



BalticSeaAgenda

**Northern European
Knowledge Market**

**Creating a single market for
knowledge in the Baltic Sea Region**



Baltic  Development Forum
sustainable growth · innovation · competitiveness

KRAKS FOND

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The report has been drafted and edited by Mikael R. Lindholm, business author and Managing Partner at Innovation Inside.



Foreword

Across the world, globalization is changing the rules of competition for businesses and the abilities of countries to create wealth. To most EU countries, innovation is regarded as one of the main sources of competitive power, added value and job creation. It is also viewed as a key anti-crisis measure. Hence, one of the dominating factors in the coming years will be the ability of businesses and countries to innovate and to create world class clusters of enterprises and industries. A crucial prerequisite to innovation is access to knowledge and talent. In order to compete successfully in the world economy, the Northern European countries in the Baltic Sea Region need to be good at developing, attracting and retaining the best and brightest.

This issue has been a priority for Baltic Development Forum (BDF) for some time and it has been reflected in the agenda for BDF's conferences and Summits organized in different parts of the Baltic Sea Region. It has also been highlighted in the State of the Region Report* that BDF publishes every year in order to track the competitiveness of the countries of the BSR. Furthermore, it has been part of BDF's co-operation with different partners and organizations, most notably, Scanbalt Bio-region, Novo Nordisk and OticonFonden.

A new and interesting policy concept related to innovation, talents, research and development is the notion of a Fifth Freedom: the free movement of knowledge and ideas. The Fifth Freedom tries to embrace new ways of expanding and deepening the Internal Market of the EU to facilitate circulation of immaterial goods and services that are crucial to innovation and ultimately the competitiveness of knowledge intensive economies. It includes increasing the cross-border mobility of high-skilled labor, enabling better access to businesses, universities and institutions in the region, and simultaneously enabling companies, universities and

institutions to access workers, researchers, students – and knowledge – in the region more easily.

The Fifth Freedom-concept needs to be further developed in order to mature and to become a guiding principle within the EU. But undoubtedly, it touches very important aspects of the economies of the Baltic Sea Region countries that are characterized by very high skill levels. Maybe the BSR could help inspire the rest of Europe and become a useful testing ground for the new policy concept? As a good beginning the concept has been included in the Commission's proposal for the EU Strategy for the Baltic Sea Region.

In order to explore the idea and relevance of the Fifth Freedom in the Baltic Sea Region, BDF has interviewed 20 business leaders from knowledge intensive companies in the region. Questions have been asked in relation to the possible creation of a Northern European Knowledge Market. They also covered their views on the Baltic Sea Region as a business region as well as initiatives enabling knowledge workers and researchers to move freely within the region. The participants represent knowledge intensive production companies as well as service companies. The interviews offer an insight into important aspects of the Fifth Freedom and barriers to a free market for knowledge and ideas.

The results are presented in this report, which has mainly been sponsored by Kraks Fonden. It is our hope that the findings and recommendations for further action may inspire debate and shape a political agenda supporting the development of the Baltic Sea Region into a leading knowledge region in the world.

Hans Brask, Director
Baltic Development Forum

Executive Summary

The Baltic Sea Region can strengthen its economic base in the world economy by becoming a frontrunner in developing the Fifth Freedom in the European Union – the free movement of knowledge.

By enabling researchers, knowledge workers and technology to move freely from country to country in the region - in effect creating a Northern European Knowledge Market- the BSR could gain important innovative and competitive advantages in the world economy by easing the access to knowledge for corporations as well as academic institutions.

Interviews with business leaders from knowledge intensive companies throughout the Baltic Sea Region show that initiatives that facilitate the free movement of knowledge and knowledge workers attract strong support.

The following initiatives receive especially strong support from all interviewed business leaders:

- Introduction of a White Card to highly educated workers that provide free movement within BSR.
- Harmonized taxation rules, degree certificates and family benefits, such as access to day care and health care facilities.
- Cross-border publicly funded research projects within promising knowledge intensive strongholds.
- Innovative flagship projects in the shape of collaboration between business, universities and authorities.
- An Internet based network or portal, like the Nordic-Baltic Expats Forum with biotech, in order to bring researchers, students and professionals together to exchange ideas, experiences and job opportunities.
- Exchange arrangements for students and researchers.

Such initiatives obviously involve numerous stakeholders and structures across the region. Consequently, policy makers, business leaders and academia need to collaborate closely in addressing the major obstacles and in formulating solutions. It is crucial, according to the business leaders, that the initiatives are politically supported and are part of a coordinated effort to develop the BSR into a more coherent and clearly defined global economic region.

While many business leaders regard the BSR as a commercially interesting area, most are also unclear about the possibilities within the region. There is a general lack of knowledge and awareness about knowledge centers, competitive advantages, suitable collaborators and business partners within the BSR. In other words, the potential of the region remains hidden to many companies, and, not surprisingly, most business leaders today fail to see why to focus on the BSR compared to other regions and countries.

This has clear negative implications for the ability of BSR to attract and retain the brightest minds. When recruiting talent, most knowledge intensive companies take on a global perspective and do not focus in particular on the BSR, since it often is easier to locate and not more difficult to acquire qualified employees outside the region. Consequently, there is a clear need to clarify and communicate the strengths and opportunities in the region, as well as launch initiatives that support the Fifth Freedom in the region.

The Fifth Freedom being a complex political concept involving numerous structures and stakeholders, it is the recommendation of Baltic Development Forum that the stakeholders in the BSR initiate a process that clarifies the preconditions and initiatives needed to realize the Fifth Freedom in the BSR and creating a Northern European Knowledge Market. This includes:

- Establishing a stakeholder forum – Fifth Freedom Forum - in order to create a governance structure involving all relevant stakeholders, contributing with knowledge and resources.
- Analyzing the opportunities and barriers concerning the Fifth Freedom in detail among not only businesses in the BSR, but also universities and other knowledge centers, the authorities and not least the citizens – especially knowledge workers.
- Political commitment and support from the EU Presidency and the governments in the BSR in order to push the process of operationalizing and implementing the Fifth Freedom in the BSR.

Considering the current economic downturn and the focus among businesses to cut costs – not least within R&D – a strong politically backed process is necessary in order to realize the initiatives that business leaders strongly support as enhancing the innovation capacity and ability of the BSR to develop, attract and retain the brightest minds.

The process would at the same time support the ambition of introducing the Fifth Freedom in all of EU, seen by the EU Commission and EU governments as one of the key conditions for creating a competitive European research area and part of the agenda for the revised and enhanced Lisbon Strategy after 2010, aiming at positioning the EU as the most competitive and dynamic knowledge-based economy in the world.

Introduction

Globalization is changing the rules of competition for businesses and the abilities of countries to create wealth. Innovation is today regarded as one of the main sources of competitive power, value creation and job creation. Hence one of the dominating elements in a dynamic economy in the coming years will be the ability of businesses and countries to innovate: produce and apply knowledge to create new solutions. Economic policy could – and should – strengthen the conditions that enhance the ability to innovate.

A crucial prerequisite to innovation is access to knowledge and talent. In order to compete successfully in the world economy as an innovative, dynamic and knowledge-based region and properly exploit its competitive advantages, the northern European countries in the Baltic Sea Region (BSR) need to be good at developing, attracting and retaining the best and brightest.

Unfortunately, factors such as demographic ageing, decreasing labour force, inflexible labour markets, high taxes and tight migration policies undermine the accessibility to human capital in the region. Worse, there is a drain of talent as bright scientific minds are increasingly moving outside the region, lured particularly to USA by a dynamic entrepreneurial culture, better wages and more accessible opportunities.

In order to strengthen the innovative capacity in the BSR, the countries in the region could jointly establish a single Northern European Knowledge Market, increasing the cross-border mobility for high skilled labor, enabling better access to businesses, universities and institutions in the region, while attaining similar work or research conditions, and simultaneously enabling companies, universities and institutions to access workers, researchers, students – and knowledge – in the region more easily.

