



POLITICAL STATE OF THE REGION



REPORT

FLEXIBLE EUROPE – WHAT DOES IT MEAN FOR THE BALTIC SEA REGION?

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FOREWORD AND SUMMARY

It is of course sad to present the last Political State of Region Report from Baltic Development Forum. It is the seventh report of its kind, and over the last three years I have had the pleasure of preparing the report in cooperation with the Konrad Adenauer Stiftung Office in Riga.

Together, we have arranged three Roundtables during the last year to discuss the political situation in the Baltic Sea Region. The first in December 2017 in Copenhagen with guest speaker Vygaudas Usackas, former Lithuanian Foreign Minister and former EU-ambassador in Moscow. The second in February 2018 in Stockholm with former Minister of Defence Karin Engström, and the third in Berlin in April 2018 with Kurt Abraham, Counsellor in the Chancellors office, where we discussed developments around our region, and how they influence us.

We have again asked a group of young researchers from Germany, Poland, Sweden, Latvia and Russia to write about the situation from their perspectives. This year, we can present the work as a collective report prepared by August Danielson, Igor Gretskiy, Agnieszka Łada and Jana Puglierin. Diana Potjomkina has provided valuable input to the report.

The group discuss how right-wing populism and anti-EU-scepticism have led to crisis and diplomatic backsliding in Western liberal democracies. The most notorious retreat for liberal democracies has taken place in Poland, but also in the Nordics and the Baltic countries the anti-establishment footprint is seen, and even Germany is no longer an exception.

The authors are discussing a more flexible Europe, understood as a Europe of different speeds and more flexible memberships. The EU needs more flexibility and cohesion. And in this regard, the countries have different views. Warsaw is generally against a multi-speed Europe, while the Nordic countries have reservations of different kinds, and the Baltic States are striving to be in core Europe. It is still unclear how ready Germany really is to change positions.

This has also led to discussions about a more flexible security and defence. The new forms of permanent structured cooperation (PESCO) and a European Defence Fund (EDF) are mentioned. But the divergent strategic cultures have led to different answers. The Nordic-Baltic region has a relatively high level of cohesion and view Russia as the main military threat. And the Nordic-Baltic countries see multilateralism as preferred to minilateralism, while the real test will come later.

Finally, the authors discuss Russia, suggesting it has given up its Western approach at the moment and turned in an anti-Western discourse, especially after the annexation of Crimea. Russia is supporting radical right-wing parties in the West and hopes that PESCO can be seen as a wedge in the Euro-Atlantic solidarity. As they see Russia as a state routinely neglecting its international commitments and with lack of progress in modernising the country's economy, they don't see new ways for normalising relations.

It should be mentioned that the views expressed in the report are those of the researchers and not necessarily those of Baltic Development Forum and Konrad Adenauer Stiftung.

I would like again to thank the Konrad Adenauer Stiftung Office in Riga and the young researchers for an excellent cooperation throughout the process – we hope to be able to follow it up in some way next year.

PER CARLSEN,
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GROWING EUROSCEPTICISM AND THE CRISIS OF LIBERAL DEMOCRACY IN THE BALTIC SEA REGION

The rise of anti-establishment and Eurosceptic parties, democratic backsliding in some EU member states, the disintegration of established party systems, a growing polarisation in many societies, and a severe loss of faith in the political establishment and institutions have increasingly put the stability of Western European democracies in question. The European integration project suffers from a severe crisis of legitimacy, evident in the rise of nationalist parties and their poll ratings throughout the continent. The Brexiteers' call to "take back control" is but one example reflecting long-standing fears over the impacts of globalisation and a dilution of national identity.

Far from being immune to these developments, the Baltic Sea region is particularly vulnerable. While the crisis of liberal democracy is pan-European, it seems to have assumed an especially intense form in Central and Eastern Europe, reviving talks of an East-West split in the EU.

Furthermore, the Baltic Sea region (BSR) is particularly exposed to Russian interference in domestic affairs, mainly through propaganda and disinformation activities seeking to destabilise the European Union and undermine the post-Cold War order. By cooperating with and supporting populist and anti-establishment groups in the EU, Moscow uses the current climate of insecurity to play on various existing fears and frustrations in European societies with the intent to discredit the EU as a successful integration project.

THE MOST DISTINCT RETREAT FROM LIBERAL DEMOCRACY HAS TAKEN PLACE IN POLAND

Poland exhibits the most significant assaults on liberal democracy in the Baltic Sea region, and (together with Hungary) the EU at large. The nationalist-populist Law and Justice party (PiS) won the election in Poland in October 2015 by an absolute majority on a ticket of generous socio-economic promises.

However, PiS also came to power by promising to fight the liberal, globalist

ruling classes who are supposedly aiming at transforming their societies "toward a mixture of cultures and races, a world of cyclists and vegetarians, who only use renewable energy sources and combat all forms of religion" – as the former Polish foreign minister Witold Waszczykowski put it in an interview with the German tabloid Bild in January 2016. PiS promised its electorate that Poland would "rise from its knees" within the EU, which it accuses of threatening Poland's values and national sovereignty and of trying to impose a Western European, secular vision. The PiS government has also positioned itself at the forefront of other Central and Eastern European nations opposing European migration quotas, saying it was acting in defence of Christian values.

