland's Turku shipyard lost out on a substantial cruise ship order to STX France. The lost order has raised a heated debate about the state's role in supporting the maritime industry because the Finnish Government's rejection of STX Finland's plea for a loan has been considered the main reason for losing the order to France. In addition, the STX Group has been criticized for driving its own subsidiaries into a price competition against each other. In fact, because the operations of STX



Finland have been unprofitable for several years, it has difficulties in getting financing, and now even the Turku shipyard's whole existence is at risk.

Unfortunately, the problems of STX Finland are somewhat common in other European shipyards as well, for instance in the large shipyards of Fincantieri in Italy, Meyer Werft in Germany, and STX in France. German shipyards seem to be leading the European rivalry with full order books for several years to come, but they are also facing financing problems due to their poor credit history. To be able to stay in the game, almost all the shipyards in Europe lean on state and EU support or have state ownership. At the same time, Far Eastern competitors have conquered the standardised container ship and bulk carrier business and look for opportunities in cruise vessels as well. This is particularly applicable to South Korea, which aims to move on to more complicated vessels in order to keep one step ahead of Chinese shipbuilding power.

Although the German shipyards are still doing rather good, the industry is already looking into the future. Supported by the pressure to develop new methods of energy production, it is investing heavily in developing offshore wind farms, and the customers of their shipbuilding network increasingly comprise large energy utilities and technology companies instead of traditional shipping companies. Although global cruise vessel demand is expected to increase in the future, it is becoming too risky for the shipbuilding network to rely only on rare and highly competitive cruise vessel orders from a few large shipping companies. If the network stands still waiting for new orders, its state-of-the-art expertise and know-how will quickly perish.

The challenges presented above are topical in the whole BSR, and traditional shipbuilding is decreasing. Large shipyards building new ships still operate in Finland and Germany, whereas in the Baltic States, Poland and Sweden mainly repair yards remain. Clearly, the region's maritime clusters cannot compete with the mass production of Asian shipyards. They have to find new business opportunities, and instead of prices, compete with quality and specialization. Germany and Poland have already invested a lot in offshore oil and wind power production, which belong to the emerging sectors of the maritime industry. Den-

mark, as well, has recently heavily invested in developing its offshore maritime sector, particularly in sea, wind and wave power production. Finnish maritime companies, in turn, are known for their specialization in advanced solutions related to, for instance, arctic technologies.

Russia is also emerging as a new big player in the BSR maritime sector. The Russian maritime industry, which has largely deteriorated since the Soviet Era, is under intensive development. According to the ambitious program approved by the Russian Government, Russia is to quintuple its shipbuilding output by 2030 through substantial state funding and by establishing new economic zones for constructing vessels. In addition to competition, this boom will certainly provide subcontracting opportunities for other clusters in the region. As an example, successful co-operation already takes place in the Arctech Helsinki Shipyard, which operates under the joint ownership of the Russian United Shipbuilding Corporation and STX Finland to produce multi-purpose icebreakers. In fact, increasing demand for arctic expertise and offshore solutions is of particular interest, not only in Russia but also in the Far East. The BSR has every opportunity to meet this demand with its unique expertise.

Overcoming common challenges with innovativeness and co-operation

The BSR maritime clusters are in many ways forerunners when it comes to environmental issues, and there is plenty of demand for such technologies. Thus, the main opportunity lies in investing in research and development (R&D) and innovation activities related to cleantech, energy efficiency, functionality, and other advanced technological solutions. Staying one step ahead of rivals requires pro-activity in product development – for instance, the creation of technological solutions for meeting the sulphur restrictions should have started when the decision was made in the IMO. Moreover, instead of competing fiercely with each other, national clusters must tighten their mutual networks. That way, niche expertise will remain and will be of common benefit in the BSR, guaranteeing that unique cruise vessel orders will continue to be completed in this region in the future. By putting their

heads together, these relatively small cluster actors could find solutions to common challenges, develop their top expertise, and remain competitive against the gigantic Asian clusters.

Making this happen requires joint actions from both business and political decision makers. For the governments in the BSR, remembering the economic importance of the maritime sector and strengthening its healthy development is of great importance. This can be done, for instance by developing R&D support, investment financing instruments, internationalisation support, and by establishing and deepening relations with the other BSR maritime clusters. Keeping up with the pace of technological development requires maintaining sufficient financial and scientific resources for innovation. Whereas the state can create conditions for functioning and forward-looking business and innovation environments, the know-how – the core of competitiveness – stems from the companies themselves.

Companies are also encouraged to look for new business opportunities, even those outside of the local cluster, and to develop dynamic international networks. However, internationalisation often poses a challenge, particularly for the small and medium sized enterprises. Many of them have inadequate resources and skills and lack the international contacts and references to succeed in foreign markets, as well as have difficulties in winning bids in large-scale projects. For example, common projects which include international partners from business, government and research organisations could be a useful means of facilitating internationalisation and increasing the chances of smaller companies to penetrate international markets. Although the situation at hand is challenging for the BSR maritime clusters, they should be able to see past it and work actively together to find new solutions for common challenges.

Eini Laaksonen, Hanna Mäkinen and Kari Liuheto

European Territorial Co-operation funding programmes in the Baltic Sea Region: Functioning and future prospects



Philipp
Schwartz

One of the key aims of the EU Strategy for the Baltic Sea Region (EUSBSR) is aligning the various relevant funding sources in the region to support the implementation of the strategy. Financial support can come from the EU Cohesion Policy's Objectives 1 (Convergence) and 2 (Regional Competitiveness and Employment), its Objective 3 (European Territorial Co-operation), but also from other funding sources, such as the 7th Framework Programme for Research and Technological Development 2007-2013, the Nordic Environment Finance Co-operation, the European and the Nordic Investment Banks just to mention a few. All of these funding sources directly or indirectly support cross-border co-operation in the Baltic Sea Region (BSR).

Cross-border co-operation does not only stand for co-operation between partners from two or more countries. 'Cross-border co-operation' is also one special type of co-operation within the EU Cohesion Policy Objective 3 'European Territorial Co-operation' (ETC). The institution previously known as INTERREG, which has since 2007 been known as ETC, incorporates the true sense of co-operation across borders for the benefit of a common, however geographically limited, area. With its longstanding history and accomplished reputation, this cross-border co-operation also serves as stimulus for other funding sources, which may not be designed to work across borders primarily (but include that option). Logically, funding programmes established under the ETC objective are the most prominent ones when talking about the implementation of the EUSBSR. This article will focus on these ETC programmes in the BSR, and here on those at the cross-border (co-operation) level. Despite their relatively small financial share, these programmes have, in their more than 20 year history, significantly contributed to the development of European regions and continue to do so.

The past – from projects to an initiative (until 2006) – From Single Market to an enlarged EU

In autumn 2010, 20 years of territorial co-operation were celebrated under the Belgian Presidency of the Council of the European Union, with a major conference in Tournai, Belgium. To make the success of the past 20 years visible to the ordinary EU citizen, a movie 'Bridging Europe: 20 Years of Territorial Cooperation' was produced, which is available on YouTube. It all started in the 1950's. With World War II having ended only a few years ago, border regions in western and northern Europe looked into opportunities to work together across borders on issues of common concern. About forty years later, after a series of pilot cross-border actions, it became an 'initiative' launched by the European Community in 1990 bearing the well-known name of INTERREG. Since then, INTERREG has supported project co-operation between border regions over three distinct periods: 1990-1993, 1994-1999 and 2000-2006.. These periods saw an ever-increasing scope when it comes to geographies INTERREG covered (not only due to the various EU enlargements), increasing financial means and, as a result, more activities supported. Eventually, in 2007, the success story 'INTERREG' made a big step forward by being turned into ETC and the ETC being acknowledged as an objective in itself.