A single Northern European labor market for high skilled workers, researchers and students would be an important first step towards realizing the broader EU ambition of creating the so called “Fifth Freedom”, allowing knowledge and technology to move freely across the borders, and at the same time making the BSR more attractive to foreign talents, strengthening the region as a world class knowledge center.

The timing of such an initiative is optimal.

- The European Commission has formulated a EU-strategy for the BSR and established a European Research Area. The Northern European Knowledge Market initiative should consequently be promoted within this framework and could thereby provide valuable input to the European Commission's initiatives.
- The Nordic Council of Ministers considers the Fifth Freedom to be part of the core of the Nordic Globalization initiative and is consequently preparing initiatives to promote this, a.o. to establish a common infrastructure for knowledge in the BSR with a high capacity network for research, co-operation and digital services, and establishing eScience as a common research area as part of the infrastructure.
- The Fifth Freedom is at the heart of the Lisbon Agenda, which is a high priority to the Swedish EU Presidency. Establishing a Northern European Knowledge Market could be a valuable lead project for a broader EU initiative promoting the Fifth Freedom among all EU countries.

According to a survey made by Baltic Development Forum among business leaders in knowledge intensive companies in the BSR such an initiative could enhance the innovative potential of the companies and thus the region.

The Baltic Sea Region

The Baltic Sea Region is defined here to include the Baltic countries: Estonia, Latvia and Lithuania, and the Nordic countries: Denmark, Finland, Iceland, Norway and Sweden, and Northern Germany: Hansestadt Hamburg, Mecklenburg-Vorpommern and Schleswig-Holstein, and Northern Poland: Pomorskie, Warminsko-Mazurskie and Zachodnio-Pomorskie, and most parts of Russia's Northwestern Federal District, excluding the four regions least connected to the Baltic Sea Region: Republic of Komi, Arkhangelskaya oblast, Nenetsky AO and Vologodskaya oblast. The region is home to approximately 58 million people, a number that has been decreasing by about 50.000 annually over the last years. The region's labor force of approx. 25 million people has been growing since 2003.

However, enhancing the innovation capacity in the BSR by introducing free movement of knowledge involves numerous stakeholders and structures across the region. Consequently, in order to establish the Northern European Knowledge Market, policy makers, business leaders and academia need to collaborate closely in addressing the major obstacles and in formulating solutions to barriers such as immigration, labor market structures, income taxes, university structures, educational curriculum, etc.

To assess the proposition of enhancing the innovation capacity in BSR by facilitating the free movement of knowledge in the region, the following pages explore:

- Economic perspectives of the BSR
- Political process of introducing the Fifth Freedom in the EU
- View of business leaders in knowledge intensive companies in the BSR on firstly, the BSR as a global business region, and secondly, the barriers and perspectives of free movement of knowledge in the region.

The BSR in the world economy

Transnational collaboration between neighboring countries can make significant contributions to the prosperity of the individual countries in the region. Economic research provides evidence that neighboring countries are often partners in terms of trade and investment. Removing barriers to flows of goods, services, capital, ideas and people thus has a clear potential to raise prosperity further. This may especially be true of a region that is largely made of smaller economies that lack the resources to compete globally by themselves, as is the case with the Baltic Sea Region.

In The BSR with its approximately 58 million people and annual GDP of about 1.400 billion euro, the opportunities for the neighboring countries to generate benefits are high. But as several studies reveal, a.o. the State of the Region Reports on the BSR, an active political strategy is necessary to overcome the remaining barriers and develop the sources of growth further.

Fortunately, the region already practices regional cooperation on a range of areas, and in spite of the world economic crisis, the BSR today stands as one of the more prosperous regions in Europe and the World with a strong position on global markets based on a number of competitive advantages and a high level of integration into the global economy.

The overall level of GDP per capita (PPP adjusted) in the BSR puts it slightly behind the Iberian Peninsula, but ahead of the group of Central European EU members. This is no small achievement for a region that has more than 40 pct. of its population in Russia, Poland and the Baltic countries – the so-called transition economies. The BSR has consistently grown faster than

the EU average during the decade, although the catch-up rate has slowed slightly in most recent years.

The strong growth performance is based on an unusual combination of strong employment and productivity, and relatively high local prices. The rest of Europe performs well in either productivity or labor mobilization, but not both. However, during the later years the BSR has lost some of its advantage in terms of labor mobilization relative to the EU average.

Although the current world economic crisis has affected the BSR severely, the over-all slowdown in growth is comparable to the rest of Europe and USA. Some countries in the region, such as Iceland and Latvia, have experienced more serious consequences than others, but there is no evidence to suggest any transformation in the region's relative performance.

However, the severity and duration of the economic crisis depends very much on the future policy design and the ability of the countries in the region to explore and benefit from a closer cooperation on issues that enhance competitiveness and innovation capacity, a main source of competitive power, value creation and job creation. To a large extent, this will determine the future competitive position of the region.

According to the State of the Region Reports from Baltic Development Forum as well as the Transnational Cooperation for Prosperity in the BSR report from the Nordic Council of Ministers, the competitiveness of the BSR is today strong and the region has good preconditions for coping with the challenges of globalization.

The various factors of competitiveness in the BSR can be categorized as follows:

Endowment

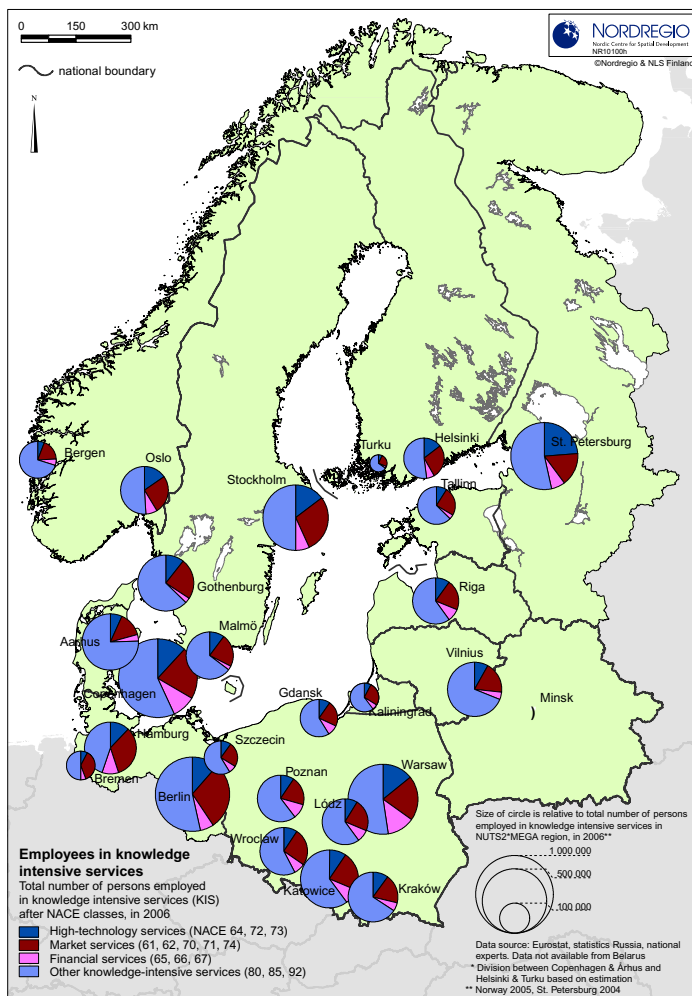
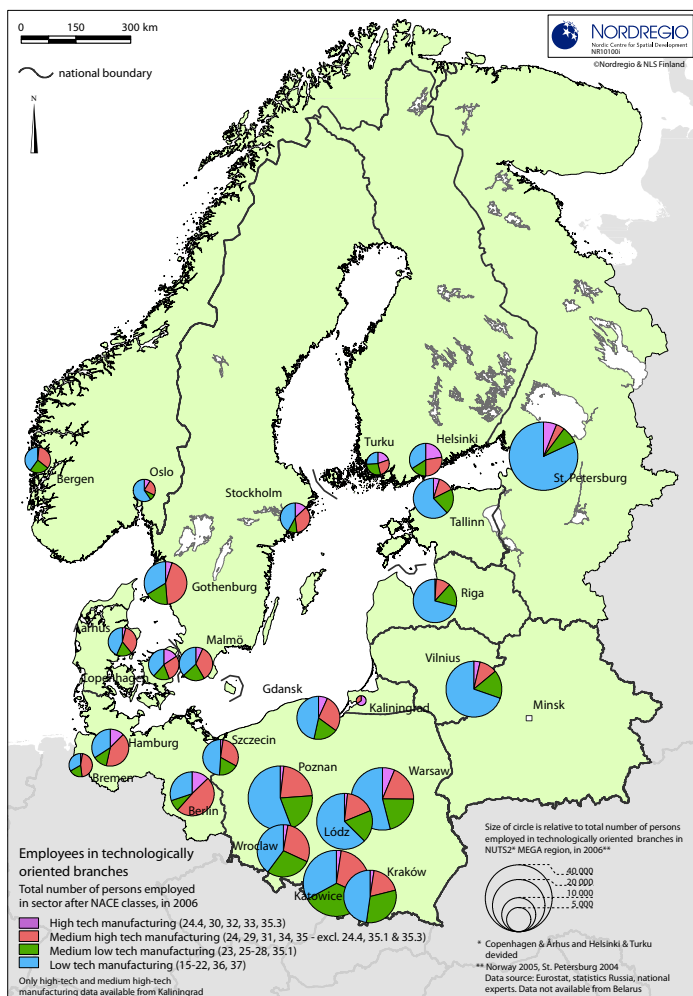
The natural resources, geographic location and the overall size and density of a region influence the level of prosperity in a region. Endowments cannot be changed, but the value that derives from them is strongly influenced by the policy choices made.

