

FEBRUARY 2016
ISSUE NO.

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MARTIN SCHULZ

The refugee crisis is an opportunity for Europe's governments to get their act together



KENJI SHINODA

Arctic collaboration: Japan as catalyst for Barents Region cooperation



TERO VAURASTE

Polar bridging of East and West through North



BALTIC RIM ECONOMIES

The Pan-European Institute publishes the Baltic Rim Economies (BRE) review which deals with the development of the Baltic Sea region. In the BRE review, public and corporate decision makers, representatives of Academia, as well as several other experts contribute to the discussion.

Pan-European Institute

ISSN 1459-9759

Editor-in-Chief | Kari Liuhto
(responsible for writer invitations)

Technical Editor | Elisa Aro

University of Turku
Turku School of Economics
Pan-European Institute
Rehtorinpellonkatu 3
FI-20500 TURKU, Finland
Tel. +358 2 333 9567

www.utu.fi/pei



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MARTIN SCHULZ

The refugee crisis is an opportunity for Europe's governments to get their act together

Expert article • 1904

When a relationship between people is strained it is often the small issue which definitively blows the ties apart. The same could happen to the European Union through the refugee crisis which, although being the single biggest drama in the lives of the individuals risking their lives, should in theory be a minor issue for the European Union which is on the receiving end. Instead, what is essentially a humanitarian crisis, risks also being the catalyst for an existential crisis for the cooperation we have become so used to through the European Union.

As things stand, solidarity between EU countries, and freedom of movement, two of the most essential building blocks of our cooperation are fundamentally threatened. EU governments have been driven to a panic and beggar thy neighbour policies by the arrival of 1 refugee for every 500 European citizens. Putting the number of refugees who arrived in the EU last year in such a context clearly shows that there is no rational reason for the public policy reactions which are coming from numerous EU countries. Rather, the driving force is unfounded fear which populist forces are so able at whipping up as part of their strategy of providing simplistic and elusive answers to the challenges we are facing.

Properly shared among the EU member states, the refugees fleeing the Syrian conflict pose no threat to any population, culture or belief. There may be the isolated cases of individuals thinking that they can abuse the welcome they receive by engaging in improper behaviour or even criminal acts. These persons must be dealt with speedily and with the full force of the law. But we must not amalgamate this tiny minority of people with the vast majority of those who are law abiding people, genuinely fleeing horror and ready to integrate into the community receiving them.

The European Commission has set out a clear plan for effectively dealing with the refugee crisis based on a refugee relocation system which would spread arriving refugees fairly across the EU, better joint policing of the EU's external borders, and the premises for a comprehensive EU migration policy. The European Parliament has wholeheartedly backed these initiatives as an important step in righting the existing structures in place which are clearly a messy, unfair and incoherent system for dealing with refugees and migrants. An important number of governments however choose to play the easy card, refusal, particularly concerning the most pressing issue of relocation. Rather than leading their electorate by fighting to steer public opinion and explaining, they are choosing to pander to the political forces sowing fear, shifting all blame onto the EU.

The refugee crisis brought to the surface in a very tangible way the distrust between European nations that has been simmering beneath for a while. The danger is that this will be the opening of a Pandora's box of disintegration. As we see from the progressive unravelling of Schengen, it would be naive to underestimate this very real possibility which some would argue is already on the march. But there is also an opportunity that, with a tangible problem on our hands which exposes the EU fundamentals to a brutal assault, there will be a very concrete reason to tackle the underlying problems head on.

Contrary to the pervasive gloomy outlook, I genuinely believe that the current crisis offers an opportunity. First of all because there is already a comprehensive plan on the table on how to deal with it.

Secondly because fundamental principles of the EU are at stake which hardly anyone wants to do away with. Thirdly because from the start of the new Commission led by Jean-Claude Juncker there is a renewed push for a reform of how the EU works and especially what it does. This reform will go some way in addressing the grudges and misconceptions from the mainstream that have arisen against the EU and that have polluted the political

landscape for too long.

Taken together we are faced with a pressing problem with a very visible face and which needs a joint response coupled with a broad political acknowledgement that cooperation through the EU can no longer be taken for granted, and must be reinvigorated through a rethink. In my eyes this clearly provides mainstream forces the needed drive to press ahead in taking action. Action will require willpower and will not happen on its own but the situation clearly puts decision makers in front of their responsibilities and I hope that they will rise to the occasion.

The opportunity to grab the metaphorical bull by the horns is therefore there. The danger is that if the mainstream is unwilling to step up to the task citizens will continue to be tempted by the tantalisingly simple solutions offered by populist, racist and xenophobic politicians. ■



MARTIN SCHULZ
President
The European Parliament

KIMMO TIILIKAINEN

Nutrient recycling: towards a cleaner Baltic Sea

Expert article • 1905

Protection of the Baltic Sea has always been a key priority for Finland, especially concerning the use of the Sea and for maintaining livelihoods dependent on it, as reflected also in the current Government's Programme. Improving the state of the Sea is a challenge to be met through domestic, regional, EU-wide and global measures. The Programme emphasises the importance of the bioeconomy and nutrient recycling. Besides protecting the Sea, these activities can be seen as key elements in the EU's Circular Economy Action Plan. The goal for Finland is to be a pioneer in the bioeconomy, a circular economy and cleantech.

We need to think outside the box

Today, we must make decisions concerning the environment under somewhat strained economic circumstances. However, as we see it, a high level of environmental protection doesn't rule out actions to boost the economy. As for protecting the Baltic Sea, the most serious and difficult problem we face is eutrophication. Although some positive observations have been reported, the problem remains. Almost all coastal countries have successfully reduced point source discharges, but for diffuse sources the situation is more unsatisfactory. It is quite clear that agriculture, airborne nitrogen inputs from both land- and sea-based activities, and untreated or insufficiently treated municipal wastewaters are the main sources of excessive nutrient inputs. And the leaching of nutrients will only increase as a result of climate change.

How then do we stop nutrient loading of inland and marine waters? We need to enhance the recycling of nutrients and take a step towards a circular economy. When we recycle nutrients, we don't need to extract as much raw mineral materials. At the same time, we secure sound conditions for food production and protect the Baltic Sea, our inland waters and the soil. Furthermore, through the recycling of nutrients, we reduce energy consumption in fertiliser production, create demand for innovative technologies and give a boost to new growth and emerging job opportunities from more efficient use of resources.

To make all this happen, we need to take a cross-sectoral approach. We also need to think outside the box — and have open-minded cooperation.

The Finnish Government is promoting actions to accelerate innovations in nutrient recycling in connection with water protection measures. Since 2012, the Ministry of the Environment has been implementing the "Programme to promote the recycling of nutrients and improve the ecological status of the Archipelago Sea". Some 50 projects have been implemented or are currently in process concerning, for example, water protection and nutrient recycling in agriculture, treatment of manure, sludge and biowaste, and wastewater treatment. Up to now the Government has allocated about EUR 12 million for the implementation of this programme. On the whole, some EUR 34 million is expected to be allocated for nutrient recycling until 2018.

Promoting the recycling of nutrients is an ongoing learning process. Based on our experiences so far, we need a more business-minded approach. This means focusing on developing suitable and cost-effective technologies and nutrient products that meet the needs of customers. Sometimes environmental or other legislation or economic incentives spur the development of technological innovations. In all cases it is essential that — in the long run — the business concept is profitable and attractive to customers. This requires analysing the end-users needs.

No country can solve the problems solo

It is clear that to achieve the common goals and environmental objectives of the appropriate EU directives, as well as those of HELCOM's Baltic Sea Action Plan, and to initiate actions, we need to work together at all levels. Every sector that either uses water resources or whose activities have an impact on water quality needs to be involved and take responsibility for measures.

Improving the state of the Sea is a challenge to be met through domestic, regional, EU-wide and global measures.

The EU Marine Strategy Framework Directive, currently under implementation, aims at a good environmental status of the Baltic Sea region by 2020. The programme of measures of the Finnish Marine Strategy 2016–2022 was adopted in the beginning of December 2015. The existing measures were not considered sufficient and therefore 29 new measures were adopted. Some of the new measures to be taken are related to reducing inputs of nutrients and hazardous substances.

To achieve a good status of the marine environment and reduce eutrophication, Finland must cut nutrient loads by at least 440 tonnes of phosphorous and 6,600 tonnes of nitrogen a year. This is a very challenging task.

Although we all realise that the situation varies in the countries around the Baltic Sea, we do have a common goal — the good ecological status of the Baltic Sea by 2020. We face a great challenge — but let us see this also as a chance to work together, with all the means at hand, and make the most out of this opportunity. ■



KIMMO TIILIKAINEN

Minister of Agriculture and the Environment
Finland

BODIL VALERO

Don't return to the (c)old security order

Expert article • 1906

Following the end of the Cold War and the Soviet Union, the Russian military was in shambles along with its economy. Planes, tanks and warships were stored away to rust as the newly formed Federation adjusted to the new geopolitical realities. The fall of the Soviet Union meant that previous so-called satellite states were gradually let go. The (c)old security order with the Warsaw Pact in the East, neutral Finland and Sweden in the middle, and NATO in the West was formally over. As some proclaimed the end of history, so began a two-decade period of relative historic calm over the Baltic Sea region in terms of security.

In Sweden, this probably helped the Green ambition to broaden the security concept to non-traditional and human aspects before strictly territorial aspects. In 2007, the Swedish Parliament declared climate change as the largest threat to our security - in the long term, it still is.

Though it might sound naive today, we did have reason to be optimistic. There was no clear security threat in our region, nor were there any indications of one arising. When Vladimir Putin entered into office in 1999, he was greeted by the West as a moderniser, expected to liberalise and integrate Russia's economy to become a modern European liberal democracy - a role he played skilfully. There was even a real discussion within NATO about whether Russia should join the alliance.

Now, decades later, we have seen those expectations fail. With its illegal and deplorable annexation of Crimea and the invasion of Sevastopol and Donetsk in 2014, Russia has clearly demonstrated its ambitions and priorities in the region.

The so-called Putin doctrine revolves around the return of Russia as a nuclear superpower, a major international player and a regional superpower in its own region. With the invasion of Ukraine, another piece was added: Russia claims the right to act unilaterally in what it regards as its own backyard, or 'legitimate sphere of interests', not only including the former satellite states of the Soviet Union, but also Finland and Sweden. Kremlin has also made it clear that it will regard any attack on a Russian minority abroad as an attack on Russia, potentially making all states with Russian minorities legitimate targets for different forms of Russian intervention.

Whether built on the regaining of national identity or strategic interest, the quest to make Russia 'great' by means of realpolitik is effectively threatening the security of the Baltic Sea region and Europe as a whole.

In Europe, the discussion has changed from strategic cooperation and initiatives to build mutual trust, to confrontation and readiness, should the worst come to pass. There is a concern that Baltic Sea states are lacking strategic preparations to counter further Russian aggression.

But how can security best be achieved in a region with such a delicate geopolitical security dynamic?

I believe that a holistic approach begins with carefully identifying the shades of grey, and not settling for a binary black and white analysis. In Sweden and Finland, the discussion of a possible NATO membership has inevitably resurfaced again. Proclaimers of a Swedish membership seem to regard the alliance as a substitute for a stronger defence and a quick fix for the lack of a comprehensive security strategy for the Baltic Sea region. According to some, the choice stands between joining NATO and thereby getting the benefit of protection in accordance with Article 5, or 'doing nothing', i.e. remaining outside and unprotected. I will explain why I believe this is essentially a false dichotomy.

Firstly, NATO is not a substitute for an own defence.

All NATO member states are expected to do their fair share; meaning Sweden and Finland would have to contribute in terms of military spending. Both states have a long way to go to the 2.0 percent membership criterion.

Secondly, staying outside NATO does not imply 'doing nothing'.

On the contrary, there are other forms of cooperation that would benefit regional security without risking a security dilemma. In that respect, I welcome increased cooperation between Sweden and Finland and the possibility of pooling and sharing our defence resources and capabilities. Because of our similar function in the Baltic Sea security order, we share a similar security situation and have mutual interests.

Thirdly, joining NATO should be regarded as the last measure/resort, not the first.

The security of the Baltic Sea region rests on the predictability of actors and communication between them. Russia has broken that stability, but Sweden and Finland should leverage their response to Russian aggression in a gradual and proportional manner. Should Russia respond with further aggression, measures could proportionally be levelled up. Should things on the other hand calm down, escalation would be unnecessary. This approach lessens the risk of misinterpretation and overreaching actions that begin/start/leads to a security dilemma. ■

**BODIL VALERO**

Member of the European Parliament
for the Swedish Greens

Coordinator for the Green group in
the sub-committee on Security and
Defence
The European Parliament

SAARA-SOFIA SIRÉN

Could Circular Economy save the Baltic Sea?

Expert article • 1907

Water is after air the most important resource for us humans. Yet water is wasted in unbelievable ways and seas have become our landfills. Despite all dozens of international documents and strategies, we are still failing to work together in order to save our waters.

Baltic Sea is a young, small, stressed and sensitive ecosystem - one of the most vulnerable seas in the world. A semi-enclosed sea and one of the largest brackish water basins in the world. The Baltic Sea is our sea and I am sad to say we have not taken good enough care of it. Improving the condition of the Baltic Sea has been one of the most important political topics for me personally too, both in local and national, as well as international, level. It is also one of the most frustrating topics. Everyone seems to agree on the importance and yet we are not working together ambitiously enough.

We all acknowledge the natural and environmental values of the Baltic Sea. The sea is very important to all coastal states located at the drainage basin. The condition of the Baltic Sea affects not only our natural heritage, but the wellbeing, livelihood and health of the 85 million people living around the sea. However, it is the making of us humans which has caused dramatical environmental load and pressure to our very own waters.

As we know, the most serious environmental problems at the Baltic Sea are caused as a result of eutrophication. A lot of efforts have taken place to improve the situation; however, we have not been successful in restoring the waters to good condition. Even though the amount of phosphorus and nitrogen has decreased, the Baltic Sea is still affected by eutrophication. For example, the condition of three quarters of Finnish coastal waters is weakened.

Decreasing eutrophication caused by nutrient loading plays a delightfully big role in Finland's current governmental activities. Prime Minister Juha Sipilä's Governmental Programme (2015) aims at "bringing eutrophication under control". This is done through Circular Economy: one main idea is to recycle nutrients from agriculture so that instead of the nutrients causing environmental load to the environment, they would be re-used.

The recently published European Commission Circular Economy package supports the aims of the Finnish government from the European perspective. The package sets more strict targets for the use of natural resources and directs political decision-making towards the same goals as our Governmental Programme.

Even though all this will surely not be enough, I am quite hopeful that this might bring us some promising results both in decreasing eutrophication as well as in restoring trust between the environmentalists and agriculture defenders. Circular Economy is simply a way of doing things smarter. All parties will benefit which undoubtedly will facilitate further co-operation.

As the Baltic Sea is shared by several countries, international co-operation is vital for decreasing eutrophication. International documents such as the EU Marine Strategy, the Baltic Sea Action Plan of the Baltic Marine Environment Commission and the EU Strategy for the Baltic Sea Region create the framework for political decision-making. The intention is for them to form a basis for activities to improve the condition of the Baltic Sea. After all this paperwork, we are still lacking implementation.

I might be naive, but I am still remaining positive. Since cleaner and healthier waters have not been a motivating enough objective to bring about change, maybe money will help. The market potential of Circular Economy is significant. According to estimations by Ellen MacArthur Foundation, the global economic opportunity is worth hundreds of billions dollars.

Some fresh academic discussion might be of help too. The subject of eutrophication at the Baltic Sea has been researched quite widely, however most of the research has been focusing on the history and current situation of the Baltic Sea. A big part of research has been taken place already in the 90s. I have detected a niche for a future oriented perspective regarding research on the Baltic Sea. As a rapporteur of eutrophication for the Baltic Sea Parliamentary Conference, I am planning to gather insights of experts on the topic. Could Circular Economy offer a solution for healthier Baltic Sea in the future? ■

Despite all dozens of international documents and strategies, we are still failing to work together in order to save our waters.



SAARA-SOFIA SIRÉN

Member of Finnish Parliament
and Environment Committee
National Coalition Party
Finland

Vice chair
Baltic Sea Parliamentary
Conference delegation

MIKA KARI

Towards active cooperation in defence

Expert article • 1908

Terrorist attacks in Paris in November made the EU states discuss security and the ways to address the threats in a broader way than has been seen in the recent years.

After the attacks France invoked the 42.7 article of the Lisbon Treaty which states that if a member of the European Union is the victim of armed aggression on its territory other states have an obligation of aid and assistance by all the means in their power. In Finland France's request provoked a discussion about our country's security and defence policy as a whole. Cooperation within the EU regarding these issues is something we could enhance in the future, although I guess we all well know the obstacles related to it.

EU's defence policy cooperation hasn't been advanced for one simple reason: the member states haven't had the appetite to do so. Many EU countries are also NATO countries – what would be the extra benefit that EU's enhanced defence policy co-operation could offer? For countries like Finland the answer is clear. The support for NATO membership hasn't been strong in our country, thus deepened cooperation in defence must be found elsewhere. While it seems that the rise of terrorism has indeed increased the talk about EU's common capabilities to respond to such threats it remains to be seen whether this will result in an actual shift in policy.

Year 2015 was a tough one for many European countries. Economic growth was slow in several member states and unemployment remained high. Simultaneously the number of asylum seekers grew bigger than in decades. There have been major differences in the way the EU states have responded to this situation. This has caused some disputes among the member states. EU should now show its power and get its borders in order. If that doesn't happen, it looks likely that the member states will do that increasingly themselves in their own ways. That would be a blow to the European project that has been built on the foundation of free movement of persons.

The relations between Finland and Sweden have been remarkably good but we also witnessed a minor crack in the relations as the refugee situation increased pressure on both sides of the border last autumn. Luckily it seems to have been just that, a minor disagreement and more of a misunderstanding than an actual quarrel. When it comes to defence cooperation among Finland and Sweden, there hasn't been many criticizing it. There seems to be a common understanding that we have similar goals and both countries can gain by doing it.

In May 2014 Sweden and Finland agreed on action plan for deepened defence cooperation. In the era of scarce military resources and increasingly expensive military equipment, this kind of cooperation is especially beneficial as efficiency can be increased through combined use of resources and through increased interoperability.

The action plan outlined several possible areas for bilateral cooperation. It was outlined that cooperation could be enhanced on exercises, education and training, sea and air surveillance, common use of base infrastructure and combined units, among other things. Another important part of the action plan was the part concerning logistics

and material procurement. Finland and Sweden decided to explore the possibilities to conduct joint outsourcing and deepened cooperation in maintenance of services and future capability development. It was also decided that possibilities to contribute combined units to international exercises and operations would be explored.

In February 2015 defence forces' joint report of the enhanced bilateral co-operation was published. While in the action plan of 2014 the cooperation was limited to activities in peacetime, in the report it was suggested that the two countries should have the military capability and readiness on act together also in conflicts and in crisis situations. Political decisions have to be made in both countries in order to make this a reality as was noted in the recent article written by prime ministers Stefan Löfven and Juha Sipilä.

There is a major difference between readiness to joint operations in conflicts and commitment to joint operations in conflicts. I think readiness to joint operations can and should be further enhanced. It must be kept in mind though that these are long term plans, especially in the navy and in air forces.

This bilateral cooperation doesn't change the basic principles of Finnish defence. It's crucial that Finland

has and will have also in the future the means and capability to defend itself in a conflict. But it must be kept in mind that this kind of cooperation means that both countries are somewhat dependent on the choices that have been made together and on those joint investments in planning and exercises.

Major defence policy decisions in Finland have been traditionally made in a broad parliamentary cooperation. Consensus on these kind of issues is important for small country. The security situation in Europe has changed for several reasons during last few years. To me the way to tackle security threats is enhanced international cooperation, not the opposite. Thus Finland must seek actively ways to do its share for enhanced security in Europe and also elsewhere in the world. ■

MIKA KARI

Member of Parliament
Social Democratic Parliamentary Group

Vice chair
Defence committee
Parliament of Finland
Finland

To me the way to tackle
security threats is enhanced
international cooperation,
not the opposite.

CHARLES C. ADAMS, JR.

T-TIP: a historic opportunity to jump start the Finnish economy

Expert article • 1909

After four years of stagnation, there are signs that Finland's economy is poised for a return to positive growth in 2016. As of December 2015, the Bank of Finland projects 0.7 percent GDP growth in 2016 and one percent growth the following year. While the trend is encouraging, everyone wishes those rates were higher, and the Government of Finland is working hard to boost investment, encourage innovation, and support start-ups. One yet untapped tool for increasing economic growth lies in the area of trade policy. The ongoing negotiations for the Transatlantic Trade and Investment Partnership (or T-TIP as it is commonly called) represent a historic opportunity to promote our shared economic prosperity from Helsinki to Honolulu. Given both our nations' commitment to market principles and a rules-based international economy, it is clearly our interest to support what could be the largest trade agreement in history.

The economic ties between the United States and its European trading partners are enormous: \$1 trillion in trade each year, \$4 trillion in investments, and jobs for 13 million American and European workers. Similarly, U.S.-Finland investments total over 13 billion dollars while bilateral trade is over \$7 billion.

T-TIP is about making common sense upgrades to our already robust economic partnership. In short, the agreement aims to eliminate tariffs, reduce non-tariff barriers, simplify customs procedures, and cut red tape. In both Finland and the United States, small and medium-sized enterprises (SMEs) are disproportionately burdened by these kinds of obstacles and yet they form the backbone of our economies by driving growth, creating jobs, and fostering innovation. Only a small minority of Finnish SMEs export to the United States, so there is a huge untapped potential for T-TIP to open doors for these firms to the world's largest economy. There would also be indirect benefits for Finnish SMEs that supply intermediate goods and components to other European companies. One example of a potential Finnish beneficiary is Firstbeat whose heart rate variability algorithms are used in Garmin, Microsoft, and Bosch devices.

In addition to the economic benefits for SMEs, T-TIP negotiators are discussing an SME chapter which could establish mechanisms for both sides to work together to facilitate SMEs' participation in transatlantic trade after T-TIP takes effect. Provisions could also include an SME committee that would engage with the small business community and the development of other resources to help SMEs understand the provisions of the agreement and how they can benefit from it.

With T-TIP we also seek to reduce duplicative regulations while maintaining high standards. This type of regulatory cooperation is not a new idea. In fact, long before T-TIP was ever imagined, our aviation

regulators figured out that they didn't have resources to each inspect every plane that could possibly land in their territory and they agreed on a set of protocols to accept each other's inspections for airworthiness and safety. There are medical device companies, like Finland's Planmeca, that are subject to multiple inspections and audits by U.S. and European regulators. In many cases, regulators on both sides of the ocean have similar mandates, but their resources for testing, inspecting, and other critical regulatory functions are limited. If regulators could confer more and earlier in the regulatory process, if they could find ways to accept some of each other's inspection results, resources could be better targeted toward the public's highest priorities. This might also make it more efficient for companies to get products to the market and expand consumer access to important new innovations.

