

BDF MAGAZINE

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[An Exclusive Insight
to the Top of Europe]



*Competing on Top of Europe
– The Baltic Sea Region
in the Global Playing Field*

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Dear Reader,

As Chairman of Baltic Development Forum I am pleased to introduce you to this publication.

It features a number of articles from prominent persons focussing on the current challenges to Europe's most dynamic region. You will also find the main conclusions from the latest Baltic Development Forum Summit, a summary of the State of the Region Report 2006, and an executive report of the Summit, which took place in Helsinki as an official part of the Finnish EU-Presidency.

The Baltic Sea Region is very close to my heart – for many reasons – one of them being that I am a devoted European. What encourages me is that many of the aspirations we had ten years ago have come through, including EU-Membership for the three Baltic countries and Poland. We are also experiencing a significant development in terms of innovation, growth rates and competitiveness within our Region where Scandinavia, Russia and Germany indeed also play their important parts.

In my view, we still need to discuss how we can create a more comprehensive and visible Region “on top of Europe” and how appropriate structures can be defined to sustain its leading role.

We must be open and look at all current organisational bodies and mechanisms so that we – in an effective way – can make our contribution and “make our mark” within the EU as well as globally.

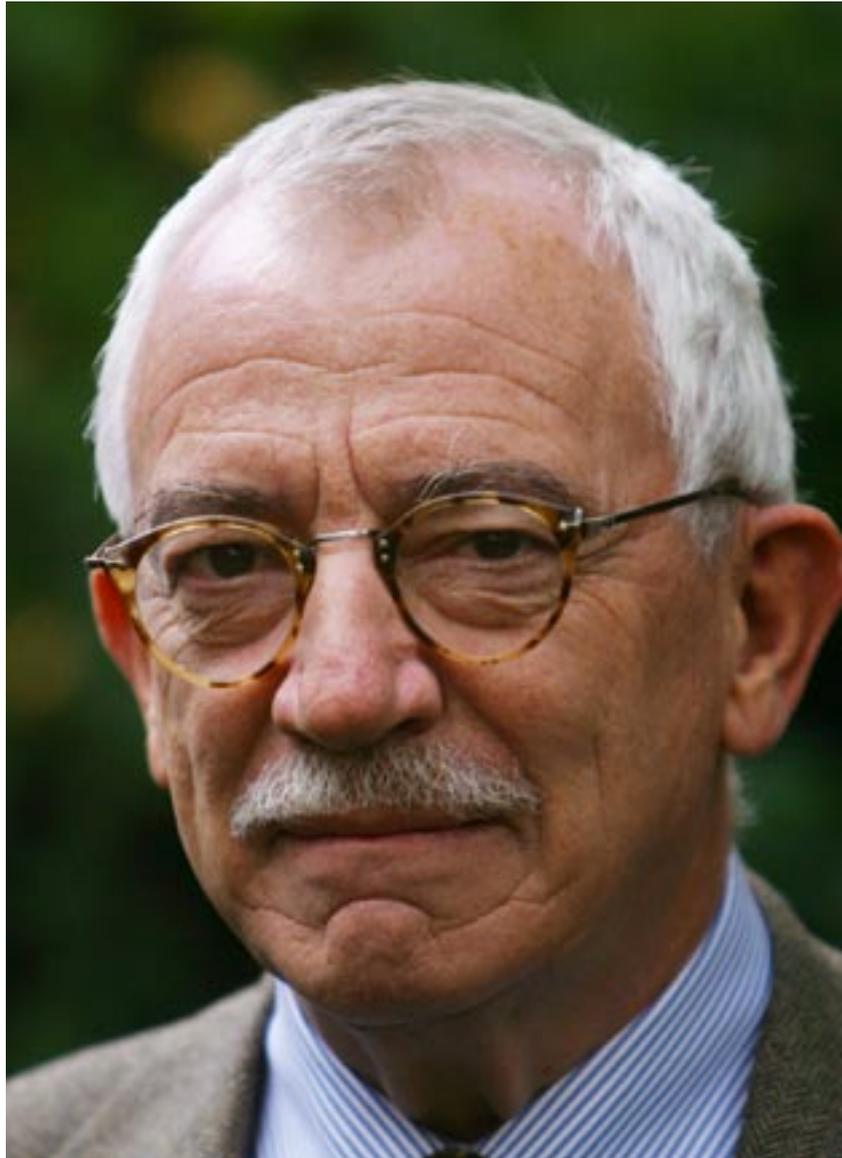
I strongly encourage leaders from business, politics and academia to give this Region, and its 11 dynamic countries, a more strategic focus and become an active part of this dynamic centre of excellence. To fuel this discussion, Baltic Development Forum will in 2007 gather a group of visionary leaders and thinkers in an informal setting to define the future direction of our Region.

Moreover, Baltic Development Forum will continue to push the agenda of the Region through a number of sector-specific initiatives, as well as more general Seminars, Round Tables and targeted Networking.

Enjoy your reading!



Uffe Ellemann-Jensen
Chairman of Baltic Development Forum



The Secret Life of Europe's Most Successful Region

By Ole Frijs-Madsen
Director of Baltic Development Forum

“Small is beautiful”, but big is better. What we realise these years is that countries like India and China are not only big in terms of population, but they also “produce” demanding consumers and bright students at a pace which is indeed “big time”. This is no longer breaking news.

What is less known, and indeed quite a paradox, is that we in our part of the world have a hugely undeveloped economic potential, which is a fantastic asset when facing these “fast track” countries. However, we do very little to take advantage of this opportunity.

Let me elaborate slightly. Europe has over the last years generally been weakened politically and economically. Despite all good intentions with major political initiatives such as the European Constitution and the Lisbon Agenda we seem to produce limitations such as the strongly diluted Service Directive and other market and labour restrictive measures. The effect is that we are slowly, but steadily, being left behind compared to “the big West” across the Atlantic and “the big East” with its Asian Tigers.

Fortunately, we do have our own “tigers” in Europe. Estonia, Latvia, Lithuania are some of them. They are not big and they are not very noisy, but they are extremely successful. Growth rates between 6–9% are quite common in these countries and they have no time for European complacency.

As a matter of fact, several countries “on the Top of Europe” are extremely interesting to watch and constitute the only part of Europe that really leaves hope for a wider economic and social success over the next 10 years.

If we watch the “geostrategic map” of Europe more closely, 11 countries and regions around the Baltic Sea will emerge as drivers. Scandinavia, the Baltic Republics, Northern Poland, Northern

Germany and North West Russia constitute a highly dynamic area: for investors, for tourists, for students as well as for its citizens.

The mix of mature economies and societies coupled with the high growth rates and entrepreneurial spirit in the new countries in the East has been described as an ideal brew for competitiveness and development. The “State of the Region Report”, developed by leading economists from Harvard Business School and Stockholm School of Economics and issued annually by Baltic Development Forum, gives an excellent insight to the Region and its potential (see page 17).

Thus, the Baltic Sea Region is both geographically, economically, and symbolically indeed “Top of Europe”. The President of the European Commission, José-Manuel Barroso, went as far as referring to the Region as “a beacon for Europe to learn from” when he addressed the Baltic Development Forum Summit in Stockholm in 2005.

The Baltic Sea Region’s unique situation and aggregated assets could, however, be much better exploited. Though regional business leaders and governments have devoted an increasingly focus on the Region over the past decade, a more holistic and strategic approach is needed if we are to be competitive and prosperous over the next decades.

A key challenge which must be addressed is the need to retain and attract new scientists and skilled labour to the Region. Because without qualified human resources, we are at risk of becoming victims of our own success.

In order to move the agenda on the above issues, Baltic Development Forum is devoted to be a key driver behind two major initiatives. During 2007 we intend to launch a major campaign covering several sectors labelled “Talents on top of Europe”. This initiative will be presented together with ScanBalt in close co-operation with labour-market parties, universities and other key actors. The aim is to promote



the Baltic Sea Region collaboration with a focus on mobility, training and attraction of human resources.

Another major initiative undertaken by Baltic Development Forum is to establish a clear identity for the Region, i.e. to develop a distinct Baltic Sea Region brand. This unique Region of growth, innovation and competitiveness – scoring extremely well on the Lisbon Index of the EU – has for too long been a well hidden secret. It lacks “sexy soundbites” and dedicated political influence in the EU and globally which it rightly deserves. The Region is – to put it simply – in dire need of a competitive identity or a proper brand of its own.

Despite their “hidden” success-

es, the countries composing the Baltic Sea Region need a strong and dedicated “competitiveness upgrading” in order to face the global challenges mentioned above. A number of national and regional efforts are needed. These include a general business environment upgrading, focus on innovation and cluster development, integration with Russia and a comprehensive branding of the Region.

During 2007, Baltic Development Forum will engage in a number of initiatives and host various events to further push forward a broad business-driven agenda for the countries on the “Top of Europe”. Entrepreneurship, ICT, Transport, Financial

Integration, Barriers for Trade, Metropolitan and Peripheral development are some of the sector-specific themes we are currently focussing on.

I very much hope you will join us in our endeavours. Let us be “courageous rather than comfortable”!

The 2007 Baltic Development Forum Summit will take place in Tallinn 4–6 November 2007. For more information on the Summit and current BDF activities please consult our website on www.bdforum.org

BDF Summit 2006

Conclusions

The Annual Baltic Development Forum Summit took place in Helsinki as part of the Finnish EU Presidency on 29–31 October 2006. The Summit attracted 500 influential decision makers from business, government, the public sector, research institutions, and the media from the Baltic Sea Region and beyond. These were the conclusions from the comprehensive discussions.