The Baltic Sea Region has large oil and gas reserves as well as significant endowments of ore and other metals. There are also large wooded areas, extensive coastlines and rich fishing grounds. The region is however located at the periphery of Europe, relatively far away from major trading routes and centers of economic activity, while the geographical location close to the Arctic Circle creates significant energy needs. The cities of the region tend to be of moderate size, increasing the cost of public services and raising logistical costs, while diminishing the economic and innovation potential, which tend to benefit from urbanization.

Competitiveness

The Baltic Sea Region is one of the most competitive regions in the world. On the overall Global Competitiveness Index 2008 of the World Economic Forum, the BSR rank as 19.

The BSR is strong in terms of macroeconomic competitiveness, especially as regards to institutional quality, and has a strong performance on macroeconomic policy. The significant heterogeneity across the region is however a major challenge. The gap between the leading Nordic countries and their eastern neighbors is large with little evidence of convergence. This is a concern, because without institutional improvements – notwithstanding the present level of quality – there is a limit to how much economic convergence and collaboration will be possible over time. It also raises concerns about the ability of the Baltic countries and Russia to deal effectively with the current economic crisis.

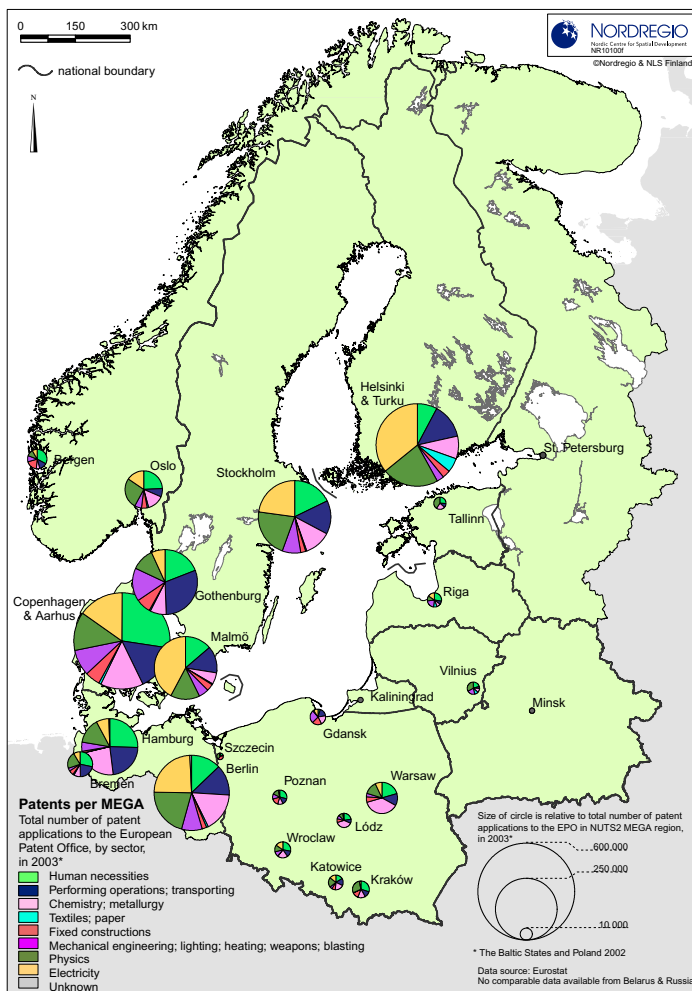


Employees in technologically oriented branches (left) and in knowledge intensive services in the BSR metropolitan regions

In terms of microeconomic competitiveness, the region competes as a knowledge-driven economy with strengths in education, technology, innovation capacity and business sophistication. Markets are open and provide a level playing field for corporations. Low levels of entrepreneurship and moderate levels of investment signal weaknesses in incentives and bureaucracy. This applies especially to the Nordic countries, but is only partially true elsewhere in the region. Germany has less of a high-tech bend and a weaker over-all education system, but is strong on innovation and business. The Baltic countries and Poland leverage their comparative advantages for the most part from solid skills at relatively low wages, while Russia has a large and growing domestic market, yet is only starting to utilize its scientific capacities.

In the global economy, success does not merely depend on endowment and good performance in many aspects of competitiveness. A clear positioning that builds on the unique merits for different types of activities and clusters in a location is also required. In the BSR, specialization across clusters provide an indication of where these unique advantages exist. The region has a strong world market position in forest products, furniture, communication equipment. Other strengths include environmental technologies and innovation in general.

The region may well develop more world class clusters in the future. According to a report from InnoNet, exploring what clusters and sectors are most interesting for transnational cluster initiatives and which clusters and sectors are most ready for transnational collaboration, nine strongholds which are represented in four or more of the BSR countries emerged: energy and environmental technologies, food processing, forestry and wood, health and well-being, information and communication technologies (ICT), biotechnology, maritime, nanotechnology and tourism.



According to the European Innovation Scoreboard 2007 the BSR is at the European innovation top league. However, the region has lately lost position relative to the EU average. In patenting - seen as an indicator of a country's innovative capacity - the BSR remains one of the most important innovation hubs in the global economy. In 2007, the BSR accounted for 4.3% of patents filed in the US from non-US institutions. This puts the BSR as the fifth in the country ranking, behind Japan, Germany, South Korea, and Taiwan. Relative to the absolute size of their GDP, only Canada, Switzerland, Israel, and Singapore - in addition to the four above mentioned countries - registered higher patent intensity than the BSR (on a per capita basis, the Netherlands, Australia, and Luxembourg join the group of countries ahead of BSR).

Also, the region's sophisticated consumers are open to new trends, making for an attractive test market.