The present – from an initiative to an objective (2007-2013) – Lisbon and Gothenburg Strategies

For the present programming period 2007-2013, the INTERREG initiative was changed into a Structural Fund Objective in its own right, known as the European Territorial Cooperation. Its core focus remained addressing the negative effects of borders, and certain basics of the INTER-

REG programmes were kept, not least of which was the division into cross-border, transnational and interregional co-operation (earlier called A, B and C strands). These three layers describe the territorial level on which the co-operation is supposed to take place – both when it comes to the potential actors, but also the nature/content of the co-operation.

In the case of the BSR, there are some 'old' programmes with experience from previous funding periods, like the transnational Baltic Sea Region Programme, covering the whole region. Until then, cross-border co-operation was co-operation 'only' across a joint land border. In 2007-2013, this land border co-operation in the BSR was complemented by maritime cross-border co-operation, which was supported by two new funding programmes: the South-baltic Programme and the Central Baltic INTERREG IV A Programme 2007-2013. These two programmes covered the southern and the northern part of the BSR respectively, alongside various other cross-border co-operation programmes in the BSR.

The differences between these cross-border co-operation programmes start with their geographies, as they all cover different cross-border regions. Some countries, and even some of their regions, might even be covered by more than one programme. Despite the different co-operation geographies, the main basic idea behind these funding programmes and the co-operation they support is the same. Public financing is given to primarily public actors in targeted regions, although a matching financial contribution must also be made. To qualify for the funding, actors from one country have to join forces with actors from across the border. The idea is to join forces to tackle issues of common concern which cannot be solved purely within one country, or on the national level, but which need cross-border co-operation. This can be either to solve a *common* problem (e.g. cleaning a lake which is bordered by two countries), a *similar* problem (e.g. two cities from two countries working together to find innovative improvements for their sewage water treatment systems) or to work on other development areas

of joint interest and relevance.

At the end of it all (at least, at the end of the present programming period 2007-2013), the challenge is to identify what the real impact of cross-border cooperation financed by EU programmes in the BSR is. Here, it is essential to identify the impact beyond single projects in one programme, even beyond the impact of a single funding programme. This need has resulted in various valuable initiatives, like the KEEP (Knowledge and Expertise in European Projects) online tool (www.territorialcooperation.eu). These initiatives promote the results and achievements of European projects and programmes on the European level. To promote the benefits of ETC to the general public, the very first European Co-operation Day took place on 21 September 2012, with more than 280 events facilitated by 72 programmes in almost 40 countries. This first European Co-operation Day was a success and will be repeated in 2013.



Being able to identify and promote the benefits of ETC on the European level very much depends on whether or not funding provided through ETC programmes is seen as an investment into a common region, on the macro-regional level into the BSR, or as an investment into one's own country or even only one's own region. When talking about ETC and especially cross-border cooperation (programmes) the amount of money in question is, if looking at the available funding for the Cohesion Policy 2007-2013 in total, only a drop in the ocean. Only about 2.5% of the budget (which totals EUR347 billion) goes into ETC. At the same time, the closer the co-operation is to the grass-roots level, the more sensible becomes the impact of every single euro invested.

In any case, ETC in the BSR has been and is a win-win-situation for all: co-operation projects and the involved project partners benefit when tackling the issues they are concerned about and affected by; the regions covered by the various funding programmes can strengthen their respective co-operation areas through the combined impact of projects and funds invested; the BSR can combine these impact on the macro-regional level; and the EU can do the same on the EU level.

The future – from an objective to its own regulation (2014-2020) – Europe 2020 and macro-regional strategies

With ETC being transformed over the past decades from a set of projects, to an initiative, to an objective in its own right, has ETC now reached its goal? Or is there still room for development? What would be the next level to strive for? Will ETC be a tool or a goal in itself – or something totally different? To start with, there is a (further) proposed development and strengthening of ETC: it was proposed that, in the upcoming programming period 2014-2020, the ETC would have its own regulation. With this step, the importance and specific features of ETC are recognized and emphasised. It also aligns ETC with the Europe 2020 Strategy, simplifying the implementation of ETC and increasing its effectiveness. Some other key aspects are thematic concentration to increase the impact of these programmes and the support to macro-regional strategies. But exactly what the

2014-2020 period will look like can only be known once a final agreement has been reached.

ETC has gone a long way, and with 2014-2020 being the fifth programming period, there might be a risk of ETC becoming 'business as usual'. With ETC being so successful in the past, it is easy to continue down this path. Some argue that, actually, the opposite should happen and that co-operation should be strengthened in those thematic fields and regions where it has been less successful. They also argue that financial support should be decreased in fields and regions where well functioning co-operation has been established and running over the past few decades.

Naturally, the future should be shaped based on the experiences in and achievements of the past. Hence, 2014-2020 as the next step should be shaped based on the experiences and achievements of 2007-2013. Provocatively stated, this seems nearly impossible, as the discussions about 2014-2020 are conducted and will be finalised before all results and achievements of the 2007-2013 funding period, programmes and projects become available. New funding programmes are being designed for 2014-2020 at a time when a significant number of projects financed by programmes of the present period are still ongoing. Therefore, it is currently not yet fully clear if and what these projects, and hence programmes, really will have achieved by the end of their life-span. Although the baseline for new programmes in 2014-2020 is set, the situation might still change (significantly) as the results of these projects come in after 2013.

Although the existence of a national border is a precondition for the ETC funding programmes, ETC should be seen as a tool to stimulate and advance co-operation across them. A challenge for funding programmes is that final beneficiaries, project developers and owners often perceive the separation of ETC programmes into cross-border and transnational as a somewhat artificial attempt to justify the programmes' uniqueness – especially for areas where programme geographies overlap. However, the different territorial levels on which funding programmes address problems and development areas in their regions also set the framework, define the programmes' position in the overall ETC co-operation landscape making a clear difference between cross-border and transnational problems, challenges, issues, solu-

tions and finally co-operation. The challenge to make this important difference clearer is also reflected in the ETC regulation draft proposed by the European Commission, which contained a clear definition of cross-border, transnational and interregional co-operation.

In the end, ETC will only continue to be successful in 2014-2020 if all involved stakeholders, from projects to programmes, see themselves as part of the bigger picture; the principle of 'thematic concentration' indicates that every actor and funding programme will find its place and role in the overall set-up. The development of the EUSBSR (and other macro-regional strategies) has been an important step in this direction, providing the strategic framework for developing and positioning a European macro-region in the global context. To continue this path, it is therefore essential that the EUSBSR be taken into account

when drafting the funding programmes for 2014-2020 – this applies not only to ETC programmes.

Conclusion

The ETC funding programmes have played and will continue to play an essential role in 2014-2020, directly benefiting the various regions involved in the various funding programmes. It also applies for the BSR as such if the alignment of funding under the EUSBSR is further strengthened in the programming for 2014-2020. If this is achieved, in the future, ETC will be a regional trademark symbolizing successful co-operation across borders in the BSR.