According to a Planmeca executive, speeded regulatory approvals that ensured uncompromising product safety on both sides of the Atlantic would be a huge benefit not just for his company, but also for the consumer.

Increasingly, the rules-based, open trading system is competing with state-directed, mercantilist models. In the Trans Pacific Partnership (TPP) negotiations, we worked with the participating countries to raise labor and environmental standards, strengthen intellectual property rights, and take on new issues like state-owned enterprises. Likewise, T-TIP offers us the opportunity to have an even greater impact on global standards, whether that's in intellectual property rights, protection of workers' rights, protection of the environment, or any number of other areas. According to President Lauri Lyly from the Central Organization of Finnish Trade Unions, "TTIP presents a unique opportunity for the EU and the US to defend their shared values and interests in the global arena. TTIP can, for instance, become a model for future trade deals." I heartily agree. T-TIP is a golden opportunity, which is sure to pay dividends long into the future. ■

T-TIP is about making
common sense upgrades
to our already robust
economic partnership.



CHARLES C. ADAMS, JR.
Ambassador to the Republic of Finland
The United States of America

HANNA LEHTINEN

Finland and Poland: neighbours united by the Baltic Sea

Expert article • 1910

Finland and Poland are important partners. Traditionally, our bilateral relations have been good. Our cultural and economic ties date centuries back. The European Union accession and common Baltic Sea have provided opportunities and platforms to strengthen our ties. We are glad to notice that the frequency of our bilateral visits has picked up in the last years.

It has been great to notice that the new government of Poland has shown a strong interest in cooperating with us. As a sign of a future cooperation, the new foreign minister of Poland, Witold Waszczykowski chose Finland one of his first destination of foreign visits. Innovations, digitalisation and research cooperation between universities and business are the main priorities of Poland towards the knowledge-based economy and the new government sees, that Finland has a valuable experience to share particularly in those areas. Finland's reputation in well-functioning social institutions, excellent education and good health-care are very well known in the eyes of decision-makers of Poland. In the sphere of culture, the award-winning POLIN museum in Warsaw and its Finnish architect Rainer Mahlamäki have become household names in Poland. The upcoming 100th anniversary of Finland will give us an opportunity to deepen and develop our relations through many cultural events in Poland.

From the economic point of view, Finland and Poland are both advocates for a strong internal market, free trade and sound economic policies. As a result of bilateral investment treaty signed in 1996 and the dynamic networks of cooperative linkages, the trade relations between us have intensified. While Europe and especially Finland are slowly recovering from the global financial crisis, Poland has been a positive exception. We are pleased to discover that Finnish business has noticed this.

During the past ten years, Finnish companies' interest towards Poland has increased year by year and the growth of the investments has been relatively the fastest among Scandinavian countries. Poland is one of the major destinations of Finnish Foreign Direct Investments. Our bilateral trade has also developed well. In last ten years the exports from Finland to Poland have nearly doubled and currently Finnish companies provide employment for over 40 000 people in Poland. There are over 200 Finnish companies active in the Polish market, and they have more than 70 production sites in the country.

The dialogue in security and defence policy has also increased. Regional cooperation is important for Poland and it has been interested in the views and experiences of Finland. There have been discussions on crisis management, common procurements and military exercises. As testimony of the growing dialogue, the Defence Attaché Office was reopened in Warsaw last summer.

For Finland, it has been positive to recognize that Poland has shown more and more interest in the Baltic Sea region. The economic aspects of our cooperation have been very apparent especially in the Baltic Sea region of Poland. The Finnish presence in the coastal area has increased year by year. Today, several Finnish companies operate in the Tricity area – Gdansk, Gdynia and Sopot - and in Szczecin. To meet the growing demand for the Finnish language in many sectors of the economy, besides the universities of Warsaw and Poznan, Finnish language can now be studied at the University of Gdansk as well. It is also noteworthy, that Finnair started to offer direct flights to Gdansk on a daily basis.

Needless to say that for both countries safe, clean and attractive Baltic Sea is an important goal. Today the area provides livelihood and recreational value for the millions of people in both countries. Since July 2015, when Poland started its presidency in the Council of the Baltic Sea States (CBSS), we have got an additional occasion for further enhance the existing relations. Our knowledge meets well with the priorities of the Poland's CBSS presidency. Cooperation with respect to energy efficiency, climate change adaptation and sustainability of the region are already the

specialties of the Finnish companies in Poland. Finland has experiences to share and technologies to offer for example in renewable energy, water and waste water management and energy efficient buildings.

North Sea-Baltic Corridor and especially its Rail Baltic-section is a good example of ambitious plan to link Baltic Sea countries. It has great promise to boost our trade, invigorate cultural and people to people ties as well as to strengthen the position of the Baltic Sea region as a whole. Regional added value will be significant in all the concerning countries. Integrating the transportation network of the EU-member states and streamlining the functioning of the internal markets are desired developments also in the context of Finnish-Polish relations. It would definitely serve the both terminal points. And we should always keep in mind that in truth, between our capitals is only 950 kilometers. ■

HANNA LEHTINEN

Ambassador

Embassy of Finland, Warsaw

For Finland, it has been positive to recognize that Poland has shown more and more interest in the Baltic Sea region.

PRZEMYSŁAW GRUDZIŃSKI

Polish CBSS presidency: building block for today and future Baltic Sea cooperation

Expert article • 1911

It is a challenging and thought-provoking time for the Baltic Sea region. Despite the uneven economic development it becomes more and more integrated and prosperous. Its potential is steadily growing, thus strengthening its position and attractiveness, also globally. In the aftermath of the economic and financial crisis smart utilization of new growth perspectives is the main challenge currently facing the region.

The model of regional cooperation in the Baltic Sea Region could serve as an example for the whole of Europe. The Baltic Sea Region is the most innovative region in the whole Europe and its input to the overall EU GDP is considerable.

It is of utmost importance that the Baltic Sea region remains prosperous, stable and secure - a significant component of the European security system. Enhanced cooperation between the Baltic Sea region and other, especially neighboring regions is of utmost importance in strengthening its position as a role model of regional cooperation and in sharing good practices with others. Baltic Sea Region has a unique opportunity to strengthen its position in the European and global dimension. There are real opportunities to improve competitiveness, innovation and further development of infrastructure and routes. Countries of the region have common priorities such as the environment (environmental technologies, including the protection of the Baltic Sea), energy (energy security, development of renewable energy sources, development of energy networks, etc.), ICT, agriculture, forestry, fisheries and tourism.

The Polish presidency occurs under difficult political and security conditions. The region has been negatively influenced by the development from outside, especially by the situation in Ukraine. Its implications put to the test the up-to-date achievements of Baltic cooperation, as well as regional confidence and mutual understanding. Hence, for two years it has not been possible to have CBSS Summits or Ministerial Council meetings.

The Baltic Sea region enjoys a very well developed cooperation system. All organizations and formats proved to be useful. Each delivers a specific added value benefiting the whole region. Nevertheless, there is room for more regional coherence and synergy, coordination through common goals, documents and meetings. In our opinion, due to the CBSS' potential and institutional capabilities it should enhance its close cooperation with other organizations and formats in the region, such as the Northern Dimension, EU Strategy for the Baltic

Sea Region, Nordic Council of Ministers, Barents Euro Arctic Council, Arctic Council and others. This could be done, i.a. by establishing a structured dialog, sharing good services and expertise, thus contributing to the better division of labor, improved regional management and performance without creating new institutions and additional costs. In September we organized a joint meeting between the National Coordinators of the EU Strategy for the BSR, and the Committee of Senior Officials in the margins of the Ministerial Session of the Ministers of Culture. A joint meeting between the CBSS Baltic 21, the Arctic Council and relevant EU Strategy for the Baltic Sea Region Policy Areas back-to-back with the CSO was held in Warsaw on 28 October 2015. The main topic was sustainable development – case study climate adaptation – new agenda of SD for the BSR post 2015.

The main strength of the Baltic Sea region comes from the endless multitude of historical, social, economic and cultural backgrounds and traditions that create an enormously intricate fabric of the present of the region, a unique combination of features that some would like to call "the Balticness".

'Synergy in diversity' is the motto of the Polish CBSS presidency. We would like to take up the challenge of seeking practical possibilities for improving regional synergy and coherence through applying a macro regional perspective which allows to better identify and utilize the totality of the region's potential. Ideally, the ultimate goal of our common endeavor should be a creation of a common Baltic space based on achievements of regional cooperation, integration, and eradication of all still existing hindrances and bottlenecks hampering daily lives of our citizens.

Having this in mind the Polish CBSS presidency wants to continue efforts on making all regional cooperation formats work well together. In this sense it is a good thing that Poland simultaneously with the CBSS chairs also the National Coordinators of the EU Strategy for the Baltic Sea Region. We will pursue synergy through joint meetings on issues of common importance, improving transparency and coordination. Whenever possible such meetings should focus on specific fields and problems to solve.

The Polish CBSS Chair will focus on three areas that are important and perfectly address the CBSS new long term priorities: Sustainable and Prosperous Region, Regional Identity, and Safe and Secure Region, and respond to current needs of the region. They are: Sustainability, Creativity, and Safety.

The model of regional cooperation in the Baltic Sea Region could serve as an example for the whole of Europe.

Under 'Sustainability', which corresponds with the CBSS long-term priority "Sustainable and Prosperous Region" we want to pursue a new agenda for sustainable development in the BSR in areas where the CBSS is active, such as climate change, regional implementation of the soon to be decided UN Sustainable Development Goals, development of the BSR Maritime Transport System, diversifying Energy Sources and Energy Efficiency, increased cooperation in Science, Research and Innovation, and in Tourism. Amongst activities I can mention the 8th Baltic Sea Tourism Forum in Gdansk-Malbork, on 22-23 September 2015. The Baltic Sea Region Energy Cooperation working group hosted a conference on Public Private Partnerships in the energy sector on 17 November 2015 in Warsaw.

Under 'Creativity' which is an expression of the CBSS long-term priority "Regional Identity" we recognized Culture as a driving force for social and economic development in the region. We believe it is in the culture sector, or with culture as a complement to other parts of the economy, many of the jobs in the future shall be created. We launched this part of the Presidency with a Ministerial Session on Culture on 16 September 2015 in Gdansk, followed by an Expert Conference on Culture as a tool for social and economic growth of the region, combined with a meeting of all key cultural organizations present in the region, on 16-17 September 2015. In this field and amongst many other events I would also like to mention the seminar on the potential of computer gaming industry in the Baltic Sea Region, on 4-5 November 2015 in Krakow.

'Safety', finally, which refers to the CBSS long-term priority "Safe and secure region" means a focus on Civil Protection in the Baltic Sea Region, enhancing the cooperation potential of civil protection services through e.g. improved interoperability, and improved environmental monitoring through exchange of radiological data. In the human dimension of this field, several regional activities are planned to continue the fight against human trafficking, and improve protection of children. The CBSS family has many relevant networks in this field, and the CBSS Secretariat in Stockholm coordinates civil safety and security activity also within the EU Strategy for the Baltic Sea Region.

Under the EUSBSR and the CBSS the Baltic Leadership Programme for future decision makers responsible for civil protection took place in Warsaw on 23-26 November 2015.

The CBSS remains the key international organization in the Baltic Sea region playing the core role as a forum for all multilateral inter-governmental cooperation. It should continue as a platform for political and policy dialogue guided by a commonly agreed vision for the region. The CBSS is also a useful platform for intergovernmental coordination with and monitoring of regional development strategies and formats, and offers practical implementation support.

The Government of Poland will continue to participate in all forms of activities aimed at strengthening the prosperity and stability of the Baltic Sea Region. ■



PRZEMYSŁAW GRUDZIŃSKI
Ambassador of the Republic of Poland
in Finland

ANDRIS TEIKMANIS

Latvian-British relations

Expert article • 1912

A popular Latvian children's rhyme goes, roughly translated, "One little Turkish bean went to England. England was locked, the lock was broken, eeny meeny miny mo, you are free to go".

While the origins of this old rhyme are unknown, it is clear that in recent years many Latvian 'beans' have made Britain their new home. Although precise figures are not available, we estimate that up to 100,000 Latvians now live in the UK. Some of them settled here after fleeing the Soviet occupation of Latvia in WWII, but most have arrived since 2004, when Latvia joined the European Union and the UK immediately opened its labour market to the newcomers. For a country of 2 million, this is a large diaspora, keeping the Latvian Embassy in London busy not only with consular services, but also support to weekend schools and cultural activities.

Of course, Anglo-Latvian connections go back centuries. Trade links have been active already since the Hanseatic League. In 1859 British merchants built an Anglican church in Riga on soil specially shipped from England, and an Englishman, George Armistead, served as the mayor of Riga in the boom years 1901-1912.

In 1919, the Royal Navy suffered losses while defending Latvia's newly-established independence – a sacrifice we still remember and honour each year with a moving ceremony. The support of the British government, notably Foreign Secretary Arthur Balfour, was instrumental in the Paris Peace Conference, which led to Latvia's *de iure* recognition in 1921.

The Latvian Embassy in London is the oldest of Latvia's embassies, as it has been open continuously since 1919. Even during the years of Soviet occupation, the Embassy remained open, thanks to the Western non-recognition of Soviet rule.

With the restoration of independence in 1991, Latvia was able to renew and build on its historical ties with the UK. Our bilateral relationship is based on a wide variety of instruments, from exchanges of visits by our heads of state to everyday activities.

Even before Latvia's accession to the EU in 2004, the UK was one of Latvia's key partners in trade and investment. Our economic relationship is still growing - the UK is currently Latvia's 7th biggest export market (2/3 timber and timber products) and the source of 385.5 million euro worth of investments.

Latvia's accession to the EU opened the way for free movement of people to the UK. From factory workers to City bankers to Oxbridge students, the Latvian diaspora generally works hard and contributes to the British economy and society. The Latvian Embassy regularly hosts networking meetings for our students and entrepreneurs, in the hope that some will eventually return to Latvia with their British know-how.

In all these efforts we rely on the help of Latvia's honorary consuls in Scotland, Wales, Northern Ireland, Guernsey and Newcastle-upon-Tyne, with Liverpool, Birmingham and other key cities in the pipeline.

NATO enlargement in 2004 gave a new dimension to our defence cooperation. The UK has contributed to NATO air policing over Latvia and recently announced that about 100 British military personnel are to be sent to the Baltic States. Latvia has procured British military equipment for its armed forces.

UK contacts with Latvia also take place at a regional level. In 2011 Prime Minister David Cameron hosted a Nordic-Baltic summit in London. This initiative has become the annual Northern Future Forum, where prime ministers can informally exchange ideas with entrepreneurs and NGOs on a wide variety of long-term issues. For example, the themes at the Riga forum in 2013 were the green economy and the digital divide.

Speaking of long-term issues, the UK will soon hold a referendum on its future in the EU. While the decision is solely for British voters, in Latvia we believe that continued UK membership in the EU is in our mutual best interest. We find it hard to imagine a strong, influential and secure EU without the UK.

Looming beyond the referendum is the year 2018, the centenary of declaration of independence. Latvians all over the world, including the UK, will celebrate. Our history shows the resilience of our people and their love of democracy and freedom. That quality we certainly have in common with the British. ■

Even before Latvia's accession to the EU in 2004, the UK was one of Latvia's key partners in trade and investment.



ANDRIS TEIKMANIS
Ambassador of Latvia in the
United Kingdom

KENJI SHINODA

Arctic collaboration: Japan as catalyst for Barents Region cooperation

Expert article • 1913

In my view, the Arctic is becoming a more and more promising and important field for future collaboration between Japan and Finland and other partner countries.

I assume that Japan and Finland are both interested in making the Arctic as wide open as possible for the various stakeholders of the international community, as a region for joint and sustainable development. We may well be on the same page here, in terms of such strategic policy directions. Furthermore, the level of technology in both our countries is relatively high, and, in most cases, the technologies in question are mutually complementary. In short, we are natural partners for Arctic collaboration.

I think that the Barents Region is very important in this context. When I refer to the Barents Region, I mean the area stretching from Northern Norway, through Northern Sweden, and with Finnish Lapland as a central part, finally going on to the Russian Arctic Region.

In October 2015, I had a chance to attend the Barents Euro-Arctic Council Ministerial Meeting in Oulu, representing Japan as an observer state to the Council. At that meeting, the rotating chairmanship of the Council was successfully transferred from Finland to Russia for the coming two years. Minister of Foreign Affairs Timo Soini ceremoniously passed the Chairman's gavel into the hands of Foreign Minister Sergey Lavrov. The dominant feeling at the meeting was that each and every party to the Council was committed to continuing promotion of the Barents regional cooperation despite the current complicated East-West relations. It was pretty encouraging.

It is no accident that Japan has been for years an observer to the Barents Euro-Arctic Council - and in fact Japan is the only observer from Asia. As a neighbor of the Arctic region, Japan has a long history of scientific observation and research in the Arctic, dating back more than 50 years. The Polar Institute of Japan established its Ny-Alesund research station on Spitsbergen nearly 25 years ago, in 1991. In addition to such accumulated academic and scientific knowhow and experience, there is a good deal of potential for Japan to contribute to further promotion of the Barents Region cooperation in economic, business, and even political terms, as something like a "catalyst."

It is my impression that this region is steadily becoming a more and more active and vibrant business zone. Several branches of industry are represented: oil and gas, fisheries, forestry, mining, cold climate technology, and last but not least, transport and logistics. This is why our Embassy has organized three rounds of the so-called "Arctic Fact-Finding Mission" to Finnish Lapland and Northern Norway in 2014-2015, to look for existing and potential business and academic opportunities. We were pleased to be joined by Japanese business and academic representatives for each round. As a result, something like 50 of them have set foot in the Barents Region and have had a chance to see the real situation with their own eyes.

Now, my view is that Japan and Finland and other partner countries in this area share a variety of opportunities to pursue mutual interests in this context. With the future prospect of the "Northern Sea Route" in mind, collaboration in such fields as ice-breaking and other navigation-related technology could become all the more relevant and promising. Actually, the Barents Region seems to be becoming the Northern Sea Route's western terminal, and Japanese ports could become its eastern terminal. We have already witnessed in the past couple of years an impressive record of transports of LNG - liquefied natural gas - eastwards along the Northern Sea Route from Hammerfest, sailing directly into Japanese ports.

It is also encouraging that political leaders in Finland now seem to be starting - in increasing numbers - to promote the concept of the so-called "Arctic Railway," linking Finnish Lapland and the Barents Sea. The project, if realized, could help Finland become a major transport corridor from the Arctic down to Central Europe. Japanese railway-related technology could also be a part of that venture. The snow removal technology known as AIRJET has already become a small but concrete initial contribution.

In October 2015, the Japanese Government adopted its new broad-ranging Arctic Policy. This policy package embodies comprehensive and strategic measures by Japan to address the Arctic issues across a whole spectrum of perspectives - economic, political, environmental, and cultural alike. I believe that, with such a renewed impetus, Japan could become even more of a natural and reliable partner as a "catalyst" for the Barents Region Cooperation. ■



KENJI SHINODA

Ambassador

Embassy of Japan in Helsinki

TERO VAURASTE

Polar bridging of East and West through North

Expert article • 1914

Introduction

An "Arctic gold rush" has been expected for many years or even decades. As a result of climate change expectations of various types of increased activity – especially economical – have emerged.

However, recent commodity price developments have changed this picture, once again. Hydrocarbon and mineral extraction in the Arctic areas is not profitable. On the other hand, these types of investments are based on long-term returns, not on daily prices.

About 2/3 of the Arctic Area is covered by water. During winter periods, it is mostly covered by ice, but during summer the ice diminishes with an increasing pace and more than 60% of the winter ice disappears.

Based on the above, the main future interarctic connection is maritime, but all other means of transportation create a potential as well.

What are the main challenges of marine transportation and also in broader terms, economical development in the Arctic? Does the global and Middle East security developments mirror to Arctic marine transportation?

Global and local industrial and security developments reflected into transportation in the Arctic

The Arctic marine transportation can be categorized with the following way

- commercial maritime transportation of raw materials, goods, passengers and other deliverables
 - o within the Arctic
 - o through the Arctic
 - o to/from the Arctic

There are three main drivers for the development of transportation whereas the first one is the global trade development, which then relates to local Arctic developments. Rapidly changing climate, and changes in weather and ice conditions are commonly known. These are reflected into global, state-level and local politics, which are eventually in a key role of what will and what will not happen in the Arctic.

The climate change has not made the operational conditions easier. For instance, in terms of maritime transportation the average thickness and coverage of ice has decreased, but the conditions are now less predictable and increasingly variable; not easier.

International seaborne trade between Asia and Europe goes mainly through the Suez and Panama Canals.

A quick change in traffic patterns has also been visioned, because the Panama and Suez Canal capacities were just approaching their limits some years ago. But we are currently witnessing the final phases of quick expansions of these two cargo veins, where rapid decisions are materializing into expanded capacities releasing some of the proposed pressure for transferring the traffic to northern seaways.

Significant implications may occur also due to security developments in the Middle East and other areas. Security concerns emerging from Middle-East crisis may lead into trouble in the Suez Canal area and there might be sudden blocks in the Canal routes.

Natural resources extraction of minerals and hydrocarbons have been viewed as a driver for increased activity in the Arctic, including ship transportation. The main drivers for these are the development of international energy production and consumption balance, development of renewables and national differences in the need for ex-

traction. The share of oil in the international energy production has reduced, but simultaneously we have seen an increase in the use of gas, especially with shale gas and LNG. However, there is now a declining trend in shale gas extraction and recent decisions of oil majors show a reducing interest from the industry in the west, whereas operations in Russia continue. This

development reflects the balance of energy production methods and the use of energy and furthermore, the differences in national interests in energy production.

However, any big expansion of transportation in the Arctic will mainly emerge as a result of developments outside the Arctic. Let us also note that the changes in climate, weather and ice conditions in the Arctic are mainly resulting due to the developments outside the Arctic.

Based on this, should we ask, if the Arctic is only a mirror of global trade and security developments?

Global and regional icebreaking capacities

Approximately 60% of the world's current icebreaker fleet, consisting of more than 110 icebreakers, has been designed and built in Finland. There are four dockyards in Finland capable of building icebreakers and the country can produce up to five (5) icebreakers in a year. An estimated cost of a heavy icebreaker, around 300-350 feet and a power output of 20-25 MW, is 150-250 million US dollars.

Most Arctic states like The United States and Canada are in process of renewing and improving their icebreaker capacities, which are currently not meeting the demand. The gap between the demand and the capacity will continue for many years if improvement is expected only from newbuildings, which might become operational perhaps after 10 years, somewhere somewhere in the 2020's.

Russia's development is more rapid, as there are currently approximately 15 newbuildings or planned newbuildings in progress already.