Since 2015, the policies of PiS have transformed Polish politics and the statehood to an extent that the country is now facing a sanctions procedure initiated under Article 7 of the EU Treaty. Recent judiciary and media reforms have put the country on collision course with the European norms Poland committed to when it joined the union, and most drastically, the standards regarding the rule of law.

So far, Warsaw's confrontational stance toward Brussels and Berlin – which PiS sees as the pinnacle of everything that is wrong with the EU – has paid off politically at home. PiS' emphasis on Polish nationalism, religious conservatism, and anti-elitism have gained the party a broad majority among voters. Its approval numbers have exceeded 40% over the past months, which places them more than 10 percentage points ahead of the two strongest opposition parties; the Civic Platform and Modern Poland.

However, Polish society today is extremely polarised, with profound divisions concerning various questions connected to the EU, and constructive debate is lacking. In light of the sanctions procedure and the upcoming EU budget negotiations, Warsaw has certainly been using a friendlier and more constructive tone with Brussels and Berlin as of late.

But although the Polish government reshuffle in the beginning of 2018 was meant to move the party closer toward the political centre – at least in terms of its image – and to improve Poland's position in the EU, there has been little to no change on political substance yet.

EUROSCEPTICISM IS A RARE AND SCATTERED PHENOMENON IN THE BALTICS

Euroscepticism has been a traditionally marginalised issue in politics in Estonia, Latvia and Lithuania. After the end of the Cold war, alignment with the West and integration into its institutions were the natural geopolitical choices of the three Baltic States. Ever since their accession, the three Baltic states stood out as major beneficiaries from the EU. Consequently, ideas about an exit from the European Union have not gained widespread support from society.

However, the three countries, particularly Latvia and Estonia, continuously exhibit disproportionately low levels of popular support for EU membership. What is more, the Baltic States and Poland share a deeply rooted skepticism towards the EU's distribution and quota system. Many in the Baltics support the refusal of Poland, the Czech Republic and Hungary to house refugees. Consequently, Estonia, Latvia and Lithuania have confirmed their opposition to EU sanctions against Poland for alleged breaches to the rule of law.

In all three Baltic States, the political landscape offers only a little evidence for voter's support for anti-establishment or anti-democratic parties. Though populist parties emerged in all three Baltic States, none of the states faces an imminent threat to its democratic system.

The most remarkable exception to this, is the Estonian Conservative People's Party (Eesti Konservatiivne Rahvaerakond, EKRE). The staunchly nationalistic party is closely linked with the Identitarian movement and pursues an ethno-nationalistic agenda arguing that any migration imperils the country's survival. The anti-EU stance, conservative economic policy, and hawkish defence and foreign policy place the party at far right of the political spectrum. Currently the party holds 7% of the seats in parliament without any prospect for government participation. Overall, the party system exhibits some volatility since the Conservative People Party and Free Party (Eesti Vabaerakond)

entered into parliament, which exacerbated the polarisation. However, the system remains stable without signs of widespread voter radicalisation or any imminent threat to democracy.

However, Russian-speaking minorities in Estonia and Latvia are far more Eurosceptical than the rest of the society. This is not least because of Russian-speaking media, which portrays the EU regularly as rotten and failed. Already prior to EU accession, a significant part of the Russian-speaking population perceived EU membership as a factor that would ultimately alienate them from Russia.

"SOFT-EUROSCEPTICISM" AND RIGHT-WING POPULISM IN THE NORDICS

The Scandinavians and Finns have always been European pragmatists, yet share quite a strong sense of scepticism towards shifting power to Brussels. For the Danish population it was important to defend opt-outs from the EU, while Norwegian voters have rejected membership of the EC and the EU altogether (although Norway is today a close EU partner through various parallel agreements). A certain reluctance toward the EU is therefore no new phenomena in the Nordics, and certainly not limited to right-wing populist parties. However, Nordic mainstream Euroscepticism has always been characterised as being rather 'soft', and not principally objecting European integration or EU membership.

This notwithstanding, right-wing populist parties are increasingly gaining ground in the Nordics. They have joint governing coalitions first in Norway and later in Finland, and have gained momentum as informal coalition makers or breakers in Denmark. The Swedish Democrats (Sverigedemokraterna, SD) are fighting for second place in the upcoming parliamentary elections in September, presumably impeding the formation of a stable government without its consent. The most likely scenario is that the SD will passively support the right-wing bloc as was previously the case.

Despite these prospects, it is important to remember that these parties do not form a monolithic bloc. There are diverse national factors that make the specific context and politics of each of these parties different. While the Swedish Democrats have their roots in the neo-Nazi movement, the Norwegian Progress party was established as an anti-tax movement in 1973 and is to

"The European integration project suffers from a severe crisis of legitimacy, evident in the rise of nationalist parties and their poll ratings throughout the continent."

this day seen as the most moderate of the Nordic populist parties. Nevertheless, the one factor uniting the Danish People's Party (Dansk Folkeparti, DF), the True Finns (Perussuomalaiset, PS) and the SD as well as the Norwegian Progress party, is their opposition to immigration, which resonates well within the respective societies.