Philipp Schwartz

Baltic solidarity: Balancing national interests, institutional settings and regional opportunities



Arvils Zelčiņš



Andris Sprūds

The three Baltic states have demonstrated a considerable political determination to develop close co-operation after regaining independence in 1991.

Estonia, Latvia and Lithuania were motivated by the transformation of regional and global configurations to act jointly and promote their interests on the international stage. Their common historical background and experience, the mentality of the smallness of the Baltic nations, a strong political orientation towards the Euro-Atlantic community and similar liberal economic models also contributed to the international perceptions and branding of the three Baltic countries as a converging regional entity. Baltic co-operation is based on these commonalities and common interests and predominantly focuses on regional/external, security and economic interaction. However, on the ground, Baltic regional co-operation has not proceeded without its challenges, especially in the economic domain. Therefore, the question may be raised about whether these countries with comparably similar political systems, economic philosophies and specialisations and population sizes have converging and complementary regional visions and prospects or diverging and competitive interests.

Institutional framework of Baltic co-operation

The Baltic regional institutional framework has evolved over the last two decades. The Baltic Assembly remains an important trilateral institution established and represented by the parliaments of Latvia (*Saeima*), Lithuania (*Seimas*) and Estonia (*Riigikogu*) since 1991. While the Assembly performs consultative and co-ordination functions, the Baltic Council of Ministers (BCM) as an executive entity has essentially become the central body of Baltic co-operation since 1994. The prime

ministerial meetings add weight to the Council, contribute to setting regional priorities and investigate joint approaches to concrete projects. As the presidency of the Baltic institutions rotates annually, Latvia has assumed the formal leading role in Baltic co-operation during 2013. The declared priorities of Latvia's presidency have been shared by all three Baltic countries in recent years: improvement of competitiveness and business environment in the region, enhancement of co-operation with the Nordic countries, co-operation on energy, transport and infrastructural issues.

Although the shared objectives of regional co-operation demonstrate continuity, this institutional engagement has also reflected and followed the transformative dynamic of Baltic co-operation. First, following the integration of the Baltic states into the EU and NATO, an institutional reform has been implemented, reducing the number of senior officials committees of the BCM from eighteen to five, now covering defence, energy, domestic affairs, transport and environment. The re-assessment of the number of committees may be valued as the shared understanding among the Baltics to prioritize several directions and focus on particular projects. Second, the Baltic countries have widely diversified their vectors of external interaction. On the regional level, Estonia has closely engaged with nearby Finland and Sweden and 'Nordicness' has featured highly in the country's discourse. Lithuania has re-established its traditional links with neighbouring Poland and experienced both achievements and, particularly in recent years, tensions in this interaction. Latvia has remained the most Baltic among the three countries. Third, the Baltic trilateral political formats were co-developed with a whole range of other formats, such as the Council of Baltic Sea States (CBSS), the Northern Dimension, Nordic-Baltic Six (NB6), Nordic-Baltic Eight (NB8), Nordic-Baltic¹, the EU Strategy for the Baltic Sea Region (EUSBSR), HELCOM and others. Baltic institutional co-operation has been increasingly integrated into the wider Euro-

¹ There are several different formats such as NB8+United Kingdom, NB8+United States, NB8+2 (Poland and Germany), NB8+Visegrad 4, etc.

pean and regional institutional web. Hence, the diversification of Baltic external policies, streamlining trilateral co-operation and reassessment of 'Balticness' transpires in an expanding and frequently overlapping wider regional setting.

Defence as a role model for co-operation

Baltic co-operation in the area of security and defence has remained one of the cornerstones of the trilateral engagement. This has been motivated by past experiences and reinforced by the current geopolitical challenges. The assertiveness of Russia in the region has served as a considerable external integrator and promoter of Baltic solidarity. The protocol of agreement in defence matters was among the very first trilateral political documents signed by the three countries in 1992. Security and defence co-operation continued to intensify and resulted in the Baltic states' accession to NATO in 2004. Security co-operation has been discussed and promoted at both civil and military levels – the Council of Ministers and Military Council, respectively. The Baltic defence co-operation has also been manifested through several joint projects: BALTBAT, BALTNET and BALTRON. The Baltic Defence College in Tartu remains as an important and positive example of the shared interest in joint military education. The understanding of the indivisibility of Baltic security has been demonstrated by the recent co-operative efforts in regional air policing and military procurement. This mutual support was instrumental for receiving the status of the NATO Centre of Excellence for the Cyber Defence Centre in Tallinn and the Energy Security Centre in Vilnius. Latvia's recently declared ambition to establish the Centre of Excellence for strategic communication in Riga will need strong regional backing to succeed. Although economic recession has had repercussions on defence budgets, especially those of Latvia and Lithuania, all three Baltic nations continue to participate actively in the military mission in Afghanistan. Moreover, the Baltic countries have shared their expertise and co-operated with partners in Georgia, Ukraine, Moldova and Ko-



sovo. These Baltic co-operative efforts and strong transatlantic commitments received an obvious and positive acknowledgement during the NATO summit in Chicago in May 2012. The decision on the long-term air policing over the Baltic countries repeatedly reassured them of their full-fledged membership of NATO and increased security, which has been achieved largely through the common efforts of all three Baltic nations.

Co-operation through competition

Paradoxically, achieving the common strategic objectives has de-securitised regional interaction, emphasized economic rationale and eventually facilitated economic competition. Moreover, the political legitimacy of the leaderships in the Baltic countries has increasingly rested on these nations' economic performance and societal wellbeing.

This trend has been reinforced during the recent global and regional economic recession, which has hit the Baltic societies exceptionally hard. In this context, the Baltic countries may compete for foreign investments, export markets, transit flows and being 'hubs' or 'role models' in wider regional economic, financial and societal developments. All three Baltic states are relatively similar in their taxation policy, business climate and culture, size of market and competitiveness. The understanding of regional interdependence and solidarity blended with a pursuit of specific national interests among the Baltic countries has been particularly strongly demonstrated in the debate over large regional infrastructural projects in the transportation and energy sectors.

In this regard, the overarching goal for the Baltic countries is unambiguously to integrate into wider European energy and transport networks. Unlike security and defence co-operation, however, large common infrastructural projects have not been fully implemented during the last two decades. The Baltic countries still wait for a direct modern railway connection to the other EU countries. Although some progress was observable in constructing the motorway *Via Baltica*, the *Rail Baltica* project remains more symbolic of the Baltic infrastructural co-operation challenges. The somewhat divergent approaches to the specifics of the pan-regional rail project have partly emanated from the implicit competition in the transportation sector. For instance, the ports and railway infrastructure in the Baltic countries have been competing for the cargo turnover mostly from Russia and Belarus, and more recently for cargos within the Northern Distribution Network. Symptomatically, in March 2013 the European Commission even began an investigation into Lithuania's decision to remove some segments of railways in its territory which lead to Latvia's ports.