Globalization readiness

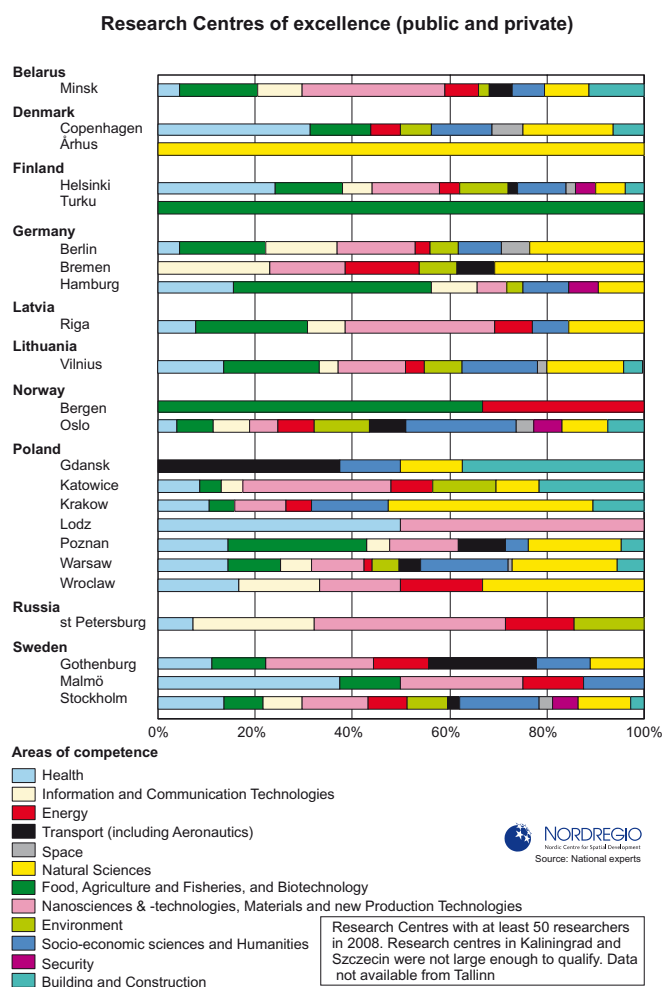
In the global economy, economic success is not only a function of the internal competitive strengths a region has to offer. Solid linkages to other global locations allow economic value to be derived from various strengths and raise the possibility of utilizing foreign capital and skills. Flexibility in domestic markets enables more rapid pace of structural change that exposure to external economic shocks may require.

Patent applications from the BSR metropolitan regions to the European Patent Office

The BSR is performing well in terms of projecting its competitiveness on global markets. Exports are relatively strong at 5,38%, despite the significant gains that especially China has made on world markets. The region is constantly gaining position in terms of service exports, while export of goods has performed slightly less well.

Companies in the region are also strong global investors. The region's share of the global outward FDI stock is roughly comparable to its global export market share. However, within the BSR 35% of all outward FDI is owned by Swedish companies, followed by Danish companies with 20%.

The picture is more mixed when it comes to attracting foreign capital and talent. The inward FDI stock is relatively solid, but at 3,8% below the level of outward FDI. Inflows have had a tendency to underperform in the recent years. Over a five-year period, Iceland, Estonia, Lithuania, and Russia are the countries that have gained most ground on FDI attraction. Globally, EU remains the most important destination of FDI with about 45% of the global inward FDI stock. NAFTA accounts for 20%. The BRIC (Brazil, Russia, India and China) register between 6% and 12% of global inward FDI, depending on whether Hong Kong is included.



Public and private research centres of excellence in the BSR metropolitan regions

The BSR is an attractive location for research by foreign companies, and researchers from the region frequently engage in research projects with foreign partners. According to the Global Competitiveness Index of the World Economic Forum, the collaboration between universities and industry get high marks, followed by the assessments of the research institutions' quality. Yet there are indications that the region is lagging as regards to the attraction and subsequent integration of skilled employees.

A similar mixed assessment applies to the flexibility of the region. Formal indicators of the labor market flexibility suggest that the region is performing very poorly. There are, however, indicators that the Nordic countries demonstrate much higher flexibility.

Regional integration

To compete as a region in the world economy the individual countries in a region need to work as an aggregated entity. The individual parts of the BSR are, however, largely heterogeneous. The Nordic countries are the most prosperous and innovation-driven, while the former Communist countries are much less prosperous, driven by resources and investments. There are also significant differences within these groups. This creates opportunities for gains from trade that can benefit everyone in the region, but it also creates a more complex political environment where competitive advantages and priorities differ.

While trade and investment flows are high between the countries in the region, they are not at an unusual level, while migration flows are low. Until recently, migration from Poland and the Baltic countries to the UK and Ireland was higher than migration to BSR neighbors.

There are several overlaps as regards to exports specialization between countries in the region, which suggest potential for closer economic integration in these parts of the economy.

The companies in the region do, however, not perceive the BSR as an integrated and unified market, even in sectors where the same companies operate across the region. Natural barriers such as language, customs and incumbent market structures remain. Also, in spite of the EU common market rules, there are many administrative rules and practices that work against full market integration. This is, however, not an unusual observation throughout the rest of the EU.

Never the less, the perception is that there is no integrated Baltic Sea Region market today, but a collection of national markets that are linked through many companies that are active across them. The lack of market integration raises operating costs for companies and raises the complexities of investing in the region, especially for foreign companies.

Hampering market integration further, the customers across the BSR expect to be served locally, even when their actual needs are similar. Consequently, the companies pursue a local approach to delivering goods and services to customers, while the goods and services themselves are increasingly similar.

Introducing the Fifth Freedom in EU

At the European Council in March 2008, the term “Fifth Freedom” – the free movement of knowledge – was for the first time recognized as a forward looking concept that can improve Europe’s competitiveness and innovation capacity. In May the same year the Council launched the Ljubljana Process for the governance of the European Research Area (ERA) based on a partnership between the European Commission and the Member States. By September, the Commission had tabled documents for five new initiatives to begin implementing ERA policy on concrete topics – researchers, knowledge transfer, joint programming, research infrastructures and international cooperation. By December 2008, the European Council had given its first formal response to the Commission proposals, adopting, in addition, a shared vision of ERA in 2020.

The shared ERA vision for 2020 strikes a balance between ambition and pragmatism. It includes a clear mission statement for establishing the Fifth Freedom. It also includes explicit aspirations regarding attractive working conditions for researchers, good governance, high levels of Europe-wide competition and excellence, but also better cooperation and coordination, to more effectively respond to societal challenges such as climate change, sustainable development and increased competitiveness. It is fully consistent with the European economic recovery package, which places research, development and innovation at the heart of long-term prosperity.

The European Research Area Vision 2020

The European Research Area Vision 2020
ERA Vision 2020 agreed at Competitiveness
Council on 2 December 2008.

”By 2020, all actors fully benefit from the ”Fifth Freedom” across the ERA; free circulation of researchers, knowledge and technology. The ERA provides attractive conditions and effective and efficient governance for doing research and investing in R&D intensive sectors in Europe. It creates strong added value by fostering a healthy Europe-wide scientific competition whilst ensuring the appropriate level of cooperation and coordination. It is responsive to the needs and ambitions of citizens and effectively contributes to the sustainable development and competitiveness of Europe”.

The key principles are:

- 1. An adequate flow of competent researchers.**
- 2. World-class research infrastructures.**
- 3. Excellent research institutions.**
- 4. Effective knowledge-sharing.**
- 5. Well-coordinated research programmes and priorities.**
- 6. Wide opening of the ERA to the World.**

The European Partnership for researchers constitutes a common framework and timeframe for improving both researcher career prospects and mobility. Raising Europe's research performance and bringing about the fifth freedom depends in a critical way on increasing the quality, number and mobility of researchers. The aim is also to enhance Europe's attractiveness for researchers in a context of rising competition for the best talents in an increasingly multipolar international environment.

A key challenge for Europe is to train, retain and attract more competent researchers. Moreover, the seamless mobility of researchers across institutions, sectors and countries is even more important than for other professions; it is essential to better balance researcher supply and demand, particularly given their high specialization and relatively low numbers. Today, most researchers in Europe still find their opportunities curtailed by institutional and national boundaries, poor working conditions and narrow career prospects. In practice, academic positions still remain largely reserved for national or even internal staff. Transparent competition for recruitment is the exception rather than the rule. Mobility across borders or between academia and industry tends to be penalized rather than rewarded. Administrations do not usually allow researchers to receive or carry research grants across borders.