Finnish Arctic's icebreaker fleet renewal programme is also underway. Newbuilding *Polaris* will enter into service during 2016 and the whole fleet will be renewed and also expanded by 2030.

The developments in the Arctic are one part of the globalization and increased inter-dependability.

Transportation – aviation, road, rail, maritime or other is highly dependable on the infrastructure. It is often argued, that transportation infrastructure creates business opportunities with connectivity. That is the case to some extent in especially in aviation, road and rail connections, which are yet very dependable on the infrastructure. A great example of this type of connectivity is the St. Lawrence Seaway system in Canada with more than 100 million tonnes of annual traffic – more than Finland's annual total trade. Without that system, the possibilities of the US and Canadian Great Lakes industries to export and import would be much more limited.

This serves as a great example for the Barents Euroarctic region as it validates the fact that transportation infrastructure creates jobs. Let's make use of this example and decide on building the railroad connection from The Baltic Sea to the Arctic Ocean. This would materialize the east-west hub and transport corridor view, whereas Finland and Japan would be the regional sub-hubs.

Conclusions

Recent Suez and Panama Canal expanded capacity reduces the potential of "overflow" to the Arctic. But yet again, changes in Middle East security situation may alter this development, even rapidly.

There are many potential ways for combining the previously described development needs this from operational co-operation to chartering or public-private partnerships as well.

The developments in the Arctic are one part of the globalization and increased inter-dependability. The Arctic developments are mainly resulting of developments and decisions outside the Arctic.

Taking advantage of the current available Finnish icebreaker capacity, the resource gaps in North America can be rapidly decreased in an economical way. Combining this with the Northern Corridor rail link will simply improve Arctic connectivities between East and west, through North. ■



TERO VAURASTE

CEO
Arctia Shipping Ltd
Finland

Vice-Chair
Arctic Economic Council

PÄIVI NERG

Refugee issue and Finland

Expert article • 1915

Administrative structure and background

Within the Finnish Government, the Ministry of the Interior is responsible for Finland's immigration policy. A permanent cooperation structure has been established to improve cooperation between the Finnish Immigration Service, the Police and the Border Guard. The objective is to speed up the processing of applications for international protection and to intensify the fight against illegal immigration, smuggling and trafficking in human beings. A project has been set up to increase the effectiveness of migration management, aimed at maximizing the migration authorities' efforts to achieve the savings required in the appropriations for the annual expenditures.

The Government has plans to change the Alien's Act in order to make the Finnish Immigration Service the main authority in the immigration matters as of 1 of January 2017 when it comes to the implementation of the policy. Now both, the Finnish Immigration Service and the Police, have tasks in immigration matters.

Until the end of the 1980s, Finland received only a few asylum applications a year. The numbers started to increase significantly in 1990, when Finland received over 2,700 asylum claims. The number of asylum seekers in Finland levelled off at little over 3,000 in 2011–2014 after the top year 2009 (5,988). The year 2015 marked a tremendous change, since 32,500 asylum seekers arrived to Finland. This has had a great impact on the whole field of immigration. For example there are in February 2016 about 510 officials who deal with asylum applications in the Immigration Service when the figure was 73 in the beginning of 2015.

Procedures and grounds for providing international protection

All asylum seekers have the right to enter the Finnish territory and to stay in the country for the duration of the asylum procedure until a final decision or otherwise enforceable decision is made on the removal. Asylum seekers enjoy basic legal rights such as interpretation and legal aid.

Asylum applications may be processed under either a normal or accelerated procedure. The accelerated procedure can be used in the following cases: a safe country of origin, an application is considered manifestly unfounded or an applicant has filed a subsequent application that does not contain any new grounds.

An application may also be dismissed in certain other cases (admissibility procedure, another form of acceleration): the applicant arrives from a safe country of asylum or from another Dublin country. In these cases, another State is considered responsible for examining the application. Under the Dublin system, an asylum application filed in Finland may be transferred to be processed in another State. Fingerprints of applicants are taken according to the EU Eurodac Regulation and recorded in a central database in order to help determine the responsible State.

Appeal procedure

Since 1998, the Helsinki Administrative Court has functioned as the second instance in asylum cases. An appeal against a decision on international protection issued by the Finnish Immigration Service may be lodged before the Administrative Court of Helsinki. The Supreme Administrative Court, provided it gives leave to appeal, hears appeals against decisions of the Helsinki Administrative Court.

Reception of asylum seekers

The reception of asylum seekers is governed by the Act on the Reception of Persons Applying for International Protection. The reception of asylum seekers covers such matters as social assistance, health care, temporary accommodation and other basic services for asylum seekers. The responsibility for the steering of reception centres was handed over to the Finnish Immigration Service in 2010. There are now about 28,000 asylum seekers in about 140 reception centres.

Safeguarding measures

When a person gets a negative decision on his or her application, he or she is asked to leave the country. If the application has been dealt with in an accelerated procedure, the return decision may be effected before it is final. A reform has been made to establish an assisted voluntary return system. The Police or the Border Guard are responsible for the enforcement of the decisions on return if the person does not return voluntarily, the latter being the preferred option.

The grounds for detention laid down in the Aliens Act are applicable to all foreign nationals in Finland, including asylum seekers. These grounds include reasons to believe that the person may abscond or hamper the removal process. There are two detention centres in Finland in which can be accommodated 70 persons whose liberty has been deprived.

Resettlement and quota refugees

Finland has an annual resettlement quota to admit refugees submitted usually by the United Nations High Commissioner for Refugees (UNHCR). The annual quota is confirmed each year in the Budget by the Finnish Parliament. Since 2001, the annual refugee quota has been 750. For 2014 and 2015 Finland raised the quota to 1050 in order to receive more Syrian refugees.

It is not possible to apply for asylum at Finnish diplomatic missions abroad, nor is it possible to make an asylum application abroad in writing, by post or e-mail. ■



PÄIVI NERG

Permanent Secretary
Ministry of the Interior
Finland

ALEXANDER KHUDILAINEN

Federal Target Programme of the Republic of Karelia: new perspectives for the region and investors

Expert article • 1916

From the year 2016 implementation of the Federal Target Program for development of the region starts in Karelia. Our border republic gets a chance for a large-scale renovation of infrastructure, establishing of new production sites and even the whole sectors of economy.

Karelian FTP was approved by the Russian Prime-Minister Dmitry Medvedev on June 9, 2015. That is a considerable event for all citizens of the republic. Development of separate development target programs for specific regions is not common practice for Russia. During the recent history of the country only four regions got such programs and Karelia became the fifth one, and only the second one in the North-West of the Russian Federation.

How such attention to the republic can be explained and what are the purposes and tasks of the Programme? Karelia has a considerable geopolitical, natural, scientific and educational potential. Having the longest border with the European Union, the republic has gained a unique experience of international cooperation in different spheres. In the region there are 22 technical secondary education institutions able to train qualified specialists. The Petrozavodsk State University gets high positions in ratings of higher education institutions on popularity and attractiveness, it is a leading international school for training programmers and IT-specialists. A branch of the Russian Academy of Sciences works in Karelia. It consists of 7 institutes where 800 scientists work.

In spite of crisis developments in the Russian and world economy in 2012-2013, we managed to keep the leading enterprises, being the core of the region's industrial base. In Karelia 65-70% of the Russian trout is bred, 26% of iron-ore pellets, 20% of paper and 12% of pulp are produced. Almost all elements of the Mendeleev table are hidden in the ground of Karelia. We have richest deposits, including rare earth metals.

Nevertheless, the potential of the republic remains undiscovered. For further development of the region it is necessary to eliminate the existing barriers for economic growth and ensure diversity of the Karelian economy. In order to achieve that we, together with the scientific community and a wide participation of the federal authorities, developed the FTP for development of Karelia till the year 2020.

The total volume of financing of the FTP will be 134,9 billion rubles, including 15 billion from the Federal budget and 1,4 billion from the regional budget. Nevertheless, the most considerable part of financing, 118.5 billion rubles, is considered to come from non-budget sources. Based on the figures above, it is obvious that the basis of the FTP is attraction of private investment for development of our region and stimulation of mechanisms of private-public partnership. The Karelian Government has already signed agreements with all investors, whose projects are presented in the Program.

Most of the projects are aimed at infrastructure development of the region and will be an incentive for its most important industries, from mining and forestry to tourism, small and medium business. I will give a few examples here. Construction of motorway Medvezhie-

gorsk – Tolvuya – Velikaya Guba will let increase the tourist flow to the Kizhi museum – a real pearl of Karelia. We also plan construction of the International border check-point “Syuvyaoro” and a motorway. It will connect Finland via Petrozavodsk, Leningrad and Vologda regions with Central Russia. It will not only establish a developed cargo management infrastructure and customs terminals, but will also boost development of side road business, including shops, cafes, service stations, hotels.

Among other projects we plan establishing 4 industrial locations, construction of the sea commercial port “Kem” and 12 kilometers of railway, ensuring access to the port, reconstruction of the border railway station “Vyartsilya”, construction and reconstruction of 64 kilometers of regional roads. It is quite feasible in prospect to construct a high-speed motorway, connecting Scandinavia and Central Russia via Karelia.

In 2016 begins the construction of 2 major Belopozhzhskiy hydro power plants on the river Kem, 24.8 megawatts each. A massive program for gasification of the Republic of Karelia will continue. Its first stage – gasification of the Northern Ladoga lake area – is in process, designing of gas pipe-line to Pudozh from the Vologda region side has started. The second stage will be designing of a gas pipe-line to Segezha, a large district with high industrial potential.

Large infrastructure projects will let emerge new points of economic growth. The FTP includes establishing of 15 new crushed stone quarries and 5 block stone quarries, a mining processing plant on the molybdenum deposit and an oil refinery, a bleached thermo-mechanical mass production plant.

Though the start of the Program is planned for 2016, a number of large investment projects are already being implemented. For example, a project to produce household radiators at the Nadvoitsy Aluminum Plant. Our anchor investor, Sistema JSFC, has started a large project on modernization and new production at the Segezha PPM. After a long break, Onezhskiy ship-building yard renewed its work in Petrozavodsk. Reconstruction of the airport is being finished in Petrozavodsk, the next stage will be construction of a new air terminal building.

In 2020 Karelia will celebrate the 100th Anniversary of its statehood. The FTP is a unique opportunity for a quality change of the socio-economic situation in the region. Karelia has to do its best to open the potential, mark itself on the map of Russia as a bright, strong and competitive territory. We are sure that we can gain it and we are open for cooperation. ■



ALEXANDER KHUDILAINEN
Head
The Republic of Karelia
Russia

MADIS TILGA

Beyond green growth: bioregions

Expert article • 1917

If not more, then at least the Paris climate agreement has put the climate policy back on track and called for the urgency of common value setting. One of the corner stones of climate policy is sustainable development. No country at the climate talks or outside would cut back on their economic expansion for the sake of climate concerns. Therefore the green growth concept has been introduced as the main tool to keep climate and environment safe and at the same time cater for economy. In other words sustainable development imperative is a belief that economic growth can be detached from environmental harm.

Decoupling imperative

And now what it takes is to convince the majority of countries to pursue this green growth imperative. EU Commission has rolled out series of topical communication on how to make the transition from trashing economy to sustainable green economy. To reduce, reuse and recycle. Climate deal aims for the similar on the global level - politicians passed the baton to green industries. Nordic countries have been praised for their strong climate commitments and are widely recognised as pioneers decoupling economic growth from climate emissions for 20 years already. They are often put up as an example to persuade others to follow suit, to show that it is possible to have prospering societies without jeopardising the health of the climate. Looking at the period from 1995 the level of energy consumption has remained the same in the Nordic countries in total with emissions decreasing 17 %. Meanwhile the GDP for the Nordic countries has gone up by almost 60 per cent. The key enabler here claims to be (energy) efficiency. Sounds all good. Yet, there is the other side of the coin.

When we speak of decoupling, commonly we refer to decoupling in relative terms, which means we use less resources for every unit of economic growth. This is about efficiency, making MORE with less. Absolute decoupling means that we put less resources in use in total, while economy adds pace. This is about making LESS. Now, some new analyses and reports from US and UK claim that much of the decoupling success is the result of false accounting. Only some resource consumption is taken into account for imported goods, which shows rich countries as if they have decreased their material intensity. The new findings suggest that in the EU, the US, Japan and the other rich nations, there have been "no improvements in resource productivity at all". Let alone absolute decoupling. According to the International Resource Panel, on a worldwide scale, resource consumption is steeply on the rise. Estimates show that the personal resource consumption should fall between 5-6 tonnes to sustain ecosystem. Some developing countries are doing less now, while in developed countries it gets up to 40 tonnes per person. In the end, this is what counts. Even more so, we tend to make ever greater efforts to extract materials. For ex, the energy return on investment for US oil industry has dramatically decreased. In the 1930s it was 100-1 (one barrel of oil is needed to extract hundred barrels), in 2006 it was 19-1.

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Circular economy and bioregionalism

In the Nordic countries and increasingly also across Europe a lot of emphasis is put on moving towards bioeconomy and circular economy. Bioeconomy is a shift away from fossil-based economy, seeking smart ways of utilizing biomass from land and the sea in a circular manner. Recently, Karl-Henrik Sundström, CEO Stora Enso, has noted that in principle in a decade all the plastic bags and packaging could be replaced by wood-based and plant fibre materials. For bioeconomy to be more than another buzzword for decoupling, it needs to relate to the idea of bioregionalism.

To put it simply, bioregion is more or less self-sustaining area, where people develop unique skills to live in that particular place. Everything they do affects their well-being in direct sense. That calls for innovation but also creates deeper understanding of and connection to the immediate surroundings. It requires circular thinking, which is the basis of circular economy. Stuff becomes more valuable, designed-to-trash pattern is discarded. Nordic countries work a lot with bioeconomy and lay great hopes for delivering rural development and new jobs. Also in the Baltic States bioeconomy has climbed higher in agenda. Nordic Council of Ministers does its best to facilitate these developments by underpinning co-operation in the region.

It often seems as if we can maintain our current (western) lifestyles only by adopting new efficient technologies and making more with less. This type of green growth concept is at its best only a delaying tactics. Greening the economy is absolutely vital as it aims for sustaining life on earth. Only if it does not address the fundamentals, it only buys us more time. Trick is that we do not know how much time we have on a planet with finite resources.

First accounting of Paris accord achievements is due in 2023. Have the countries lived up to their rhetoric or do we keep on postponing required change?

For topical reading: <http://nordicway.org/> ■

Disclosure statement: Nordic Council of Ministers is co-chairing EUSBSR PA Bioeconomy by fostering bioeconomy uptake in the region. Madis Tilga is running related project activities. Author is expressing personal views on the matter.



MADIS TILGA

Adviser
Nordic Council of Ministers' office
Estonia

RAULI SVENTO, MATTI SARÉN & JOUKO NIINIMÄKI

The University of Oulu: new solutions in the middle of hard structural changes

Expert article • 1918

Finland is a well-known example of high technology based research, development and innovation oriented country. Led by Nokia, Finland was one of the fastest growing western countries in the 1990's. The share of R&D&I was high especially from the beginning of the millennium reaching three percentage points of GDP in several years. Oulu was one of the key cities driving this development. The University of Oulu started research in radio technologies already in 1970's and important knowledge existed here when the market started to be ripe for mobile technologies. At its best Nokia employed in Oulu more than 5000 R&D engineers and Oulu was considered to be a world leading hub in mobile technologies with more than 15 000 people employed there.

Oulu region was also known for the well-functioning Triple Helix mode of operation. The City of Oulu and the University of Oulu were the key players when the first Nordic Science Park - Technopolis - was established already in 1982. Also many firms with a very diverse industrial background were included. Diverse development of mobile technology applications was to be expected. But things did not turn out this way. The fast growth and strong hold of Nokia from the region and the sub-contractor networks gradually narrowed the mobile technology ecosystem in the region. This created a notable risk concentration in the local economy. And these risks materialized when the known problems of Nokia started to come through.

University of Oulu is a truly multidisciplinary university with its 10 faculties and close to hundred research units. In our new strategy we make use of this diversity and focus our future on solving global challenges related to digitalization, sustainable materials and systems, human populations and health. Expertise on the focus areas led University of Oulu also to seize an active role in finding new solutions and ways out of the sudden structural changes we were facing. It was obvious that more tight forms of collaboration between the key players in the region were needed. In order to reach this aim City of Oulu, University of Oulu, Oulu University of Applied Sciences, VTT Technical Research Centre of Finland, Technopolis Plc and Finnish Environment Institute (SYKE) created a *strategic partnership* called **Oulu Innovation Alliance** (OIA) (<http://www.ouluinnovationalliance.fi/>).

OIA is a unique collaboration, which integrates top know-how ecosystems including Industry 2026 (cleantech, energy and machine industry), Oulu Health, ICT and digitalization, Agile commercialization and Attractive Northern City. They cover printed intelligence, wellbeing and health technology, cleantech and machine manufacturing. Instead of conventional hierarchical teams, these innovation ecosystems form co-creational hubs that bring together research institutions, businesses and public sector organizations. OIA aims at generating cutting-edge global business from research, development and innovation projects and ventures. The Alliance generates global business by coordinating research, development and innovation projects. Businesses and public organizations meet in joint projects and ventures

that combine different industries and scientific fields. These involve forerunning professionals as well as ordinary people via the living lab concept.

A good example of last mentioned activity is the TellUs Innovation Arena. This is a living room-like place for researchers, students and businesses, where ideas, skills and related services are available. This drives founding of internal startups and attracts entrepreneurial mind-set pupils to participating. TellUs is both physical environment and virtual service providing service desk-like approach to businesses for Universities services, like the Business Kitchen (<http://www.businesskitchen.fi/>) established together by The Universities of the region. Business Kitchen is the first place in Oulu which truly brings together different actors from entrepreneurial fields under the same roof, presenting a unique way for making things happen.

BusinessOulu where the business development activities of the city are concentrated is the driver of businesses and industries. It aims at supporting creation and competitiveness of businesses and success in the Oulu region. It offers cutting-edge business development services with local, national, and international partners. BusinessOulu StartUp services bring together the ingredients needed in order to start a successful company in the area.

Based on these new activities the entrepreneurial endowment of the region has been successfully combined with the high-quality know-how engineers laid off from Nokia and Microsoft. Oulu region is indeed currently one of the most active regions in Finland when looking at the numbers of start-up firms. The municipal tax revenue grew in the City of Oulu relatively fastest among the Finnish cities in the year 2015. We were among the first to be hit by the severe structural changes we face but we are also one of the first ones to climb up. And once again the University of Oulu plays a central role in this process. ■

RAULI SVENTO
Professor
University of Oulu
Finland

MATTI SARÉN
Vice-Rector
University of Oulu
Finland

JOUKO NIINIMÄKI
Rector
University of Oulu
Finland

ANDREY SHAPENKO

Responding to challenges: how business schools can stay competitive in the 21st century

Expert article • 1919

It is already a common cliché that the global economy is changing so fast today that businesses and individuals are not always capable to accommodate it. The context of doing business is becoming so complex that it is never enough for an entrepreneur to apply proven strategies, frameworks, and tools to grow a business. Even the nature of economic growth is changing—instead of extensive growth which relied on new markets and rising consumption, we are entering a world of intensive growth, which will be based on productivity, technologies, and innovation. All of these dramatically change the landscape for business schools that have been gradually developing their offering for more than 100 years. Suddenly, they found themselves in a situation when their position is undermined by both new unconventional players in the business education market and by their own ability to stay relevant to the new context.

With the liberalisation of access to knowledge, many educational institutions around the world are facing the threat of massive open online courses (MOOCs), while employment prospects for new business graduates are worsening, as the global economy is slowing down, and the relevance of educational programmes is diminishing very rapidly. Business education is not such a great investment in the future as it was before, and millennials recognise entrepreneurial leaders like Steve Jobs, Elon Musk, and Jack Ma as their heroes, not corporate CEOs. They realise that business schools will not teach them how to build a new Apple, Tesla, or Alibaba, and they do not see the value in paying US\$ 100,000 to an educational institution which will not teach them the skills needed in the 21st century or which will teach subjects that can be learned much more cheaply or even for free. Of course, business schools still remain great networking platforms, they still provide a unique holistic life experience, and they still create knowledge, but does it help them remain competitive in a new world? Is the golden age of business education over?

At the Moscow School of Management SKOLKOVO, we strongly believe that business education will exist as long as business exists and as long as entrepreneurs strive for success. However, we are certain that the business school has to change in order to stay relevant to the new context. Since its very foundation, the SKOLKOVO Business School has adopted a very flexible approach to design of its educational programmes. We are not participating in rankings, we have only a few tenured professors, and we are focusing on local specifics. We prefer to invite star professors from the world's leading schools as visiting professors, which helps us create a customised and very strong faculty team for each programme. Since the school is located in a very volatile economy, SKOLKOVO cannot afford to apply global business education models without adapting them to the Russian market and the requirements of Russian clients. For example, we do not have a full-time MBA programme since Russian-focused

entrepreneurs find it too inefficient to drop out of their business for 12–18 months; they prefer to study in 4-day modules from Thursday to Sunday once per month.

It is obvious that the business education market will face a large-scale transformation over the next 10 years, and not many schools will be able to keep their position. Of course, large players with billion-dollar endowments and the ability to lead technological innovation will remain leaders even tomorrow. Meanwhile, smaller regional schools have no choice but to adapt to innovation and to strengthen their niche value proposition. This is possible by offering programmes and models that help customers respond to the upcoming challenges, which, in turn, are delivered by constructing the school's intellectual agenda not only on functions (strategy, marketing, leadership, etc.) but also on the challenges prevailing in the economy in which the school is operating.

One example of how the SKOLKOVO Business School is responding to the challenges of today is the school's efforts to help Russian business leverage expanding Russia-China economic relations. Starting in 2008, the SKOLKOVO Institute for Emerging Market Studies has been exploring the phenomenon of Chinese economic growth, and in 2015 successfully developed and launched the first educational programme in Russia of its kind on how to do business in China and with Chinese. The same year, the school launched the Sustainable Business Lab, supported by Unilever, aimed to foster a sustainability agenda in Russia and teach Russian entrepreneurs and companies how to build sustainable business models in the current volatile economic environment. More such programmes are coming: following the government policy of import substitution in agriculture, SKOLKOVO has partnered with Spain's San Telmo business school to launch the first agriculture business programme in Russia in 2016.