The Baltic co-operation and wider regional integration in energy sector has been facilitated by the Baltic Energy Market Interconnection Plan. Although the Visaginas nuclear power plant project has more 'downs' than 'ups', the increasing interconnectedness gradually allows the creation of regional supply liquidity and the synchronisation of national electricity market regulations. The overall progress notwithstanding, the Baltic countries have

still remained an 'energy island' that is largely separated from the European 'energy mainland' in the gas sector. The large projects such as regional LNG terminals have been contentious, both domestically and regionally. Essentially, an agreement has not been reached despite and partly due to the prospective co-financing from the European Commission. Moreover, the Baltic countries are still closely connected to Russia's energy networks, and this has created significant vested interests. The small size of the markets, presence of natural monopolies, long-term contracts with a single supplier and allegedly ineffective anti-trust authorities discourages the arrival of other players in the gas sector. As a result, the specifics of the energy sector, the established interest groups as well as some political and institutional fragmentation of the domestic decision-making process may complicate achieving the joint regional Baltic approach in either gas supplies or market liberalisation. The Baltic Assembly and Council of Ministers have addressed these issues related to infrastructural projects regularly. However, the gradual progress in this regard has revealed the limitations of the existing institutions as well as the amalgamation of various determinants.

Conclusions and recommendations

Baltic regional solidarity has been widely discussed in recent years and mixed results have been identified. The common vision and co-operative practical efforts are intertwined with a divergence of interests and occasional rivalry in the economic domain. The main co-operation areas are related to regional security, the long-term transformation process and socio-economic performance. The Baltic countries are still learning best practices from each other, as well as from their neighbouring countries in education and science, health, law enforcement and governance. People-to-people contacts, co-operation between municipalities and creative industries are expanding. A relatively new area of trilateral co-operation is the efficient co-ordination of available human, intellectual, financial and political resources. On the one hand, it may seem that the visionary aspirations of Baltic solidarity of the early 1990s have been naturally complemented and substituted by the multifaceted and mundane interaction of their neighbouring EU

and NATO members. On the other hand, all three Baltic countries share a strategic interest in joining the Eurozone and having joint approaches to the Multiannual Financial Framework. Moreover, Baltic trilateral co-operation must be evaluated in the wider regional context. In this regard, co-operation with the Nordic countries has been of particular importance to further ensure the sustainability of Baltic socio-economic performance.

Some windows for opportunities and incentives for further trilateral engagement may still exist. First, the Baltic model of transition has been generally perceived as successful. A joint Baltic brand, rather than separate national role model 'packages' may become more attractive and efficient to project as 'success stories'. The Baltic Assembly has a role to play here. Second, a smart regional co-operation or 'pulling and sharing' of resources is a precondition for implementing large strategic projects in the region, either in the security or economic domains. Latvia, in co-operation with Estonia and Lithuania respectively, has prepared bilateral co-operation reports

with dozens of concrete recommendations for expanding co-operation. The trilateral Baltic report would be a further way forward. Third, the Baltic presidencies of the Council of the EU in the coming years (Lithuania in 2013, Latvia in 2015 and Estonia in 2018) may strengthen regional responsiveness and interests among the Baltic countries. Moreover, the Baltic countries must take more responsibility for the developments in the whole Baltic Sea region. Although the EU Strategy for the Baltic Sea Region has received considerable criticism, it still provides means for intensifying a wider regional interconnectedness, exchanging best practices and enhancing economic competitiveness and sustainability. The windows of opportunity, however, only may be implemented if both bottom-up and top-down approaches are encouraged and concrete steps taken. This would tilt the assessment of Baltic solidarity to being a productive and prospective regional co-operation in the dynamically developing Baltic Sea Region.

Arvils Zeltniš and Andris Sprūds

Baltic Sea Co-operation as a Model for Macro-regional Strategies in Europe? Comparing the EUSBSR and EUSDR



Stefan Gänzle



Gábor Schneider

From the era of the *Hanseatic alliance* to the modern era, collaboration in the Baltic Sea Region (BSR) – involving a wide range of public and private actors –

has been framed as a model for international co-operation at a ‘regional’ level. The well-established track record of co-operative efforts has hitherto informed EU concepts for the region, ranging from its ‘Union Approach Towards the Baltic Sea Region’ of 1994 to the ‘EU Strategy for the Baltic Sea Region’ (EUSBSR), which was launched in 2009, as a “new model for co-operation to inspire other regions” (Hahn, 2010). With a view to optimising the use of existing national and EU funds for territorial co-operation, macro-regional strategies seek to exploit synergies across closely intertwined policy areas, such as, for instance, environmental, energy and agricultural policies. In a nutshell, these strategies promote ways to achieve territorial cohesion by integrating sectoral policies, modernising administrative structures and supporting economic growth in a functionally defined territory. Only two years after the launch of the EUSBSR, the European Union endorsed the ‘EU Strategy for the Danube Region’, and in December 2012, the European Council eventually asked the Commission to draft a macro-regional strategy for the Ionic-Adriatic area before the end of 2014.

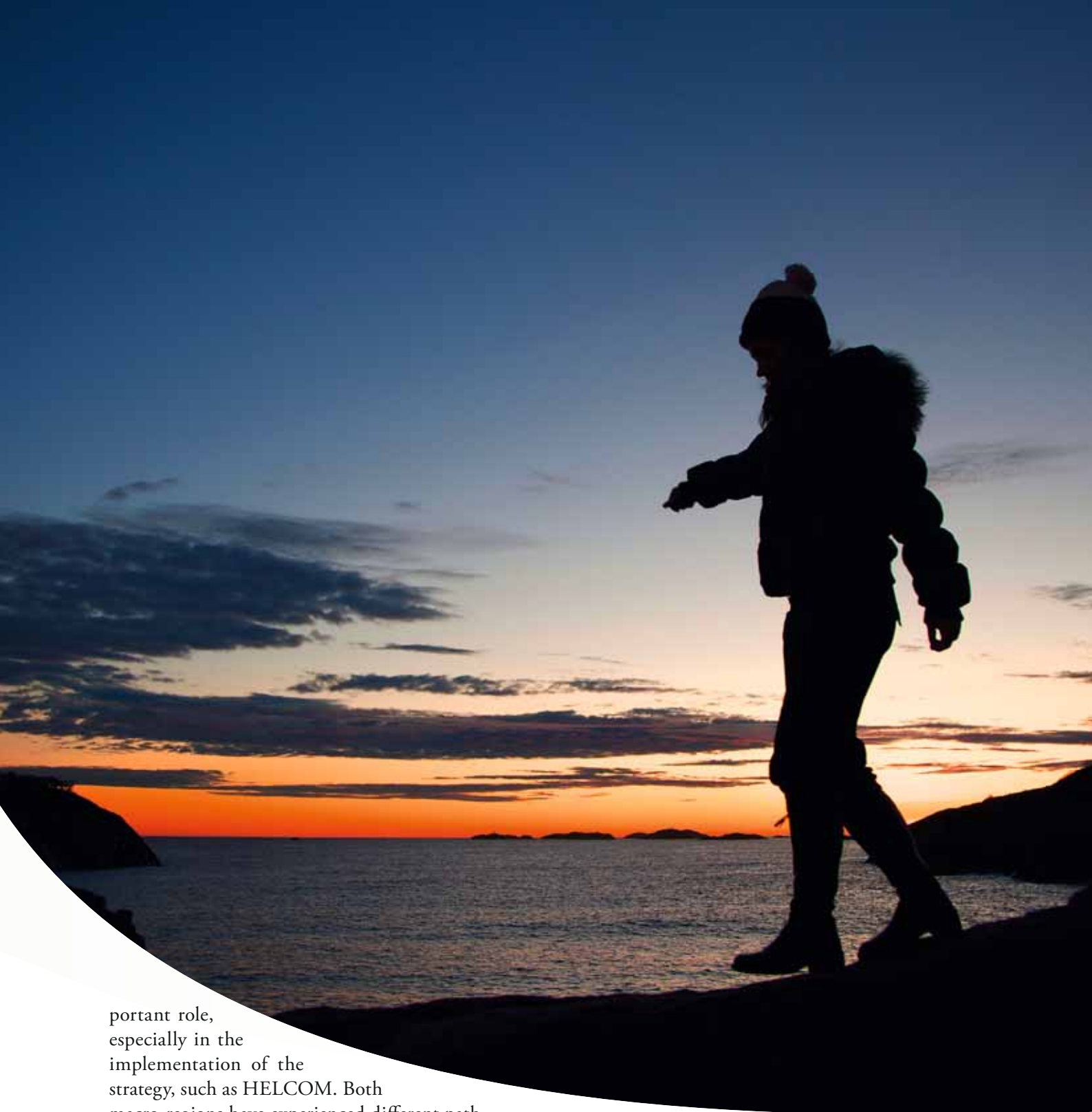
‘Do similar governance structures have the same impact?’ Comparing the EUSBSR and the EUSDRS