While Sweden took in most refugees per capita in the EU in 2015, public support for open immigration has dropped significantly in the aftermath. In all four countries, the numbers of asylum seekers have continued to fall massively – in large part due to Sweden's decision to impose border controls with Denmark. The four countries show a broad consensus amongst citizens about the necessity of stricter immigration, making it a far less polarising issue than in German society.

GERMANY IS NO LONGER THE EXCEPTION

Germany, the country that used to be the beacon of political stability in Europe, is not immune to the crisis either. The governing parties of the former – and now the new – grand coalition saw a dramatic loss in votes during the 2017 general election. Both the Christian Democratic Union (CDU) and the Christian Social Union (CSU) as well as the Social Democrats (SPD) received their lowest results since the 1940s. According to recent polls, the approval rates of both parties have even further decreased, with only 2–3% separating the Social Democrats from the far-right Alternative for Germany (AfD). The new grand coalition is 'grand' only by name, as it holds a majority of scarcely over 50% of the votes. AfD is now the largest of four, albeit similarly large, opposition parties in the Bundestag, and it is now furthermore represented in 14 out of Germany's 16 state parliaments. This indicates that even in Germany, traditional "Volksparteien" (people's parties) are steadily eroding, creating a gap filled by an increasingly fragmented political landscape. It underlines the growing strength of the far-right, likewise fuelled by reactions to the refugee crisis, and raises the specter that in Germany, as in other Western nations, the centre may ultimately no longer hold.

Although AfD will not be able to join a German government coalition any time soon since all established parties are refusing to co-operate with them in any way, their election victories on the federal as well as the state level have had two major effects on Germany's political landscape. First, they make forming stable coalition

governments harder for other parties, resulting in fragile compromises and a policy of the lowest common denominator. Second, AfD massively influences and forms the political debate, especially on the issues of migration and attitudes toward the EU. Besides its sharp criticism of Angela Merkel's immigration policies, the AfD also stays true to its anti-euro roots and is the most Eurosceptic party in the German parliament (closely followed by the far-left party Die Linke). However, unlike in many other member states, an outright anti-EU attitude has yet to reach the political mainstream in Germany.

ONE-SIZE DOES NOT FIT ALL

There are some similarities between domestic developments within Germany, Poland, and the Nordic States. All countries struggle to some extent with the rise of right-wing, Eurosceptic, or/and anti-immigration populist parties and a crisis of representative democracy. Populist parties are either already part of the government (ruling by absolute majority in Poland or forming coalitions in Norway and Finland), serve as 'pivotal parties' (Denmark, Sweden) or make it increasingly difficult to form stable government coalitions without cooperating with them (Germany). Although some of these trends occur also in the Baltic States, Eurosceptic and populist parties are much less of a problem.

The demand for what populists have to offer is not likely to disappear from the political stage any time soon. Although their success cannot be explained by the 2015 migration crisis alone, they have all gained massive support by monopolising the immigration topic. Furthermore, they claim to offer an alternative to the principle of open societies and borders enshrined in Western liberalism, albeit to varying degrees.

At the same time, it would be a mistake to apply a 'one-size-fits-all' approach to these prima facie similar political developments within the Western liberal democracies of the Baltic Sea region, as a closer look shows profound differences.

The Norwegian Progress Party has never positioned itself nearly as far-right as the Sweden Democrats or the AfD in Germany, and have worked hard to moderate their rhetoric during the years in government. While a certain Euroscepticism and right-wing populism go on hand-in-hand in all the countries, the degree of anti-EU rhetoric varies

greatly, with Poland at the top but significantly lower levels in all the other EU member states of the region.

While Poland is – without doubt – facing a serious threat to its democracy, democratic principles are still very much in place in the rest of the region. Although Western liberal democracy is indeed challenged in the Baltic Sea region and in Europe at large, we must bear in mind the picture is rather complex.

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FLEXIBLE EUROPE FROM THE REGION'S PERSPECTIVE

Flexible Europe, understood as a Europe of different speeds or more flexible memberships of different EU projects is neither a new term, nor a new reality.

Opt-outs and special arrangements have, historically, allowed the EU to move forward while keeping everyone on board. Flexibility is often the only way to cope with increasing heterogeneity across the members. Most future projects for deeper integration will require some flexibility.

So, one can predict, in some areas, variable geometry of countries will provide coalitions of the willing that advance while others can join later or not at all. But at the same time, today, just before Brexit, with insecure neighbourhood and growing economic powers in Asia, the EU-cohesion is more than needed. The Union will need more of both these properties – flexibility and cohesion – to cope with external challenges and contain the centrifugal forces that threaten to tear it apart. So, now the question becomes one of how to ensure internal cohesion with more flexible integration.

The Baltic Sea Region is well aware of this challenge. In the discussions around this topic, a strong common consciousness can be observed that European unity is the highest priority. But as the region consists both of Eurozone countries and non-euro states with traditionally different approaches to EU-integration, some differences are also present.