General

The Baltic Sea Region has established itself as a global leader in growth, competitiveness and innovation. But this position is threatened. Despite its challenging geographical position north of Europe's central economic zone, the Baltic Sea Region and its 11 countries have benefited strongly from globalization due to its stable institutions, well-developed infrastructure, highly skilled labour force, international networks, and sound macro economic policies. However, other regions throughout the world are catching up and a number of issues need to be addressed, and concrete action must be taken to stay ahead in the global economy.

Competitiveness and Business Environment Upgrading

To maintain its lead in the global competition, the Baltic Sea Region must be competent rather than comfortable. The Region should therefore strive for true scientific leadership, pushing its universities' rankings and making sure that the innovations created in the Region can be turned into new products, services, and ways of serving the market. In parallel, a stronger focus is needed on cluster development and on creating more efficient transport and logistics systems. Furthermore, to strengthening the Baltic Sea Region's and Europe's competitive potential and fulfilling the Lisbon Agenda, full and uncompromising implementation of all four basic freedoms throughout the EU Member States in the Region is strongly called for.



Energy Safety

Sustainable energy safety is a key regional priority and political leaders should enhance their dialogue at all levels as to the crucial link between future prosperity and energy safety. Developing a common EU policy on energy safety is essential and a prerequisite for a balanced economic development in Europe and Russia at large. Within this framework the input by the Baltic Sea Region Energy Co-operation (BASREC) and its efforts to create increased higher energy efficiency and renewable energy resources is



important. The overall EU-Russia relations should be actively supported by the Baltic Sea Region countries with a view, among other things, to ensure a pragmatic and reciprocal energy dialogue supplementing the Northern Dimension.

Russia and the Baltic Sea Region

The New Northern Dimension is an important instrument for the EU – Russia, and Baltic Sea Region relations, and all parties are called upon to ensure its successful implementation. Furthermore, Russian membership of the WTO is strongly encouraged to establish open markets and freedom of investments for all parties. An enhanced Russian involvement in the Baltic Sea Region – with a focus on its North-western parts such as St. Petersburg and Kaliningrad – is warmly welcomed.

EU and the Baltic Sea Region

The countries that constitute the Baltic Sea Region should make it more visible and operational within the EU institutions. The European Commission is called upon to develop an EU strategy for the Baltic Sea Region supported by relevant budget lines. As Baltic Sea co-operation has transitioned to a stronger emphasis on economic, business and innovation

issues, existing regional councils and pan-Baltic organizations should optimize and coordinate their roles and activities more effectively to have a stronger influence on the regional and European agenda.

Regional Values

A key characteristic for the Baltic Sea Region is its full and non-compromising support for human rights values and democratic freedom of its citizens. In this regard, recent physical attacks on people and democratic institutions in the Region are deeply worrying. Open societies and economies, civic security, respect for minorities, social protection, transparency in decision making and sustainable development are other important values with which the Region is strongly associated.

Building a Baltic Sea Region Brand

In the increasing competition among locations, the creation of a distinct and reputable Baltic Sea Region identity – a brand – is of highest importance. Leaders in government, businesses, regional organizations, labour market parties etc are urged to engage in a comprehensive approach to move this process forward and thereby creating a clear and competitive footprint for the Baltic Sea Region.

A Vision for the Baltic Sea Region

By Matti Vanhanen
Prime Minister of Finland



Twenty years ago the Baltic Sea Region was still divided. Countries and people along its shores were separated by different political and economic systems. In the last thirteen years Sweden, Finland, Estonia, Latvia, Lithuania and Poland have all joined the European Union. During the same time Russia has formed a close and broad-based partnership with the EU. The integration of the Baltic Sea Region has made a great leap forward.

Since the beginning of the nineties the Baltic Sea Region can be seen as a kind of geopolitical laboratory: a region – meeting the challenge of the aftermath of the Cold War – which became a real success story.

A marvellous history lies beneath

Historians have reminded us that by this recent integration process, a past state of affairs in the Baltic Sea Region is being restored.

Unity and interaction around this sea may be seen as most natural and normal. Since the prehistoric invention of shipping this sea has rather united than divided the societies around it. Indeed, States have been formed mainly on the shores of the Baltic Sea. But at the same time traders, entrepreneurs, churches and civil society have easily operated across the sea. The history of the Baltic Sea Region is therefore not only a history of states and kings but also a history of towns and parishes, of districts and provinces, a history of mer-

chants, of religions and cultures and peoples. This sort of interaction was very much true during times before the consolidation of the nation state. In the Middle Ages the Hanseatic League and its trading alliance commercially united the shores of the Baltic Sea for centuries. These features of the past are also a key to our future. Also in the modern world, nation states are increasingly matched by strong local, provincial and private actors. This trend may again favour dynamic multinational regions such as the Baltic Sea Region. States should encourage local and regional entities to co-operate across and beyond national borders.

“Best practice model”

The Baltic Sea Region is among the most dynamic regions in Europe today, rich in science, technology and innovations. It is politically remarkably stable and enjoys a fair rate of economic growth. Finland and other Nordic countries have scored well in studies measuring competitiveness, sustainable development and transparent governance. Countries on the eastern shores of the Baltic have done well reforming their economies and picking up a high economic growth rate, outpacing their western neighbours. Also Russia is modernising and is making efforts to uphold its commitments to tackle remaining imperfections in its democratic practices. While the region’s social and economic gaps, inherited from the past, are narrowing, the Baltic Sea Region continues to contain a variety of economic models. This should be seen as a potential for development. The region may still draw advantage from affordable labour costs in former socialist countries, but at the same time benefit from advanced technological and human development present in the region.

increasingly important in the future. The size of the regional market is significant, regardless of where we delimit the region. By market logic it would be natural to count at least the German littoral states, Polish littoral woiwodships and Russian littoral oblasts in the Baltic Sea Region. The total population of the Baltic Sea Region is said to approach 100 million. I believe that this scene is favourable for further co-operation and development. For us Finns the St Petersburg metropolitan area is a natural, traditional market. By population the St. Petersburg metropolitan area is the largest centre of gravity in the Baltic Sea Region. It is also strategically located between the region and the vast Russian market and its logistical connection to Asia by the Trans-Siberian railway.

Partnerships for a better future

The intergovernmental co-operation in the Baltic Sea Region started at the beginning of the 1990s, but there were also various other co-operational structures. There were efforts by the parliamentarians, by the local and regional authorities, by the

“The location of the Baltic Sea Region is rather strategic than peripheral. The Baltic Sea Region is closer than most of Europe, by air or by rail, to the huge and rapidly growing Asian markets.”

The Baltic Sea Region has been mentioned many times as a possible “best practice model” -an example of how to create synergies and favourable democratic conditions for a prosperous life. This “model” can be used, offering experiences and good practises for instance to the Balkans and the Black Sea region.

The scene is set

The location of the Baltic Sea Region is rather strategic than peripheral. The Baltic Sea Region is closer than most of Europe, by air or by rail, to the huge and rapidly growing Asian markets. The Barents Sea immediately to the north is rich in natural resources, including energy resources. The Scandinavian Peninsula provides hydro-power, an asset that will be

business community and last but not least by the non-governmental organisations. These activities are still going strong. We should take a look at the phenomena making co-operation today necessary. In today’s world we have the environmental risks, organised crime and communicable diseases, which cannot be met without international co-operation. In this respect we can also see regional success stories in the Baltic Sea Region. For example our co-operation in combating organised crime and protecting the environment are obvious success stories.

There is also a new type of concept for promoting the Northern part of Europe, the Northern Dimension. The Northern Dimension policy has recently

been renewed and transformed into a common policy for the EU, Russia, Norway and Iceland. The environmental partnership and the partnership for health and social well-being have been strengthened and a new partnership in the field of transport and logistics is being examined. Energy efficiency under the Northern Dimension framework is another issue, currently under discussion. As a result of the revitalisation we hope to see concrete results in the near future. The idea of the Northern Dimension concept was at the very beginning based very much on economic thinking. Also the Northern Dimension has from the very beginning been more than just another external policy of the EU. One aspect of this is the recent creation of an equal partnership of Russia, Norway and Iceland. Another neglected aspect is the element of EU-internal policies. Now that the EU has enlarged to almost encompass the Baltic Sea the EU-internal aspect of the Northern Dimension needs to be revived. We also need to keep alive the original economic vision of the Northern Dimension with a view to promote the restoration of the economic dynamism in the Baltic Sea area.

Taking the Region forward

In addition to this activity based on the co-operation of public actors we have a new type of co-operation represented by the Baltic Development Forum, gathering a network of representatives of business circles, the public sector, researchers and journalists to brainstorming activities, focussing on our common region and its future perspectives. The yearly Baltic Development Forum summits, in fact, offer a conglomerate of people and ideas and thus serve in taking the whole region forward, to the benefit of all its inhabitants.

The Baltic Sea Region is strategically located close to the EU and Russian markets and closer to Asia than the maps reveal. It is close to significant energy resources. It is an innovative and economically dynamic region benefiting also from diversity in economic conditions. It possesses a large pool of well educated people, contributing to innovation and promoting economic development. I see no reason why the region could not prosper in the future. A precondition is, that the region may not turn inwards but it should face global challenges by opening up and reaching out to global markets

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Time for an Equity Culture

By Hans-Ole Jochumsen
President of OMX Information Services and New Markets

It is truly an extraordinary period for the Baltic Sea Region. It is ranked as one of the most competitive locations in the world. GDP trends, for the most part, are on the up and up. Company profits and private earnings are increasing. Consumers continue to show a healthy appetite for all the perks of a thriving economy.