At first sight the governance architecture of macro-regional strategies is strikingly similar. Both the EUSBSR and the EUSDR focus on the same policy priorities, albeit in slightly different order,

and use a top-down co-ordination mechanism to increase the effectiveness and efficiency of co-operation. The policy processes are driven by the same group of actors, in particular the European Commission and EU member states. The European Commission assumes a strategic role as it prepares the review of the strategies and leads the co-ordination of the rolling action plan. Participating states are linked to policy-formulation by the High Level Group (HLG), bringing together all member states at the EU level.

The actual delivery of the strategies, however, is determined by participating states. Priority Area Co-ordinators (PACs) assume a managerial role in the implementation of the strategy. Furthermore, EU member states are also operating the network of National Contact Points (NCPs) who assist and co-ordinate the implementation of the strategies at the national level. By and large, the commitment and willingness of member states to (re-)allocate national resources for the aims of the strategies are decisive. In addition, public management traditions of participating countries visibly influence the effective implementation of the strategies.

1. If compared to the BSR, a stronger economic and social asymmetry and a lack of experience in region-wide co-operation exists in the Danube Region. Most of the countries located in the middle and lower part of the Danube region are prone of weak domestic governance structures and retreating democracy and have been severely affected by the economic crisis. In contrast, the countries and regions located in the Upper Danube have a clear ‘locomotive function’ based on their significant economic potential – over 70% of the GDP in the Danube area is concentrated in the Upper Danube countries (Dobrinsky, 2012) – combined with their strong political representation of interests. In the BSR, the overall commitment to the EUSBSR ensures a relative balance of political and economic power. Furthermore, international organisations continue to play an im-



portant role, especially in the implementation of the strategy, such as HELCOM. Both macro-regions have experienced different pathways towards sub-regional co-operation. Whereas the EUSBSR can almost be conceived of as an EU internal strategy, the EUSDR has a significant external dimension. While eight out of nine riparian countries of the Baltic Sea are EU member states, the EUSDR covers two old and six new member states (to be joined by Croatia on 1 July 2013) as well as five potential candidate countries – Serbia, Montenegro and Bosnia-Herzegovina in the medium term and Moldova and Ukraine in the long term – if at all. Some observers perceive the

Danube strategy as a strategy for peace-building amongst the participating countries, in particular Serbia and Croatia.

2. The EUSBSR is better positioned as its governance structure enables wider participation and consultations procedures than in the EUSDR. A wide range of participants is involved in the BSR at European, national and sub-national levels, showing an active commitment to the delivery of the strategy. In contrast to this, the participation of stake-

holders in the EUSDR is much looser, especially regarding the involvement of the sub-national actors. Furthermore, the governance structure of EUSBSR contains intermediary bodies such as HALs. In a nutshell, HALs seek to ensure coherence between action fields of different priority areas. Whereas the EUSBSR has identified several (the most recent action plan released in February 2013 mentions five) horizontal action fields, it is, in case of the EUSDR, only PAC 10 ('Institutions') which somehow fulfils this task. In principle, PACs and NCPs are expected to engage the horizontal co-ordination e.g. by arranging the extended involvement of stakeholders, establishing task forces and organising public debates. However, many countries in the Danube area lack the necessary capacities, because of significant administrative, staff and financial short-comings. In this respect, a clear distinction can be made between the Upper, the Middle and the Lower Danube regions. Such strong contrasts are less pronounced in the BSR.

3. While the EUSBSR strongly builds on the bottom-up dimension in terms of governance, the EUSDR relies on top-down approaches. Although both strategies are top-down driven, this does not mean that other actors, such as bottom-up stakeholders, are excluded from the strategy. In the BSR, local and regional authorities, the civil society and private companies ('bottom-up' actors) participate in large numbers in the actual implementation of the strategy, especially alongside sectoral interests. Implementation reports of the priority areas and the horizontal actions in the BSR indicate a relatively good balance between top-down and bottom-up actors in the delivery of the strategy. In contrast, the interplay between top-down and bottom-up actors in EUSDR is significantly weaker. Only a few bottom-up stakeholders were able to participate in projects of the EUSDR. One reason for this is the severe capacity shortcomings of stakeholders, especially in the Middle and Lower Danube Region. Other reasons are the insufficient number of (horizontal) networks and the divergent administrative capacities of participating states.

4. The density of existing networks and institutions has a visible impact on the horizontal extension of the strategies. The EUSBSR is built on wider number of intergovernmental and transnational

organisations than the EUSDR. Key institutions, such as the Council of the Baltic Sea States (CBSS), the Nordic Council of Ministers (NCM) or the Helsinki Commission (HELCOM) have longstanding experience in co-operation with well-established administrative procedures. Furthermore, in the EUSBSR many intergovernmental organisations, such as HELCOM and the CBSS secretariat, are now playing an active role in the policy formulation and implementation of the strategy. After initial resistance from some of the regional organisations, the Commission has sought to gradually include these organisations in the implementation of the strategy. Now, even the Northern Dimension (and hence Russia) has started to position itself in relation to the EUSBSR. This pragmatic and inclusive approach has certainly been a success factor in the EUSBSR while the involvement of existing institutions is far less structured in the case of the EUSDR, e.g. *vis-à-vis* the International Commission for the Protection of the Danube River (ICPDR), one of the few recognised international organisations of the area.

5. The capacities of political networks differ significantly in both regions. The networks of bottom up actors and their abilities to participate in the strategy are stronger in the EUSBSR than in EUSDR. Bottom-up networks such as chamber associations, the more than 100-member-strong Union of the Baltic Cities (UBC), the Baltic Metropolises Network or the Baltic Development Forum are playing an active role in the implementation of EUSBSR. They also have a longer history of co-operation and are relatively well-equipped. In contrast to this, many bottom-up networks had been formulated parallel to the establishment of EUSDR in an 'ad hoc manner' in the Danube area. Now, only a small number of bottom-up networks are operating in EUSDR, such as the Council of the Danube Cities and Regions (CoDCR) and Danube Civil Society Forum (DCSF). However, their co-operation is less institutionalised. Interestingly, Peter Langer, co-ordinator of the CoDCR, affirmed that the UBC ultimately provides a model for the Council which currently brings together approximately 40 cities and regions in the Danube area (authors' interview, February 2013).