This is why so many European graduates and doctorates either move away from research careers or pursue research in countries where they find better opportunities – mainly in the US. At the same time, women remain under-represented, particularly in some fields of science and engineering and in positions of responsibility. Demographics also has a growing negative impact on the European research sector, with poten-

tial shortages of researchers in some areas due to the retirement of older generations and the associated loss of competence.

It is thus according to the EU Commission essential to establish a single and open European labour market for researchers, ensuring effective „brain circulation“ within Europe and with partner countries and attracting young talent and women into research careers. This requires efforts at all levels in the private and public sectors and by local, national and European administrations. The private sector should be encouraged to develop and expand opportunities for researchers. At the same time, public authorities and research institutions need to work to remove the legal, administrative and practical (e.g. linguistic) barriers to geographical and inter-sectoral mobility, improve employment and working conditions for researchers, reconcile professional, private and family life, and address gender and demographic issues.

Many specific EU initiatives have been taken to foster a more attractive European area for researchers, but progress remains very limited due to the voluntary nature of most of them and, in some cases, the lack of coordination with and between similar national and regional measures. For example, the European Charter for Researchers and the Code of Conduct for their recruitment are increasingly being supported, but this is a slow process and real progress will only happen once the endorsement of principles is followed by concrete implementation.

Career perspectives and mobility of researchers should be enhanced through identifying an optimal policy mix between national and European Community tools and further developing the skills of all researchers, including supporting-measures to promote

Conclusions of the Council of the European Union on the “Fifth Freedom”

In order to become truly modern and competitive economy, and building on the work carried out in the future of science and technology and on the modernization of universities, Member States and the EU must remove barriers to the free movement of knowledge by creating a “fifth freedom” based on:

- enhancing the cross-border mobility of researchers, as well as students, scientist, and university teaching staff;
- making the labor market for European researchers more open and competitive, providing better career structures, transparency and family- friendliness;
- further implementing higher education reforms;
- facilitating and promoting the optional use of intellectual property, created in public research organizations so as to increase knowledge transfer to industry, in particular through an “ IP Chapter” to be adopted before the end of the year;
- encouraging open access to knowledge and open innovation;
- fostering scientific excellence;
- launching a new generation of world- class research facilities;
- promoting the mutual recognition of qualifications.

Source: EU-Commission, Brussels, 20 May, 2008

and develop training and a balanced circulation of scientific talent and to ensure best possible working conditions also in terms of work-life balance. In addition, interest in research and innovation needs to be stimulated in society, particularly among the young.

The fifth freedom and improvements of the European Research Area are going to play an increasing role in the EU and more funds are going to be allocated, not least as part of a new distribution of the EU budget beginning from 2013 (“new financial perspectives”). It is also expected that innovation, the Fifth Freedom, research and universities will have a higher priority when the Lisbon Strategy is going to be revised and adjusted in 2010. The pressure from the knowledge intensive economies in Europe is increasing in order to see new priorities in the EU budget and EU’s Strategy for higher international competitiveness. Finally, the new EU treaty will place higher importance by introducing new competences to the European Research Area.

However, introducing the Fifth Freedom remains a complex and difficult task, according to interviews with representatives in the Commission, transcending political as well as national borders. According to the Commission political leadership at the EU Presidency level is a crucial prerequisite in order to progress with the preparations not to mention implementation of the initiatives needed to realize the Fifth Freedom.

EU “Strategy for the Baltic Sea Region” on innovation, labour market, research and education

EU “Strategy for the Baltic Sea Region” on innovation, labour market, research and education
The EU Strategy is dealing with many areas, including a vast number of flagship projects and cooperative actions, the following should be mentioned:

Innovation

- “Establish a common BSR innovation strategy”: develop better innovation support instruments, including Intellectual Property Rights (IPR) support.
- “Develop a BSR Programme for Innovation, Clusters and SME-Networks”, built upon the BSR-Network INNO-Net project, mobilizing cluster organizations, national or regional programmes and funds. Maritime clusters will be promoted (Lead: Sweden and Lithuania; Deadline for progress review: to be determined) FAST TRACK
- “Make the Baltic Sea an Eco-efficient region” (Lead: to be agreed; Deadline for progress review: to be determined).
- “Develop a common BSR strategy to promote services innovation” – better statistical data in the sector of knowledge-intensive services (Lead: Lithuania and Finland; Deadline for progress review: to be determined)
- “Set up cross-sectoral reference projects for innovation in health and life sciences” (Lead: Lithuania or/et Germany tbc; Deadline for progress review: to be determined).

Labour Market

- “Increase labour mobility” Cooperation between municipalities, regions and Member States. Mutual recognition of qualifications.
- “Initiate an exchange of good practices in the area of administrative simplification of start-ups, licenses and bankruptcy procedures” (coordinated by Denmark).
- “Promote young entrepreneurs”: developing mobility for young entrepreneurs in the BSR (Lead: Denmark; Deadline for progress review: to be determined)
- “Develop deeper cooperation on environmental technology to create new business opportunities”, incl. export promotion to China and India. (Lead: Poland; Deadline for progress review: to be determined).
- “Provide information to jobseekers on job offers” (Lead: to be agreed; Deadline for progress review: to be determined).

Research

- “Create a Baltic Sea Fund for Innovation and Research” (Lead: Nordic Council of Ministers; Deadline for finalisation: to be determined).
- “Setting up a Baltic Science Link” – a network between universities, research institutes and industries (Lead: Sweden: Swedish Research Council; Deadline for progress review: to be determined)
- “Develop a regional foresight programme”, including a map on innovation potential and a database on financed research projects (Lead: Poland; Deadline for finalisation: to be determined) FAST TRACK “Improving the exploitation of research through patents”.

Education

- “Further increase exchanges within the BSR”. Could be extended to entrepreneurs and other professionals.
- “Develop people-to-people actions”
- “Enhance cooperation - on a voluntary basis - between the regional Universities of the BSR” (Lead: Baltic University Programme in coordination with Lithuania (tbc); Deadline for finalisation: to be determined) FAST TRACK
- “Develop - on a voluntary basis - joint curricula and share education resources” (Lead: to be agreed; Deadline for progress review: to be determined) FAST TRACK
- “Identify and remove barriers hampering mobility of researchers and students in the BSR” (the so-called „Fifth Freedom“). (Lead: to be agreed; Deadline for finalisation: to be determined)
- “Network the local youth policy structures” to increase the exchange of experiences of local youth workers and youth centres. (Lead: to be agreed; Deadline for progress review: to be determined)

The Fifth Freedom in a Nordic perspective

The Nordic countries are some of the most research and innovation intensive in the world and have made large investments in research and development. With the new globalization agenda of the Nordic Council of Ministers new initiatives have been taken to improve and develop the Nordic Countries innovation capacities and excellence in research and development.

Important steps towards the establishment of a fifth freedom among the Nordic countries have been taken. It includes also the new generation of Nordplus-programmes fostering mobility between the five Nordic countries and the three Baltic States. More than 10,000 students, teachers, researchers and pupils participate each year. This is a significant increase in participation rate from 2007-2008.

But the most interesting new initiative is the Nordic Top-level research initiative- one of the biggest initiatives ever taken by the Nordic Council of Ministers.

The initiative aims at developing excellent research in close collaboration between research units and enterprises and promoting innovation. In the first phase the focus is on climate, energy and the environment, and in the second phase the focus will be on welfare and health. The initiative intends to strengthen the knowledge base and competitiveness of the Nordic countries. It aims to enable a critical mass on central areas, on a scale that the countries cannot achieve each on their own. It will also enable bigger effects from already existing national research investments.

The Nordic countries are in other words creating a platform that can be used for wider international co-operation and interaction, aspiring to become a world leading, cutting edge research and innovation environment.