The question now is how to sustain this exceptional growth?

A springboard for growth

My own view is shaped by long experience in the financial industry, and is consequently grounded in a firm belief in the importance of capital markets. A well-functioning capital market promotes growth and development, which in turn brings greater prosperity to society. It is not the only condition for growth, but certainly a key ingredient.

As has been demonstrated throughout the years, and in economies around the world, the strength of a capital market is based on a number of key factors. First and foremost is liquidity, which comes with a high level of trading activity. Transparency and

trust go hand-in-hand with this. And of course you need the business ideas to build on.

At the same time, strong capital markets require the co-operation of the political, business and academic communities to provide for a stable infrastructure, skilled labor force, innovation and fair business practices.

The foundation is laid

The underpinnings for strong capital markets in the Baltic Sea Region are undoubtedly in place. There is an excellent business and political environment. The aspirations are global and businesses are moving more and more across borders.

A good deal of progress has been made in the development of capital markets in Germany and the Nordic countries. The recent introduction of the Nordic Exchange, amassing the trading activity of Sweden, Denmark, Finland and Iceland on one marketplace, is intended to attract more interest and investment. Strengthening the capital markets in other Baltic Sea countries would do even more to help lift the whole region.

Some Baltic countries have yet to fully adopt what I call an equity culture. That is, in fact, rather surprising. From my observations, consumers in Estonia, Lithuania and Latvia, for example, are not what I would call risk averse. On the contrary, I see more of a willingness to take risks – to try new ideas and ways of doing things – than we see perhaps in other cultures.

However, historically, companies in these countries have financed their operations through bank loans, bonds or profits, and private investors have put their money into standard bank savings plans. Currently, many people are not even saving, but rather taking advantage of low interest rates by buying real estate.

As most agree at this point, strengthening the capital markets in the Baltic countries comes back to liquidity. This requires, simply, a bigger investor community as well as a broader portfolio of investment opportunities to choose from, i.e. more investors and listed companies.



Build confidence and belief in capital markets

For listed companies, going public not only brings greater access to capital but also increased visibility. The importance of this cannot be understated. A listing puts the company in the media spotlight and this further supports recruitment efforts, marketing and sales. For companies with cross-border and overseas sales in particular, a public listing serves as an important seal of approval.

At the same time, a strong capital market supports small and mid-size companies in taking further steps to turn innovation into products and services that can grow business and profits.

For investors, a strong capital market provides more investment opportunities and a broader risk spread, not just to generate earnings but for long term savings as well. In many European countries, the role of funded pension programs is gaining importance in delivering retirement income security.

Strong capital markets inherently bring with them greater accountability on the part of all involved so that investors can be assured that there is fair market play. There are clear rules and regulations for trading and information disclosure. In the past few years, there have been several initiatives in the Baltic countries also to raise the bar of corporate governance.

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A partner in the development of the financial industry

OMX is fully committed to doing its part to ensure strong capital markets, bringing our experience from our own exchange operations and international exchange technology solutions.

With the Nordic Exchange, we have set the stage for a broader consolidated marketplace that can promote regional economic growth and compete on the global landscape. The task has been to achieve ease of access, harmonization, visibility and the scale and scope that will continue to raise liquidity. Today, OMX Nordic Exchange is Europe's seventh largest in terms of total market capitalization.

On the exchanges in Estonia, Latvia and Lithuania, we have provided a solid technology infrastructure to support trade, post-trade and data distribution that ensures an efficient transaction chain and ease of access for local and remote brokers. We're bundling marketplaces, products and services to achieve greater breadth and opportunity for listed companies, trading firms and investors.

Just this year, OMX has introduced a single Baltic Market membership on the exchanges in Estonia, Latvia and Lithuania as well as common share lists structured according to GICS, common Baltic indexes and harmonized local indexes, a unified market data presentation and one market data package for vendors. Harmonized market practices and rules have been put in place.

In addition, an online Baltic Fund Center helps investors compare investment funds and fund

management companies. To highlight best practices amongst listed companies and members, the Baltic Market Awards have now become a part of our annual activities. With the harmonization and enforcement of Corporate Governance Codes, companies listed on the Baltic Market exchanges will have to report how they comply with the corporate governance recommendations.

Based on the success in Denmark and Sweden, we're planning to introduce an alternative market in other Baltic countries. This gives smaller growth companies a possibility to raise capital, and it could do much to boost the equity culture in the Baltic region. It would open up the investment field to small and mid-sized growth companies and attract more retail investors at the grassroots level.

Sustaining a bright future

A strong capital market is the machine that enables continuous growth and regeneration. A steady stream of business opportunities feeds demand, creates more jobs and increases productivity. Businesses are funded by private individuals, on the other side, that both consume the new products and services as well as invest disposable income in the equity markets, providing the flow of capital needed to grow business, create more jobs and increase productivity. And so the cycle continues.

An equity culture could go a long way to ensuring the future of the Baltic Sea Region.

Time for a Knowledge Society on Top of Europe!

By Anders Flodström
President of the Royal Institute of Technology, Sweden

When you are in Brussels, participating in meetings and listening to talks and seminars, you often hear people refer to themselves as being the heart of Europe. Then you begin to wonder about us in the North and in the Baltic Sea Region. Where or what are we? Hopefully we are the brain of Europe. If north is north and south is south!

Nations should not stand alone

More seriously, Europe has regions created by geographical and cultural proximity. This is analogous to other great nations such as US, China and India and a benefit to their development. The thing is to find just the right balance between overall and regional development, and in Europe the regions should never be a nation standing alone. For example, in the field of higher education the harmonization of grades and educational programmes in the Bologna Process is

an advantage for all of Europe, but it is up to the different regions to use this harmonization to promote knowledge creation and dissemination and hence democracy, economic growth and prosperity.

A vibrant mix of old and new

The Baltic Sea Region is one such important European region. Counting the European countries with access to the Baltic Sea there are 160 million people living in the region. Using a somewhat fuzzy proximity criteria, and in that including part of Russia, I would say that we are talking about a core Baltic Sea Region of sixty to seventy million people. The region is made up of old, semi old, new and future members of the EU. They are in different stages of industrial, economic and societal development. Sweden, Denmark and Finland are in the OECD top ten as concerns investment in higher education and R&D,

“It is time to create the synergy and coherence necessary to make the Baltic Sea Region the brain of Europe and a tool for its global development.”



everywhere in the world, but this region is the heart of the international progress of this industry, from systems to services and how to use them. This top international position must be retained. The forest industry is another common denominator. This is now undergoing exciting development from making raw materials for production of paper to becoming a multi-product industry based on new uses of the natural fibre, diverse areas such as hygiene products, packaging, composite and media products are important new directions. The region is also in a leading position in the growth of energy, environmental and sustainable technology. It has unique potential in the industrial development of new energy technology, small scale through fuel cell, wind and bio-energy production and large scale through nuclear energy production. The region could, with the right coaching, lead the world with its future mix of technologies necessary to create a sustainable and environmentally-friendly energy infrastructure. These areas are important examples but many other industrial areas are important for the prosperity of the region – automotive, mining and steel, pharmaceuticals and medical technology, tourism to mention just a few.

Latvia, Lithuania, Estonia and Poland being in a dynamic economic growth phase but not yet contributing fully to knowledge creation and dissemination in the region, and Germany acting an engine for all European development.

A region with ambition

The common themes for the region include how to become more innovative and entrepreneurial in order to create new infrastructures, new products, new industries and new industrial business areas

based on its position as a leading-edge knowledge community with world-class universities and world-class, new, knowledge-based companies. Concerning infrastructure, the most important issue is to make the Baltic Sea into an environmental advantage and a common resource for communications, tourism and quality of life for everyone in the region. Concerning industrial development it is obvious that the information and communication (ICT) area will be very important. It is

Knowledge as the driver of regional development

Underlying the success in promoting this development is a leading-edge knowledge society. Europe, through concepts such as ERA (European Research Arena) and EHEA (European Higher Education Arena) and its components such as “Bologna harmonization”, Erasmus Mundus, FP 7 (Framework Program) with an

“The region could, with the right coaching, lead the world with its future mix of technologies necessary to create a sustainable and environmentally-friendly energy infrastructure.”

increased R&D budget of 50%, ERC (European research Council) for excellence in basic research and EIT (European Institute of Technology) for creating knowledge communities within the most important technology areas, has set the scene and has provided the tools. It is the role of the knowledge society, and especially the universities, to not only act as engines in knowledge creation and dissemination but also to serve as glue for the development of the Baltic Sea Region.

The knowledge society provides a culture independent of national considerations that provides a joint, generic arena for the discussion of problems that must be solved. The Universities could serve as a policy push to reach regional objectives. Today, the Baltic Sea Region knowledge society does not exist. A number of bilateral collaboration programmes have been initiated during the last fifteen years, some successful. However, on the whole we have not been focussed enough to create a common platform for knowledge as a tool for regional development. On the contrary, we have been more occupied with creating new knowledge platforms together with regions or countries such as China, India and Southeast Asia. The reason is simple; the sheer power of numbers makes it more interesting to participate in the dy-

namics of economic growth in a multibillion region as compared to the same dynamics in a multimillion region such as the new Baltic States in Europe.