THE EYES ARE ON GERMANY

As in the whole EU, also in the case of possible development of the idea of a multi-speed Europe, the eyes from the region are focused on Germany. German policy-makers are well aware that the EU should find the means to better take into account member states' different levels of ambitions, so that Europe can better address the expectations of all European citizens.

On first sight Germany is therefore championing a differentiated approach to

integration; an approach that grants those member states willing to integrate deeper, a greater scope to push ahead, particularly in the Eurozone and within the realm of Common Security and Defence Policy.

But in reality, Berlin is not too much in favour of Macron's idea of establishing a smaller core circle of member states led by the two countries that would function as an avant-garde. Merkel's government is hesitant to support such an idea, conscious of the criticism that Germany has grown too powerful in Europe. Berlin has sought to protect the interests of less powerful EU countries that are suspicious of a stronger German–French duo. What Germany still strongly believes in, is the importance of European cohesion. This position will be backed also by the current, fourth Merkel government. It will be Berlin's core interest to secure EU cohesion and keep not only the Central and Eastern European states, but also the Northern European states on board during the upcoming European reform process.

This pro-cohesion view is shared both by the Nordic countries that are all worried that a flexible union would push the EU in different directions, at a time when Europe already lacks cohesion following the Brexit vote and the 2008 financial crisis. This position is held by non-euro countries like Denmark and Sweden, but also Finland – a country that traditionally places significant emphasis on unity and on avoiding dividing lines within the EU, not least because its close partners, Sweden and Denmark, are both outside the Eurozone. This attitude is shared also by the non-EU country, Norway. It emphasises the continued unity of the Union, but believes that increased differentiation can be allowed as long as it does not lead to greater divisions between member states.

The position of the three Baltic States is a little bit more differentiated. Estonia and Lithuania's stance is that cohesion of the EU is more important than negotiated outcomes based on single issues. They believe there is a need and readiness to make compromises in order to protect European unity. Their preferred modus

operandi is to cooperate outside of the EU treaties and advocate for a Schengen-style transfer of initiatives into the treaties at a later stage. Both countries are only open to flexible cooperation if it increases the effectiveness and strength of the EU as a whole. The Latvian government has recently adopted a slight change in its – now more positive – outlook on flexible cooperation. And all three countries are supportive for the prospect of a German-leading role in Europe, as they believe it is what the EU needs.

The fear of Germany getting more power, is represented by the ruling Polish government. Warsaw is generally against a multi-speed Europe. The main reason however, is less the worry of European unity, but more the ambition to play an important role in Europe. However, with Poland not joining many initiatives deepening integration, this will not be the case. Polish government rejects such further integration, instead calling for more powers back to the nation states. On the one hand, it wants to be a part of the decision-making core group, without, defining what it exactly means. And on the other hand, it prefers to decide by itself in many policy fields. The domestic policy, including justice reforms and media law, (which were the direct reason for starting the Article 7 procedure against Poland) made the Polish government much weaker on the European scene. This was strengthened by the Polish double understanding of solidarity: simultaneously demanding it from the other EU-members, while rejecting it in the case of sharing the burden with refugees. As a result, instead of, as expected by the EU-partners, jumping into the previous British position as an important counterpart for Germany and France, Poland instead weakened its role in Europe.

DIFFERENT VIEWS ON 'CORE EUROPE'

Regarding the concept of a 'core Europe', it is not only Warsaw that has an unclear position. Beside Poland, Finland and Denmark have also expressed a wish to stay in 'core Europe' without further integration and without specifying what they mean by the core.

In Sweden, 'core Europe' is mainly perceived as the Eurozone that the country stays outside of. This decision is valid, even though there is also a broad perception that Eurozone reforms will

most likely happen with or without the support of non-Euro members. Stockholm is against further integration of the Eurozone if it results in fragmentation of the EU. For Sweden, Denmark and Finland it is important that the Eurozone is developed inclusively – a deepened European Monetary Union should only be reached together with input from non-Euro member states.

The Polish government would like to have a say on the possible Eurozone reforms, while at the same time, not planning to join the common currency club in the near future. Here Warsaw stays very close to the Swedish position. Their main argument is the same – the majority of their societies do not see enough economic benefits in entering the Eurozone. The Eurozone crisis also led to a large drop in public support for Swedish and Polish membership in the Eurozone, reaching 17% and 22% accordingly. In the Polish case, the government, hesitant towards deeper European integration in general, claims the Eurozone must reform first and only after this, can Poland decide if it should join this club.

For the Baltic States the situation with 'core Europe' is clearer, with Eurozone perceived as a major aspect of the core. The three states have always strived to be a part of 'core Europe' in all possible ways and have supported the EU's proposals for further integration. Being in such a core is positive in itself, as it permits for faster growth and moreover, it enables core members to have a say in decisions.