Based on the national investments and strengths and with a new Baltic Sea strategy in the works, the Nordic Council of Ministers is considering taking an initiative to establish a common knowledge infrastructure for the Fifth Freedom in the Baltic Sea Region.

A knowledge infrastructure for the Fifth Freedom could include:

- Physical infrastructure for high capacity networks around the entire Baltic Sea
- High capacity networks for advanced research collaboration and digital services
- Establishment of eScience as a common research area

The initiative is designed to function as a base for an important platform for enhanced international cooperation and intends to promote the mobility of competencies and expertise. It is based on current national priorities and strengths. By way of this program, the Nordic region aims, according to the proposal, to acquire a global leading position in terms of competence, innovation and industrial achievement within the chosen thematic fields.

Also, in 2004 the “Nordic Research and Innovation Area” (NORIA) concept was established by a joint ministerial declaration from the Ministers of Education and Research and the Ministers of Industry. The aim with this initiative was to make the Nordic region a leading region in research and innovation.

Since establishing the concept, important implementation steps have been taken. The two institutions NordForsk and Nordic Innovation Center (NICE) are now operational and both have contributed to a renewed and intensified Nordic research and innovation collaboration. By now, nearly 10.000 researchers participate in the financing schemes of NordForsk and the two institutions have a project portfolio of around 200 projects each.

The Nordic collaboration has taken a new direction during the last couple of years. In the summer of 2007 in Punkaharju, Finland, the Nordic Prime Ministers established a new globalization agenda for Nordic collaboration. To focus on globalization and its inherent opportunities, the Prime Ministers called upon joint Nordic activities in research and innovation, education, climate and energy, welfare and health issues.

At their meeting the Nordic Prime Ministers agreed on a “new phase for Nordic partnership”, in particular on globalization. The Prime Ministers agreed to launch “a new Nordic endeavour in globalization”. It was stressed that “the synergy benefits of the work carried out at the European and regional level will be utilized in the implementation”.

The initiative strengthens the knowledge base and competitiveness of the Nordic countries and it will be a major new step for NORIA. The initiative enables a critical mass on central areas unique to the Nordic countries, on a scale that the countries cannot achieve each on their own.

Business leaders on BSR

Companies are the main economic agents of growth and job creation in the world economy and – of course – in the BSR. Competing in an innovation-driven knowledge intensive economy, access to knowledge workers and researchers, ideas and technology is crucial for the competitiveness of a company.

In order to explore the idea and relevance of introducing the free movement of knowledge in the BSR, 20 business leaders from knowledge intensive companies in the region have been interviewed and asked about their opinions and views on the BSR in general as a business region compared to the rest of the world, as well as their view on introducing initiatives enabling knowledge workers and researchers to move freely within the region, and the impact of it.

The participants represent knowledge intensive production companies as well as service companies, and offer market insight from the perspective of western European countries as well as the former Communist countries.

BSR as a global region

Overall, many of the business leaders do not see the BSR as a coherent region, nor an integrated market for business, but rather as a group of heterogeneous independent countries or groupings of countries. The image of the BSR as a global economic region is weak, seen through the lens of business. The BSR does not come across as a globally branded region in the world economy.

Jan Laukøy from DNV, Norway: *“I think the BSR is an artificial region and that the Baltics should rather focus on parts of Europe. It is too small and too local if we only focus on the business in this region.”*

This perception contrasts starkly with the economic analysis of the competitive advantages and economic linkages in the region. However, with this perception in mind, not surprisingly only a few of the companies have developed a specific corporate strategy for BSR – contrary to e.g. the Nordic region or the EU – although some have plans to do so in the future.

David Klassen from Coloplast, Denmark: *“Until now we have not had a need to be present in the Baltic countries. There have not been interesting markets, but that is about to change. The Baltic region is becoming more interesting compared to Eastern Europe, where many countries are experiencing difficulties. We see great potential in Poland and the Baltic countries. It is a region that attracts many investments and that is interesting to us. However, we would like to see the Baltic region stand against the international crisis and there needs to be incentives in relation to taxation, legislation and relations to the public authorities, in order to attract international corporations”.*

Only few companies see it easier to do business with the countries in the BSR than with other countries and regions of the world – and not a single company finds it as easy to do business within the BSR as within their home country. In comparison, a study of the Nordic countries – “Nordisk konkurrencekraft” by Oxford Group in 2006 - shows that one of three companies in the Nordic countries find it as easy to do business in the other Nordic countries as in their own, while every second sees the Nordic countries as a coherent global region.

The perception of the BSR as a fragmented region and a fragmented strategic approach to the region implies that the knowledge intensive businesses in the BSR do not consciously explore and exploit the regional competitive advantages of the BSR when competing in the world economy.

Many companies stress that the BSR today consists of “two regions” with very different backgrounds – on the one hand the Nordic and western European countries, and on the other hand the former Communist countries. At the same time they stress that if the countries were able to work together across the regional fault lines of culture, economy and language, the BSR could become a very strong global region.

Peter Tærø Nielsen from Hulgaard, Poland: *“There are two regions within the BSR with very different backgrounds, if the different universities and businesses work together, both internally and across these “two Regions” it could be quite powerful.”*

Actually, most of the interviewed business leaders agree that the BSR has untapped potential and could develop into a strong global region that could compete with other global regions.

Peter Frank from Scanbalt, Denmark: *“It’s a very interesting source of knowledge as the different nations have various things to offer in terms of knowledge and therefore complement each other very well.”*

Jan Laukøy from DNV, Norway: *“It is a pretty knowledge intensive region, there are many well educated and competent people.”*

They also agree that the potential of the region will not materialize unless it becomes a clearly politically supported ambition. The view that the BSR has potential as a global region is stronger among companies in the Nordic countries, whereas business leaders in the former Communist countries are more doubtful about the strength and global potential of BSR.

While many business leaders regard the BSR as a commercially interesting area, most are also unclear about the possibilities within the region. There seems to be a general lack of knowledge and awareness about knowledge centers, competitive advantages, suitable collaborators and business partners within the BSR.

David Klassen from Coloplast, Denmark: *"It can be difficult to locate relevant partners, this is probably the biggest barrier."*

In other words, the potential of the region remains hidden to many companies, and not surprisingly most business leaders fail to see why to focus on the BSR compared to other regions and countries. For instance, when recruiting talent, almost all companies take on a global perspective and do not focus on the BSR, since it is possible to locate and acquire qualified employees outside the region.

Stine Malmberg from Lundbeck, Denmark: *"The global aspect is more important to us than the BSR aspect."*

Despite that the BSR comes across as a fragmented region, several of the respondents point out that the BSR has obvious strengths and advantages in the global economy.

First, compared to the rest of the world, the BSR countries are relatively similar culturally. Many of the respondents highlight that they are used to cooperate with China and India and therefore find the countries within the BSR extremely easy to work with, due to the similar cultural background.

Second, the respondents emphasize that the short distances and thereby the great mobility between the countries eases cooperation. It is easy and convenient to travel between the various capitals and this increases the opportunity for knowledge sharing locally and to learn from one another.

Third, there are already strong relationships between the countries. When taking new business initiatives it is not a matter of entering new and unknown territories, on the contrary. There are already established and trusted relationships on many levels in the BSR, which creates a sound foundation for business to build on.

Peter Frank from Scanbalt in Denmark: *"There is a very solid network within the BSR region based on the mutual trust between the different operators. The different countries of this region have a lot of common cultural aspect."*

When asked about BSR knowledge strongholds, the business leaders quite consistently point to life science, IT, health care, environment and alternative energy. Interestingly, none of these are among the documented BSR world class clusters – however, they match the findings identifying potential future world class clusters in the region, thus reinforcing the notion of a huge potential in the region, provided these opportunities are nurtured and developed.

When asked what political measures the business leaders would like to see being taken in the BSR, the following are emphasized:

- Stronger branding of the BSR;
- Better awareness of resources and possibilities in the region;
- More harmonization as to taxes, regulation and financial policy;
- Better infrastructure, especially on the Eastern side of the Baltic Sea;
- Better funding for universities and education.