Baltic Sea Region as the brain of Europe

Companies have reasoned in a similar way. We have so far not realized that the closer knowledge society of the Baltic Sea Region would serve as a platform for even more efficient interaction with other interesting regions in the world. We have also, due to this weak coherence or lack of glue in the region, often looked for other partners in Europe. This is of course positive for the progress of the European spirit. However the balance between the regional and central concept should be changed more towards the regional. There is nothing wrong in mentioning proximity as a positive factor for a knowledge society. It is time to put minds, ideas and resources into creating networks, new collaboration between the region's universities and its companies (multinationals and SMEs). It is time to create the synergy and coherence necessary to make the Baltic Sea Region the brain of Europe and a tool for its global development. When we speak about the Nordic Region it is a geographical concept when we, in the future, speak about the Baltic Sea Region it should be a knowledge society concept!

State of the Region Report 2006

Executive Summary

Co-operation within the Baltic Sea Region continues to attract strong interest. Within the Baltic Sea Region, the focus has shifted more and more from security and political integration to practical collaboration on economic issues and on other areas of direct common interest, like the environment and energy supply. Outside the Baltic Sea Region, other regions have noticed the strong economic performance of this part of Europe, and want to learn more about the factors that drive the Baltic Sea Region's economic development. The State of the Region Report 2006, the third in this series, aims to continue to meet this demand for objective information from people both inside and outside the Baltic Sea Region.



The Context for Competition Among Locations

The prosperity of the Baltic Sea Region depends not only on the choices it makes on economic development issues but also on the global competitive environment, the geographic profile of the Region, and the macroeconomic climate in which companies located here operate.



The global environment for the competition among locations has changed significantly over the last few years. Globalization and the changes associated with it, have increased the level of competition that regional economies are facing, exposing them more directly to the comparison with business environment conditions elsewhere. But globalization has also increased the opportunities for regional economies in serving much larger markets in foreign countries and benefiting from more efficient production of goods and services elsewhere. To take advantage of this combination of challenges and opportunities, it is increasingly critical for regions to develop their own unique profile of clusters and business environment conditions; just keeping up with the average is no longer enough.

The Baltic Sea Region enters global competition from a challenging geographic position. It is located at the periphery of an economic zone that has not developed very dynamically relative to other parts of the global economy, it is relatively small, and it has a low population density with few if any truly global metropolitan centers. In the last few years these

disadvantages have been overshadowed by the ability of the Baltic Sea Region to leverage its stable institutions, well-developed infrastructure, highly skilled labour force, and high number of multinational companies to become a true beneficiary of globalization. But with other world regions reducing the advantages on these dimensions, the Baltic Sea Region needs to work hard to reduce the disadvantages of its locational profile.

One of the reasons that the Baltic Sea Region has been able to participate so successfully in the opportunities created by globalization are the sound macroeconomic policies that have been pursued in most parts of the Region for the last few years. These policies have reduced volatility and encouraged companies to make the longterm investments that are particularly important for innovationbased competitive advantages. In addition, the Region has recently benefited from the positive developments in the global economy that has been very resilient even in the face of high oil prices. It is quite likely that the global macroeconomic environment will not remain in such a supportive position; this is a contingency that the Baltic Sea Region needs to prepare for.

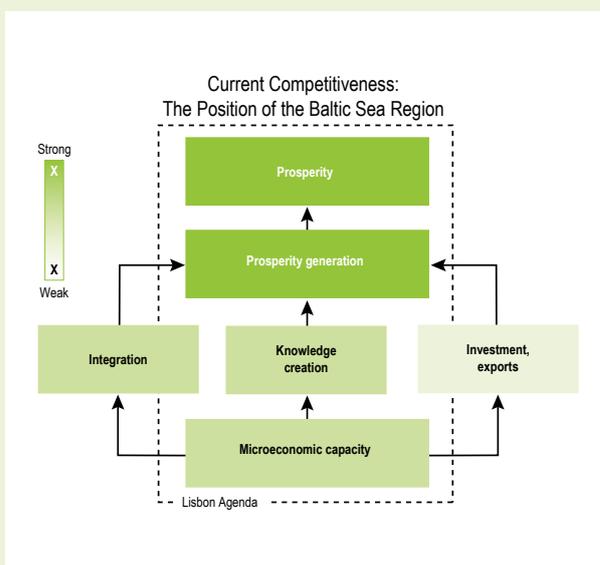
Competitiveness in the Baltic Sea Region

In terms of economic performance the Baltic Sea Region continues to register strong prosperity growth, outpacing all other regions of advanced countries despite a slowdown in 2005. The prosperity in the Baltic Sea Region countries is more dramatically driven by either productivity or employment while most other countries, especially those outside of Europe, have a more balanced position across these

two performance drivers. The NAFTA and Oceania regions are the only ones outperforming the Baltic Sea Region on both dimensions. While the Baltic Sea Region continues to defend its world export market position and its position among global patentors, it continues to suffer from deteriorating inward foreign direct investment flows and low domestic investment. Integration in the Baltic Sea Region is not balanced. The highest level of interaction is in the western part of the Region, with the linkages between the Nordic and Baltic Countries acting as an additional anchor of integration.

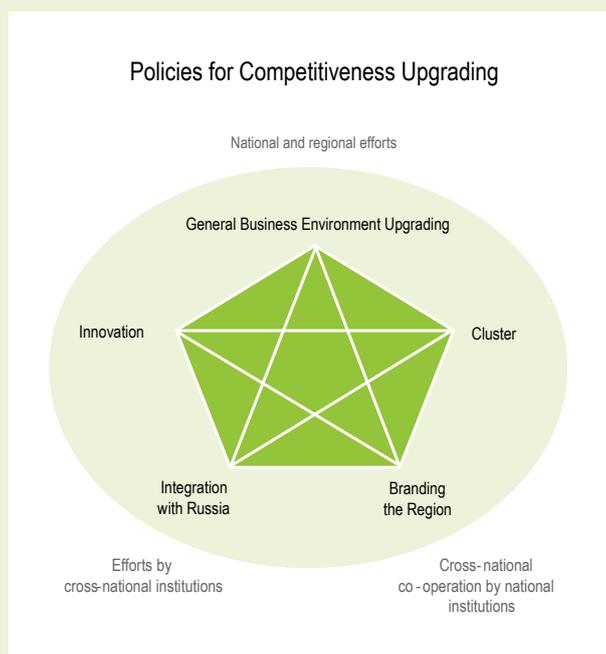
In terms of the underlying drivers of sustained economic performance, the foundations of competitiveness, the Baltic Sea Region continues to rank high overall. It has been able to regain some ground in the last year but the lack of longterm dynamism still gives grounds for concern. The profile of competitive strengths for the Region is consistent with a focus on science-driven innovation led by strong, globally active companies. The Region needs to ensure that emerging weaknesses in education and physical infrastructure do not undermine its competitiveness in high-end science. A second challenge is the need to review the optimal role of the government in the economy, combining open and competitive markets with a public sector capable of investing in upgrading competitiveness.

In terms of the Lisbon Agenda, a broader measure of economic outcomes and inputs as well as social outcome, the Baltic Sea Region continues to lead the European rankings on the criteria of the Lisbon Agenda; it has even increased its lead relative to the European average. Relative to the EU average, the Baltic Sea Region remains particularly strong on innovation and on employment; high domestic prices remain a key challenge. The heterogeneity among countries in the Baltic Sea Region remains high but also largely a reflection of the different levels of economic development the individual countries are in.



Competitiveness Upgrading in the Baltic Sea Region

General business environment upgrading continues to be critical for countries around the Baltic Sea, not only for the emerging economies at the eastern shores. Better access to finance, especially risk capital, has become a new focus of public policy; this is a critical but complex field with much private activity as well. Integration is particularly affected by bottlenecks in infrastructure as much as by rules and regulations; aggressive follow-up on the existing action plans remains crucial. The need to create new platforms for effective dialogue between the public and private sectors to design and implement competitiveness programs is one of the central challenges ahead. The new process of National Lisbon Strategies is useful, but now needs to move to a more country-specific structure that should, in the Baltic Sea Region, also start to include coordinated cross-border elements.



Clusters have gained in importance in the global economy due to changes in the nature of competition between locations and of company practices. This has also improved the interest in cluster development as a tool to strengthen clusters, to increase the impact of existing economic policies, and to provide a platform for more effective co-operation between the public and private sectors on competitiveness issues. The Baltic Sea Region is home to many active clusters and

cluster initiatives, increasingly also of cross-border efforts to link such efforts. The practice of cluster development shows the ambition of becoming increasingly professional; this process needs to continue but the first steps in this direction are evident. It is important to integrate these efforts in broader strategies for regional and national competitiveness upgrading. Clusters develop in strong business environments; active cluster development can increase the odds of cluster emergence and speed up their evolution but they can do little to substitute for deficiencies in the quality of the underlying business environment.

Innovation remains one of the key competitive advantages of the Baltic Sea Region that will need to be further developed to keep pace with demands. Innovation and innovation policy is still one of the areas in which the different parts of the Baltic Sea Region differ the most. The Nordic countries and Germany have developed sophisticated systems of institutions, regulations, and policies to support innovation; they continue to develop these systems according to national needs. The Baltic Countries and Poland have so far focused on increasing the efficiency of their economy and leveraging the solid skill levels of their labor forces but now aim to use structural funds to also increase innovation policy activities.