Business education is necessary, business schools are not. Business needs us as long as we help it respond to its challenges. Technology matters, but knowledge and relevance matter more, and we should never forget it. ■



ANDREY SHAPENKO

Project Leader
SKOLKOVO Institute for Emerging
Market Studies
Moscow School of Management
SKOLKOVO
Russia

BARRY D. MOWELL

Defenses bolstered in Baltic States and Eastern Europe amid mounting security concerns

Expert article • 1920

Like most nations, Estonia, Latvia and Lithuania have a range of security concerns. Proximity to Russia, Belarus and Ukraine presents organized crime or international terrorist organizations opportunities to smuggle nuclear or radiological materials. Working in conjunction with NATO, the US and other international partners the Baltics States have in recent years become increasingly better equipped to prevent, detect—e.g. via use of sophisticated radiation detection equipment at border crossings, and respond to incidents of nuclear smuggling¹. The Baltic region also serves as a transit point for as yet small numbers of international militants – potentially including Chechen separatists, persons traveling to fight in support of terrorist entities such as Al Qaeda or ISIS, or foreign militants seeking to radicalize elements of the small local Muslim minorities. For example, working in conjunction with Russian authorities, in 2009 Lithuanian police arrested an ethnic Lithuanian woman who had been befriended by a Chechen immigrant, subsequently converted to Islam and who had allegedly planned to enter Russia to carry out a suicide bombing in support of the Chechen separatist cause. While the Baltic States would not likely be perceived as a primary target for international terrorism by international militants, they could potentially be targets of opportunity for such groups including jihadists. All three are members of NATO and the EU, all three participated in the international coalition efforts in Afghanistan and Iraq, and all have been outspoken in their condemnation of terrorism in general and the brutal conduct of many international terrorist groups.

The primary security concern within the region is the aggressive posturing of the Putin regime toward neighboring states. Tensions have existed between Russia and the Baltic States since the collapse of the Soviet Union. Estonia, Latvia and Lithuania originally achieved independence from Russia in 1918 but were annexed by the Soviets in 1939 and again absorbed at the end of WWII following an interlude of German occupation. A Russification campaign undertaken by Stalin forcibly relocated large numbers of Estonians, Latvians and Lithuanians to gulags or far-flung regions of the Soviet Union, their numbers replaced by ethnic Russians and others resettled to the Baltic States. At the time independence was regained in 1991 large numbers of ethnic Russians and other non-indigenous groups resided in the Baltic States, particularly Estonia and Latvia. While a recent EU study found no evidence of persecution or mistreatment

of ethnic Russians or other minorities within the Baltic States, some political tensions related to minority affairs occasionally surface and have been exacerbated by recently strained relations between Russia and many of its neighbors, including the Baltic States. Russian political leaders have suggested that Moscow has the authority to speak on behalf of ethnic Russian minorities in the Baltic States and elsewhere (e.g. Ukraine) and that the former Soviet territories including the Baltic States, Georgia, Ukraine etc. are within the “sphere of influence” of the Russian government, reflecting Russia’s discomfort with the expansion of NATO and the EU along its borders. In 2015, Russian lawmakers announced their intention to evaluate the “legality” of the Baltic States’ acquisition of independence from the Soviet Union, though an official statement followed indicating no official action would be taken based upon the findings. In addition, boundary disputes have historically existed between Russia and the Baltic States and the Estonian-Russian boundary remains in contention.

Membership in NATO and the EU would presumably make direct military action from Moscow against the Baltic States unlikely, though covert, hybrid methods of destabilization including (1) propaganda/misinformation campaigns, (2) cyberattacks, (3) economic stratagems such as withdrawing Russian trade or energy resources upon which much of the Baltic populations depend, or (4) organizing internal political agitation or insurgencies remain areas of potential vulnerability, particularly in light of recent Russian activities in Ukraine. Concerns related to the latter have facilitated a variety of heightened defensive preparations within the Baltic States in recent years including: fast-tracking military procurements and modernization of military capabilities, increasing the size of the regular military and reserve forces, and increased defense spending – which by 2020 is slated to reach the NATO recommendation of 2% of annual spending in all 3 nations, a level currently attained only by Estonia². In order to bolster military manpower, many Baltic leaders advocate reimplementation of conscription which was only recently phased out per NATO recommendations. Much responsibility and funding for internal security lies with the Security Police and Interior Ministries via homeland security budgets, funding for which has either already increased or is poised to do so soon within the Baltic States.

² E. Braw, “Tiny Baltic States prepare to hit back at mighty Russia.” *Newsweek*. November 19, 2014

¹ P. Vaida, “USA and Lithuania cooperate to strengthen counter nuclear smuggling capabilities.” *The Baltic Course*. May 22, 2014.

Expert article • 1920

Increasing bilateral and multilateral military cooperation has also been a key priority for the small nations in the wake of recently bellicose Russian actions and rhetoric. Following requests from Baltic governments, the US, Britain and other NATO members have increased their military presence within the region. To shore up defenses in proximity to Russia as many as 30,000 NATO troops will be shifted to Eastern European deployments, several thousand of which may ultimately be stationed in the Baltic States. NATO is also developing rapid reaction forces initially comprised of at least 5,000 troops deployed over new forward command posts in each of 6 Eastern Europe countries (each of the 3 Baltic States, Poland, Romania, and

Bulgaria) in order to counter Russian military actions if necessary³. Large-scale NATO military exercises have also been conducted in the Baltic States and Eastern Europe recently including Operation Atlantic Resolve which entails ongoing exercises and training on land, in the air and at sea, while sustaining a rotational defensive presence and conveying the commitment of NATO and the US to the security of the region. ■

³ J. Borger, "NATO will establish rapid reaction force to counter perceived threat of Russian aggression." *The Guardian: US Edition*. February 5, 2015

BARRY D. MOWELL

Senior Professor of International Studies
Broward College
The USA

Pan-European Institute

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CHRISTOPH BERLICH

Cyber-security cooperation in the Baltic States: an example for European cyber-security integration

Expert article • 1921

The daily media coverage clearly shows, that the manifold security threats arising from the ever more important cyberspace have become a pressing issue of mainstream security policy debates. The attack on the national Parliament of Germany, the German Bundestag, as well as the so-called CyberBerkut, acting in Ukraine and named after the notorious former Berkut squads of the Ukrainian Ministry of the Interior, and the engagement of western security services, offer just a glimpse that Europe finds itself in the crosshairs of not only hostile and allied nations alike but also from a wide range of non-state actors. Those instances make it clear, that Europe needs a comprehensive strategy for mutual assistance and cooperation against this kind of cyber threats.

In 2007, the Baltic state of Estonia had been hit particularly hard by what some identified as hacktivists and others thought to be able to blame a nation state for. In reaction to those attacks, which for nearly four days shut down most of the government's internet based communication capability as well as some key infrastructure elements, Estonia did not bury the ambitious plans it had for building a digitally interconnected society. Instead, Estonia recognized the need to further strengthen its core internet infrastructure, invest in education and awareness raising campaigns and deepen regional security integration. An important measure to step up the cyber defence game was the establishment of the NATO Cooperative Cyber Defence Centre of Excellence in Tallinn. The CCDCOE has become the alliance's main research and training hub for cyber defence and cyber security. As a response to the attacks, which have in a drastic way made the Baltics aware of the potential threats of nearby neighbors' use of unconventional warfare techniques, they furthermore started to deepen regional cyber security cooperation in an effort to strengthen national defence capabilities. In the light of Russian saber-rattling over what the Kremlin regards as its zones of influence, the Baltic states have become a lot closer in identifying their common security problems and have undertaken steps to deepen cyber security cooperation. They have been negotiating a memorandum of understanding (MoU) to formalize this cooperation, which was signed in November 2015, aiming at the coordination of actions and mutual assistance in cyber defence matters. With the MoU in place, the three Baltic states are setting proper regulation for incident and threat intelligence sharing, the implementation of matched cyber security policies and as one of the major points, they agreed on information sharing in public and private investigations as well as the creation of a shared information system.

Those measures might sound superficial at first, but the alongside implementation experience will prove to be very important for the European Union as a whole. Until so far Europe has not put in place a similar regulatory framework. It is recently coming under pressure by U.S. Defence Secretary Ashton Carter, who continuously urges the European NATO allies to further strengthen their cyber defences, citing an advanced threat from Russia. A scenario that the Baltics have experienced years before. Although Europe as a whole has not yet seen anything as severe as the cyber attacks on Estonia, it becomes obvious that the threat is imminent and that we therefore need to put in place cooperative defence measures. In 2013 the European Commission put forward a proposal for the so-called Network and Information Security (NIS) directive, which was initiated under the EU Cybersecurity Strategy. The NIS Directive constitutes an integral part of an EU harmonized framework for cybersecurity, presented in the 2015 Digital Single Market Strategy. In late 2015 the Parliament and Council agreed upon the text which aims at improving the Union's cyber security by setting standards for risk management, especially for critical infrastructure elements, supporting the member state's cyber security capacity building efforts and enhancing the inter-state information sharing. However, the directive still has to be approved by the EU Parliament's Internal Market Committee and the EU Council's Committee of Permanent Representatives. Once published in the EU Official Journal, the EU Member States will have a 2 year period to implement the directive. Until then, the first experiences from the Baltic States' MoU will provide valuable insights when it comes to harmonizing standards and building up mutual trust for broad information sharing, which is a particularly sensitive area due to the member states' sovereignty in national security. ■

CHRISTOPH BERLICH

M.A., Project Assistant

The German Institute for International and Security Policy, Stiftung Wissenschaft und Politik (SWP)

Berlin

Germany

GENE ZOLOTAREV

The Baltic Times and media development in the Baltic States

Expert article • 1922

The media landscape in the Baltic States is a vibrant and rapidly evolving mosaic that reflects social, political and cultural diversity of its consumer base. Gone are the days of State controlled media, ubiquitous in the region prior to the Baltic states' gaining independence in the early 1990's. However, today's fragmented social and political landscape poses a number of serious challenges to understanding the media market, how it influences the views of Baltic people, and how they see the future for themselves and future generations of Balts.

Like other former Soviet republics, the media landscape in the Baltic states grew out of the Moscow-controlled communication apparatus of the Soviet Union. Newspapers, radio, and television were owned and operated by the Communist Party, which naturally held full editorial control over all content. The Soviet Union completely penetrated the market of both the written and spoken word. All citizens in the Baltic states, from the party cadre in Riga to the collective farmworker in western Lithuania enjoyed access to state television and radio, and at least a weekly, if not an array of daily papers. Like in the rest of the Soviet Union content was offered both in Russian, and in the local languages of the republic.¹

From the Baltic states' entrance into the Soviet Union in 1940 up until the mid-1980's, news reports largely consisted of optimistic outlooks on Soviet life and even sycophantic coverage of the authorities. This changed dramatically under Gorbachev's glasnost' program, which handed over editorial control to the media outlets themselves. Local journalists, editors, broadcasters could decide what stories to publish, express their own opinions, and even criticize the government. Journalists took advantage of the opportunity to bring to light their nations' painful collective past, white washed for forty years by Soviet propaganda. This sparked nationalist movements across all three states. Television and radio stations began calling themselves "the people's stations." By the late 1980's the most popular of these stations openly called for national independence from the Soviet Union – an aspiration all three states achieved in 1990. Balts recall the second half of the 1980's as the media industry's golden age. It established a trust and popularity that largely remains today.²

The emergence of the Baltic media

When the Baltic states left the Soviet Union, the new governments wished to implement "Western-style" media systems. This meant cutting off state influence of editorial decision making, creating a private market in which media companies would compete for advertising dollars, and keeping that market highly liberalized with low levels of state regulation both on the business and journalist fronts of the organization. Each country kept one or two television and radio stations public and handed ownership of the other stations and all to their respective managers. In the early 1990's Baltic media was largely in a wildly free market left to regulate itself.

¹ Ruklis, Kaspars. "Baltic Media Environments: Integrated or Divided?" *Revista de Ciencias e Tecnologias de Informacao e Comunicacao*. No. 4 (2007). evistas.ua.pt/index.php/prismacom/article/download/648/pdf

² Freedman, Eric, and Richard Shafer. "Challenges Facing Press Freedom in the Baltics: Two Decades after Independence." *JRE Journal*. (2012) jrejournal.com/ojs-2.3.7/index.php/jre/article/download/15/35

Over the course of their first decade of existence, the three Baltic media markets largely followed the same ebb and flow. In the early and mid 1990's, the markets were highly competitive. There was an explosion of new independent publications and broadcasters, freshly broken off from the former Soviet media behemoth. These small companies competed fiercely for advertising dollars, engaging in price wars and loud subscription campaigns. It was at this time that the structural challenges of the Baltic media market became clear: the markets were small and highly fragmented. The populations of Estonia, Latvia, and Lithuania are, respectively, slightly over one, two, and three million. The latter two countries feature significant ethnic Russian populations. In addition to the usual divisions such as medium preference, political ideology, age, and interests, the ethnic and linguistic divisions keep the media markets in the Baltic small and specialized.

Like much of the post-Soviet economy in the mid to late 1990's, media firms in the Baltics received a major blow. Consumers had less money to spend on subscriptions, advertising dollars were limited, and corporate managers had little experience in managing a company in a free market. Publications and stations raced to find investors that could keep their enterprises afloat. In Latvia and Estonia, a significant portion of those investors were established Scandinavian media corporations, who continue hold large stakes in Baltic media enterprises today. In Lithuania, much of the capital was raised internally.

The Baltic media landscape today

The Baltic media industry has enjoyed steady growth throughout the 21st century. In each country, consumers are free to choose among public and private television and radio content, regional and national newspapers, and highbrow and entertainment-oriented content. Freedom of the press is largely institutionalized in full. Media outlets enjoy a high degree of autonomy from state regulation, raising questions about the relationship between the business and journalistic ends of the industry.

Estonia:

According to the European Journalism Centre 74.3% of the population reads newspapers, 58.9% magazines. The average Estonian watches four hours of television and listens to four hours of radio each day. Estonian can choose between five national daily papers, eight weeklies, and twenty-three regional papers. Competing with newspapers in the print industry are the 322 magazines circulating in the country. Family, home, and lifestyle magazines are the most popular and the most commercially successful, followed by comics, travel, and sports magazines. The print market is dominated by two publishing groups - Postimees Group and Ekspress group – who historically have been kept afloat by Norwegian media firm Schibsted and Swedish publishing group Marieberg. Although print is slowly losing advertising revenue to television and digital media, it remains a viable industry thanks to law exempting subscriptions from value added tax.

The television market in Estonia is divided between those channels that are funded publicly and those run by private companies. Public service broadcaster Eesti Rahvusringhaaling transmits two channels, ETV and ETV2 – both show programming almost exclusively in Estonian. There are also two major private stations – Kanal 2 (run by Norwegian group Shibsted) and TV3 (run by Swedish firm MTG). There is ostensibly little demand for a Russian-language television channel. This is probably because Russian speaking residents can pick up Russian stations through cable and satellite.

Perhaps the widest array of choices in Estonian media comes through the medium of radio. Estonia boasts five public radio stations and twenty-five private stations. Many of the private stations are owned by Sky Media Group and Trio Radio group – both Estonian companies. The stations run an assortment of programs ranging from standard talk shows formats to Christian radio. Swedish firm MTG also operates two music stations.

Estonian media has by and large adapted admirably to the market disruptions caused by the internet. All major newspapers, television stations, and radio broadcasts maintain an online presence, and viewers/listeners can access online the same content typically distributed through the traditional media. Estonian companies are fortunate; Internet access is nearly universal in Estonia.³

Latvia:

As in Estonia, Latvia is a ferocious consumer of printed media. In 2009, daily 244 newspapers printed 155,232,000 issues. The country boasts 20 national daily newspapers, and dozens of regional and weekly ones. Latvians read even more magazines – 370 were in print at the time of the European Journalism Centre's latest report. Language is a major element in the divisions in the press. Latvian language dailies such as *Diena*, *Neatkarīga Rita* *Avīze*, and *Latvijas Avīze*, provide global news coverage, while separating commentary from reporting. Russian papers like *Vesti Segodniya*, *Chas*, and *Telēgraf* tend to stick to the Russian speaking world, focusing on issues relevant specifically to the Russian diaspora in Latvia. These papers are especially critical of the government, prompting a backlash from the Latvian press, who have taken up a role of defending the state from the Russian press.

Television and radio are much less divisive than the papers. This is probably the quality of Russian-language content is much higher than its Latvian counterparts. Latvia has an array of public and private television stations. There are two public stations LTV, which offers straight informational programming and LTV7, which broadcasts sports, children's shows, environmental programming, and entertainment. MTG is a major player in the private television, owning several stations. Local media companies control other stations. Among the Latvian-language private stations, no single channel dominates the race for ratings or advertising revenue. They all generally attract the same viewership and also feature similar mixes of programming.

Soap operas, competitive song and dance competitions, and news broadcasts are Latvia's most popular types of programming. Notable, television is the most trusted news medium in the country, with 59% of the public expressing positive attitudes to it in national polls.

Radio is also a trusted and popular medium for news and entertainment in Latvia. In a 2010 poll, 80% of respondents reported listening to the radio at least once a week and 62% reported listening every day. 58% of respondents said they trusted the radio. The country boasts forty-three radio organizations, which may have one or more stations. The most prominent groups are the public Radio Latvia, SWH, Super FM and MIX. The first three broadcast in Latvian (except Radio Latvia's fourth station), while MIX broadcasts in Russian. The stations do not differ widely from one another; they all largely broadcast a combination of news reports, music, and talk radio.⁴

Lithuania:

The Lithuanian media market is unique in the region, in that its consumer base is ethnically and linguistically homogenous. More than 80% of the country's population is Lithuanian and considers the Lithuanian language his or her mother tongue. Consequently, the market is not as fragmented as it is in Latvia and Estonia. Lithuania is also the largely country in the region with a population of over three million, making it the relatively attractive to foreign media investors.

Lithuania features 327 newspapers, 14 of which are distributed nationally every day. The major newspapers are, in order of popularity, *Vakaro žinios* (with 66,000 subscribers), *Lietuvos rytas* (60,000 subscribers), and *Respublika* (36,000 subscribers). Regional weeklies are also popular and glossy magazines are also popular. Interestingly, surveys suggest urban readers prefer the daily newspapers and tabloids, while readers in rural areas prefer weeklies and magazines. 92% of newspapers and 87% of other periodicals are printed in Lithuanian, while only a few Russian-language publications appear on newsstands. Many of the magazines are owned by Scandinavian media companies, such as the Norwegian group Shibsted and Finnish company Rautakirja.

Lithuanian television is comprised of 28 broadcasters, including the public station LTV, and three national commercial channels – LNK, TV1, and BTV. The television markets have been steadily growing on both the supply side and the demand side through the twenty-first century. The growth in this media sector can be largely attributed to foreign media groups such as Swedish Modern Times, who provided major investments during the stations' early years. The global financial crisis of 2007 and 2008 scared many foreign investors out of the television market, leaving companies to reap the benefits post-crisis upswing.

⁴ Zelce, Vita, Klinta Locmele, and Olga Procevska. "Media Landscapes: Latvia." European Journalism Centre. http://ejc.net/media_landscapes/latvia

³ Lolt, Urmas. "Media Landscapes: Estonia. European Journalism Centre. http://ejc.net/media_landscapes/estonia

Radio is the most monopolistic and national of the Lithuanian media markets. Public station LR1 dominates the airwaves, while a pool of smaller players who compete on regional and local airwaves. Many stations are funded by the Achema Group, a Lithuanian investment firm that also holds stakes in some television and newspapers in the country.⁵

The Region at Large:

The three Baltic states also feature several institutions that spread themselves across the region. First and foremost is the area's only news wire Baltic News Agency.

Among English-language publications, The Baltic Times stands out as particularly notable. It has been published for as long as the Baltic countries have been independent, since 1991 initially as The Baltic Observer and from 1996 as The Baltic Times. The publication has been strongly committed to maintaining a balanced view, reporting in-depth of political, business, social and cultural events, that the editorial board felt were topical and relevant to the Baltic people. TBT also felt it had an inherent responsibility to keep a huge Baltic diaspora - from recent economic migrants in Western Europe, Scandinavia, and the UK to as far away as Canada, the US and Australia, where many Balts have settled just prior or following the Second World War. This multi-faceted approach presented many challenges to the TBT editors to always maintain a balance of view, maintain journalistic integrity while giving voice to many issues and topics important to the future of Baltic states and the people who live there.

Like the region as a whole, the most striking feature of Baltic media today is its linguistic and national diversity. As it was during the Soviet Union, print media market remains heavily fragmented with dozens of publications in local languages (Latvian, Lithuanian and Estonian) as well as Russian. Foreign brand franchises dominate - from Playboy to Forbes, but a host of home-grown publications offer strong competition for almost every media segment. Television, especially cable market is on the other hand is rather consolidated with only a couple of major players in each of the Baltic markets. Again, the providers are very sensitive to customer tastes and preferences, and are agile in meeting them. With all three Baltic markets moving to LTE wireless standard, more than ever the customers will have access to unprecedented amount of media from all sources and languages.

One promising trend we have observed recently in Baltic media is an increased prevalence of on-line publications and social media news sources, such as blogs. With internet and broadband penetration well above EU averages, this is where most young (under 30) Baltic residents go for their daily news. This market is virtually impossible for the state to control and it is highly fluid as readers and viewers gravitate to whatever news media source viewed as "cool"

⁵ Nugaraite, Audrone. "Media Landscapes Lithuania." European Journalism Centre. http://ejc.net/media_landscapes/lithuania.

based on peer preferences. The impact of internet based media was probably felt strongest in Russian language media with emergence of such news sites as Meduza setting a high bar for journalism. It drew largely from a talented pool of journalists from Lenta.ru - an established Russian news site driven out of Russia by oppressive state policies and now call Riga its home.

In general, the Baltic media has achieved that which it aspired to in the early 1990's - a private economic sector, competing in a free and liberalize market independent of state influence and guaranteed freedom of expression. The fragmented nature of the market has made it very competitive, and also dependent on a wide array of investors. The main criticism today facing the media industry is a lack of organizational transparency. It is not always clear who owns, manages, and funds the organizations providing news and entertainment. This raises questions over the political and economic agendas of the various stations and publications.

Russian influence in the Baltic media

The Baltic media market today faces a new threat - an increasingly hostile Kremlin foreign policy seeking to leverage support of large ethnic Russian residents in Baltic states to shape domestic and foreign policy. Russian media has played a key role in this effort. This type of activity has carried many names - "hybrid warfare", "media warfare", "systemic disinformation" - where an adversary seeks to weaken the national resistance and resolve using media, causing confusion and lack of social cohesion. It is a very low cost way to achieve a foreign policy objective, much popularized by Dr. Peter Pomerantsev's thesis on "weaponized media". There is a very good reason why Baltic people want to watch Russian content - it is of high quality, while local production lacks resources, experience and professional competence to compete with Russian media. And furthermore, Russian language content is only being watched or read by ethnic Russians; many ethnic Latvians, Estonians and Lithuanians watch it for the same reason - quality.