According to the respondents, initiatives on these areas would make it much easier to cooperate within the BSR, mainly because they would enhance mobility.

Brigit Nørregård from Carl Bro, Denmark: *“In order for BSR to draw any benefit from being a united region it will require that it becomes clear what exactly this region can contribute with compared to other regions.”*

Kirstine Wagner from Hulgaard, Denmark: *“There is a huge potential for development in some of the countries - wages are still low, even though much of the workforce is highly educated. It would therefore be a great opportunity for development if the mobility between the countries improved.”*

Moreover, based on the economic crisis many respondents mention that initiatives to strengthen the BSR as a region should be taken now. They believe that the BSR should take advantage of the fact that the region is not as badly hit by the financial crisis, contrary to for instance Eastern Europe.

In short, to business the BSR appears as a commercially interesting grouping of knowledge intensive countries, but the region is not perceived as an integrated market, and many other locations around the world are at least equally or more interesting from a business perspective. Given that the BSR is not clearly defined as a region and that the framework conditions for doing business are not optimal, for many business leaders it is easier to look elsewhere.

Business barriers in BSR

When asked about the barriers to doing business in the BSR, the answers from the business leaders differ from country to country. For instance, many consider it much easier to do business and collaborate in Sweden than in Russia, and while the tax system in the Nordic countries may be a barrier to the knowledge intensive companies aiming at attracting knowledge workers there, the bureaucracy in Poland and language in Russia are viewed as barriers when conducting business and investing there. In brief, depending on one's point of view, there are different perceptions of the barriers in various countries and the ease of conducting business in the BSR.

The business leaders have been asked of their view on specific barriers to doing business in the BSR. Following are the summarized findings:

- **Approval of products** is seen as a barrier by roughly half of the respondents, a process that is difficult and time consuming. It is not more difficult to have products approved in the BSR than in other parts of the world, though.
- **Differences in technical standards** are less of a barrier, because most standards are internationally regulated. The Baltic companies do not see this as a barrier at all, while some of the Nordics do.
- **Difficulties in adjusting to rules and regulations** are seen as a major barrier by the majority of the companies. Again, the Baltic companies tend not to see this as a barrier as much as the Nordic countries.
- **Differences in identity and culture** as a barrier splits the respondents. About half of the respondents see this as a barrier, the other half do not. The difference in view seems to depend on the specific company culture, size and international experience.
- **Language skills** are seen as a barrier to the majority of the companies from the Nordic countries, while the Baltic companies do not see this as an important barrier. It is commonly agreed, though, that especially Russia represents a challenge.
- **Lack of knowledge regarding opportunities** is also a barrier, but mostly to the Nordic business leaders in large companies, while the business leaders in smaller Baltic companies disagree – which mainly reflects the strategic needs of the companies, smaller and more locally oriented companies not having the need of the larger, more expansive companies.
- **Lack of relevant collaborators** is not an important barrier to most of the companies, but some of them view it as a general problem to find enough qualified people, thus the problem of finding relevant collaborators becomes an issue.

- **Differences in taxation.** Many companies experience differences in tax regimes as a barrier. Especially in the Nordic countries, where high income taxes make it less attractive for the foreign labor force to apply for positions in Denmark.
- **Transportation time** is not a barrier, although some point to high transportation prices and lacking infrastructure in the Baltic countries as minor barriers – especially the missing freeways in the eastern part of the region pose a problem for transportation of products as well as people.

Overall, the business leaders do not see administrative barriers or bureaucracy as important barriers in the region, with Poland and Russia as distinct exceptions. In spite of close cultural heritage and history, the cultural differences are perceived as the major barriers. For instance, the Nordic companies highlight an authoritarian management style in the Eastern European companies, while the Baltic companies do not see this as a barrier.

David Klassen from Coloplast, Denmark: *“In order to attract employees from the Baltic countries, it will require that the corporations have internal cultural adaptation activities. Coloplast sees the cultural differences as one of the greatest barriers. It is the corporations’ responsibility to solve the problem – in reality it should not be a barrier”.*

In other words, the cultural differences may be perceived as barriers, but also as a fact of life in a global economy that any business has to relate to in order to succeed.

Some of the respondents express linguistic differences as an important barrier. They do not believe in a successful cooperation within the BSR unless it becomes easier to communicate and for everyone to speak the same language. It is clear that people who speak English well are far more attractive to cooperate with compared to those who do not. Command of English is seen as a prerequisite in order to achieve a positive collaboration between the BSR countries.

Lack of knowledge regarding opportunities poses an important barrier. Especially the Nordic companies – some of the largest in the region, expanding internationally – point to this as a barrier, while the smaller Baltic countries with less international ambition do not see that as a problem. No doubt, a lack in spotting opportunities weakens the brand, standing and attractiveness of a region. This is not only true to business decisions, but also to the highly qualified workers who may see the opportunities in USA or Great Britain more clearly than in the BSR and consequently migrate.

BSR barriers to knowledge workers

In general, the business leaders do not experience serious problems in recruiting knowledge workers, although some type of expertise is in short supply. The respondents agree strongly, however, that it would be an advantage to their company if knowledge workers could travel more easily across the borders worldwide.

Ari Jokilaakso from Qutotec, Finland: *“It would make it a lot easier. As the rules are now it prevents us from considering a lot of candidates from other countries because we experience too many difficulties.”*

Likewise, most business leaders agree that it would be an important advantage to their company if knowledge workers could travel more easily across the borders within the BSR. This would make exchange and exploitation of knowledge and ideas easier and enhance the innovation capacity of the companies. However, the business leaders have difficulties in assessing the scope of the innovation advantages derived from free movement of knowledge workers within the BSR.

Ari Jokilaakso from Qutotec, Finland: *“It would not make too much of a difference in the innovation advantages at the present time, but in the future it could be good to have specialists from other countries.”*

Many companies stress, that the movement of knowledge workers already is quite free within the EU, and that a BSR freedom would not change the game fundamentally. Companies located in the Nordic countries tend to recruit knowledge workers from all over the world, especially China and USA, whereas companies located in the Baltic countries tend to recruit less from abroad and mainly from the neighboring countries.

The business leaders were asked of their opinion on a range of possible barriers to the free movement of knowledge workers within the BSR:

Work and residence permit

Many companies experience this as a problem, but not a severe one, apart from Russia, being outside the EU. Some point to particular national rules in Denmark or Poland, complicating work permissions. There is no difference in opinion on this barrier between the West and East of the BSR.

Jan Laukøy from DNV, Norway: *“The only problem we have is involving Russian employees due to work permit issue. It is a difficult and time-consuming process. For EU countries we generally do not see any problems, there is free flow of competence and people.”*

Many of the Danish corporations point that it is problematic to recruit labor to Denmark and that employees from other countries only stay in Denmark for a short period of time. As a consequence of the difficulties of obtaining a work and residence permit, corporations are investigating the possibilities of opening up offices in other countries, eliminating the problems with work and residence permits.

Standard of wages

Not many companies experience this as a problem. Wages vary worldwide and most companies see this as a fact of life. Since the companies in the East do not recruit much from the West, the wage differences and differences in working standards are not perceived as problems there. The companies in the West recruit employees with lower wages and poorer working standards, and thus the differences are not perceived as a barrier. If the migration between the BSR countries was flowing more freely, the differences in wages and working standards might turn out as stronger barrier.

Educational system

Many companies see differences in educational curriculum as a barrier. This is especially true for the Nordic countries, being suspicious of the quality and norms of educational institutions in the East, whereas the Baltic countries tend not to see the differences as a barrier. Again, the perception of the educational system might turn out as a stronger barrier, if the migration of knowledge workers between the countries was flowing more freely.

Cultural differences

The companies are divided as to cultural differences being a barrier to knowledge workers. Many see this as a barrier, as many do not. However, people from the Baltic countries do not see cultural differences as a barrier.