Russia continues to be a huge opportunity but also a policy challenge for the Baltic Sea Region. The strong growth of the Russian economy in recent years provides a benevolent environment for further economic integration with other parts of the Baltic Sea Region. Russia's economic policy is currently in a critical phase; different groups in the government try to interpret what a stronger government role in economic development should mean in practice. Regions in Northwestern Russia are engaged in many efforts to improve competitiveness; the success of these efforts differs hugely from region to region. Despite many attempts the actual level of participation of Russians in Baltic Sea Region efforts is often relatively low, although a recent focus on projects with tangible returns has been effective in increasing the participation of Russia.

The branding of locations becomes increasingly important as the competition between regions heats up. The Baltic Sea Region is facing significant challenges in creating a brand but cannot afford to be passive. A number of efforts by national and cross-national institutions are under way to increase the visibility of the Baltic Sea Region or its parts.



The Baltic Development Forum Summit 2006 took place in Helsinki, Finland.



Andrus Ansip, Prime Minister of Estonia, announcing that the 2007 Baltic Development Forum will take place in Tallinn, Estonia.



Tarja Halonen, President of Finland, opening the 2006 Summit.



500 participants took part in the Helsinki Summit.



The Gala Dinner in Nokia's old cable factory.



Maud Olofsson, Deputy Prime Minister of Sweden, being interviewed by the media.



Uffe Ellemann-Jensen, Chairman of Baltic Development Forum, welcoming the participants to the 2006 Helsinki Summit held in connection with the Finnish EU Presidency.



Networking at the highest level. Finnish Prime Minister Vanhanen, Swedish Deputy Prime Minister Olofsson, Igor Yurgens, Renaissance Capital, together with the Swedish Foreign Minister Bildt.



A meeting place for business and politics. Estonian Prime Minister Andrus Ansip and Swedbanks Executive Chairman Carl-Erik Stålberg sharing ideas in an intimate discussion



Valentina Matvienko, Governor of St. Petersburg was one of the Summit's prominent participants.



The Summit Moderators Monika Richardson and Samuel Rachlin.

BDF Summit 2006

Session Summaries

Leaders from business, government, academia and the media shared their insights on key issues for the development of the Baltic Sea Region under the theme “Competing on Top of Europe – The Baltic Sea Region in the Global Playing Field” in Helsinki 29–31 October 2006.

Below is a summary of the themes discussed. A full report from each session can be viewed at Baltic Development Forum’s website www.bdforum.org



Erik Berglöf and Ian Tokley.

Financial Integration – Making a Case for an Integrated Baltic Sea Finance Market

A fundamental necessity for any region aiming at growth, prosperity and competitiveness is a well-functioning and integrated financial market. **Ian Tokley**, partner at Bech-Bruun, said that a steady and strong financial market with available expertise and resources to drive the economics is a key foundation. The ability to promote business activities, to develop and encourage private market and the free flow of liquid funds rests on this foundation, he said.

Carl-Johan Granvik, Executive Vice President of Nordea, considered an integrated financial market in the Baltic Sea Re-

gion as a supplement to European integration. Furthermore, it has a potential to enhance economic growth and competitiveness of other regions. However, there are a number of impediments that hinder financial integration.

Erik Berglöf, Chief Economist at EBRD, mentioned different rules and regulations. According to Mr. Berglöf, one solution could be a stronger focus on the home country, rather than the host country, regulation and supervision. But such a system is difficult to govern so that it is highly efficient and at

the same time legitimate for all participating countries and market institutions.

Peter Egardt, Chairman of the CBSS Business Advisory Council and the Stockholm Chamber of Commerce, added that different regulations and types of supervision create trade barriers, in general, and restrain financial institutions from operating efficiently across national borders, in particular. He called for better co-ordination of the regulatory process, implementation and supervision. **Hans-Ole Jochumsen**, President of Information Services & New Markets at OMX, also called for more integration in order to attract more investments. A larger home market would mean more trading in the listed companies, he said, which in turn will attract more investors and better position the Region’s equity markets in relation to consolidating exchange services.

“It is an advantage to harmonize and present the Nordic and Baltic markets as one market.”

Hans-Ole Jochumsen



Pertti Torstila and Risto E. J. Penttilä.

The New Northern Dimension – Fully Integrated Partnership with Russia

The renewed Northern Dimension (ND) and its policy programmes are seen as some of the most useful tools in enhancing co-operation and prosperity in the Region. Particularly, the co-operation with Russia has gained special focus in the new policy framework. **Pertti Torstila**, Secretary of State in the Finnish Ministry of Foreign Affairs, said that the ND should be seen as the regional expression of the implementation of the four common spaces in the EU-Russia co-operation (1. economic co-operation, 2. freedom, security and justice, 3. external security, and 4. research, education and culture). Areas, where the co-operation with Russia is imperative, are within marine environment, transport safety, cross-border crime, and transport and logistics. In addition, two practical partnerships on environment, and public health and social well-being have been successfully established.

Risto E. J. Penttilä, Director of the Finnish Business and Policy Forum, EVA, pointed out that the energy sector wasn't prominently emphasized in the programme. Mr. Torstila replied that the energy policy would first be dealt with at the EU level, then the

regional perspective would follow. A prerequisite for a successful ND, according to **Christopher Beazley**, MEP and Chairman of Baltic Europe Intergroup, is the development of a fully fledged EU-Russia policy.

From a business perspective, **Antti Piippo**, Founder and Member of Board of Directors of Elcoteq, suggested that the ND programme will contribute to eliminating duties in Russia on components and products, developing technology parks and facilitating public funding to research and development for the technological industry. These improvements would lead to a more advanced, successful technological industry in the northern part of Europe.

Dimitri Bukin, Counselor at the Russian Ministry for Foreign Affairs, emphasized that proposals on private and financial development are prerogatives that Russia welcomes. At the same time, he stressed that Russia endorses the establishment of new partnerships on transport and logistics.

“The strength of the EU lies in its regions.”

Pertti Torstila

Stimulating Growth – How to Increase Labour Force Circulation in the Baltic Sea Region

The free movement of labour continues to be both an imperative and sensitive topic in Europe. There was a general agreement that the flow of labour leads to economic and social advantages, and helps face rapidly changing demands of the globalised world.

Approximately 40,000 Estonians work abroad, and **Andrus Ansip**, Prime Minister of Estonia, pointed out that the labour circulation is a win-win situation for the Estonian economy. Not only do those Estonians send money back home, those who return, also return with new skills and know-how. **Henryka Bochniarz**, President of Polish Confederation of Private Employers Lewiatan, agreed with Mr. Ansip and referred to the positive results published in an EU study two years after the enlargement. But she also made it clear, that though she adheres to an open labour market, she is not in favour of an unrestricted policy on immigration. **Kim Graugaard**, Deputy Director General of the Confederation of Danish Industries, also said that workers from new member countries help relieve labour market shortages and bottlenecks, thereby stimulating the economies of the old members countries.

However, despite the positive impact on growth and an enormous need for increasing labour supply in Europe, some of the member countries still uphold a heavily regulated labour market due to political and regulatory barriers. Mr. Graugaard said that another obstacle, besides the political and regulatory barriers, was an old-fashioned way of thinking. Companies need to change their attitude towards cross-border recruitment, if they want to keep up with growing demands. Surveys show that the prevalent myth, that there is a flood of workers from new member countries, who emigrate with plans of a long-term permanent residence elsewhere, is wrong. Research shows that the primary reason for working abroad is to earn money in order to make a better living at home. Mr. Graugaard urged abolishing the transitional agreements imposed during the EU accession process. He suggested making work opportunities more visible by making people more aware of local employment conditions and rules.

“The free movement of labour is a very important principle.”

Andrus Ansip



Andrus Ansip, Henryka Bochniarz and Kim Graugaard.



Nils E. Emilsson.

The State of the Region 2006 – Taking the Pulse of the Baltic Sea Region’s Performance and Competitiveness

Ole Frijs-Madsen, Director of Baltic Development Forum, stated that the State of the Region Report has become a useful tool to profile the Region both internally and externally. Per Unckel, Secretary



Per Unckel.

“The State of the Region Report defines what we are not good at in the Region, which gives policy makers an opportunity to improve the right areas.”

Per Unckel

General of Nordic Council of Ministers, added that the Report defines what we are not good at in the Region, which gives policy makers an opportunity to improve the right areas. Nils E. Emilsson, Executive Vice President of Nordic Investment Bank, said the Report describes one of the most important factors of financial character, which is the significant need for risk capital in the entire Region. Mr. Emilsson said it was essential to work on broadening markets for seed and venture capital.



Christian Ketels.

Christian Ketels, Principal Associate at Harvard Business School and author of the Report, presented factors the Region needs to deal with when competing in the global economy:

- Located at the periphery of Europe makes it difficult to attract investors. The Region needs to create reasons for the global economy to move into the area.
- But at the same time globalization creates opportunities and challenges. In order to take advantage of the opportunities, it is important for the Region to develop and improve its unique profile of clusters as well as business conditions.