Television is a particularly useful weapon in the Russian arsenal. More than one million Russian-speakers in the Baltics receive Kremlin propaganda channels such as Channel One through their cable packages. Vladimir Putin has established state media companies that produce pro-Russian television programming for Baltic audiences. Some of these companies are First Baltic Channel, NTV Mir Baltic, REN TV Baltic, and REN TV Lithuania. They present to Baltic audiences a falsified, heavily pro-Kremlin and anti-Western version of world events, designed to stimulate sympathy for Moscow.⁶

The internet is the another major medium through which the

⁶ Grigas, Agnia. "Legacies, Coercion and Soft Power: Russian Influence in the Baltic States." Chatham House. (August 2012.) https://www.chathamhouse.org/sites/files/chathamhouse/public/Research/Russia%20and%20Eurasia/0812bp_grigas.pdf

Expert article • 1922

Kremlin influences public perceptions and opinions. Russia employs a vast army of internet trolls, who roam news sites and social media, leaving comments that aim to change the common narrative on a given story to one that puts Russia in a more favorable light.⁷

Needless to say, these activities have not passed unnoticed by Baltic the intelligence community and many precautions have been implemented. In Lithuania, for example, parliament enacted a series of laws that limited the amount of Russian-language programming that could be broadcasted. The country also banned Russian station RTR Planeta. The government in Estonia recently launched a public Russian language station, ETV+, to serve as an alternative to Kremlin-backed channels. Latvia has banned television stations and set up workshops for journalists designed to counter Russian propaganda., as often happens in such cases, there is a danger of over-reaction. Across the region, publications, even those offering almost entirely entertainment content, have been scrutinized and faced many restrictions.⁸

⁷ Maliukevicius, Nerijus. "The Roots of Putin's Media Offensive in the Baltic States: Learning Lessons in Counterstrategies." *Baltic Visions: European Cooperation and Stability*. <https://www.forum-ekonomiczne.pl/publications/publication-of-the-baltic-visions/?lang=en>

⁸ Iulia, Brad, Ghazi Mabrouk, and Laurens Soenen. *Edia Challenges in the Baltic States*. Natolin-blog. December 2, 2015. <http://www.natolinblog.com/#!/Media-challenges-in-the-Baltic-States/cmbz/565d6c5d0cf2bf20d56e94d0>

Since the Russian aggression in Ukraine, the local governments had become increasingly involved in monitoring media in the Baltics as suspicions grew that some, especially Russian language media, was not acting in the best interests of the state and its citizens. However, this control was rather soft and no heavy handed action was taken, alleviating local media concerns over state "control" of media. The public reaction was muted as most people felt free to select their "news" rather than being dictated to. Customers gravitate toward a natural balance - access to quality media, with due vigilance against those seeking to upset a peaceful social order.

We at The Baltic Times, view the future of the Baltic media landscape with guarded optimism. The choices we make now, the regulation framework and the social dynamic must balance out with long term goals of freedom of the press and pan-Baltic national security agenda. ■

GENE ZOLOTAREV

Publisher
The Baltic Times
Latvia

Pan-European Institute

BALTIC RIM ECONOMIES

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ESA HÄMÄLÄINEN

Forecasting the costs of maritime logistics: challenges continue

Expert article • 1923

The aim of this paper is to briefly discuss the challenges with estimating maritime fuel costs in the so called sulphur emission area before the regulations were put in order in the year 2015, and how fuel costs have developed after 2014 up to today. Another important question is also this: what are the future fuel price sights from the year 2016 onwards. As background impacts to oil price variations are inherited from the developments of global and regional economy, the state of the political climate, production decisions made by oil producers, the development of new oil technology such as shale oil production in the US, new raw oil findings, and impacts of other substitute energy solutions and so on. Oil prices were rather low in the pre-1973 period even with large US-imports, from 1973 until 1985 the cartel of OPEC increased prices, and after 1985 OPEC's role was diminishing. Economic growth, especially in Asia and particularly in China, increased the demand of oil and also US imports, and the latest price peak was shown in 2008 (40 USD/barrel). The variations of oil price increased heavily after 1973 following a rather stable period from 1948 to 1973, when the so called oil crisis started. The recent slowing down of the growth of the Chinese economy has decreased oil demand and price. US' own shale oil and gas production has also increased oversupply.

The International Maritime Organization (IMO) and the European Parliament (EP) have addressed and stated (in 2008 and 2012) that ships must lower their sulphur emissions significantly from the year 2015 onwards, starting first in a specific region of Northern Europe. This area is called the Sulphur Emission Control Area (SECA). The sulphur content in bunkers is not allowed to exceed 0.1 percent, so heavy fuel oil (HFO) was replaced by light fuel oil (LFO). The price in 2013 was around 500 USD/t for HFO and around 900 USD/t for LFO. This explains the anxiety of the shipping companies caused by the SECA- decision and its impacts from 2015 onwards for the operational costs of vessels. Based on the weak signals from the market several estimations were carried out before 2015 about how low sulphur bunker prices would develop. Experts argue that fundamentals drive oil prices, not speculative flows. Researchers like Notteboom, Hämäläinen and the IMO estimated that bunker prices in the SECA-region could increase from 2015 onwards up to around 50 % to 750-800 USD/t for HFO. Shipping companies were also doubtful that the capacity of oil refineries could not fulfill the needs of LFO (<0,1%) in the SECA-region, so LFO prices would rise up to 1300-1500 USD/t. To mitigate this challenge technical solutions like scrubbers (HFO as fuel) were designed for vessels to remove extra sulphur. Additionally, some researchers examined that in the SECA-region slow steaming would mitigate the impacts of the costly bunker, because when speed is decreased by 40 %, it lowers emissions and fuel consumption even more, up to 60 %. Some shipping companies have tested slow steaming when operating in the Baltic Sea region (inside SECA).

It is well known that exact estimations of business development are difficult. Hämäläinen revealed as an example in his article the difficulties of paper mills to forecast maritime transport costs. Future estimations are tricky because of local, regional and global policies, politics and economic climate and technical solutions etc. These all have different and varied impacts. Heavy industry especially utilizes maritime transportation, and they have a great interest in knowing as accurately as possible all the components of the costs of the supply chain.

Recent results of academic studies regarding recent industrial data, and with continuously updated bunker prices, show even minor improvement of margins of the Nordic bulk industry, even now using LFO (last price is as low as 350 USD/t). The earlier estimations (2010-2013) forecasted a high increase (up to 1300-1500 USD/t) of LFO prices from the year 2015 onwards, which would have affected the export industries in the SECA-region very negatively. However, due to many global, economical, technical and political reasons oil prices in USD/t already dropped in the end of the year 2014 and oil price is now clearly under 40 USD/barrel. Oversupply of oil is on a very high level. All in all this has mitigated the estimated increase of the total transportation costs per ton. So the environment-inherited SECA-directive has not (yet) become an additional cost burden for the Nordic industry as was forecasted. But for how long this positive process may last is again difficult to forecast. How will bunker prices develop when emissions of maritime transport must be lowered globally with cleaner fuels to help stop the global climate change? New technical solutions will lower oil consumption in many areas such as road transports. Global environmental agreements support the decrease of all emissions and the marine sector has to participate in this process through every means available. These coming climate agreements may impact freight costs negatively in the future. Technical solutions and cleaner fuels are available now, and it is only a matter of time and investment that will determine when they are all in full use. However, the challenges on how to accurately estimate oil, and thus bunker fuel prices, still remain. ■



ESA HÄMÄLÄINEN
Professor, Director
Brahea Centre
University of Turku
Finland

PAUL GREGORY

The Putin regime jousts with international law

Expert article • 1924

Russia rates among the lowest of European countries in its adherence to the rule of law. Russian courts are noted for their “telephone” justice, whereby the Kremlin dictates to judges what their verdict will be. Property rights are insecure and scarcely protected by contracts. Russia’s poor rule-of-law record is inconsistent with its membership in sixty one international organization, the most important being the World Trade Organization, the United Nations Security Council, and the European Convention on Human Rights. Prior to its annexation of Crimea and invasion of east Ukraine, Russia had worked its way into membership in the G7 club of industrialized countries. Collectively, these international organizations shape and, in many cases, enforce the international rule of law. Russia cannot be a member in good standing of the international community if it violates its rules.

Violating international rules of the game

Russia, under Vladimir Putin, has a record of violating international rules with abandon. The European Parliament in its Joint Motion of March 12, 2015 enumerated a long list of Russian violations of human rights and democratic norms, including political murders, repression of opposition groups, unlawful arrests, blatant propaganda warfare, and other infractions that show Russia’s systematic failure to uphold the rule of law and respect fundamental rights to which Russia committed itself when it ratified the European Convention on Human Rights in 1998. The European Court of Human Rights delivered 129 judgments against Russia in 2014 and has 14,000 applications against Russia in 2015. On January 29, 2015, the Council of Europe deprived Russia of its voting rights for violating international law in Ukraine. The United Nations General Assembly importantly declared the Crimea annexation of March 2014 illegal.

Despite Russia’s world-power status, its disregard for the rule of law under Putin has rendered it a rogue state that other states cannot deal with on a normal basis. Countries pay a price for international isolation resulting from violating the international rules of the game. The most obvious price the Kremlin is incurring currently are the costs of the series of European Union and United States sanctions imposed after the annexation of Crimea, the downing of MH17, and the invasion of Ukraine by regular Russian troops in August of 2014. Although it is difficult to separate the costs of the sanctions from those of the oil price collapse, the sanctions have denied Russia access to world credit markets, have decimated investment, and have deprived Russia of alternatives to financing its budget deficits.

Russia’s lack of adherence to the international rules of the game has resulted in a number of legal cases brought against Russia that threaten its international reputation and its solvency in a time of extreme budget austerity.

Cases that threaten Russia’s international reputation

Litvinenko case: On January 21, 2016, Sir Robert Owen, presiding over a London-High-Court inquiry into the death of British citizen/Russian defector, Alexander Litvinenko, concluded that: “I am sure that Mr. Lugovoy and Mr. Kovtun placed the polonium 210 [poison] in the teapot at the Pine Bar [of London’s Millennium Hotel] on 1 November 2006. I am also sure that they did this with the intention of poisoning Mr. Litvinenko. They were most likely ordered to do so by the head of the Russian secret service (FSB) on the orders of Russian President, Vladimir Putin.” Sir Robert employed a “flexible and variable” approach to the standard of proof, stating “I am sure” for facts that meet the criminal standard of beyond a reasonable doubt and “I find” or “I am satisfied” for facts that meet the civil standard of proof, namely the balance of probabilities.

The public inquiry into Litvinenko’s death, begun in July of 2014, had been resisted and obstructed by the British foreign office on the grounds it might “spoil relationships” with Russia and suggested that the PM “go easy” on Russia. Ordered by the House of Commons in response to petitions by Litvinenko’s widow, the inquiry shows the commendable independence of British courts operating according to strict evidentiary procedures. The Kremlin did its best to obstruct the inquiry by denying key witnesses and withholding evidence.

Far from being the “closed” proceeding described by Russian media, the court’s work is laid out in excruciating detail in a 328 page report, which examines all of the possibilities and presents expert, forensic, scientific and eyewitness testimony. It concludes that the two Russian agents are guilty of murder and did not act on their own behalf – both beyond a reasonable doubt. That the Putin regime engaged in state murder was proved according to the civil standard of a balance of probabilities.

The criminal standard proof that two former KGB/FSB/military agents were the murderers rests upon a myriad of consistent facts, the most important being the trail of polonium 210 in the hotel rooms they occupied and in the aircraft that brought them to London and back to Russia.

The civil-standard proof that the murder was ordered by the Russian state by the head of the FSB and approved by Putin is supported by the Extremism Law of 2006, by the fact that a Russian nuclear facility was the likely manufacturer of the polonium 210, by statements of Russian politicians welcoming Litvinenko’s death, by the assassinations both at home and abroad of other regime critics, some by poisoning) and the granting of parliamentary immunity and awards to the assassins. Litvinenko’s whistleblowing on the Moscow apartment

bombings, on Putin's association with organized crime mob, and the FSB's involvement in the Beslan and Moscow Theater massacres had already earned Litvinenko a prison term in Moscow's Lefortovo prison and made him a marked man before his asylum and eventual citizenship in the United Kingdom.

The English High Court determination that the Russian government ordered or abetted the murder of a regime opponent on foreign soil *de facto* brands Vladimir Putin as an accomplice to murder, if not as the one who gave the actual order. Such a verdict lends weight to Putin's culpability in the Moscow apartment bombing deaths and the political murders of investigative journalists and strengthens the European Parliament's March 12, 2015 call for an independent international investigation of the murder of Boris Nemtsov.

MH17: Malaysia, Ukraine, Netherlands, Australia, and Belgium submitted a United Nations resolution to establish an international criminal tribunal to prosecute those responsible for shooting down Malaysian Airlines Flight 17 (MH17) on July 17, 2014 over pro-Russian rebel-occupied territory in east Ukraine. Evidence gathered by the four-country Joint Investigation Team (angrily disputed by Russia) points to a missile fired from a Russian missile system operated by a Russian crew. Russia's UN ambassador vetoed the resolution.

Russia's reasons for vetoing the UN resolution are clear: A finding of Russian guilt by a United Nations tribunal would demolish Russia's narrative that it has nothing to do with the Ukrainian conflict, other than to act as a peacemaker holding back NATO and CIA aggression aimed ultimately at Russia. But Russia's Security Council veto serves as a tacit admission of guilt and makes Russia appear as the main obstacle to justice in a mass killing of civilians. In such a case, the Netherlands (which lost the most citizens in the crash) could push Europe for additional economic sanctions above those already in place. Moreover, a guilty verdict would require that Russia compensate the families of victims, which could cost up to \$3 billion.

The Boris Nemtsov murder: The European Parliament's on March 12, 2015 called for an independent international investigation of the assassination of Boris Nemtsov in plain sight on a Kremlin bridge in February of 2015. The European Parliament labelled the killing: "the most significant political murder in recent Russian history." Nemtsov's colleagues have petitioned for an investigation by a credible international organization, such as the European Human Rights court.

It was clear to the world public that the Kremlin would not allow a real investigation of the Nemtsov murder, although the trail leads to close associates of Putin loyalist and Chechen strongman, Ramzan Kadyrov. The only investigation would be one controlled by the Kremlin that does not aim at finding those who actually ordered the murder.

The Russian prosecutor has declared that the investigation is complete and that only five of the low-level hitmen will be tried for the murder. After a perfunctory trial, they will disappear quietly into the Russian prison system. However, the Kremlin has already suffered yet another defeat in the court of world public opinion. Putin's Russia is increasingly viewed as a rogue state in which opposition figures can be gunned down with immunity.

Cases that threaten Russia's economy and finances

The list of civil legal actions taken against Russia is long. Each case is complicated and requires knowledge of the legal issues and institutions at play. Each case poses a threat to Russia's public finances, which are already stretched to the limit by sanctions and collapsing oil prices.

Yukos Hague Arbitration Court: In July 2014, the Permanent Court for Arbitration in The Hague ordered Russia to pay \$50 billion to former Yukos shareholders. The court agreed that the Russian government misused tax claims to bankrupt the Yukos oil company, founded by its former CEO and Putin critic Mikhail Khodorkovsky, and illegally distributed its assets to the state-owned oil company, Rosneft. At the time of Khodorkovsky's arrest in 2003, Yukos was valued at \$30 billion. The \$50 billion judgment is the largest awarded by the Dutch arbitration court whose verdict cannot be appealed. To Russia's outrage and dismay, France and Belgium have begun taking Russian assets in France and Belgium to enforce the \$50 billion Yukos judgment.

Yukos: European Court of Human Rights: In a separate case of June 2014, the European Court of Human Rights ordered Russia "to pay the shareholders of Yukos as they had stood at the time of the company's liquidation and, if applicable, their legal successors and heirs 1,866,104,634 euros in respect of pecuniary damage." This judgment was the largest in the court's history. Russia is in the midst of a liquidity crisis because of the low price of oil and Western financial sanctions. It would be hard pressed to come up with the funds for the settlement.

Gazprom. European Anti-Monopoly Commission: On April 22, 2015, the European Commission issued a Statement of Objections against the Russian state gas company, Gazprom, following its three-year investigation. The commission charges that Gazprom violated European Union antitrust rules by partitioning Central and Eastern European gas markets, forbidding cross-border resales, and closing its pipelines to third-party suppliers. The European Commission gave Gazprom twelve weeks to respond to the charges. If convicted, Gazprom faces a fine of 10 percent of its revenues (\$177 billion in its latest fiscal year), must allow resale across borders, and must open its pipelines to third-party suppliers. Gazprom has used its monopoly position to intimidate Europe and Ukraine. Gazprom contributes 20 percent of the Russian state budget. If convicted, Gazprom will lose its monopoly position, will face competition promoted by the new European Energy Charter. It can no longer operate as an arm of Russia's foreign policy. Moreover, it cannot spare the liquidity to pay a substantial fine.

The annexation of Crimea: According to Russia's narrative, Crimea voted in a legal referendum for annexation with Russia in response to the "illegal takeover" of Ukraine by neo-fascist and extreme nationalist forces. The Russian parliament, for its part, passed legislation making Crimea a federal subject as of March 18, 2014. Russia was, according to Russian propaganda, simply a bystander to actions undertaken by the people of Crimea. Vladimir Putin later publicly denied this initial narrative, stating that he had activated the plan to "return Crimea" to Russia in the early morning hours of February 23. Five days later Russian Special Forces seized the Crimean parliament and brought in a quorum of pro-Russian legislators to pass the referendum bill. The referendum itself was held under the supervision of Russian troops; a confidential report later revealed low turnout and lackluster support for such an annexation.

Few countries or international organizations accept Russia's account of Crimea. The United Nations, the G-7, the European Union, and the United States all characterize the Crimean annexation as an illegal act, which Cambridge legal scholar Thomas Grant calls "one of the most extreme breaches of international law," one that has damaged citizens and the whole country.

Grant enumerates in his new book, *Aggression against Ukraine: Territory, Responsibility, and International Law*, Russia's potential legal liabilities from the Crimean annexation. Among the remedies is the European Court of Human Rights, which accepts cases from individuals and, according to the Turkey-Cyprus precedent, from countries such as Ukraine. Ukraine could also forgo repaying debts to Russia as a countermeasure against the more serious breach of Crimean annexation. The many companies damaged by Russian action could seek relief from the World Bank's International Centre for the Settlement of Investment Disputes.

Despite universal condemnation, reversing the Crimean annexation will be an enormous and time-consuming undertaking that requires resolve and patience, but the amounts to be realized are potentially large. On June 3, Ukraine presented Russia with a seventeen-volume calculation showing Ukrainian losses from the annexation of nearly \$90 billion. Ukraine threatens to pursue this amount in international courts or by confiscating Russian property. Until such cases are adjudicated, Grant advises Ukraine to keep pressure on third states not to say, imply, or do anything that suggests they recognize the Crimean annexation. Angela Merkel followed this advice in characterizing Crimea as a "criminal annexation" in the presence of Putin. Her statement was so shocking that translators did not know how to deal with it.

Russia's annexation of Crimea and war against southeast Ukraine have been characterized as criminal and illegal by the world's major countries and international organizations. Crimea and southeast Ukraine have done more to turn Russia into a pariah state than any of Putin's other actions. Although there are no immediate remedies, Russia faces the drip-drip of endless suits, complaints of human rights abuses, and countermeasures, which impose uncertainty and costs on Russia. Under these conditions, little investment will flow into the Crimea, and the Russian state budget must pay substantial subsidies during a period of extreme austerity.

Putin understands that his legal problems are serious

Russia is faced with growing legal challenges. The civil suits listed above could cost Russia as much as \$80 billion, not even counting the liabilities from the Crimean annexation. Putin realizes that, unlike in his own courts, Russia can be made to pay. International criminal courts can release vast amounts of embarrassing evidence that enter the public record and cast a long shadow over Russian officials, including Vladimir Putin. A UN criminal investigation of MH17 would likely have established a strong Russian connection and could make high Russian officials, including Putin, accomplices to mass murder.

Vladimir Putin believes that courts are, by their nature, political instruments. To some extent, he is correct. European courts and the European Union have been too intimidated to undertake legal action against Gazprom or Rosneft for fear of economic retribution, but there comes a time when the international community can no longer turn its back on events such as illegal annexation, political murder, and the shooting down of a civilian aircraft loaded with that country's citizens.

The Russian Duma has responded to the above legal challenges by passing a law that invalidates international judgements that "violate the Russian constitution." We imagine that most of the above cases will be found to be in violation of the Russian constitution. Putin will pay a cost for this action. Starting in 2013, investment in the Russian economy, from both foreign and domestic sources, began to dry up. The deteriorating economy from 2014 to present has seen a collapse of investment, without which the Russian economy will continue to shrink. Foreign investors will no longer have illusions that their Russian investments have some kind of protection of law. They will not invest in Russia under such circumstances.

Putin must be frustrated that he cannot control foreign courts as he does his own. He wishes to have it both ways: to violate international law and norms and still be a respected member of the world community, enjoying the status of being invited to G-7 meetings. Putin does not take well to being an outcast or pariah, but he deserves it and should get used to it. ■



PAUL GREGORY
Professor of Economics
University of Houston

Research Associate
Hoover Institution
Stanford
The USA

HANS VAN KONINGSBRUGGE

Russia and the Netherlands: just good friends?

Expert article • 1925

October 2009 the then Russian president Medvedev asked the Dutch Prime Minister to organize a “combined year” in 2013. Two years later, in 2011, the Dutch Prime Minister Rutte formalized this initiative during his visit to Moscow.

What exactly was there to commemorate during this year? One reason could be to celebrate 400 years of diplomatic relations between the Netherlands and Russia. After all in 1613 the first Russian diplomats arrived in the Hague. Another reason could be to commemorate the liberation of the Netherlands in 1813 by the Cossacks. Both reasons were not chosen. Why is until now unknown. Also the word “friendship year” was not chosen probably due to Dutch social sensitivity. Therefore the so called “bilateral year” or NLR2013/RFN2013 was chosen. The focus should be to celebrate the age-long contacts and to cultivate the existing innovative partnership. The exclusive Dutch intentions wanted much more: stimulating reforms in the Russian economy and society and by using the existing political dialogue in order to discuss sensitive matters. These sensitive matters were the widespread criticism in the Dutch society concerning the Russian anti-gay legislation and the by the Kremlin inspired vertical power structure.

In practice it was not easy to turn combined intentions into concrete actions. First there was an overlap of festivities: in the first part of 2013 there were also festivities on the occasion of the Germany-Russia year which began in 2012. Therefore it was decided to shorten the Netherlands-Russia year from April 8th until November 9th 2013. The first months the focus would be on Russia in the Netherlands and as from the summer the Netherlands in Russia. On the Dutch side very quickly an organization committee and coordinator were appointed and less quickly a website was set up. On the Russian side also a coordinator was appointed but the provided general information was quite poor.