Conclusions

The similarities in the governance of the two macro-regional strategies result from the fact that in the elaboration of the EUSDR the thematic pillars of the EUSBSR had been copied (COM, 2009, 2011 and 2012). At the same time the emphasis and focus are different in the programmes of both macro-regional strategies. This stems from the different geographical features (i.e. sea versus river basin) in the both macro-regions. The strategies differ in terms of horizontal action providing additional interfaces for linking policy areas in order to provide integrated answers to environmental, economic and social challenges.

Even without the establishment of institutional, legal, and financial frameworks (the so-called three 'No's'), the implementation of macro-regional strategies triggers a direct impact on existing collaborative frameworks in the regions. Although still at an early point of their lifecycle, one may argue that macro-regional strategies draw existing institutions closer to the EU, implement existing EU legislation with the help of macro-regional institutions and improve co-operation amongst national institutions, and re-align existing EU and national funding schemes (Gänzle/Kern 2011; 2013). In this regard, the EUSBSR provides a very helpful model for other forms of macro-regional co-operation in Europe.

Although both macro-regional strategies share some common features, important differences persist, in particular at the level of those institutional arrangements that could foster horizontal interplay both between policies and stakeholders. This can be explained by the historical trajectory of regional co-operation in both areas. Furthermore, while the institutional interplay with other regional organisations, such as HELCOM and the CBSS, is well developed in the case of the EUSBSR, no comparable arrangements yet exist in the case of the EUSDR. In the case of the EUSBSR, it has even been argued that HELCOM is co-opted as an environmental agency into EUSBSR policy-making (Gänzle/Kern 2011). This will ultimately help improve the implementation of European legislation in the region.

Recommendations

1. It would be helpful to improve interactions between key actors. In the past, EUSBSR officials have been invited to EUSDR meetings 'to share their experience', according to a former Commission official. The two Interact offices, Turku and Vienna, co-operate in their supporting roles and many initiatives for joint activities seem to originate there. In addition to the obvious interface at the high level group meetings (where the national contact points meet from the two strategies), it is advisable to formalise these links even further.
2. The PACs assume a key role when it comes to the implementation of macro-regional strategies. In order to enable them to effectively fulfil their tasks, it would be helpful to professionalise their tasks and to supply them with adequate institutional capacities and resources.
3. Over time, it is acceptable that macro-regional strategies will have to further concentrate on region-specific needs and challenges. Hence, there is a need to manage the augmentation or reduction of priority areas and focal points of co-operation. The latter has already triggered some revisions of the new EUSBSR action plan.
4. While it is certainly appropriate to ensure comparability between the macro-regional approaches, it is necessary to better account for regional needs. In the case of the EUSDR, the top-down perspective of the strategy needs to be explored more and, at the same time, to be complemented by the build-up of organisations and actors at the sub-national and local level.

Stefan Gänzle and Gábor Schneider

The Conclusion Chapter

Key messages, conclusions and outlook



Tobias
Etzold



Anna-Lena
Pohl

This third Political State of the Baltic Sea Region Report provided an overview of political developments in the Baltic Sea Region (BSR) and its countries. It

identified and analysed relevant trends within the region as well as the wider European context. In order to conclude the report, a number of questions need to be addressed. What could be learned from the region's experiences on the European level for the near future, and what challenges and topics are likely to remain relevant in the years to come? What could the countries of the BSR do jointly in order to generate growth in Europe and to bridge the gap between the North and the South?

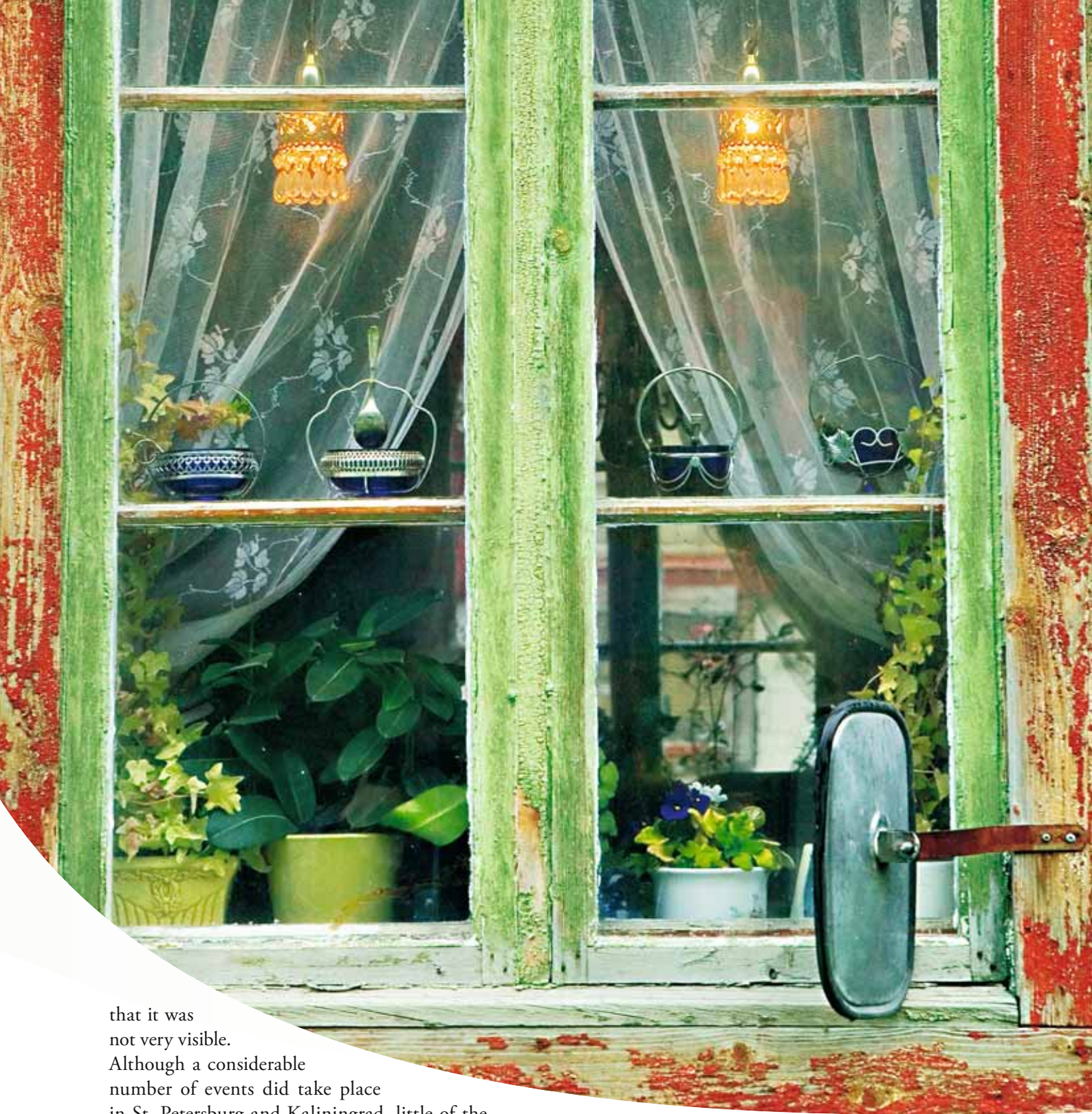
The countries of the BSR

On the domestic level, all the countries have felt the consequences of the international economic and financial crises that began in 2008. The years from 2010 until the present have been characterised by countries' efforts to deal with the harsh consequences of the crises and to regain their economic strength and stability. 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. This positive economic trend continues. The speed with which the three Baltic countries that were severely hit by the economic crisis have recovered and returned to economic growth is particularly impressive. Also, against the wider European trend, Latvia and Lithuania decided to follow Estonia and to introduce the Euro in 2014 and 2015, respectively, giving a clear sign that they wish to remain committed to the European integration process. Nonetheless, as long as

the wider European and global economic situation remains rather shaky, consolidating their economic and financial situation will remain a major challenge for the countries of the region. In this respect, external factors will continue to have a large impact on these nations that, to an important degree, depend on import and export activities.