The Report's key conclusions and recommendations are:

- The Region is strong in terms of prosperity and prosperity generation. However, it is weak in terms of investment levels and investment attraction as well as in terms of export position.
- The Region is a world leader in knowledge creation.
- The Region has a stable and strong position globally in terms of overall competitiveness.
- The Region has the highest innovative capacity level in the world. However, this is not matched in terms of entrepreneurship policy.
- The Region still enjoys the leading position in terms of Lisbon strategy indicators. However, the lack of a regional perspective in the national Lisbon agenda strategy papers is a clear weakness.
- New platforms should be initiated to create an open dialogue between the private and public sectors on how to upgrade competitiveness and how to organize this dialogue.
- As the EU fully supports cluster initiatives in general, the Region should play a role in promoting such strategic clusters.
- The initiatives to create a strong and competitive identity for the Region is important for its global competitiveness and needs strong support.
- Russia continues to be a major potential for the Region. Though major political dialogue is taking place at EU-Moscow level, the Region should continue to co-operate in areas with a regional angle.

“We are prime beneficiary of globalization, but the wind that was pushing us forward is not going to blow as strongly as it did in the past.”

Christian Ketels



Plenary Session on Energy.

Prosperity, Sustainability, Energy Safety – are they Compatible?

Affordable and reliable access to energy resources has dominated the economic and political agenda over the past year. **Christoffer Taxell**, President of the Confederation of Finnish Industries, said that without energy there is no growth, prosperity or welfare. One of the EU's challenges is its dependency on imported energy and growing uncertainty of energy supply. **Matti Vanhanen**, Prime Minister of Finland, said that it was urgent that the current energy systems are modified to limit this dependency. He proposed 1) to improve consumer-producer relations and energy partnerships, 2) to co-ordinate actions in the Region, and 3) to strengthen leadership in combining climate change, as well as improving energy efficiency.

Maud Olofsson, Swedish Deputy Prime Minister, agreed with Mr. Vanhanen and recommended promoting enhanced energy efficiency within all links of the energy chain as well as developing renewable energy sources in order to replace fossil fuels. **Karlis Mikkelsons**, Chairman of JSC Latvenergo, backed Ms. Olofsson and stressed that regional co-operation and accelerated use of renewable energy sources are fundamental for securing the energy supply to the Region in the future.

Christopher Beazley, MEP and Chairman of Baltic Europe Intergroup, said that a related proposal has recently been presented to the EU as part of a bigger Baltic Sea Strategy. One recommendation was to gather the ministers from the EU's Baltic Sea Region member countries to discuss the energy issue with

“We should take the lead in research and technological development, market deployment of new and improved energy technologies and make further efforts in energy efficiency. In this way we take our regional responsibility and we set a global example.”

Maud Olofsson



Matti Vanhanen, Maud Olofsson and Igor Yurgens.

Russia. **Igor Yurgens**, Chairman of Renaissance Capital, replied that Russia wants to be a key player as an energy supplier. However, certain conflicts between the EU and Russia have made it difficult to reach a mutually beneficial agreement on energy supply, he said.

Ann Eggington, Head of Division of the International Energy Agency, said that one of the most significant problems at present is that unexpected events greatly affect energy prices. The oil market will remain subject to the instability of the Middle East and gas supplies will come from Norway and Russia. There are growing pressures on energy resources and emerging economies require more energy, especially new Asian markets. Therefore, vast investments world-wide are needed to meet Europe's energy demand in the future and to develop ways of reducing energy usage, she said.

“The EU needs to speak as a united entity with its energy partners, corresponding to its role as a major consumer block. Our messages to third countries should be coherent.”

Matti Vanhanen

Growth and Innovation beyond Metropolises – Strategies for Creating Prosperous Peripheral Regions

New possibilities for peripheral regions have been created by the transition to knowledge-based economies, said **Danuta Hübner**, Commissioner for Regional Policy in the European Union. She added that peripheral regions could thereby turn a disadvantage into an opportunity.

At the same time, Ms. Hübner stated that locally fostered development strategies and initiatives play a key role in turning sluggish development trends into positive spirals. Three factors on which peripheral regions should construct their development strategies were mentioned: 1) local assets, 2) networking and co-ordination, and 3) innovation. In fact, if the peripheral regions want to catch up, they must invest even more in innovation than the central areas, she said.

Along the same lines, **Wolfgang Blank**, Managing Director of BioCon Valley GmbH, stressed that investments in R&D and education in life science, biotechnology and healthcare create great oppor-

tunities for peripheral regions. He called for closer co-operation in the life science industry, where the metropolitan areas could become competence hubs and the peripheral regions competence satellites.

Representing the business perspective, **Baiba Rubess**, Managing Director of SIA Latvija Statoil, said that peripheral and remote regions experience lack of power and entrepreneurship. Following that point and referring to Finland's remote location, **Hannes Manninen**, Finnish Minister for Regional and Municipal Affairs, agreed that a peripheral location poses many challenges. However, the key to success, according to Mr. Manninen, is an open society, a high standard education system and a pragmatic approach in behaviour and business. He said that Finland's success was due in part to investment in knowledge and innovation (i.e. education and R&D) as well as closer co-operation between business and research institutions at the regional level.



Danuta Hübner, Commissioner for Regional Policy in the European Union.



Wilfried Görmar, Anneli Bodin and Max Hogeforster.

Transnational Co-operation in the Baltic Sea Region – a programme Tool behind Success Stories in Boosting Regional Competitiveness

As part of the development of the new Interreg IVB programme, a session focused on how to further improve EU supported transnational co-operation within the Baltic Sea Region.

Wilfried Görmar, German Federal Office of Building and Planning, Steering Committee of the BSR Interreg IIIB Neighbourhood Programme, said that the main idea of the Interreg programme was to focus on questions that require transnational strategies, such as environment and transport related issues. Though the Interreg projects have attracted 2800 partners, among these 150 from the private sector, there is a strong need to increase the involvement of the private sector and national authorities, he said.

According to Mr. Görmar, the programme should focus on innovation, accessibility, environment and urban-rural co-operation.

“The [Interreg] programme was implemented because it integrates Europe through very concrete projects.”

Wilfried Görmar

A number of concrete successful projects were presented:

- The Baltic Spatial Development Measures for Enterprise project, presented by **Max Hogeforster**, Hanseatic Parliament, aims at strengthening SME's in the Region.
- The Eurobaltic II project, presented by **Anneli Bodin**, Swedish Rescue Services Agency, deals with cross-border disasters and daily life accidents.
- The Baltic Biomass Network project, presented by **Stephen Dahle**, Potsdam Chamber of Commerce and Industry, deals with renewable energy and the development of bio energy in the Region.



Parallel Session on Innovative Cluster Development.

Innovative Cluster Development for a Competitive Baltic Sea Region

Europe is lacking world-class clusters, even though many regions have the ambition to become number one in this field. **Reinhardt Büscher**, Head of Unit in EU's DG Enterprise and Industry, Innovation Policy Department, called for closer transnational co-operation in the BSR. He emphasized that cluster identity building should be part of cluster policies, especially in sectors that are not always in the centre of attention.

“There is a lack of world-class clusters in Europe.”

Reinhardt Büscher

Per Unckel, Secretary General of Nordic Council of Ministers, emphasized the importance of improved education systems in the Region. “Only the best is good enough”, he said. Mr. Unckel said that behind a cluster based on high-tech, there has to be a world-class university. Thus he urged policy makers to combine education, research and innovation to a higher degree. **Lena Gustafsson**, Deputy Director General for Vinnova, supported Mr. Unckel's conclusions and emphasized that freedom and creativity are vital factors for innovation. Ms. Gustafsson explicitly called for the creation of methods for evaluating the impact of regional innovation policies.

Svein Berg, Director of Innovation Norway, said that “Regions don't co-operate, countries' don't co-operate – people do!” Thus, Innovation Norway tries to give local ideas global opportunities, and global ideas local opportunities. “Thereby we facilitate the internationalization of local companies and cluster development based on a regional innovation system approach,” he said. **Andris Ozols**, Director General of Latvian Investment and Development Agency, expressed high expectations for furthering successful cross-border co-operation in the Region between private companies and scientific institutions within the framework of the new BSR InnoNet project.



Mailis Reps, Estonian Minister of Education and Research.

No Knowledge, No Future – Investing in Research and Education

Knowledge-based economy requires flexibility and an element of adaptation to the rapidly changing and competitive global environment. In this regard, Europe is losing its competitive edge within higher education to other regions, such as the US and Asia. To counteract this tendency, Europe needs to attract more people with talent and knowledge. That was the

“The countries' capacity to take advantage of the knowledge economies is how quickly they can become learning economy”

Andrzej Kaczmarek



Parallel Session "No Knowledge, No Future".

overall message of **Børge Diderichsen**, Vice President at Novo Nordisk. **Andrzej Kaczmarek**, Polish Undersecretary of State at the Ministry of Economy and Higher Education, said that in entering the knowledge-based era, new economic strategies will be based on the development of science, high technology, and technological services of the information society.

The panel discussed strategies on how to respond to the growing competition from other regions. **Anders Flodström**, President of the Royal Institute of Technology, KTH, drew attention to the recently created EU-budget to create a European Institute of Technology from 2008, a "European MIT". The idea is to create three to six knowledge communities throughout Europe, most likely located in the areas with biotechnology, ICT and material science clusters. The Baltic Sea Region needs to attract some of these knowledge communities, as these will also be very favourable research environments for companies. Furthermore, it will be essential to attract the best students to our Region, he said. Mr. Diderichsen added that attracting students particularly from the Eastern part of the Baltic Sea Region to the Western parts would be highly beneficial, as many companies would be interested in training and employing Baltic and Polish students, especially because companies in these areas experience labour shortage.