Who was paying? In principle from the beginning it was decided that each participating institution or organization should pay their own costs. The Dutch organization committee did not have at one's disposal a huge budget, less than a million Euro, so the emphasis was the initiative of individual citizens and/or organizations. The Russian side chose an approach in which the Russian embassy in the Hague organized some large-scale activities, after consultations with Russian state enterprises. This means that, looking at it quantitatively, Russia in the Netherlands was shaped by Dutch people and/or Russians living in the Netherlands. Only very few large-scale activities were organized in the Netherlands by Russian counterparts. The Dutch organizing committee played a much more important role with regard to the activities *Netherlands in Russia*. The program, mostly in St. Petersburg and Moscow, had a huge variety of festivities such as exhibitions, theatre performances and public manifestations. However the role of the Dutch state was quite small. During 85 % of 600 Dutch activities the Dutch state was not present, while on the Russian side we see the opposite. The Russian organizers presented the Netherlands during already existing activities as a special theme. The Dutch government was guest of honour during the annual Economic

Forum in St. Petersburg and the relation with the Netherlands was the theme during the annual Congress of Petrified Cities in St. Petersburg. Opposite Dutch individuality there was Russian state initiative.

However already before starting the bilateral year the political relations started to deteriorate. In January 2013 Alexandr Dolmatov, member of the National Bolshevik Party and member from Another Russia, committed suicide in a Dutch detention centre. He has asked political asylum in the Netherlands but his request was refused. During his appeal Dolmatov never should have been detained. The case led to an official Russian protest and a huge investigation in which it became clear that the Dutch government had made severe mistakes. The result was a formal Dutch apologize. In the same month, January, the Dutch minister of foreign affairs Timmermans requested his Russian colleague Lavrov to use his influence in order to prevent the anti-gay legislation to be approved in the Russian parliament, the Duma. The Russian reaction was crystal-clear: this is an internal case so the Dutch intervention is inappropriate. By this all the atmosphere did not become better.

The official opening of the year, on April 9th, by Queen Beatrix and President Putin, did not contribute to a better atmosphere. Around the Hermitage at the Amstel, an appropriate background of this event, thousands of demonstrators loudly expressed their displeasure to the Russian president. This loud protest was even heard during the official dinner in the Navigation Museum. In the months hereafter there were many incidents: in July a member of the City Council of Groningen was arrested in Murmansk. In this same month a Russian boycott of Dutch plant and potatoes started. In August the Greenpeace ship Arctic Sunrise and his crew were entered by Russian Special forces and taken to the port of Murmansk because Greenpeace wanted to protest against the Russian drilling for oil in the Northern Ice Sea. In October a diplomat from the Russian Embassy in the Hague Borodin was arrested by the Hague police on suspicion of child ill-treatment. Quite weak apologies followed. Very short after this a diplomat in the Dutch embassy in Moscow, Elderenbosch, was manhandled in his apartment. No guilty persons were arrested. On this moment quite many members of the Dutch parliament insisted to stop the bilateral year. The Dutch government however refused this stating that the members of the parliament should not exaggerate the present situation. One can state that the general sentiment in the Dutch and Russian press was quite negative.

And so the bilateral year became a year with two faces. There were many small and large-scale activities which attracted public interest. However a political dialogue was almost absent. Apart from all the positive the bilateral year made quite clear that during the bilateral year the mutual differences were mostly present instead of the mutual friendship or cooperation. ■

HANS VAN KONINGSBRUGGE
Professor in Russian History and Politics
University of Groningen
Netherlands

IGOR GURKOV

Foolishness, obstinacy or wisdom?

Recently opened Russian factories of Western MNC

Expert article • 1926

The current business life of Western MNCs in Russia is full of paradoxes. For example, in the first nine months of 2015, the local production of cars decreased by 24% comparing to the same period of 2014, but in 2015 Western MNCs opened in Russia nine new factories related to car production (engines, care parts etc.). The list of such “absurd” actions – expansion of production facilities of Western MNCs in Russia during the stagnation or decline of particular local markets can be continued.

We decided to have a closer look at the picture of industrial investments of Western MNCs in Russia and concentrated on new plants (as new production lines in the existing plants are often hidden from the eyes of outsiders). In the first 11 months of 2015, Western MNCs opened in Russia 56 new plants (in 2014, they opened 54 plants). The distribution of industries where new plants have been opened is presented in Table 1.

Table 1. New plants opened in Russia by foreign multinational corporation

Industry	Year	
	2014	2015
Transportation Equipment	12	11
Chemicals and Allied Products	7	10
Industrial and Commercial Machinery and Computer Equipment	11	8
Food and Kindred Products	3	5
Fabricated Metal Products except Machinery and Transportation Equipment	3	4
Stone Clay Glass and Concrete Products	3	2
Others	15	16
Total	54	56

We cannot see any significant changes in industry distribution between 2014 and 2015 – industrial and commercial machinery, transportation equipment and chemical and allied products are the major spheres of new industrial investments. While the median size of a single industrial investment remained roughly the same in the local currency (Ruble 1,455 mln. in 2014 and Ruble 1,555 mln. in 2015), it decreased by two times in US\$ terms.

Many “chains” of industrial investments look quite reasonable. For example, Volkswagen opened in September 2015 a new engine plant to supply its already installed assembly lines in Russia. In the same month, Nemak (a Mexican firm) opened its first plant Russian for the production of aluminum automotive components - cylinder heads and engine blocks, targeting Volkswagen's new engine plant as the major customer, and Canadian Magna opened its sixth Russian plant of auto components, targeting Volkswagen as one of the major customers. A few months earlier Bosch opened its second Russian plant of car electronics etc.

The same connected or just coinciding movements can be found in other industries. Anticipating restrictions on purchase of imported drugs by state-owned clinics and hospitals, AstraZeneca, Novartis, Novo Nordisk, Teva and Berlin-Chemie opened in 2014-2015 their plants in Russia. Moreover, in 2014-2015 some really unique industrial projects were realized in Russia by Western MNCs. Belgian Solvay, Swedish Oriflame, Australian Orica opened in Russia not only the largest plants in their portfolios, but, in some cases, the largest plants of the kind in Europe.

However, all the projects realized in 2015 were designed 2012-2014. The twofold devaluation of the local currency in December 2014 was far beyond sensitivity analysis of any investment project and thus radically changed the whole economics of the industrial investments in Russia (the prices for imported machinery and equipment followed the exchange rate while the prices for industrial products increased in January-November 2015 in average by merely 12%). Although in 2015 the local wages remained stable even in the local currency, this cannot compensate for the raise of the costs of imported components as in most manufacturing industries in Russia labor costs occupy 8-15% of the total operating costs.

Thus, two interconnected issues arise. First, what can be the delay in reaching the break-even point for newly opened plants taking into account the changing economics of production and possible working at sub-optimal levels of capacity utilization due to the insufficient demand.

Second, how the experience of industrial investments of 2014-2015 would affect further industrial projects of Western MNCs in Russia. Here, the first task of the corporate parents is to find safe “market niches” with more chances for the proper return on investments. However, more important is the complete redesign of the architecture of new industrial projects. We mean here both the technical side aimed to suppress costs of new projects (relying on local contractors for installation of production facilities and on local suppliers for raw materials and components, using lower level of automation of production lines) and the institutional side aimed to lower risks of projects. In order to minimize risks several MNCs (including Bombardier Transportation and Siemens) have already reestablished the 1990s’ practices of joint ventures with successful Russian companies which are maintaining good connections with particular large customers. The move from stand-alone greenfield investments to joint ventures can become the leading trend in structuring of Russian industrial projects of Western MNCs for the years ahead. ■

IGOR GURKOV

Distinguished University Professor
National Research University
Higher School of Economics, Moscow
Russia

ANDREY TEREKHOV & STANISLAV TKACHENKO

Political economy of Russia's IT sector

Expert article • 1927

Information technology in the Russian economy

Traditionally, the Russian economy has been criticized for the predominance of the raw materials export and "resource curse". One of the main manifestations of the latter: appreciation of the national currency because of foreign currencies' inflows and inability of national economy "to consume" them. It makes import of industrial products and services attractive, as domestic production is unprofitable due to expensive labor and lack of modern technology. Today Russia is undergoing a period of structural transformation of its economic model. The economic slowdown that began in 2012 and in 2014 turned into a recession, accompanied by rising inflation and declining incomes of households. No matter how these phenomena are unfavorable, they open up government and national business window of opportunity for the resumption of economic reforms stalled in 2003. One of the leaders of the reforms in national economy is the sector of information and communication technologies.

Its share in the structure of employment and in the country's GDP is growing. Nowadays 440 000 professionals are engaged in software development in all branches of Russian economy. Among them 115000 engineers are working in software companies (legal entities of Russia, including captive centers of foreign companies). In addition to them about 35-40 thousand software engineers are engaged by Russian software companies in their offices worldwide. IT-service providing companies engage overall 80-90 thousand software engineers. The international sales of Russian software companies altogether in 2014 was equal \$6 billion (grew by 11% compared to 2013), where sales of software development services (excluding export of captive centers of foreign corporations from Russia) was \$2,9 Bln, with the growth rate of 16%.

Russian Internet audience is the largest in Europe. It exceeds 80 million users, 62 million of which are online daily. Today, there is Internet access anywhere in our large country, usually at high speed and without serious technical problems.

The effect of the economic crisis and sanctions

The dynamics of the Russian economy, including the IT sector, is determined by two main factors: the crisis in the energy markets and economic sanctions, imposed by the US and the EU on Russia in 2014. Economic isolation of Russia from global economic centers increases rapidly. As a result, we have today the decline of Russia's GDP (minus 3.7% in 2015), a double-digit rate of inflation (about 14 percent in 2015), a sharp drop in Russian PMI (Purchasing Managers Index). Russia is going to be an unfavorable place to do business, and IT sector feels it stronger. The implications of this are those: the fall of the capitalization of Russian IT companies, foreign companies closing their offices in Russia, the outflow of staff, including not only developers, but also directors and founders. Uncertainty about the technological sanctions forced many Western companies think about their plans to stay in the Russian market. Russian IT market itself in

2013 reached the level of 14 billion dollars. In 2014 it decreased by 16 percent in dollar terms, and in 2015 a further 12 percent - bad news for most foreigners working in Russia. For Russian companies it is not very alarming figures, as market volume in ruble terms continues to grow rapidly.

The logic of the Russian government's actions in response to the openly hostile US actions is determined by the rules of economic warfare. These include the adoption of special law on personal data, promotion of import substitution in the field of software and hardware. One of the main protective measures was the refusal of Russia to sign of the WTO agreement on the extended reduction of trade tariffs on IT products in July 2015. Obviously these measures have protectionist character contradicting rules of the WTO. It is impossible not to see the long-term negative consequences for the IT sector: the reduced inflow to the Russian market of new foreign technologies and software products. Prospects for rapid replacement of their products in the Russian market domestic products remains uncertain.

The Russian government correlates closely its anti-Western sanctions and loyalty to WTO commitments. After 18 years of intense negotiations in 2012, Russia joined the WTO, but the stringent requirements for the opening of the national market and reducing governmental support for domestic industry were "bad news" for those Russian companies that were not able to compete with foreign products.

One of the solutions to support the IT sector of the national economy - the creation of Russian Export Center. Today REC is a joint-stock company established by the Vnesheconombank as its subsidiary. It offers a specialized one-stop-shop for exporters, providing financial and non-financial support, and interacting with relevant ministries and agencies. The center provides specialized service for exporters, including ICT.

On the import substitution

Import substitution is the main core, around which the Russian government develops a model to support the IT sector. Two main interests that unite public authorities and national business dictate it. Firstly - national security. High-Tech – the main line of competition and even rivalry between leading nations of the world today. So Russia, which has first-class weaponry, tries to raise the level of information technology to the standards introduced in the USA and its allies. Secondly - support of national producers. For the previous quarter of century, they were in the role of "stepchildren" who paid taxes to the state budget, but received no assistance from government. They learn how to fight for survival, but in this struggle they didn't have an opportunity to develop long-term plans. In fact, since 1991, the Russian high-tech businesses engaged in survival. Now, finding themselves suddenly under an umbrella, which the government have opened over, it has the opportunity to build long-term development plans. Moreover, these 25 years have passed for the IT sector not in vain.

Achievements of Russian IT-companies

We can name a number of Russian IT companies that are world leaders in their sectors: Yandex, Kaspersky Lab, ABBYY, Parallels, PROGNOZ, Diasoft, etc. Many Russian companies developing software and hardware, have accumulated experience in foreign contracts and received competence to enable them to compete on their own high-tech markets. There are domestic operating systems, telecommunications equipment, computer vision systems, robotic systems, our own implementation of the basic Internet protocols, conducting research and development in such promising fields as Machine Learning, Internet of Things, mobile technologies, etc.

IT sector and national government

The main source of support for IT industry in Russia today – public authorities. Government, Parliament and Administration of President develop strategic documents determining development of the sector and define priorities for this transformation.

According to Russian President Vladimir Putin, the main directions of state support for IT sector in 2016 will be the expansion of benefits for the Russian IT developers, import substitution in IT, including the field of education, as well as tighter control over foreign IT companies in Russia.

As one of the leaders of Russian IT sector Natalya Kaspersky mentions, the most promising sector of the growth of the domestic IT industry is an extension of the import substitution program in the field of software, which will affect companies with state as its owner. She also supported an idea to teach how to use Russian-made technologies and software in national educational institutions (not only universities, but also secondary schools).

In December 2015, suddenly to most experts, Vladimir Putin hired his own advisor on the Internet development. Taking in consideration that the Administration of the President is the center of power in the country now, and that the number of advisers to the Russian president does not exceed 10 people, it is an important political signal to the business community in Russia, developing information technology.

The authors of this article are working on a scientific monograph devoted to the political and economic aspects of the development of the ICT sector in Russia. We are planning to publish this book at the end of 2016. We'll address the main challenges of national IT sector and prospects for its development in the next decade. ■

**ANDREY TEREKHOV**

Professor of Software Engineering
Saint-Petersburg State University
Russia

**STANISLAV TKACHENKO**

Professor of Economics
Saint-Petersburg State University
Russia

ROLF FREDHEIM

What kind of control does Putin have over Russian media?

Expert article • 1928

Journalists relish describing Putin as the strongman who controls everything and everyone around him. He is stereotyped as a puppeteer, a puller of strings. Putin is often portrayed as exerting authoritarian, sometimes even totalitarian control. A 'great man' understanding of Russian politics, coupled with a perception of ever greater levels of authoritarian rule, leads to excessively agency-centric accounts of Russian political life in general and the media landscape in particular.

Most often, the verb control means to direct, command, or rule, but, especially in a media context, it can mean to limit, regulate, or restrain. When writing about the Western press, 'control' tends to take the latter meaning; Putin and Russia, though, are so immersed in authoritarian imagery that 'control' suggests direct intervention to stem the free flow of information. Here control evokes connotations of censorship and coercion.

In many Western states, regulatory bodies limit concentration of ownership in order to protect media diversity. In Australia, 15% ownership qualifies as control; in the UK the percentage is higher, but ownership must be coupled with the ability to influence coverage. By this definition, the Russian state does control the bulk of Russian media, either directly, or by proxy of oligarchs whose financial position is dependent on loyalty.

The notion of control is too binary - one either has it or one doesn't, which may make it a term appropriate to describe economic ownership, but not to describe limits on journalistic expression. A more nuanced verb might be 'dominate'.

The Russian state dominates traditional media outlets, as well as online publications and social media sites. This dominant position has been achieved in part through coercive control: blacklists bar certain individuals from appearing on state television, and editors receive weekly briefings of what the important stories are, and how they should be framed. Yet, there is no pre-publication censorship in Russia.

For the most part, the state's dominant position is achieved through a combination of self-censorship (journalists are careful what they say) and alignment of interest between writers and owner (editors hire journalists who are likely to share their views). This type of indirect or latent control is made possible through the interplay of formal ownership and the informal affordances of what political scientists call a 'hybrid regime'.

A hybrid regime is one where authoritarian practices coexist with formal democratic institutions such as elections. A dominant position in the media landscape is achieved through a combination of intimidation, and selective application of anti-corruption litigation or libel suits. These measures are often legal, but unfair and inconsistently applied. Ultimately, the rules of the game are rigged and the playing field uneven. The purpose is not to eliminate contest altogether, but to marginalise opponents.

In Putin's first term (2000-2004), the hybrid toolkit was applied to oligarchially owned television stations and print publications; in his third term it has been applied to online media, most strikingly through the dismissal of editors at the most popular online news outlets *lenta.ru* and *gazeta.ru*. Even social media have been targeted: on Twitter, politically charged conversation subjects such as the assassination of opposition activist Boris Nemtsov are flooded by streams of automatically generated spam content. On Facebook, Russian opposition activists complain that hordes of pro-government trolls systematically try to get them banned by reporting their posts as containing abusive content.

While the claim that Putin controls the media (albeit indirectly) is accurate from an ownership perspective, the more commonly implied meaning of coercive control is an exaggeration. The space between the two meanings makes it easy to ridicule notions that there is no free media in Russia. For instance, in 2006, when interviewed on NBC, Vladimir Putin noted that 'there are more than 40,000 publications and we could not control them all even if we wanted to'. Here Putin meant not that the state could not own all the publications, but that it could not predetermine or dictate what they publish.

As of today, the Russian state overwhelmingly dominates traditional media, increasingly dominates online media, and (apparently) disrupts rather than dominates social media.

Putin's control of the media is akin to that of the casino: probability dictates the house will always win, or at least never lose so badly as to go bankrupt. To remain in power, Putin needs majority support, not total support. The aim is not to completely stifle dissenting voices, but to ensure they are rare, on the move, and, importantly, largely inaudible to the general public. ■



ROLF FREDHEIM

Research Associate
Centre for Research in the Arts,
Social Sciences and Humanities
University of Cambridge
The United Kingdom

PETR M. MOZIAS

Russia: this time is different

Expert article • 1929

Russia's current stance to the outside world looks gloomier than ever since the end of Cold War. Hostilities in Ukraine and mutual blows of sanctions with the West were followed with a military contest in Syria and a conflict with Turkey. Russia was de facto excluded from the G-8. It has been hoped by many, that a growing distance with the European Union, Russia's largest trading partner, could be offset with 'pivot to the East', e.g., towards another traditional partner, China. But if this is the case, a gradual subordination to the rising superpower is looming for Russia. Domestic economy is in recession. Inflation is at double-digit points. It is fueled with sequential waves of ruble's devaluation, which, in their turn, are caused by oil prices plunge and capital outflow from Russia.

This miserable situation pretty much reminds the eve of the USSR's disintegration. That time the consequences of the arms race coincided with ineffective policies within the country and worsening of terms of trade outside. But, as a contemporary Russian writer Dmitry Bykov once said, 'Russia is too great in all senses of this word just to commit suicide. If her very existence is at stake, she saves herself even despite the rulers'. To my mind, the state of affairs nowadays is worth to treat as a turning point: problems amassed for a long time have a chance for being tackled.

Romantic illusions about Russia's quick engagement with the West by way of amorphous coalitions have disappeared for good. The very model of economic growth of the 2000s has been exhausted. It was primarily non-interventionist and based on a combination of the Soviet industrial capacity, high prices of exported commodities and a cheap financing from the Western banks. Russian economy began decelerating since 2012, well before the geopolitical and other external shocks aggravated this trend.

By now a pendulum has gone afar towards a diplomatic isolation and an economic autarky. But it will move back inevitably, since Russia anyhow can not survive alone. In the nearest future she will seek a new equilibrium, and the best option for the West is to avoid a temptation to corner Russia further, but, rather, to understand and recognize her interests. What may a new balance look like? Devaluation and Russia's countersanctions have given at last an impetus to an import-substitution. It should have been pursued long before due to the vast potential of the national market, but even before the WTO accession the government was prone to a trade liberalization. Besides, with oil returns diminishing a diversification of exports toward manufacturing and hi-tech services has become a vital necessity.

However, for an import-substitution (IS) and a new export-promotion (EP) policies to sustain an investment growth is a must. Meanwhile, capital expenditures are going down during the recession. What's more, even in the prosperous 2000s investment rate was quite low in Russia (about 20 per cent of the GDP) even notwithstanding a high rate of savings (more than 30 per cent of the GDP). To some extent, Dutch disease is responsible for that: extracting industries

create a weak multiplier effect, and their high profitability precludes entrepreneurs from investing elsewhere. But even if perspective niche at IS or EP industries do exist, capital mobility is constrained with the underdeveloped market institutions, not least because of a poor property protection. At the same time, an entry into new export markets is always associated with externalities: potential pioneering firms could be underpaid so far as their experience were used by late-comers, and the former would avoid such investment.

Economic reforms in these circumstances can not be limited just to a further liberalization and an anti-corruption drive. Industrial policy is needed in order to overcome 'market failures' with providing the branches of priority with tax cuts, a subsidized credit, a protection through import duties and non-tariff measures, etc. Some elements of industrial policy (including big parastatals) surfaced in the Russian economy in the 2000s. But they generated more rent-seeking than progressive structural shifts. Now it is high time to make those 'institutions of development' really working.

Newly vigorous industrial policy is hardly possible without a renovated financial course. So far fiscal policy has been an artificial mess of a neoclassical tightness and a social populism. A desire to have a balanced budget whenever, and pumping of windfall export gains into sovereign funds coexisted with a bias in favor of consumption in the structure of expenditures, and a low level of public investment. Monetary policy has been based on an idea that austerity, and hence a low inflation will automatically make interest rates declining and investment growing.

Prior to this recession those analysts who opposed a loosening of financial policy pointed to a high rate of capacity utilization and a low unemployment as signs of the economy touching the production possibilities frontier. Indeed, that features are, rather, symptoms of a chronic underinvestment and labor markets underreformed. Anyway the recession has expanded a negative output gap, and a space for economic policy to manoeuvre has reappeared. If fiscal and monetary stimuli are applied to help investment on a selective basis, it will in the short run pave the way for a recovery without inflationary consequences. And in the longer term an investment expansion will strengthen a potential at the supply-side, and, therefore, it will counterbalance inflationary tendencies.

If a selective refinancing of credit institutions by the Central Bank does raise a still very low level of monetization in the Russian economy, so it will help domestic financial deepening to proceed even in spite of severing ties with foreign banks. Some kind of a currency control may be useful both to mitigate the economy's external vulnerability and to apply domestic savings in a better way. Keeping a modest budget deficit may give rise to a new way of sterilization of export revenues – through open market operations with T-bonds. Simultaneously, budget cuts will make the reforms of labor markets more likely. All in all, industrial policy and further market reforms do not contradict, but rather complement each other.

Expert article • 1929

Will this new, more dirigist and protectionist, Russia be hostile to the world? No, precisely. Pursuing IS and EP Russia will still need foreign technologies and markets overseas. Counting on industrial policy, national firms will be able to enter global value chains, and Russia as a whole may tap its potential as a logistics hub between the West and the East. New Russian economic model will be obviously less Anglo-Saxon and more European or East Asian. However, full-scale integration either with the EU or China is highly unlikely in a foreseeable future, since integration implies an outward liberalization, not a protectionism. The only possible exception is supposed to be a strengthening partnership with the members of the Euro-Asian Economic Union, because they are, by and large, natural extensions of the Russian economy itself.