From a political perspective, it was interesting that general elections in several countries of the region between autumn 2011 and spring 2013 consolidated some existing political constellations (Latvia, Poland, Russia) but changed the political scene considerably in others (Denmark, Iceland and Lithuania).

Russia is still the country upon which the other countries of the region put a special focus for various reasons. The political domestic developments in Russia are seen with growing concern by its neighbours. On the other hand, including and involving Russia actively in BSR co-operation remains an important objective, as, for example, Germany's CBSS presidency in 2011/2012 has given clear and strong evidence of. When the Germans handed over the presidency to Russia in July 2012, interest in Russia's regional stance became even greater than usual. The expectations for Russia's CBSS presidency in 2012-13 were high. Many hoped for a new Russian Baltic Sea doctrine and concrete Russian proposals on how to better co-ordinate its BSR policies with the EUSBSR. These expectations, however, have not been met. It appeared that Moscow neither developed a new conceptual approach to its BSR policy, nor planned to interact with Brussels' regional strategies. A crucial general problem is that Russia's long term BSR policies represent a rather paradoxical mixture of general declarations and instrumentalist/technocratic approaches that often are not sufficiently interlinked with each other. Russia's presidency programme and performance gave proof of this notion. A further particular problem of the Russian Presidency was



that it was not very visible.

Although a considerable number of events did take place in St. Petersburg and Kaliningrad, little of the discussions that occurred there achieved wider visibility. One interesting issue has been how Russia handled the Baltic Sea NGO Forum which took place in Sankt Petersburg at a time when Russian authorities put foreign NGOs with offices in Russia under heavy pressure. At the Baltic Sea Forum in Sankt Petersburg on 5-6 April 2013, Prime Minister Medvedev hailed the role of the civil society and NGOs in helping bring about a cleaner Baltic Sea. The participatory aspect is indeed an essential part of BSR co-operation but a less aggressive treatment

of NGOs in Russia would be helpful in this respect.

Irrespective of these obvious shortcomings, the BSR will retain its growing significance for Moscow as one of few places where Russia can directly interact with the EU. This necessitates a further EU-Russia dialogue on co-ordinating and integrating their BSR strategies.

Concerning the countries' interest in the BSR and the region's place on their political agendas, not so much has changed since 2011. The obser-

vation of earlier reports that the BSR is more important to some countries than to others is still valid. As well, differences in commitment are still obvious within some of the countries, most notably between the national and sub-national levels. Both Germany and Russia validated the assumption that countries' interest in and commitment to Baltic Sea co-operation usually increases when they are in charge of the CBSS presidency. On the other hand, Germany also proved the point that interest and commitment immediately start to decrease again once the respective country has passed the presidency on to the next country. Long-term commitment, however, is strongly required in order to move the Region forwards and to achieve tangible results in a long term perspective. The larger and powerful countries of the region have a particular responsibility in here.

Not just the rotating presidency in the CBSS, but also the EU presidencies held by countries of the Region could be more strongly and effectively used to promote the Region and to foster Regional co-operation. The fact that, between 2013 and 2018, the three Baltic states will hold for the presidency in the Council of the EU for the very first time presents a real chance for doing so and for ensuring continuity in co-operation and co-ordination.

The EUSBSR: a helpful instrument?

The EUSBSR has developed over the past two years. The strategy was evaluated in late 2011 and early 2012. Consequently, the EUSBSR action plan has been revised in late 2012 and early 2013. An updated Action Plan, addressing the latest developments and challenges, has been adopted in February 2013. In the course of the strategy's evaluation, the original four overall objectives of the strategy have been reduced to three in order to streamline the strategy and to make it work better in practice: to save the sea, to connect the Region and to increase prosperity.

As, however, a large number of sub-objectives remain and the number of priority areas even rose from 15 to 17, it is doubtful that the strategy will become more focused, more effective and more operational in practice. The sheer length of the action plan document (200 pages) speaks to this, making

its contents and objectives difficult to comprehend. Overall, the strategy's scope is still fairly broad. The new action plan tries to handle almost every aspect of co-operation in the BSR, but does not fully answer the question concerning the strategy's added value in all issue areas covered. Originally the EUSBSR had intended to focus on a smaller number of practical issues and objectives. Cultural co-operation is a case in point. The latter is certainly a very important part of BSR co-operation, with which a fair number of regional co-operation arrangements and networks are dealing. As with most other issue areas, cultural co-operation needs to become more coherent and consistent. Whether culture, however, necessarily belongs to and fits into the mainly functional and rather pragmatic project-based character of the EUSBSR, of which the primary aim is to settle concrete problems on the ground, only needs to be seen.

Another recent issue has been the strategy's further institutionalisation. The European Commission has proposed many novelties, among which a large number of steering committees, and rotating presidencies that should be in charge of the strategy. Some, however, fear that by means of these changes the Commission wants to re-export the responsibility for the strategy to the region which would come too early. A firm anchoring of the strategy within the EU institutions remains necessary for its functioning and success and to ensure that the links between the BSR and Brussels remain tight. In addition, the regional organisations and bodies continuously do not seem sufficiently capable of taking full responsibility for the strategy. However, the BSR EU member states might have to help the Commission more retain its responsibility over the strategy and carry out its tasks. Sweden, Finland, Denmark and even Norway already did so by sending capable civil servants to the Commission's DG Regio. Other countries should follow suit.

Overall, the EUSBSR has gained a certain relevance for the Region, its countries and most notably for Regional co-operation, as its initiation and implementation established an important link between Regional and wider European developments. It has revitalised most of the countries' interest in Regional co-operation, and has provided this co-operation with a fresh boost. Meanwhile, implementation of tangible projects is well under way. It is fair to conclude that, mainly thanks to

the invention and implementation of the EUSBSR, BSR co-operation has stabilised and improved in recent years. The EUSBSR is also successful in so far as it provides a helpful model for other forms of macro-regional co-operation in Europe, as has been assessed in this report.

Issue areas

The report shows that there is consensus among the countries of the BSR in various issue areas but not in all, rendering close and successful regional co-operation possible in some but only allowing discussions, if anything, in other areas. In particular, the sensitive issue of energy shows that there are also still big differences in the Region concerning styles of dealing with certain policy issues. There is a certain interest in co-operation but national interests prevail over regional ones. A particular case in point is nuclear energy. Countries have chosen not to use nuclear energy at all (Denmark), to entrust the technology with a major share of their energy provision (Finland, Russia), have decided on a phase out (Germany), or even decided to pursue a proactive nuclear policy (Poland, Lithuania). For some it is a way to gain energy independence and security, and hence forms an inevitable part of their energy mix, others tend to regard it as a dangerous and economically unfeasible technology. These diverging positions are hard to reconcile.