Mailis Reps, Estonian Minister of Education and Research, said the next step for the Region will be to divide strategic points and agree on concentrations in education. Each country has its strength, but realistically, the countries must agree on which areas should be given more focus and what institutions should be developed, she said. One important step should be attracting private sector involvement and persuade the companies to invest in brainpower.



Jussi Pajunen, Lord Mayor of Helsinki.

How Can Metropolises Contribute to an Integrated Baltic Sea Region through Investments in Infrastructure?

One of the main challenges for the Baltic Sea Region is to improve its internal and external infrastructure system. Thus, the project BaltMet Infra is a top priority for the Baltic Metropolises' co-operation, BaltMet.

The metropolises have the possibility of becoming one of the driving forces in positioning the Region externally and strengthening it internally. However, to fulfil this mission, the metropolises need to create good logistic connections, said **Jussi Pajunen**, Lord Mayor of Helsinki. Regrettably, the metropolises are facing a number of impediments: 1) poor access to

"To strengthen its competitive advantage, St. Petersburg will have to integrate deeply into the transport and logistics network of Europe and most importantly the BSR."

Andrey Karpov

the main corridors, 2) inadequate capacities, and 3) ineffective logistic chains. Particularly, missing links to Russia and bottlenecks at the Russian border have become a large problem in terms of customs and logistical services. On that note, Mr. Pajunen called for upgrading and development of corridors between the cities, better co-ordination between financial institutions and the national governments, and involving St. Petersburg - the main Western logistical centre in northwest Russia - in even more transport projects.

Andrey Karpov, Chairman of the Committee for Transport and Transit Policy in the Government of St. Petersburg, agreed with Mr. Pajunen and pointed out that some of the impediments need to be tackled between Russia and Europe. Firstly, sea border custom procedures must be simplified along with land border procedures and secondly, a common set of standards must be created, which will ensure the safety of transport activities in the Region. According to **Juhani Tervala**, Director General in the Finnish Ministry of Transport and Communication, a Northern Dimension partnership on transport and logistics could be an important start for common work on infrastructure in the Region.

One of the future tendencies, a.o. logistical challenges, is the increasing extra-regional trade, where the emerging economy of China will play one of the main roles. In this context, **Igor Kabashkin**, Vice-Rector of the Transport and Telecommunication Institute of Riga, stressed that the Region needs to create logistic centres and regions, and not local logistic points.

Environmental Standards and Advanced Technology – a World-Class Growth Industry

Environmental issues have topped both the European and global agenda for several years, and one key discussion at the summit focused on how to improve the environment of the Baltic Sea Region. The debate concentrated on creating a healthy environment, but also integrating growth and technological progress in that process.

A healthy environment, including a healthy Baltic Sea, is important not only for its citizens, but it is



Parallel Session on Environmental Standards and Advanced Technology.

also prerequisite for a sustainable long-term economic development, **Anne Christine Brusendorff**, Secretary General of HELCOM, said. **Lars-Erik Liljelund**, Chairman of European Environmental Agency, pointed out that the future state of the Baltic Sea itself does not look promising. He was concerned about pressures from agriculture, excess fishing and pollution.

Poul Erik Sørensen, Director of Business Development at Krüger A/S, gave a good example from the waste water industry on how environmental standards and rules create new business opportunities and markets. **Arne Øren**, Chairman of Baltic Sea States Sub-regional Co-operation, expressed deep concerns about the coming generation and stressed that we have to invest ten times more per economic unit if we are to have environmental and resource effectiveness by 2050. **Uwe Döring**, Minister of Justice, Employment and European Affairs of Land Schleswig-Holstein in Germany, pointed out that the new Lisbon agenda and HELCOM's action agenda should be two important starting points for local and regional action in the field of environment.

“A good and healthy environment is important for the quality of life and there are no empirical evidence that high environmental standards ... are in conflict with economic development and growth.”

Lars-Erik Liljelund

“If we want to compete on a larger scale, we must go much more for unification, determination and get rid of the “we are so special” syndrome.” Lars G Nordström



Lars G Nordström, President and Group CEO of Nordea.



Alexander Stubb, MEP from Finland.

The New Europe and the Baltic Sea Region

The world is entering the third wave of globalization, which forces countries and regions to develop new strategies to stay competitive in the global economy. **Carl Bildt**, Minister for Foreign Affairs of Sweden, emphasized seven critical factors for the future success of the BSR. It should: 1) support the Single Market of the EU, 2) work towards a fully-integrated Russia, 3) ease rules and regulations in our economies, 4) improve the venture capital environment, 5) do more for R&D and make certain it is effective, 6) allow free mobility of people, and 7) solve the environmental challenges of the Baltic Sea. **Lars G Nordström**, President and Group CEO of Nordea Group, urged the national competition authorities to allow big companies in smaller countries to grow and

thereby become more competitive on a European and a global scale. In this regard, Mr. Nordström stressed that we shouldn't over-emphasize our differences, but look for commonalities instead.

Alexander Stubb, MEP from Finland, pointed out that it is of utmost importance for the BSR to brand itself as a forward-driving, competitive region now, as the EU is very focused on the northern part of Europe.

Per Unckel, Secretary General of Nordic Council of Ministers, recommended five important strategies for the BSR, namely 1) to create Ivy-league universities, 2) to have a knowledge policy that is able to attract more European research investments, 3) to work on cluster development, 4) to establish a playing field for competitive activities, especially within financial markets, and 5) to support those that are in a less favorable situation.

“When we can leverage the Nordic-Baltic base within the global context, then we can be highly successful.”

Carl Bildt



The prominent panel discussed the future of the Baltic Sea Region.



Plenary Session on branding of the Baltic Sea Region.

Creating a Global Competitive Identity for the Baltic Sea Region

Baltic Development Forum has initiated a regional branding process with the goal of establishing a world leading brand encompassing the 11 countries of the Baltic Sea Region.



Simon Anholt addressing the audience.

Simon Anholt, Government Advisor on Nation Branding and Public Diplomacy, said that the Baltic Sea Region has no intention of using a promotional, advertising, or marketing campaign. There are already numerous bodies and organizations with money and skills promoting the Region as a tourist destination. The idea is to align and co-ordinate these national

efforts and expanding and developing a strong common and competitive regional brand. Mr. Anholt agreed with **Dorte Kiilerich**, CEO of VisitDenmark, that the tourism sector is essential for the branding initiative and emphasized that a branding strategy is not a replacement for a tourism strategy.

According to Mr. Anholt, by joining forces we can leverage commercial spending of many millions of Euro, if we can tell one good, coherent story for the Region, a common message and belief. Mr. Anholt suggested forming a committee consisting of representatives from the Region's member countries with the purpose of identifying the best stories of the Region. **Børge Diderichsen**, Vice President of Novo Nordisk, agreed that the Baltic Sea Region needs to establish itself as a region with a particular positive reputation and image. In his view, a combination of the Nordic values, the Baltic drive, and the talent mass in the Eastern part of the Region would create a powerful concept.

“Branding is the attempt to understand the emotional and not the rational side of decisions.”

Simon Anholt

The Baltic Sea Region needs to establish itself as a region with reputation, image and remarkable feature in the minds of people inside and outside the Region.”

Børge Diderichsen



Moderator Samuel Rachlin, Ojars Kalnins and Annika Rembe.



Parallel session on Transport and Infrastructure.

Transport and Infrastructure – Bridging the Gaps in a Global Playing Field

A crucial element for economic growth and quality of life in the Baltic Sea Region is the existence and dynamic development of a coherent and intelligent transportation system combined with a well-developed infra-structure. Currently, many businesses are suffering because of numerous bottlenecks in the Region's transportation system. Regional co-operation must continue and investments in logistics and transportation must be increased to help solve these problems and decrease transportation costs.

The Baltic Sea Region has a huge potential of becoming a significant gateway between Europe and Asia. The Finnish EU presidency has proposed an elaborate transportation and logistics partnership between Northwest Russia and Europe. The proposal was offered in relation to the renewed Northern Dimension policy programme. Also, border-crossing within and from the Region, is another issue that

“We clearly need a broader, transnational and regional approach to solve many of the transport and logistic issues.”

Lauri Ojala

needs attention both regionally and at the EU-level. The session concluded that national solutions are not enough and there is clearly a need for a broader transnational and regional approach to solve many issues.

Pertti Puro, State Secretary at the Finnish Ministry of Transport and Communications, said that it is important to acknowledge that the logistics sector, as an industry, is a major source of employment in Europe. On the other hand, **Alminas Maciulis**, State Secretary at the Lithuanian Ministry of Transport and Communications, focussed on the bottlenecks in co-operation and utilization of the transcontinental transport system. He pointed out that shortcomings involve different customs procedures, different freight documents and tariffs, and a significant amount of bureaucracy and unbalanced traffic. **Thomas Dyrbye**, CEO of Maersk Nordic & Baltic, pointed out that although the main cargo routes cannot be changed combined regional efforts could eliminate numerous bottlenecks and remove logistical obstacles. Therefore, he urged for more investments in logistics and transport.



The panel on Transport and Infrastructure.



Parallel Session on Tourism Development.

Tourism Co-operation in the Baltic Sea Region – How to Proceed?