The concrete ideas over how to reform the Eurozone still differ. Berlin is unlikely to support Eurozone reforms like debt mutualisation, or a sizeable common budget, especially since the the Christian democratic parties (CDU and CSU) are much more sceptical. A lot of doors have been theoretically opened in the coalition agreement, and the German government will probably stay with its sceptical positions – not only for reasons mentioned above, with EU-cohesion remaining a high priority. Also, public opinion remains against, as Germans don't want to be Europe's "Zahlmeister". Especially when a significant part of the public opinion consists of the voters of the Alternative for Germany party (AfD). The 12,7% votes won by it in elections 2017 are a serious argument for not entering into the integration project too much. Ultimately, the German finance minister will remain the German finance minister – as admitted

by the current one, Olaf Scholz – with the primary responsibility of taking care of the German budget and his voters.

The other analysed countries: Latvia, Lithuania, Estonia, Denmark, Finland and Sweden react with some reservation towards the ideas of the French president. In their joint paper from March 2018, they invited inclusive discussions about the EMU, with participation of non-Eurozone states and to use the existing (not new) mechanisms for strengthening the Eurozone.

The countries warned against further expansion of the EU's powers in cases where it does not give added value, and overall against "far-reaching" suggestions. According to this document, priority should be given to areas with the greatest convergence of views between Member States, most notably the completion of the Banking Union, and the transformation of the European Stability Mechanism into a European Monetary Fund. Further deepening of the EMU should stress real value-added, not far-reaching transfers of competence to the European level.

In sum, all analysed countries see deepening divisions and fragmentation of political unity as the main disadvantage of differentiated integration. The wrong kind of flexibility risks turning European integration into a set of transactional relationships; it could reduce solidarity among partners, produce overly complex decision-making procedures that make the EU hard to understand and trust and, last but not least, lead to unfairness, with only some members shouldering the burden of common policies that benefit all. This is a scenario the whole region would like to prevent. But ideas on how to achieve this delicate balance are still quite vague.

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FLEXIBLE SECURITY AND DEFENCE IN THE BALTIC SEA REGION

While the previous section of this report focused on the Baltic Sea Region's (BSR) perceptions of the institutional aspects of a multi-speed Europe, this section will look closer at the region's perceptions of a multi-speed Europe within the field of security and defence. The combination of Brexit, a strengthened French-German partnership and President Trump's increasingly transactional approach towards the EU, has recently led to a sharp increase in European cooperation on security and defence.

This is especially true when it comes to new forms of cooperation. For instance, a permanent structured cooperation (PESCO), a European defence fund (EDF) and a coordinated annual review on defence (CARD) have all been launched during 2017. These initiatives primarily aim to strengthen the military capabilities of member states – and by extension the EU – and facilitate joint development and procurement of defence equipment. These initiatives have also been supported by nearly all member states. The only real exception is PESCO where Denmark (because of their opt-out from the CSDP), Malta (practically has no military) and the United Kingdom (Brexit) chose to not be part of the group that launched the initiative in late 2017.

However, while there is broad consensus on the need of increased European cooperation regarding security and defence, the member states' reasoning for doing so differs quite dramatically.

For instance, France initially saw PESCO as a way to create a multi-speed EU in defence and thus allow some member states to cooperate to a greater degree than others. Conversely, Germany largely viewed PESCO as a way to foster unity and overall European integration of the EU27 post-Brexit – i.e. the complete opposite of the French vision. While the German version of PESCO eventually prevailed, the countries that would rather see a multi-speed CSDP now seem to prefer acting outside of the EU's framework. While France has announced the creation of a "European Intervention Initiative" (EII) that will primarily support ongoing and future

counter-terrorism operations in West Africa, the UK will likely also increasingly focus on its Joint Expeditionary Force (JEF) after leaving the EU.

DIVERGING STRATEGIC CULTURES

The lack of cohesion between member states on what the EU should do in terms of security and defence can largely be attributed to diverging strategic cultures; in other words, a nation's set of beliefs and norms regarding threat assessments and the efficacy of the use of military force. In terms of threat assessments, EU member states mainly differ in their perception of where the largest threat originates – either in the South (North and West Africa) or in the East (Russia). In addition to the preferred form of cooperation (minilateral/multilateral and inside/outside EU) and national strategic cultures, the EU member states also differ when it comes to their perception of the transatlantic link, and by extension, the need for EU 'strategic autonomy'. In order to fully understand the positions of the Baltic Sea region countries minus Russia (or BSR-1) on multi-speed cooperation on security and defence, we must take all three of these aspects into account.

The BSR-1 countries have a relatively high level of cohesion in terms of strategic cultures. Most member states in the region see Russia as their largest military/strategic threat, albeit to different degrees.

For Germany, Russia's annexation of Crimea in 2014 greatly altered the country's threat perception. The German policy of engagement rather than confrontation with Russia (most explicitly driven by former Chancellor Gerhard Schröder) was replaced with the view that Russia is a grave and existential military threat. As a result of this new threat assessment and a willingness to take on more of a leading role in the region, Germany has taken command of the multinational battalion in Lithuania within the framework of NATO's Enhanced Forward Presence (EFP). Germany also views the threat of irregular migration from the South as a large security threat, but remains hesitant about the use of military force for peace

enforcement in the South. While the country has joined the coalition against ISIS through the deployment of 1,200 soldiers, a German frigate, and six Tornado reconnaissance jets, Germany still refrains from conducting counter-ISIS airstrikes.