Quarter a century ago Francis Fukuyama wrote about 'the end of history'. That prediction has proven to be wrong, partly because Russia's path to democracy and effective economy has been bumpy. But be sure: there will be good news from Russia again. As a Russian foreign minister of the 19th century Alexander Gorchakov once said, 'Russia is not angry, she is merely concentrating herself'. ■

PETR M. MOZIAS

Associate Professor of International
Economics and Chinese Studies
The National Research University
Higher School of Economics, Moscow
Russia

Pan-European Institute

BALTIC RIM ECONOMIES

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DMITRY ZIMIN

The Solovetsky Islands: challenges of economic development

Expert article • 1930

The Solovetsky archipelago (Solovki) is situated in the White Sea, in some 160 km to the south from the Arctic Circle. In Russia, these Islands are widely known for their medieval Orthodox monastery with its impressive stone fortress and numerous churches, and as a place of the first Soviet concentration camp, which was a predecessor to the Gulag system. In the 1960s Solovki's historical buildings and monuments were transferred to a newly established state museum, and the Islands became an increasingly important tourist destination. In 1990 the Solovetsky monastery was re-consecrated, and in 1992 UNESCO inscribed Solovki on its list of World Heritage Properties possessing outstanding universal value. However, the economic crisis, connected with the collapse of the USSR, led to a sharp fall in tourist arrivals, coupled with drastic cuts in public funding to the state museum – the main employer on the archipelago. The 2000s were a decade of economic recovery, and the number of tourists and pilgrims began to grow again. In 2010-2015 it stabilized at 25 – 30 thousand per year. Among them a quarter were classified as Orthodox pilgrims. At the same time, Solovki has experienced an increase in the number of hotels. By 2015 their combined capacity reached 480 beds. In addition, some 100 local residents earned a living by offering their apartments for rent to tourists.

Since the re-establishment of the monastery the Russian Orthodox Church (ROC) has sought to regain her historical status as the dominant actor defining the present and the future of the archipelago. The Church seeks to restore the fullness of monastic life and to turn the monastery into a major spiritual and missionary centre of Russia, which is often likened to the Greek "Holy Mount of Athos." In 2001 President Putin, accompanied by Patriarch Aleksei II, visited Solovki. Soon afterwards, one of the Islands – Anzer – was transferred to the management of the ROC. In 2009 Patriarch Kirill appointed archimandrite Porfirii (Shutov) to head the Solovetsky monastery as its new Prior, and soon the same person was also appointed to head the state museum as its new Director. Explaining his vision of Solovki's future, Porfirii noted: "We work on new museum exhibitions demonstrating that a high civilization existed on Solovki in the 16th – 18th centuries in order to dispel any misconceptions about the 'bast-shoe-wearing Russia,' in order to strengthen the feeling of national dignity... Successful and rational labour, together with prayer and spiritual development, have been the foundation of our great civilization... The contemporary generation must understand how beautifully, fruitfully and economically efficiently our fathers could work." The message is quite clear: the ROC sees Solovki as an important example countering the widespread opinion that Orthodox Christianity has been among the factors contributing to Russia's relative economic backwardness. On the contrary, the Church is presented *inter alia* as a force promoting Russia's unique way of economic development – an alternative to the western model, based upon private profit-seeking behaviour.

The Church's vision of Solovki's future is explicitly shared by the Russian federal government, by the Arkhangelsk regional administration (Solovki is part of the Arkhangelsk region) and by the local municipality. A special state programme to support Solovki's development was launched in 2014. According to it, the state is going to invest a billion roubles (circa 14 million euro) every year till 2020 in the development of Solovki's infrastructure and in restoration of its historical monuments. In addition, the ROC has succeeded in attracting generous private donations to its projects on the Islands.

At the same time, the Church faces strong opposition on part of several actors. Thus, local entrepreneurs are afraid of the prospect that the ROC would monopolize the provision of services to tourists and pilgrims. Environmentalists have argued that the Church's approach puts in danger Solovki's natural environment. And UNESCO has expressed its concerns that new construction on the Islands might undermine the authenticity of their historical heritage. So far, the ROC has been able to find a compromise with local entrepreneurs and environmentalists. But the position of UNESCO looks as a much more formidable challenge. A lot depends on the position of Russia's political leadership. Essentially, they have to choose whether to continue the ambitious joint project with the ROC or to yield to the requirements of UNESCO. Ultimately, this situation is one more test of how far Russia's current leaders are willing to go along the path of breaking with western institutions. ■



DMITRY ZIMIN

Research Fellow
Karelian Institute
University of Eastern Finland
Finland

VEERA LAINE

Shifting dynamics in the Russian civil society

Expert article • 1931

The nation-building project in Russia today takes place through careful channeling of support to accepted actors as well as controlling the critical ones. Political extra-parliamentary opposition has been pushed to the margins, and non-governmental organizations are exposed to excessive monitoring through legislative measures. Today's dissidents, be it human rights activists, representatives of the LGBT community, or even extreme nationalists who oppose the government, are facing increasing repression. The Kremlin is attempting to create a society where right to criticize the establishment would be denied regardless of the nature of the alternative it suggests.

The diminishing space for societal disagreement in Russia has sometimes been mixed with the idea of weakening civil society. Civil society as a concept, however, should be understood more broadly than referring only to the oppositional or democratic characters of civic action. Political scientist Elena Chebankova has explained that in the Russian society there is a constant competition between traditionalist-conservative and liberal ideologies, of which the former is currently considerably stronger. Hence, approaching the Russian civil society as an equivalent of liberal opposition seems insufficient.

It is also important to remember that this ideological competition is not new. According to Chebankova, one of the main features of the Russian civil society is that its discourse is based on value pluralism instead of consensus politics. Whereas the western model of political liberalism is based on the idea that consensus on good life is possible to achieve, in the Russian model the competing ideologies aim at maintaining the pluralism through coexistence, not at consensus.

The traditionalist-conservative camp has grown stronger in recent years. This is partly resulting from the ever-strengthening "conservative turn" that the state leadership adopted in 2012, when Vladimir Putin's third presidential term began in turbulent conditions. Today, it is the nationalist, traditionalist and conservative ideas that dominate in the societal space, but their emergence is not merely following the top-down direction. Many patriotic organizations receive funding from official sources, but not all of the conservative initiatives are necessarily state-led or state-supported.

In this text I intentionally draw a parallel between traditionalist-conservative and nationalist values, because in today's Russia they appear as the only patriotic ones. The logic follows the conservative line of thought where a strong state claims to provide protection to its people against an external threat. But it simultaneously demands "unity of the people" in order to stay strong, which for its part requires nation-building strategy. The current strategy of the Russian leadership rests upon coercion against those who disagree as well as control of the information sphere, not on promises of the brighter future.

Why, then, is it so crucial to accept the possibility of genuine support for traditionalist-conservative values and activities in the Russian society? The answer I propose has to do with the perception of the Russian nationalist-conservative value set as such. Nationalism is often studied as a phenomenon that takes place "somewhere else": it is a tool for creating distance and expressing criticism. The criticism, however, should not prevent us from being sensitive about the various forms nationalism can take.

UK-based scholars Cheskin Ammon and Luke March have argued that societal activity should be understood as having either consentful or dissentful motivation, and furthermore, compliant or contentious behaviour. In the Russian case, the pattern becomes useful as it explains how also the consentful actors are able to act either in a compliant or contentious manner. In other words, also those who share the official standpoint can make political claims as long as they do not challenge the leadership per se. Thus, even in the times of stricter control the nationalist-conservative actors can try to challenge the value system from within.

Therefore, it makes a difference in the Russian case whether we expect the nationalist-conservative values being solely imposed from above, or if we are ready to see that they might also have incentives at the grass roots level. It is these dynamics that make the nationalist or traditionalist-conservative values potentially more durable.

Russian civil society is multi-dimensional, and this holds true even when the majority of actors clearly comply with the official rhetoric. Firstly, bearing in mind that the civic actions can also be spontaneous allows more nuanced interpretations of the current conditions of the society. Secondly, it is perhaps easier to detect changes in the societal space if those changes are not automatically supposed to be imposed from above. For example, the nationalistic upheaval that peaked after the annexation of Crimea is most likely not going to last forever. But, it is very difficult to say when the support for nationalism could be withering away. In order to observe weaker signals, one needs to accept the complex nature of societal activity. ■



VEERA LAINE

Research Fellow

The Finnish Institute of International Affairs
Finland

MAIJA PENTTILÄ

Russian-speaking Evangelical communities in the Helsinki metropolitan area

Expert article • 1932

When people move, they take their religious and cultural identities with them. Yet, in contrast to popular belief, immigrants soon begin to assimilate the values of their new home country. For example, according to European Values studies, immigrants in various European countries show values similar to the host country's population. The studies also show that the values of people living in various European countries differ more among themselves than they do between immigrants and the original population of each country.

Usually, immigrants maintain connections to their homeland while at the same time becoming embedded in their new place of residence. This process is called transnationalism. Although religion has only recently been introduced into studies of transnational migration, most religions have been global and transnational in nature from their beginnings. Typical features of transnational religious connectivity include the flow of money and other resources, including persons, goods and information, to religious organizations and communities. Transnationalism may also flourish outside religious organizations on the level of people or groups.

Evangelical communities, especially their Pentecostal and charismatic forms, are considered to be the most mobile and transnational forms of contemporary religious movements. Pentecostalism in its all varieties is probably the fastest expanding Christian movement in the world. Pentecostalism has always been transnational; it has reached out to the world, often by making use of modern media and global infrastructures.

In many ways, Russian Evangelicalism is truly a transnational movement. It is found at the intersection of religion, transnationalism and integration. From the point of view of religious mobilization, Russian Evangelical communities are interesting. They arrived in Russia through several routes. One was by way of Finland at the beginning of the twentieth century. American Pentecostalism spread from Norway to Finland, gaining adherents among Finns, Swedes and Russians before spreading to St Petersburg and other parts of Russia. Both traditional Evangelical churches, such as Baptism, Adventism and Pentecostalism during tsarist Russian times, and newer neo-charismatic communities thriving on their global momentum in the 1990s arrived in Russia from the West. After the collapse of communism, many Evangelical communities were established in Russia through the influence and financial assistance of Western missionaries. Many of the Russian Evangelical leaders had opportunities to study abroad. Local believers read the literature in translation and joined courses that the missionaries organized. Now these contacts have mostly come to an end, and the Russian churches have become indigenized.

Most of the Russian-speaking Evangelical communities in Finland were founded after Russian-speaking immigrants, mainly Ingrian-Finns re-migrating, started coming to Finland in the 1990s. In these years the Russian Evangelical churches travelled from Russia to the West with the Russian-speaking immigrants. Many Finnish churches at the time, such as the Finnish Seventh-day Adventists, invited missionaries from Russia to work in Finland among the Russian-speaking people. Many pastors in Russian Evangelical communities in the Helsinki metropolitan area went to study in evangelical theological seminaries in Russia, although they were living in Finland. Today, the Russian Evangelical churches in Finland invite preachers to their meetings from Russia, Ukraine, Estonia, Latvia and other countries of the former Soviet Union. Thus, to some extent, it can be said that the flow of persons and information, including theological literature, has now changed direction.

The Russian Evangelical churches in Finland offer 'language, culture and mentality' for the Russian-speaking minority in Finland; one can go there, as one of my interviewees said, for 'sanctification and social gatherings' in one's own language, in the 'mother tongue of the faith'.

All in all, religion matters and is a significant help in helping those Russian-speaking people living in Finland who were believers in their home country to integrate into their new land. Further research is needed to determine whether churches play a role in integrating the broader immigrant population whose members do not have a religious background in the former home country or whether religious communities are significant only for a smaller, believing group. ■



MAIJA PENTTILÄ

Senior Lecturer, Adjunct Professor (Docent)
in Church and Social Studies
Faculty of Theology
University of Helsinki
Finland

CLAES G. ALVSTAM

The external trade relations between the EU and the Russian Federation: no energy outside energy

Expert article • 1933

The current strained political and economic relations between the Russian Federation and its European neighbours are extensively analyzed from all possible angles. The tumbling world market prices of oil and gas and the subsequent depreciated currency have pushed the Russian export value, measured in US Dollars, to a lower level than before the global financial crisis, and the economic sanctions have further contributed to decreasing mutual foreign trade and FDI. While the soaring exports of energy and minerals in quantitative terms had pushed the total Russian export value to be among the top-10 in the world, it has been less debated, that the external trade and investment flows in and out of Russia within other sectors are modest. While the total export value from Russia amounted to about 500 billion US Dollars in 2014 - comparable to exports from Italy and the UK - the non-energy export values (i.e. excluding SITC 3 in the UN classification) were equivalent to the size of much smaller countries, e.g. Sweden. When exports within the most advanced products within the machinery and equipment sector (SITC 7), and consumer goods (SITC 8) are separated, the exports from Russia can be compared to e.g. Portugal, Finland and Ireland. The sharp depreciation of the currency from around 45 RUB/EUR in mid-2014 to exceeding 80 RUB/EUR in January 2016 should in a more "normal" case have given a boost to Russian products in the world market, but there are no indications from recent preliminary statistics of 2015 that this has been the case. At the same time, Russian imports, which traditionally have been far lower than exports, had until 2014 shown a more "normal" pattern with a clear dominance of engineering and final consumer goods, but have declined sharply in 2015, due to the depreciation and the imposition of sanctions.

Even though it is natural to point at the recent political relations since the beginning of 2014 as an explanation to this situation, the problems of Russian external competitiveness outside the energy and mineral sector were apparent much earlier. There is no single explanation to why Russian manufacturing and service industry have been unable to undertake necessary reforms in order to compete at the world market. Other former centrally planned economies within the former CMEA-realm, went through extensive economic reform programmes already in the 1990s, and have since gaining membership in the EU continued to integrate ever deeper into the other member-state economies. This process has occurred without the benefit of rich indigenous raw material sources, and this fact may contain at least part of the explanation why Russia has lagged behind and failed to undertake necessary industrial reforms. The "fate of profusion",

particularly in times of increasing prices of raw materials, has indeed doped the national economy, but the downhill ride of Russian general manufacturing in terms of efficiency, productivity and international competitive edge is nevertheless extraordinary and needs attention even in a situation of stabilized and/or increased prices of energy in the long-term. The EU is in all respects the dominant trade partner of Russia, not only in the energy sector. In relative terms, the exports to Western Europe accounts for about 50 percent of total export values. The trend has been slightly declining, but there are no realistic alternatives to the EU, despite political ambitions to turn the face to a Eurasian Economic Union or China. While Russia's late entry into the WTO in 2001 was greeted with optimism by its European neighbours, the progress thereafter has been a disappointment. In a world of fragmented production, closely integrated in complex global value chains, Russia's participation in this network is, when energy is excluded, lower than in many African countries. Instead of seeing EU's Eastern partnership and conclusion of regional FTAs as a geopolitical threat, Russia's political and economic interests should be much more sustainably defended if the process towards better trade integration could be restored. In the latest proposal of a global trade strategy of the EU - "Trade for All" - launched in October last year, the only reference to Russia is a sad paragraph at the end, describing its relations as "challenging", and noting that "...the EU's strategic interest remains to achieve closer economic ties with Russia. The prospects for this will, however, be determined primarily by the course of Russia's domestic and foreign policy, which so far gives no signs of the necessary changes". Even though stars are in the wrong positions right now, the continuous diplomatic efforts to forge good political relations through good economic relations should not be abandoned. ■

CLAES G. ALVSTAM

Professor of International Economic
Geography
School of Business, Economics and Law
University of Gothenburg
Sweden

THOMAS PELLERIN-CARLIN

Ensuring the EU energy security vis-a-vis Russia

Expert article • 1934

Energy is the very foundation of our societies and economies. Access to secure energy is therefore paramount. As oil, coal and uranium are traded on global markets, most of the **European energy security** concerns are coming from gas and the EU's historical supplier: Russia.

Gas is the 2nd most important energy source for the EU, and is still critical to heat our buildings, produce electricity in a flexible way and to be used as a raw material by the industry.

Today, around 50% of the EU gas consumption comes from the EU (30%) and Norway (20%). Another 20% comes from different countries (mostly Algeria and Qatar) and 30% from Russia. **Dependence on Russia is a key issue for the EU and especially for central-eastern European countries** whose gas is mostly coming from Russia.

In 2006, 2009 and 2014, fears and actual disruptions of Russian gas supplies put the issue of energy security high on the political agenda. **Three critical dynamics** can be fostered to further improve the energy security of the EU's Baltic Sea countries and peoples: energy efficiency, diversification of gas supply and an EU energy diplomacy.

As good foreign policy begins at home, energy security begins with **energy efficiency**: providing the same energy service with less energy. Largely thanks to energy efficiency, **the EU gas demand has been falling since 2010**, leading to less gas import needs. Despite Gazprom's claims, there is little evidence backing scenarios of rising EU gas demand in the future.

This decline happened despite limited political support. Energy efficiency is the only EU energy target that is not at all legally binding and the European Commission's proposals have been consistently watered down by some energy utilities' lobbying and some national officials driven by an outdated definition of national sovereignty. Things are however changing. Energy utilities like E.ON. or Engie are getting out of their 20th century business model based on selling the greatest amount of energy to the greatest possible price. Germany and France now have ambitious long term goals: diminish their energy consumption by 50% by 2050. Lithuania, Latvia and Denmark engage in favour of energy efficiency with ambitious national targets while Sweden should soon adopt its post-2020 energy objectives. Finland's objective however reflects a total lack of ambition while Estonia and Poland still do not have any post-2020 energy objectives, a flaw that should be remedied in collaboration with their neighbours and the EU as a whole.

The second key dynamic is **connecting gas pipelines** between Finland and Estonia, Lithuania and Poland. By 2020, all Baltic Sea countries will therefore be connected to the European gas grid, allowing the free flow of gas from the Western Europe to Baltic countries to provide them an actual security of supply and a genuine ability to negotiate prices with Russian suppliers.

Meanwhile, Liquefied Natural Gas (LNG) now flows towards the Baltic Sea LNG terminals. LNG may remain too expensive to be the long-term key source of gas, but prices are already low enough to force Gazprom to cut its own prices, and to allow global LNG to fly to north-eastern Europe in case of Russian gas supply disruption.

The third key dynamic is yet a promise: an **EU energy diplomacy**. The rationale is simple: Europe is stronger together.

The practise is trickier. Germany's economics minister wants to turn his country into Europe's gas hub, even at the expense of European solidarity and the energy security of Poland and the three Baltic states. He indeed supports Nordstream 2: a project to build two extra gas pipelines going from Russia to Germany through the Baltic Sea, bypassing the three Baltic States and Poland. The pipelines would cross Finland, Sweden and Denmark's exclusive economic zones, giving those countries a strong say in whether to approach Nordstream 2 as a matter for Germany's economics minister, or for the European Union.

Working with the European Parliament, the Council of the EU could mandate the European Commission to negotiate an international agreement with Russia, based on mutual economic interests. Such a negotiation could be embedded in the broader foreign policy context.

In any case, Baltic regional cooperation is already a major success in the field of interconnections of gas and electricity. The Baltic Energy Market Interconnection Plan of 2008 has largely been implemented and its extension to energy efficiency and renewables in June 2015 demonstrates the rational for a common work to improve energy security.

The upcoming years will be critical for Europe's energy security. With energy efficiency gains, Europeans gain leverage on Russia. With a genuinely interconnected gas transport system, European solidarity becomes feasible and real. Both elements reinforce the EU negotiating position in a potential **EU-Russia international agreement that could ensure a sound energy security for all Europeans, as soon as 2020.** ■



THOMAS PELLERIN-CARLIN

Research Fellow on
European Energy Policy
Jacques Delors Institute
France

MYKHAILO GONCHAR

Natural gas transit through Ukraine under the conditions of hybrid warfare

Expert article • 1935

Ukrainian Gas Transportation System continues to accomplish successfully its transit function supplying Europe with gas, despite of the multiyear efforts of the Russian propaganda to discredit it and two-year lasting Russian hybrid war against Ukraine. In 2014, 62.2 bcm of natural gas was transited through Ukrainian GTS or 41.6% of total volume of 149.4 bcm of Russian gas export to Europe. Fitch Ratings predicted in 2015 reduction of gas transit through Ukraine to 50 bcm. However, this forecast was not well off. Gas transit totaled 67.1 bcm, despite the fact that the volume of Russian gas supplies to Europe increased insignificantly.

The uniqueness and effectiveness of Ukraine's GTS is defined not only by a system of underground gas storage facilities with the overall active volume of 30.95 bcm but also by its high level of interconnectivity. Few people pay attention on the last point, but it is very important in the context of hybrid and classic type wars, because it provides security of gas supply in case of an accident or any damage in the course of hostilities. This is something that no other routes of transportation of Russian gas: Yamal - Europe, Blue Stream, Nord Stream, could provide. Any incident or emergency provoked by the external factors will automatically lead to the cessation of gas supplies to the European consumers through the abovementioned routes.

Ukraine is another case. Examples. In 2007, there were two major technical accidents on the main gas pipeline Urengoy–Pomary–Uzhgorod (UPU). To eliminate the consequences of the accidents, in both cases it took more than two weeks. However, the gas supply to the EU did not stop for a minute. Instead of the emergency pipeline, the other pipelines were involved. Similarly, it was in 2014, when in May and June, the sabotage operations were conducted on the UPU – two blastings with the help of planted explosives. It took almost two weeks to repair the affected sectors of the main gas pipeline, but there were no disruptions of the gas transit to Europe. The example of 2016 is an accident on the Carpathian part of Soyuz gas pipeline on 1, January. It also did not lead to any disruption in gas supplies to the EU. It should be noted, that for a complete interruption of gas supplies to the EU from Ukraine, it is necessary to make simultaneous explosion in 29 locations of the GTS facilities in different regions that is almost impossible task in a hybrid war. A high level of GTS interconnectivity is a guarantee of its stable work even under the extreme conditions. In the Cold War period, when the Ukrainian GTS was built, it was designed taking into account preserving of its functioning even under the condition of nuclear strikes between the U.S. and the USSR.

The current GTS operator JSC Ukrtransgaz works transparently and all its input and output gas flows as well as the volumes of gas in the underground storage facilities are being displayed online since the middle of 2014. The company provides a multimedia map with all necessary data on its website: <http://utg.ua/live/?en> In addition, on the European portal AGSI+ <http://transparency.gie.eu/> the data about the volumes of gas stored in the UGSF is displayed in dynamics. Not all of the EU member states are as open as Ukrtransgaz.

The propaganda campaign launched in 2015 by Gazprom over a possible disruption of the transit to Europe by Ukraine, had main goal to continue the discrediting of Ukrainian route in order to incline the EU to support Nord Stream–2 project. However, the failure of the projects South Stream and Turkish Stream, uncertainty about the Nord Stream–2, as well as falling prices for oil and gas, have forced Gazprom and the Russian president to declare its intention to continue to use the Ukrainian route after 2019, the year of transit contract expiration.