Environmental co-operation is an overall positive example of at least making an attempt to co-operate and to jointly solve Regional problems. Within this traditional field of Regional co-operation, many challenges remain, but also some progress has been made, in particular thanks to HELCOM and the Baltic Sea Action Plan (BSAP), and some commitment from all the countries of the region can be seen here. The implementation of the BSAP on the national level has made progress, but differences can be spotted in scope and speed.

The chapter on tourism co-operation in the BSR concluded that an effective transnational integration around the Baltic Sea would be successfully only based on a proper multi-level governance structure. Such a structure would facilitate the engagement of parliamentarians, local authorities, NGOs and the private sector on a permanent basis. This assumption basically applies to all areas of

regional co-operation, in which a generally higher level of coherence and co-ordination of efforts is required.

BSR as a 'soft power' base?

Implicitly, and in parts even explicitly, the report has given evidence that the BSR and most of its countries are in possession of a valuable good: 'soft power'. The 'soft power' of a country rests primarily on three resources: "its culture (in places where it is attractive to others), its political values (when it lives up to them at home and abroad), and its foreign policies (when they are seen as legitimate and having moral authority)" (Nye 2004: 11). There is also an economic dimension to soft power. Moreover, soft power is based on political actors' ability to influence political preferences of other actors. Most of the countries of the BSR are economically prosperous, they have sustainable welfare systems, solid democratic manifestations, they share firm political values and they work hard to treat their natural environment gently. On the basis of these attributes, they could be seen as attractive to others. Their political systems and political cultures could perhaps even serve as role models. The solidarity among the countries of the Region, Baltic solidarity, which has been thoroughly analysed in this report, solidarity among the Nordic countries, and perhaps even a wider BSR solidarity also underlines this 'soft power' potential of the region. It might sound naive, but perhaps such regional solidarity could help revitalise a sense of a wider European solidarity which, in times of crisis, has come under enormous pressure when the re-nationalisation of European politics took over in many European countries.

The challenge for the near and medium future is to specify, concretise and use this BSR 'soft power' potential effectively and wisely, not just in the Regional but also, and even more importantly, in a wider European context. The question should not be how to impose ideas, experiences and features that perhaps work better in the countries of the BSR than in other European countries, but how to contribute to solving their and Europe's current problems. In this respect, the countries of the BSR have, because of the aforementioned attributes, an important role to play on the European stage and

could jointly do even more to fill out such a role and to attempt to bridge the gap between West and East and even more between the North and the South.

To this speaks that the BSR countries became part of new European configurations fairly recently. There are increasing efforts to reach out, to include other countries and to share regional experiences. As indicated before, the EUSBSR serves as a model for the Danube Region. Also the meeting of NB8 and Visegrad countries' foreign ministers in Gdansk and the third NB8-UK meeting in Riga that have been mentioned in this report are interesting in this context. They give proof of an interest in the region and in an interaction with its countries which might be due to the region's soft power and particularly economic attractiveness. This interest might enable new forms of cooperation on an East-West scale and perhaps in a long-term perspective even on a North-South scale.

Advantages of Regional co-operation

In the current European crises, two distinct advantages of close Regional co-operation become apparent. First, Regional co-operation and close ties among its countries during the past few years contributed to a certain stability in and robustness of both the countries of the Region as well as the BSR as a whole. This robustness seemed to have helped them to some extent through the crisis, despite severe problems and pressure. In this respect, differences to southern Europe become even the more apparent, since solid regional co-operation structures do not exist there. Thus, it seems that there is a correlation between these two aspects.

Although several of the countries around the Baltic Sea have also been severely hit by the crises, they have shown a potential to reform and consolidate their economies and even to generate growth. On the basis of such potential on the national and Regional level, they could even play a key role in generating growth on the wider European level, helping the continent return to a sustainable path through close regional co-operation. When making effective and concrete use of this potential, regional engagement could indeed become a relevant part of European crisis management, forming the second advantage of regional co-operation. That

way, those two relevant processes, European crisis management and regional development and co-operation, would sensibly be linked together instead of competing with each other.

Outlook

These two advantages show that regional co-operation can be a value in and of itself, not just for the respective region but also for Europe in general. However, to make these advantages work effectively and to be able play the role of a crisis manager, an even stronger political will, long-term commitment, even closer political and economic dialogue, and even more effective co-operation and co-ordination of national, regional and EU policies will be required. For such a purpose, the EUSBSR, once its objectives have become clear and feasible, focusing on a manageable number of relevant items, could still be turned into a useful and valuable instrument. However, only if all involved countries are fully committed to the process and ready to make a substantial contribution, even in financial terms, could the implementation of the EUSBSR become a success and a role model for other European regions.

The key question for the near future is what the North / the BSR could do to help the South in more tangible terms. Which regional experiences, lessons learned and best practices are transferable to the South? Are there any tangible projects that have worked so well in the BSR that they would be worth transferring or at least extending to other European countries? This report does not claim to have found satisfactory answers to these complex questions. It, however, wants to invite political stakeholders in the Region and beyond to think about and to discuss these questions, which are all related to the overarching question how to make effective use of the 'soft power' potential of the Baltic Sea Region in the wider European context.

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About the Baltic Sea Region Thinktank “DeepWater”

Since 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 renewed and wider interest. Not since the EU enlargement towards Central and Eastern Europe in 2004 has the interest in regional and European integration 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), the idea to set up a (virtual) Thinktank for the region emerged some years ago and has been discussed at different forums, such as the BDF summits. The Thinktank was intended as an attempt to create an open common cross-border platform, aimed at raising awareness, mutual understanding and greater visibility, enhancing the political dialogue on the *state of regional affairs* in the Baltic Sea Region, and offering expert advice to politicians, administrations and various stakeholders in the region.

With the support of the Baltic Development Forum, the Konrad Adenauer Foundation (Riga/Berlin), the Nordic Council of Ministers, and the Department of Northern European Studies

at Humboldt University (Berlin), this (virtual) endeavour has been realised. Although there is no haptic space or established institution, a vivid collaboration and intellectual exchange of experts around our common Sea has materialised since 2010. The first result of the joint ambitions was the Political State of the Region Report 2011. For the first time, the political developments of the region in 2010/2011 have been evaluated, and domestic developments within the countries of the region have been put into a wider regional perspective. The second report followed in June 2012.

This report is the third of its kind, continuing this attempt and covering the time period of September 2011 to April 2013. By means of these reports, *DeepWater* has become known to and will gain further recognition from a wider public. We are prepared to continue our activities – as a group of experts entirely independent of governments, international organizations and corporate actors. As a means of reaching out to a bigger audience and with hope to further the debate on regional affairs, a special website has been developed and will be operationalized in 2013.

About BDF

Baltic Development Forum is an independent think-tank and networking organisation with members from large companies, major cities, institutional investors and business associations in the Baltic Sea Region. Baltic Development Forum works with a wide range of partners, including businesses, governments, regional organisations, research and media institutions.

Our network involves more than 7000 decision makers from all over the region and beyond. The mission of Baltic Development Forum is to promote the Baltic Sea Region as an integrated, prosperous and internationally competitive growth region.

Baltic Development Forum is chaired by Hans Skov Christensen, former CEO in Danish Industri. The Baltic Development Forum Honorary and Advisory Boards consist of high-level political dignitaries and prominent business executives representing the entire Baltic Sea Region.