The Nordic countries have a similar perception to Germany of Russia and peace enforcement in the south. While Finland and Sweden remain outside of NATO, both countries perceive their bilateral ties to the US as a sufficient alternative to deter Russia. Denmark and Norway also contribute 200 soldiers each to the NATO EFP battalions in Estonia and Lithuania. However, beyond Russia the Nordics are somewhat split in their view of military interventions and peace enforcement in the South. Denmark, for instance, has a more globalised perception of security and has actively engaged in international operations.¹ Finland, on the contrary, puts a greater focus on the defence of the homeland, mainly as a result of its non-aligned status. As a result, Finland also perceives Russia as a greater security threat than irregular migration and jihadism stemming from the MENA-region.

The perception of Russia as a military threat is strongest held among the Baltic states and Poland. One illustrative example is the 2018 Estonian Foreign Intelligence Service report which dedicates 50 pages to Russia and only three pages to threats stemming from the South. The Baltic states are also some of the highest defence spenders when it comes to percentage of GDP. Starting from 2018 and with the exception of the UK and Greece, the only EU member states that will meet the NATO commitment of 2% of GDP on defence are Estonia, Lithuania, Latvia and Poland. This is no coincidence and shows how seriously the Baltic states perceive the Russian threat. In comparison, Germany spends only 1.2% of its GDP on defence while the Nordic countries spend between 1–1.6% of GDP.

MULTILATERALISM PREFERRED OVER MINILATERALISM

In regards to the preferred forms of cooperation, there is large agreement among the BSR-1 countries that multilateralism is preferred over minilateralism. During the negotiating process of PESCO, Germany and Sweden

took the lead in ensuring that the new initiative would be as inclusive as possible in order to minimise the risk of fragmentation and protect European unity – a fear also shared by Lithuania.

The other Baltic countries, together with Poland, were also wary of PESCO duplicating already existing NATO structures. For these member states, NATO will remain the core pillar of European security for the foreseeable future, and any initiative that would risk undermining the security guarantees of Article 5 is viewed with great concern. In particular, the notion of 'European strategic autonomy' is viewed with great scepticism in Warsaw. Rather than enabling the EU to undertake high-end military crisis management operations without the help of third parties, the notion of strategic autonomy is rather perceived as a form of 'European emancipation' from the US, driven by French interests to increase their national capacity for power projection. The recent US scepticism of PESCO and the EDF is likely to only increase this concern among Poland and the Baltic states. Germany also views the concept of strategic autonomy as mainly a French idea, but the uncertainty of US engagement in Europe has led the Merkel government to increasingly consider European strategic autonomy a question of necessity rather than choice.

While the criticism towards the concept is not nearly as public and strong in the Nordics as in the Baltics, Sweden views strategic autonomy with scepticism and was opposed to the use of the concept in the EU Global Strategy. Somewhat paradoxically, Sweden is also one of the strongest opponents to duplication of NATO, despite not being part of the military alliance. The other Nordic states are also wary of NATO duplication, especially considering that they are more dependent on the military alliance for their national security than many other members of the EU. In addition, as a close partner to the EU, Norway is keen on receiving the same deal as the UK post-Brexit and thus supports an EDF that is open to third-country participation – in stark contrast to the "post-Atlanticist" vision of complete independence from the US in security and defence.

As previously mentioned, the three aforementioned aspects (strategic culture, preferred forms of cooperation and strategic autonomy) have a fundamental impact on the perception of a multi-speed EU in defence among the BSR-1 countries.

While the focus has mainly been on PESCO during 2017, the real test for European flexible security and defence cooperation will be the planned launch of EII in June of 2018. If Germany and the UK both join the French initiative it is possible that the CSDP will gradually be reduced to civilian crisis management and joint development of military equipment. It is in the interest of all BSR-1 countries to ensure this does not happen. However, this requires BSR-1 countries to abandon their scepticism towards differentiated cooperation within the EU framework, as well as taking on a greater share of the economic burden of military action. This would incentivise the larger member states to prioritise joint action within the EU and, as a consequence, prevent further fragmentation of European security and defence cooperation.

¹ For instance, in Yugoslavia, Iraq, Afghanistan and Libya. However, the new Danish Defense Agreement for 2018–2023 puts a greater focus on the Baltic area.

FLEXIBLE EUROPE: RUSSIA'S VIEW

RUSSIA'S TWO WESTS

Since the demise of the Soviet Union, Russia has sought to assert itself as part of the West in order not only to get access to badly needed financial assistance, but to regain the status of a 'normal great power', as former Minister for Foreign Affairs Andrey Kozyrev put it. From that perspective, membership in various European and international structures was crucial. At that time, Russian political leadership perceived the West as a completely homogeneous and stable geopolitical structure, rapprochement with which was supposed to restore Russia's international status. The Kremlin definitely preferred to be among the winners of the cold war, not losers.