The concept of tourism is changing. Trips abroad are increasingly shorter and often combined with other purposes such as business or medical treatment. In that regard, **Krzysztof Gromadowski**, Director of Port Development and Integration with EU at Port of Gdynia Authority S.A., says the Region needs to create more dynamic and innovative new products. One initiative is to move tourism co-operation in the cruise industry from city and port level to the country level, which was suggested by **Henrik Kahn**, Director UK & Ireland, VisitDenmark.

Knowledge sharing and developing the Region's marketing concept are other important steps in creating synergies and enhancing tourism development, said **Tomasz Studzieniecki**, Expert in the International Association of Scientific Experts in Tourism. He also said it was important to bridge different places attractive for tourism. **Bengt Philström**, Former Director of the Finnish Tourist Board, suggested that in regards to developing foreign markets, the countries of the Baltic Sea Region should work together and promote the Region under one brand.

Uldis Vitolins, Director of Latvian Tourism Development Agency, talked about the co-operation among the Baltic countries in the tourism sector. He said that when it comes to attracting tourism into the Region, the Baltic States are partners, increasing their co-operation process each year. This sets a good example for other member countries of the Baltic Sea Region.

“Tourism is the best tool for branding a region.”

Henrik Kahn



Plenary Session on North-West Russia.

North West Russia and Kaliningrad – A Gateway to Growth and Global Markets

Northwest Russia is often referred to as the “gateway” to Europe or the “pilot region” for co-operation between Europe and Russia, because of its geographical location. In fact, many regional challenges have been addressed under the wings of the New Northern Dimension EU policy programme through partnerships in economic as well as social areas between Europe and North West Russia.

“Baltic Development Forum can play an important role in facilitating dialogue with the governors of the North West, initiating further co-operation and integration into the BSR.”

Igor Yurgens

But faster development of the Region's enormous potential is hampered by many obstacles. Among some of those obstacles, **Paula Lehtomäki**, Finnish Minister for Foreign Trade and Development, highlighted burdensome custom procedures and other lengthy bureaucratic problems related to border crossing with Russia. She also emphasized that establishing and conducting foreign business in Russia is still highly bureaucratic and costly. This does not only decline the profit margins of foreign companies, but also reduces local employment opportunities.

“If we want to reap the full benefits of North West Russia’s economic and commercial potential, we must improve the practicalities of doing business in the Russian business environment by improving local leadership”, she said.

Arne Grove, Head of the Nordic Council of Ministers in Kaliningrad, added the special location and the small size of Kaliningrad, which makes it difficult to attract investments.

Igor Yurgens, Group Vice President of Renaissance Capital, said furthermore that the whole business community in the Region is fighting against corruption, bureaucratic abuse and administrative barriers. He termed it, a “curse of Soviet Russia”. He stressed the importance of the struggle for de-bu-

reaucratization within the growing entrepreneurial class. The struggle, which is conducted with foreign colleagues, brings with it a certain sense of optimism to the region. The new generation shows a lot of flexibility, openness and transparency, he said.

The panelists believed that Russia’s accession to the WTO and the successful New Northern Dimension partnership are important steps to improve the Russian business environment. Ms. Lehtomäki mentioned particularly that the partnerships related to public health, social well-being and environment will have far-reaching impact on the well-functioning of the society and the stability of the business environment.



Paula Lehtomäki, Finnish Minister for Foreign Trade and Development and Igor Yurgens, Renaissance Capital.

“As I see it, there is a largely untapped China-phenomenon on our next door. [But] if Russia wants to join a global organization with binding rules, it must give up some of its sovereignty, to which it has been holding on so tightly.”

Paula Lehtomäki

Acknowledgements

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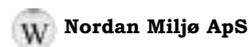


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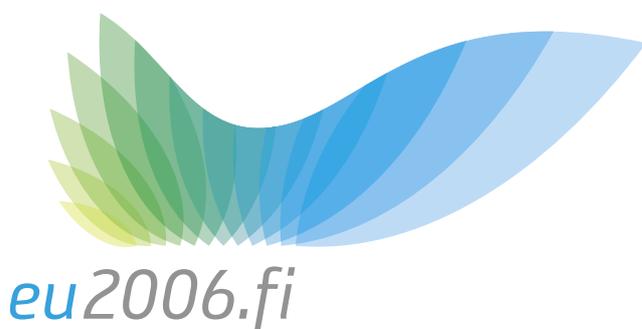


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The following prominent regional actors hosted a session at the Summit:

Baltic Sea Region Interreg III B hosted the session “Transnational Co-operation in the Baltic Sea Region – a Programme Tool behind Success Stories in Boosting the Regional Competitiveness”.

Baltic Sea Solutions, BTV-Co-operation, Region Skåne and West Pomeranian Region hosted the session “Growth and Innovation beyond Metropolises – Strategies for Creating Prosperous Peripheral Regions”.

VINNOVA hosted the session “Innovative Cluster Development for a Competitive Baltic Sea Region”.

Baltic Tangent, InterBaltic, and Baltic Gateway hosted the session “Transport and Infrastructure – How Can We Mind the Gaps in a Global Playing Field?”

About Baltic Development Forum



What we do

As the leading high-level and agenda-setting networking organisation in Northern Europe we facilitate and develop new initiatives, partnerships and international contacts to stimulate growth, innovation and competitiveness in the Baltic Sea Region and its 11 dynamic countries. We seek to develop the Baltic Sea Region as a global centre of excellence and establish the Region internationally as a strong and attractive place brand.

Being the preferred platform for decision makers from business, politics and academia Baltic Development Forum is a unique platform for innovative thinking, informal cross-sector/cross-border/cross-level encounters and concrete new business opportunities with a global perspective.

Who we are

Baltic Development Forum is an independent non-profit networking organisation with members from large companies, major cities, institutional investors and business associations in the Baltic Sea Region. Baltic Development Forum works with a wide range of partners, including businesses, governments, regional organisations, research and media institutions. Our network involves more than 2,500 decision makers from all over the region and beyond. The mission of Baltic Development Forum is to promote the Baltic Sea Region as an integrated, prosperous and internationally competitive growth region.

Baltic Development Forum is chaired by **Uffe Ellemann-Jensen**, former Minister for Foreign Affairs of Denmark and co-founder of Baltic Development Forum and the Council of the Baltic Sea States. The Baltic Development Forum Honorary and Advisory Boards consist of high-level political dignitaries and prominent business executives representing the entire Baltic Sea Region. The Baltic Development Forum secretariat is located in Copenhagen and is headed by Director Ole Frijs-Madsen.

How to join us

We welcome new Members and Strategic Partners from business, politics and academia represented in form of companies, governments, metropolises, regions, organisations or academic faculties. For more information, please contact Baltic Development Forum by phone + 45 70 20 93 94 or by e-mail bdforum.org

More information can be found on our homepage:

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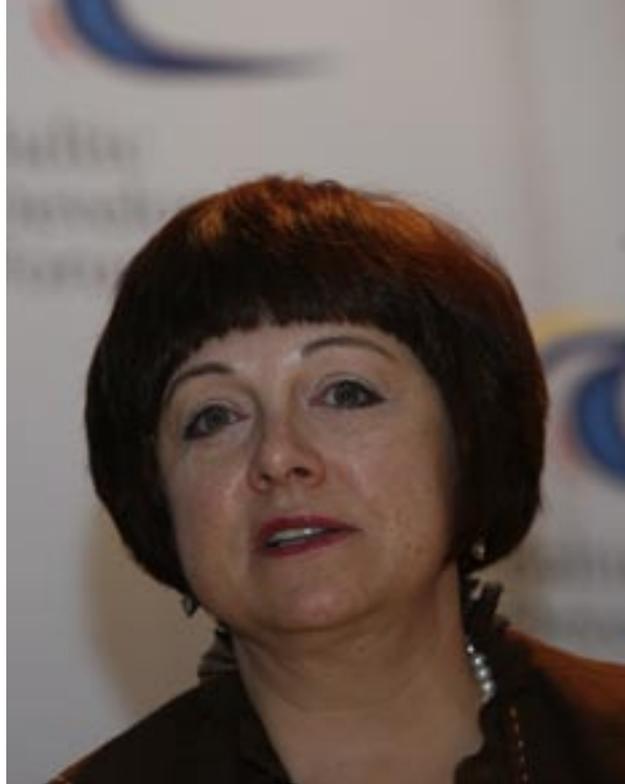
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Igor Yurgens , First Vice-President, Renaissance Capital, Russia.

*) Resigned as of December 2006



Director of Baltic Development Forum, Ole Frijs-Madsen, greets Valentina Matvienko, Governor of St. Petersburg, upon her arrival at the official opening of the Helsinki Summit.



Baiba Rubess, Managing Director of SIA Latvija Statoil, Member of the Baltic Development Forum Advisory Board in the session on Growth and Innovation beyond Metropolises.



The topic of labour force circulation in the Baltic Sea Region was discussed during one of the breakfast sessions.



Networking during coffee break between two sessions.



Tomas Dyrbye, CEO of Maersk Nordic & Baltic, in a heated discussion on the current transportation system of the Baltic Sea Region.



The Great Hall – the Summit Participants listening to President Halonen's opening speech.



Chairman Uffe Ellemann-Jensen raises his glass during his speech at the Gala Dinner.



The 2006 Helsinki Summit was held in connection with the Finnish EU Presidency.



Intimate atmosphere during Gala Dinner at the Cable Factory.

Baltic Development Forum
The leading high-level network for
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We initiate and facilitate processes to
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