Mikkel T. Jørgensen from Hulgaard, Denmark: “There are definitely differences in management style between the nations. In Denmark we usually see a “holistic management style” meaning that there isn’t a strong focus on difference in status and authority between the workers, and a management style inspired by teamwork that leaves room for dialogue. On the other side in the East countries we see a more authoritarian management style where orders aren’t questioned.”

David Klassen from Coloplast, Denmark: *“The mentality in the Baltic countries is different, the culture is hierarchically oriented, it is more important with status and position, and if the corporation cannot offer a career-oriented-culture that secures status, the corporation become less interesting.”*

Living conditions

Some business leaders experience the differences in school systems as a problem, when a foreign knowledge worker moves the family to another country. Also, some experience that the candidates from another country worry about the future career opportunities when moving to work abroad – foreign jobs are not necessarily perceived as an advantage career-wise.

Some business leaders think that the climate can become an issue in the struggle to attract qualified labor. For instance, some candidates do not find the Danish and the middle-Norwegian climate particularly attractive and on that basis they do not find it interesting to base their career there. Some find it more attractive in the central Europe with its warmer climate.

The general living conditions also pose a problem, mainly in the East countries.

Janis Prols from Geo Consultants in Latvia: *“The main problem in attracting employees is the climate and the living conditions.”*

In short, the barriers tend to differ depending on which country a company is based in and with which countries it wants to cooperate and recruit from. Some of the barriers are inherent, like the weather, while others are politically dictated, such as working permits and differences in educational curriculum, and thus addressable.

BSR knowledge opportunities

Several business leaders stress that the BSR has universities of a high quality that help in creating a high quality workforce, and that the respective countries have different strengths to offer in terms of knowledge, and therefore complement each other well.

Many business leaders, however, do not think that the BSR has more to offer on the knowledge front than other regions in the world and that the BSR consequently does not play an important role in the global knowledge competition of today.

Some companies do not think that the BSR represents a competitive alternative to knowledge centers in USA or China, not having sufficient unique knowledge to offer compared to USA and being too expensive compared to China.

Nor is the BSR regarded as competitive when it comes to attracting knowledge workers. According to the companies, the bright minds seek to USA, China, the Nordic countries or major world capitals, and do not see the BSR as an attractive alternative.

Several respondents point that there is an untapped potential in the BSR in terms of underutilized universities. They believe that if more resources were allocated, it would be possible for the universities to produce superiorly educated candidates, who would have better career opportunities and thus create a better foundation for cooperation with and within the BSR. Especially the universities in the Baltic region and Poland were pinpointed as underperforming relative to potential. Also, there are not a sufficient number of students graduating from the universities.

David Klassen from Coloplast, Denmark: “There are no unique universities in the region, but the educational systems are nesting boxes for extremely skilled people, but there is an unused potential – unused strength”.

Jan Laukøy from DNV, Norway: *“More and better education for the kind of workers that we need. More resources for the universities.”*

BSR initiatives

The companies have been asked of their opinion as to what sort of initiatives they would like to see within the BSR in order to facilitate the access to knowledge and knowledge workers. The following initiatives receive a very strong support from all of the interviewed business leaders:

- Introduction of a White Card to highly educated workers that provide free movement within BSR.
- Harmonized taxation rules, degree certificates and family benefits, such as access to day care and health care facilities.

- Across border publicly funded research projects within promising knowledge intensive strongholds.
- Innovative flagship projects in the shape of collaboration between business, universities and authorities.
- An Internet based network or portal, like the Nordic-Baltic Expats Forum with biotech, in order to bring researchers, students and professionals together to exchange ideas, experiences and job opportunities.
- Exchange arrangements for students and researchers.

All respondents agree that it would be positive and profitable if the above-mentioned initiatives were accomplished. They are a means to utilize the resources that already exist in the region, but do not have focus at the present time.

Peter Frank from Scanbalt: *“It would definitely have importance if there were greater harmonization of the free movement of knowledge and of labor force within BSR. And by doing that, we would be able to set a strong example for the rest of the EU.”*

Conclusion

Business leaders clearly support initiatives that would ease the access to knowledge and knowledge workers within the BSR, in effect introducing the Fifth Freedom and creating a Northern European Knowledge Market. Such initiatives would strengthen the innovative capacity of businesses in the region, making the BSR a more competitive world region. It is also necessary according to business leaders that such initiatives are politically backed and part of a strategy to develop the BSR into a more clearly defined economic entity.

However, to many business leaders the BSR today presents itself as a fragmented region with a hidden, undeveloped and inaccessible potential. There is a clear need to clarify and communicate on what the BSR can contribute with to business and what the strengths of the region and opportunities in cooperation are. The brand of BSR needs to be strengthened in order to attract attention and investments from the businesses within the BSR as well as the rest of the world.

The business leaders call for political initiatives such as deeper economic integration and harmonization within education, labor markets, regulation, etc. Also, the universities in many of the BSR countries need more resources and to focus more on refining the knowledge potential that the educational systems breeds.

The realization of an internal market for knowledge is also seen by the EU Commission and EU governments as one of the key conditions for creating a competitive European research area. It is on the agenda for the revised Lisbon Strategy after 2010 aiming at strengthening EU as the most competitive dynamic knowledge-based economy. As this report reflects, however, the Fifth Freedom is a complex political concept that is difficult to operationalize, involving numerous structures and stakeholders. If the Fifth Freedom is to be

a part of the revised and enhanced Lisbon Strategy, the elements and prerequisites of the concept need to be analyzed and made operationable very soon. Likewise it seems opportune to experiment on creating the Fifth Freedom using the BSR as a pilot project or a “test lab”. After all, if the Fifth Freedom cannot be realized in the BSR, the chances to succeed in all of the EU with much vaster cultural and economic fault lines between the countries seem poor.

It is therefore the recommendation of Baltic Development Forum that the stakeholders in the BSR initiate a process that clarifies the preconditions and initiatives needed to realize the Fifth Freedom in the BSR and creating a Northern European Knowledge Market. This includes:

- Establishing a stakeholder forum – Fifth Freedom Forum - in order to create a governance structure involving all relevant stakeholders, contributing with knowledge and resources.
- Analyzing the opportunities and barriers concerning the Fifth Freedom in detail among not only businesses in the BSR countries, but also universities and other knowledge centers, the authorities and not least the citizens – especially knowledge workers.
- Political commitment and support from the EU Presidency and the governments in the BSR in order to push the process of operationalizing and implementing the Fifth Freedom in the BSR.

Such a politically backed process is necessary in order to realize the initiatives that business leaders strongly support as enhancing the innovation capacity and ability of the BSR to develop, attract and retain the best and the brightest. The process would at the same time support the ambition to introduce the Fifth Freedom in all of EU.

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Interviewed participants in the survey:

Lundbeck – Erik Allikmets

Elintos Prietaisai – Donatas Valincius

Altechna – Dadas Lidinsgas

University of Latvia – Matiss Neimanis

Scanwind – Leiv Laate

Scanbalt – Peter Frank

ABB – Jesper Gård

Lundbeck – Stine Malmborg

Leo Pharma – Dag Holmstad

Novo Nordisk – Børge Didriksen

Outotec OYJ – Ari Jokilaakso

Geo Consultans – Janis Prols

DNV – Jan Laukøy

Nordic Sugar – Dorte Lindgren

Coloplast – David Klassen

Hulgaard Advokater – Mikkel T. Jørgensen

Hulgaard Advokater – Kristine Wagner

Hulgaard Advokater – Peter Tærø Nielsen

Nokia – Hallstein Moerk

Carl Bro – Brigit Nørregard, Denmark

The interviews were made between May 8 and June 1, 2009, at IFO (Denmark) by Louise Arbs, Thomas Emil Christiansen and Lise Arentsen.

Additional interviews have been made with representatives of the EU Commission by Beata Grablevska, BDF, and Mikael R. Lindholm, Innovation Inside.

The report has been drafted and edited by Mikael R. Lindholm, business author and Managing Partner at Innovation Inside.

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