However, Russia became a hostage of its own inferiority complex and inability to draw a red line between the USSR's death, and Russia's birth. People have found the dark past of great power to be more attractive, than the troublesome present of a normal country devastated and ruined by the 70 years long period of Communist rule. Continuing thinking in terms of paternalism, they supposed the West would have taken care of them, instead of the vanished Soviet Union. Disillusionment came very quickly, and the Russian society got back to a Soviet-style anti-American discourse, blaming the USA – and the West, in general – for all their hardships. This rhetoric was also beneficial for the government, as it proved to be effective in diverting people's attention from daily troubles. As revanchist slogans were getting more and more popular, the official Russian foreign policy embraced them gradually.

Within the anti-Western discourse, Russian elite began to clearly differentiate the USA and Europe in the aftermath of the 2003 war in Iraq. The Kremlin was aware of France's and Germany's reluctance to follow Washington in its military intervention in Iraq, and sought to establish anti-American geopolitical axis in Europe – Moscow–Berlin–Paris. But after Jacques Chirac and Gerhard Schroeder left their offices, this project was off the table. However, since then, the Kremlin's official narrative has become entrenched in a

division into two Wests – the dominating 'Far West' (the US), and the 'Near West' (the EU) dependent on the former.

A turning point came in 2014, when Russia illegally annexed Crimea, and subsequently was excluded from the G–8, as both the EU and the US has introduced sanctions with regard to some Russian officials and state-owned enterprises.

The need for a coordinated response to Russian threat has consolidated the West, in a way. On the other hand, it made Russia more insistent with its tactics of creating divisions among the Western countries. The Kremlin's officials lambast the West for 'double standards', hypocrisy and international law 'violations' with the caveat that the EU has taken an 'anti-Russian' stand on the Ukrainian issue under significant American dictation.

MACRON THE UNEXPECTED

During the recent presidential election in France, the Russian government openly sympathised with radical-right Marine Le Pen. Her presidential campaign was generously sponsored by a bank connected with Gennady Timchenko, one of the richest oligarchs and a close associate of Vladimir Putin. In Russia, they expected Le Pen's electorate would increase in the second round at the expense of the eliminated candidates, who promoted anti-establishment protest claims.

However, the victory was won by Emmanuel Macron, and it turned to be a somewhat unpleasant surprise for the Kremlin. After his inauguration, Macron appeared to keep standing in line with the general EU take on Russia's irresponsible and audacious foreign policy. Although he advocated the preservation of dialogue with Moscow, the French president has taken a tough stance on Russia's military intervention in Ukraine, as well as spamming fake news and its cyber-aggression against the Western states.

Macron has fully supported the PESCO initiative and welcomed the idea to elaborate a single defence doctrine, a single defence budget and European intervention

forces. Although there was no clear understanding of what these initiatives would lead to, the Kremlin took PESCO as another sign of a rift within the Trans-Atlantic community. Following the flawed logic of Anti-Americanism based on well-worn Soviet shibboleths, most Russian officials believe that further EU's initiatives within the framework of PESCO would correspond with Russia's interests, as they would weaken NATO and undermine its preponderance in Europe. As Vyatcheslav Nikonov, a State Duma member representing the ruling 'United Russia' party, puts it, PESCO is a 'wedge in Euro-Atlantic solidarity'. However, the Russian establishment should not feel enthusiastic about spats within the West, for the EU emancipation from Washington is driven not only by Trump's confusing rhetoric about NATO. It is also about the prevailing perception of the Russian political regime as a threat, and the American president's reluctance to admit it really exists.

Still the Kremlin perceives the EU's flexibility over security and defence issues as a critical weakness that could hardly be compensated by the Franco-German grinding efforts to maintain solidarity among the EU members over Russia. Putin and his entourage are well aware that the West is doomed to be flexible, since many private companies have extensive business interests in Russia. When it comes to Russian penalties, European firms proved to be the most consistent opponents to increasing pressure on Moscow. This is the main reason some Russian officials barred from entering the US are still welcome for instance, in Berlin. Therefore, even though Russia (compared with the Soviet Union), is much more integrated in the world economy today, it does not make the Kremlin's behaviour on the international arena more predictable. In turn, this makes the EU much more vulnerable and susceptible to pressure.

THE 'TRUMP EFFECT' AND RUSSIA'S MISSED OPPORTUNITIES

The outcome of the 2016 US presidential election was extremely important for the Kremlin. Although Trump's victory has not been followed by the lifting of sanctions imposed over Russia's violation of Ukraine's territorial integrity, it has solidified the Russian establishment's belief that the US will no longer dominate international relations. In the meantime, the new American president made a strong impression on Europe, as he sowed

doubts about Washington's security and defence guarantees. This was also evident by the desperate tone of Donald Tusk's call for unity and solidarity on the eve of the informal summit of EU leaders in Malta. Hence, it has become common among Russian politicians to believe in an EU disintegration and the forthcoming end to the American dominance on the international arena.

Ironically, if not for Russia's wars against Georgia and Ukraine and its other foreign policy adventures, the 'Trump effect' might have opened a window of opportunities for EU-Russia cooperation.

Of course, Russia could, in no sense, be viewed by the Europeans as a substitute for the US. Yet, the Kremlin might have benefited against the background of Donald Trump lambasting NATO. For instance, that could have at least revived discussions on the European security architecture. Should that be the case, post-Soviet Russian ruling elites would, probably, have come close to fulfilling their strategic goal of dividing the West. Today, however, practical possibilities for the EU-Russia rapprochement are almost zero, as Russia is not perceived as a reliable partner in the security sphere, thanks to its military conflicts with neighbouring countries and hostile cyber operations. During Putin's rule, Russia's international image has significantly deteriorated from a country undergoing difficult reforms with a remotely feasible chance of becoming a consolidated democracy, to a disreputable state that routinely neglects its international commitments.

Why does Russia take such a high risk? To restore a 'just' international order, and to regain its sphere of influence? Not exactly.

Such a rhetoric helps the Russian government to effectively distract the Russian population from the lack of progress in modernising the country's economy. The households' real incomes have been declining for four consecutive years, the country's financial reserves continue depleting, taxes are being gradually raised, while prospects for economic growth remain uncertain. No wonder that in his pre-election statements and remarks Putin preferred to stick to foreign policy issues, skillfully manipulating the elder generation's traumas and phobias caused by the abrupt collapse of the Soviet Union.

At the same time, neither Putin, nor the government are afraid of a possible collapse of the Russian economy. The Kremlin elites have perfectly learned Gorbachev's lesson – it's the West that, seeking to prevent Moscow from losing control over its nuclear weapons, fully pays for all the consequences of flawed policies by the Soviet/Russian regime.

In fact, over the past 30 years, the West has not found a way how to deal with the aggressive behaviour of a country that simultaneously possesses nuclear weapons, and has a permanent seat on the UN Security Council. This gives Putin unlimited opportunities to raise the stakes against the West. The latter has nothing left but to demonstrate once again its ability to protect the fundamental values of democracy.

"The BSR-1 countries have a relatively high level of cohesion in terms of strategic cultures. Most member states in the region see Russia as their largest military/strategic threat, albeit to different degrees."

REFLECTIONS FROM THE EDITOR

It has been a pleasure to work with the Baltic Sea Cooperation over the last 25 years, so allow me to make a broader conclusion than just on the last years development; also drawing on the many roundtables.

After more than 50 years where the Baltic Sea was mainly a barrier against cooperation between the Eastern and the Western side of the Baltic, a possibility of cooperation and integration arose after the fall of the Warsaw Pact and the breakup of the Soviet Union.

The new small Baltic nations were looking for new partners everywhere and logically began with their neighbours in the Nordics. Lots of ordinary people in the Nordic region felt sympathy for the new small nations and offered their help and support, and so new channels and frameworks were established.

The bigger countries – Germany, Poland and Russia – had other concerns, and it took time and effort to get Berlin, Warsaw and Moscow interested in the regional initiatives, while cities like Kiel, Lubeck, Hamburg, Gdansk, Szescin, St. Petersburg, and Kaliningrad soon showed interest.

Some individuals took more interest in the cooperation than others. Foreign Minister Hans Dietrich Genscher from the Eastern part of Germany showed interest. Prime Minister Carl Bildt from Sweden took the development as a litmus test of what could be done, and Foreign Minister Uffe Ellemann-Jensen of Denmark saw the political situation as a chance for small countries to make a difference.

New institutions were established, such as the Council for the Baltic Sea States (CBSS). The idea was to attract attention (and money) from the EU and keep information channels open to Russia while integrating the countries who so wished into western organisations. One can say that we succeeded in the first part, having Poland and the Baltic States joining the EU and NATO, while we did not quite succeed when Russia turned critical on EU and NATO enlargement.

Our small region has always been influenced by developments outside the region, and this will still be the case. In the report two years ago, we discussed cooperation with Russia after the annexation of Crimea and the war in Eastern Ukraine.

Last year, we discussed what the Trump phenomenon and Brexit would mean for the region, and this year, we are discussing the development since then with the many Macron-initiatives in Europe. I think it is fair to say that the countries of the region are mainly reacting and not in a very coordinated way.

But there is still much to do in our region. We have proven to be good on IT, and we should do more to promote the region in this field. We have been working together on environmental issues, not least to create a clean Baltic Sea, but there is still a long way to go. We have been working on energy, talking about an energy ring and gas-connections – not least North Stream 2. And there are still possibilities to strengthen the regional political cooperation, not as a substitute for EU-cooperation, but in support of our values within the European and Atlantic Community.

And finally, we should strengthen our work to communicate with the Russian societies in St. Petersburg, Kaliningrad and Pskov to stand ready for further cooperation with Russia when Moscow is ready.

PER CARLSEN
Senior Advisor, Ambassador (ret.)

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Baltic Development Forum is a think-tank and network for business, politics and academia in the Baltic Sea Region.

Our vision is for the Baltic Sea Region to become one of the most dynamic, innovative and competitive regions in the world. Our mission is to advance sustainable growth and competitiveness in the Baltic Sea Region through private-public partnerships.

Baltic Development Forum publishes the latest thinking on developments and trends in the region and brings together actors from different sectors and countries across the region to inspire cross-border initiatives in key growth sectors.