Projects of non-transit gas pipelines, initiated by Russia, aim to enhance the EU's dependence on Russian supplies. In a situation of critical aggravation of relations between Russia and NATO (or between Russia and one of the EU Member States) it could serve as an important component for the implementation of synchronized heterogeneous pressure by the threat of projection to interrupt deliveries combined with the information and psychological campaign in the media and cyber-attacks. A scenario that previously seemed to be fantastic seems to be quite real on the background of hybrid aggression conducted by Russia against Ukraine, where an energy component plays a considerable role. Nevertheless, Ukrainian GTS continues its stable work. Although in Europe, many politicians and experts following Russian propaganda continue to consider it to be a problem, but in practice it has been a contributor to the EU energy security for almost 25 years, including the last two years of war. ■



MYKHAILO GONCHAR

President

The Centre for Global Studies Strategy XXI

Head

The Kyiv International Energy Q-Club
Ukraine

KRISTI RAIK

Ukraine has brought threat perceptions of the Baltic Sea states closer to each other

Expert article • 1936

The war in Ukraine and the rift in Western-Russian relations have had a strong effect on regional security around the Baltic Sea. Threat perceptions of countries in the region – with the exception of Russia – have come closer to each other, and security cooperation has increased.

During the post-Cold War era, regional security debates saw a shift of focus from military to non-military threats, and from confrontational to cooperative ways of addressing perceived threats. Military security and territorial defence went “out of fashion”. Germany was spearheading the EU’s efforts to engage Russia and promote its transformation and modernisation. In 2000s, approaches to Russia strongly divided countries in the region: pragmatic engagement pursued by Germany and Finland stood in contrast to the vocal criticism by the Baltic states and Poland towards the rise of authoritarianism and a more assertive foreign policy of Russia.

Since 2014, Russia’s aggression against Ukraine and its reckless military activity in the Baltic Sea region have elevated concerns about national security and led most countries in the region to increase their defence spending. Military security and territorial defence are again high on the agenda, together with efforts to counter hybrid threats such as propaganda, cyber-attacks and economic pressure.

The EU’s efforts to integrate Russia into common structures have been overridden by strategic tensions between the two *de facto* competing regional powers. Germany’s aim to engage Russia has not disappeared, but at the same time, Berlin has taken the lead in shaping a united EU approach which strongly condemns Russia’s actions in Ukraine. In the words of Angela Merkel, Russia’s actions have been “calling the entire European peaceful order into question”. Germany did not change the core premises of its foreign policy, such as a commitment to international norms, peaceful conflict resolution, and multilateralism, but it started to build a stronger and more consistent role in defending these principles.

Sweden has abandoned the assumption that one could exclude the possibility of military conflict in Europe and defined Russia as a “serious threat to European peace.” It has also acknowledged the possibility of Sweden being affected by a military conflict in the region. Sweden’s anxiety is largely shared by the other Nordic countries. For Poland and the Baltic states, the Ukraine crisis came as less of a surprise, since their assessments of Russia had always been more pessimistic, and they had considered the Georgia war in 2008 as much more alarming than their partners in the EU and NATO.

Despite increased commonality, there are still obvious differences among the Baltic Sea states on how best to address the deteriorated security situation. NATO has undertaken the biggest reinforcement of its collective territorial defence since the end of the Cold War, paying special attention to its eastern flank. Germany has considerably

increased its commitment to the security of NATO’s eastern members, where its military contribution has become the highest among European NATO members. However, Germany has objected to the permanent stationing of NATO forces in Poland and the Baltic states. This is one of the big topics ahead of the NATO summit in Warsaw in July 2016. Divisions over this issue reflect deeper cleavages in foreign and security policies, notably when it comes to military power.

Another cleavage in the region is that between members and non-members of NATO. The role of non-NATO EU members – that is, Finland and Sweden – in regional defence remains ambiguous, in spite of their expressions of solidarity towards the other Nordic and Baltic countries, as well as their commitments within the framework of the EU.

There is general agreement on the necessity of maintaining diplomatic and other contacts with Russia, but some disagreements around the Baltic Sea (and beyond) remain over the preferred form and nature of such contacts. Germany has been leading the diplomatic engagement efforts. The approach pursued by Germany (notably when it comes to the Minsk agreements) has not been wholeheartedly supported across the region, but it has also not been openly challenged so as not to fracture a fragile Western unity. Finland stands out in the region as the only country in addition to Germany that has maintained active bilateral dialogue at the highest political level, provoking some suspicion about its commitment to the EU line. However, none of the Baltic Sea countries has in fact undermined European or western unity towards Russia.

As strategic tensions in the Western-Russian relationship are likely to stay with us in foreseeable future, the increased (although still limited) commonality of security policies of the Baltic Sea states helps to maintain security in the region. ■



KRISTI RAIK

Senior Research Fellow

The Finnish Institute of International Affairs
Finland

SERGIY KURBATOV

Broken “brotherhood”? The dramatic changes in mutual attitudes among Ukrainian and Russian population in 2013-2015

Expert article • 1937

Having a long period of common history mostly under the umbrella of Russian Empire and Soviet Union, Russia and Ukraine passed through a kind of more or less civilized “divorce” after the collapse of USSR in 1991. In 1990s and 2000s we could observe numerous attempts to rehabilitate the old connections with the help of different agreements and even establishing a kind of transnational institutions among post-soviet countries, the most visible among which was the Commonwealth of Independent States (1991). The position of Ukraine between two powerful geopolitical actors - EU and Russia and transnational structures, affiliated with Russia – leads to multi-vectors characters of Ukrainian foreign policy. It is interesting that since Ukraine got independence, the more or less pro-Russian president replaced more or less pro-Western one – Leonid Kravchuk (1991-1994) and Viktor Yushchenko (2005-2010) were replaced by Leonid Kuchma (1994-2005) and Viktor Yanukovich (2010-2014).

The powerful social mobilization during Orange revolution (2003-2004) was an important sign, that the active part of Ukrainian society rejects this multi-vectors character of politics and is oriented toward EU and its structures. The next powerful social mobilization, Euromaidan (2013-2014) started as a response for abandoning of signing associative agreement with EU by Viktor Yanukovich. Meanwhile, according to survey of Kyiv International Institute of Sociology, the attitude toward Russia was extremely positive during the period 2008-2013. In November, 2013 82% of Ukrainians had very positive or generally positive attitude towards Russia (with 10% of respondents, who had very bad and generally bad attitude toward Russia). In September, 2015 this percentage of positive attitudes decreased to 34 (with 53% of negative attitudes). The survey of Levada-Center in Russia shows that the number of respondents, who have positive attitude toward Ukraine decreased from 69% in September, 2013 to 33% in September, 2015 (with increasing the number of respondents with negative attitude from 22% to 56%).

In Ukraine in November, 2013 only 12% of respondents want to have closed borders with Russia with custom regulations and visas and 73% of respondents want to have opened border without custom regulations and visas. In September, 2015 the situation changed dramatically – 46% of respondents preferred to have closed borders and 45% - opened borders. At the same time, the number of Russian respondents, who preferred to have closed borders from September, 2013 to September, 2015 increased only from 23% to 25% and the number of those, who voted for opened borders also increased from 55% to 59%. The restrictions for Russian propaganda in Ukraine, especially prohibition of broadcasting for the main Russian TV channels could be regarded as an important factor, which influenced this substantial shift in Ukrainian public opinion.

What were the main reasons for such dramatic downgrade of value of Russia among Ukrainian population? First of all it was the annexation of Crimea by Russian Federation (February, 20-March, 19, 2014), which received hysterical support from the majority of Russian population. The attitude toward the fact of this annexation divided Russian cultural elites – more than 500 of the signed a letter, which supported annexation of Crimea, and many famous Russian artists and cultural activists signed a letter against annexation. Secondly, it was military support from Russia for separatist movement in Donbass as far as other forms of active involvement in this conflict, which is usually identified as hybrid war against Ukraine. Battle of Ilovaisk (August, 7- September, 2, 2014), Battle of Donetsk Airport (September, 28, 2014 – January, 21, 2015), Battle of Debaltsevo (January, 16- February, 20, 2015) became painful and tragic points of contemporary Ukrainian history, which are directly associated with Russian aggression in Eastern Ukraine and received adequate representation in international and Ukrainian mass media.

So, we could mention the substantial shift among Ukrainian populations in their attitude toward Russia. The mythology of “brotherhood nations”, which was actively constructed during Soviet period of Ukrainian history, showed its weakness, facing the reality of almost open aggressive military attack and violation of international law. Currently Ukrainians have a kind of seduction to construct something russophobic instead of the tomb of the “brotherhood myth”. ■



SERGIY KURBATOV

Affiliated researcher
Centre for Russian and Eurasian Studies
University of Uppsala
Sweden

HANNI HYVÄRINEN

Helping Ukrainian IDPs

Expert article • 1938

Why Ukraine?

War in Eastern Ukraine started in the beginning of 2014. At the moment, UNHCR's statistics show that Ukraine has 1 382 000 internally displaced persons. Ukraine's economy is not doing well. The biggest market, Russia, has refused importing ukrainian products, and the inflation of hryvnia is about 50 %. In 2015, the Economy decreased about 10 %, the reforms have not been realised, and consumer prices have grown enormously.

The government support for IDP families is no more than 96 € per month. Renting is expensive, and many live in temporary shelters. Many have returned home despite of the dangers.

What kind of help?

During the last 1,5 years we have taken to Ukraine four cargos: about 25 000 kg of clothes, shoes, utilities and tools for invalids. We have collected about 14 000 € to renovate heating system in Vynnyky asylum center, to rent containers and to buy food supplies for IDP families. Distribution of the sent cargos has been done by a reliable local partner in Lviv, Ivano-Frankivsk and Luhansk regions.

We are not a registered organisation, so this probably makes us one of the biggest civil initiatives in Europe.

From kilos to tonnes

In August 2014, when the situation in Eastern Ukraine got worse, I wrote my friend Sergey. He is a civil society activist in Luhansk. He wrote me from Vynnyky, Western Ukraine, where he had fled with his family due to separatists who threaten his life.

As he lived in an asylum center with other 200 IDPs, he asked if I could help him to find an organisation that could deliver them warm clothes. The people had left their homes thinking they could return soon, so they didn't pack but the necessary utilities for the summer.

I wrote a message to my Facebook page to ask some friends what we could do. By the noon, about 10 people were arranging their closets, and an Ukrainian friend announced that he could drive the clothes to Vynnyky in two weeks. The next day the word had spread, and more people, deeply worried by the situation in Ukraine, wanted to donate. In a couple of days I got a call from a local newspaper. When the story came out, I noticed that they had announced to collect clothes to Vynnyky IDPs!

It was great to see how many people were willing to help. Five bags grew to 3000 kilos, and as we could deliver it to Vynnyky and saw it went to those who need it most, we decided to continue.

What did we learn?

1. Even big problems can be solved together. Without contacts it would have been impossible to sort out and deliver the utilities. With the help of friends-of-the-friends, we also managed to solve the problems with corruption and insane bureaucracy. We were lucky to have contacts with journalists, who helped us to get publicity, that helped us to get more support and donations.

2. 80% of the collected clothes were in good condition. We asked for clean textiles with some using time left, but unfortunately all the people didn't understand our criteria. We had to throw away about 20 % of the stuff we got. There is no sense to send something that people don't need or that can't be worn that season – like party clothes and high heels. As we were donated tonnes of clothes and other utilities, it certainly was an extra job for us to get rid of it. Sometimes it felt that our time and efforts are overlooked.

3. It was encouraging to see, that so many people want to help others. In our group of activists we have Finns, Russians, Ukrainians, poor, rich, healthy and diseased people. It was wonderful to see how they worked all together for a common goal. For me it has been one of the reasons why I wanted to continue this project.

Recognition for our work

In December 2014, we got a charity prize from Kotiliesi, Finland's oldest women's magazine. In December 2015, we received a decoration "for sacrifices and love for Ukraine" from Patriarch Filaret of the Kyiv Orthodox Church.

We also have many to thank – volunteers in Finland and Ukraine, all donors and others who have made this possible. For now on, we are done with cargos and clothes, but our work continues with a new organisation Suomi-Ukraina-silta ry (Finland-Ukraine Bridge). You can find us in Facebook, and if you have interest and some time, you're very welcome to join us and!

More information about this project: <http://apuaukrainanpakolaisille.org> (in Finnish). ■

HANNI HYVÄRINEN

Initiator and coordinator of the project "Apua Ukrainan pakolaisille"

Press and Cultural Attaché
Embassy of Finland in Kyiv
from 2004 to 2007
Finland

NINA TYNKKYNNEN

Russia and international environmental politics: lessons to learn from the Baltic Sea cooperation

Expert article • 1939

In recent years, the performance of Russia in the cooperation for the environmental protection of the Baltic Sea has been relatively active, if compared with many other cooperation processes within the environmental sector. Russia is a signatory to the Helsinki Convention on the Protection of the Marine Environment of the Baltic Sea area, originally agreed upon in 1974 and participates in the activities of HELCOM, the governing regime of the convention. The significance of HELCOM for Russia was especially demonstrated in 2008-2010 when Russia hosted the HELCOM presidency, and in 2013 when Russia organized a Baltic Sea Summit for state leaders in St Petersburg. Russia also signed the HELCOM Baltic Sea Action Plan (BSAP) together with other HELCOM countries in 2007; the plan now guides the environmental protection of the Baltic Sea.

As part of the BSAP commitment, Russia introduced its National Programme for the Rehabilitation and Recovery of the Baltic Sea Ecosystem, as well as a specially targeted federal programme to provide appropriate federal funding for implementation, in 2010. Total funding allocated for the Programme is 145 billion roubles. The priority of the programmes is to improve wastewater treatment so that 100 per cent of wastewater will be treated in 2020; also measures targeted at decreasing agricultural runoff and wastewater from ships are set in the programmes.

Some of the success of the Baltic Sea environmental cooperation regarding the activity of Russia can be explained by the character of the cooperation as well as the convention itself. The first element of the success is the character of the convention. Under the convention, no binding obligations but recommendations are being issued. In fact, it has been articulated by the contracting parties of the convention that the uninterrupted dialogue between the parties has been regarded as more important than more stringent environmental policies and regulation. Thus, the provisions of the regime have not been particularly heavy for Russia.

Second, throughout the years the cooperation for the better Baltic Sea environment brought about many benefits to Russia beyond the environmental. In the 1970s and 1980s, foreign-policy benefits were at the forefront: environmental cooperation was used to create an "image of cooperativeness" and to advance overall foreign policy interests. During the 1990s, in turn, economic benefits, such as foreign investment and financial support in the urban water infrastructure, were of special interest for Russia. Recently, economic issues related to energy exports have emerged as the main driver for Russia's behaviour in the Baltic Sea environmental protection cooperation. Even the main documents guiding the marine policy of the Russian Federation, including the Maritime Doctrine, mention the usage of environmental cooperation as a tool for promoting energy export, economic cooperation and general confidence in the Baltic Sea.

Finally, a recurrent theme throughout the history of the Baltic Sea environmental cooperation has been the role of Russia as a Great Power and the following geopolitical interests. Geopolitical interests that were particularly noteworthy at the beginning of the cooperation in the 1970s re-emerged after the enlargement of the European Union in 2004. This was reflected in greater emphasis on the importance of the HELCOM and the Council of the Baltic Sea States (CBSS) vis-à-vis the growing influence of the EU on environmental policies in the Baltic Sea region, and Russia has stepped up its activity in these institutions. Thus, obviously, geopolitics is one element of the success of the Baltic Sea environmental cooperation, too.

Can we draw some lessons to learn from this cooperation? No doubt, the participation of Russia in the Baltic Sea environmental protection serves as a success story of Russia's engagement in international environmental cooperation. Accordingly, understanding the position of Russia in the Baltic Sea environmental cooperation can contribute to establishing environmental goals that are more realistic in terms of their outcomes and more understandable to all participants. As it stands, it seems that negotiation partners should try to couple other interests of Russia, be they related to foreign policy, geopolitics, or economic issues, with environmental issues so as to advance joint environmental policies. As demonstrated by its environmental concern in the energy sector, Russia can take on serious environmental responsibilities, if there is economic and/or political motivation to do so. Similar trade-offs can possibly be employed in other sectors as well. Otherwise, influencing Russian environmental policy conduct and trying to appeal with environmental arguments seems extremely difficult for foreign actors. ■

NINA TYNKKYNNEN

Senior lecturer
Baltic Sea Region Studies
University of Turku
Finland

HANNA LANKINEN

Finland offers broad palette of investment opportunities

Expert article • 1940

As one of the most open and innovation-driven economies in the world, Finland offers international investors many opportunities in a business environment defined by its stability, modern infrastructure, skilled workforce and competitive operating costs. As a gateway between the East and West, Finland also provides a strategic location in the expanding markets of Northern Europe and Russia, with access to the Arctic region.

In global comparisons Finland is consistently ranked among the leading countries in terms of the quality of its business environment, education system, human capital, and lack of corruption. Finnish legislation is transparent and foreign-owned companies are eligible for national and EU incentives on an equal footing with Finnish companies.

The Finnish economy is knowledge-based and one of the top countries globally in terms of R&D spending per capita. Finnish innovation strongholds include Health and Life Sciences, ICT, Cleantech and Edtech, all of which offer many interesting investment opportunities.

Opportunities in Health and Life Sciences

Health technology represents 47% of Finland's total high-tech exports, which reached a new record of 1.66 bEUR in 2013. There are currently more than 15 life science-related universities and institutions in Finland, feeding innovation into more than 150 companies operating in the sector. Finland's three commercial biobanks offer the global pharmaceutical industry new pathways to personalized medicine.

Investment opportunities include innovative pharmaceuticals, clinical diagnostics, imaging and non-invasive measurement technologies, innovative foods, care support products and technologies, wearable body function monitoring, and dental health. For example, Finland is a world leader in heart rate monitoring personal devices and more than half of the world's high-end 3D and 2D digital dental imaging devices are made in Finland.

Finland's dynamic ICT sector

The Finnish ICT sector has created many unique technologies, such as the first smartphone and the Linux operating system. The ongoing legacy of the Nokia ecosystem means that Finland has unique strengths in mobile hardware and software, communications services and next-generation networking. International companies like Huawei, Intel and Samsung have set up R&D centers in Finland to take advantage of this expertise and the dynamic innovation environment.

The global success of games like Angry Birds and Clash of Clans, produced by Finnish companies Rovio and Supercell, has trumpeted the emergence of a new fast-growing industry. Finland also has the strongest ICT security ecosystem of its kind in Europe as well as a boom in innovative start-up companies, many of them spin-offs from Nokia.

Other Finnish ICT investment opportunities with excellent growth potential include printed microelectronics, Internet of Things, Industrial Internet, Geoinformatics and GIS. Finland's security, cool climate and reliable, cheap electricity make it an ideal location for data centers. In recent years, companies like Google, Microsoft and Yandex have established eco-efficient data centers in Finland.

Innovative Cleantech and EdTech

Cleantech is one of the key priorities for the Finnish Government. Private and public research funding in the cleantech sector has reached more than EUR 1 billion annually since 2006. As a result, Finnish companies in this field offer a wide spectrum of innovative products, processes and services. Finland's cleantech strengths include energy and resource efficiency, renewable energy and biofuel, clean processes, materials and products, smart cities and services.

In addition to major cleantech actors like Wärtsilä, Metso/Valmet, Neste Oil, Outotec, Kemira, YIT, ABB, Kuusakoski, Outokumpu, Cargotec, Kone and UPM, there are about 2000 dynamic small and medium-sized companies in the sector, including award-winning growth companies like Eniram, Beneq, Ledil, Normet, Savosolar, The Switch, Tekla and Vexve.

Finnish educational technology companies combine world-class pedagogical expertise with innovative mobile and playful solutions, including e-learning platforms, educational software, digital learning content and educational games. ■

HANNA LANKINEN

Head of Business Development
Invest in Finland
Finland

JĀNIS IKSTENS

AAA

Expert article • 1941

Latvia has seen a noteworthy annual economic growth averaging at 3.8 per cent between 2011 and 2014 but its per capita GDP stood at 64 per cent of EU-28 average¹. The government of Latvia has placed the country's economic development at the top of its priorities as reflected in the National Development Plan for 2014-2020 (NDP)² adopted by the Latvian parliament. NDP calls for an 'economic breakthrough' that is to be achieved *inter alia* by better labour productivity and higher added value. Latvia's Smart Specialization Strategy prioritizes several knowledge-intensive areas that are expected to provide impetus for the entire national economy: bio-medicine and bio-technologies; bio-economics; advanced materials and engineering systems; ICT; smart energy³.

However, knowledge infrastructure in Latvia appears to be underdeveloped and only weakly supportive of the government's ambitions. This article provides an overview of recent efforts to reform Latvia's higher education so as to facilitate the implementation of the 'economic breakthrough' plan.

The higher education sector is notably fractured in Latvia – as of September 2014, there were 57 institutions of higher learning and three branches of foreign institutions operating in Latvia. Thirty-four of these institutions are established by the state while the remaining 26 institutions are privately owned. Higher education is funded by a mix of public and private money, with some 40 per cent coming from national public funding, 26 per cent from private sources, 17 per cent from EU funds, and 17 per cent from other sources. The share of students financed by public funds has grown from 28 per cent in 2008 to 40 per cent in 2014. In state-established institutions, the share of publicly funded students stood at 55% in 2014, which continued to force these institutions to maintain awareness of dropout rates under the circumstances of falling enrolment totals – the number of students shrank by about 30 per cent between 2008 and 2014⁴.

Yet, the scarce public funding has made only a limited impact on efforts of state-established universities and colleges to attract private funding apart from student fees – only four per cent of R&D funding in 2014 came from contracts with businesses, and private colleges contributed virtually nothing. This sheds some light on the low level of R&D spending in Latvia that amounted to 0.68 per cent of GDP in 2014⁵. Other indicators of academic excellence such as number of publications in peer-reviewed outlets and participation in international research projects have also been generally below expectations of policy makers.

It is against this background that new measures to revitalize institutions of higher education and research were taken by the government. A new agency tasked with accreditation of study programmes

is being established. It is expected to enforce regulations of higher education more strictly so as to improve the quality of higher education. If fully implemented, this measure will likely reduce the number of players in the market, particularly, in social sciences and humanities where most of private colleges operate.

On the other hand, the government is increasing competition among state-established universities and colleges by means of a reform of their funding scheme. The new system of financing is to be introduced in 2016 and it will include three major pillars: (1) basic funding for study programmes and research; (2) performance-tied funding; (3) development funding.

The basic funding will be allocated in relation to the number of publicly funded student slots. The academic areas and the exact number of those slots will be determined on the grounds of strategic specialization of public universities and colleges. A fraction of public funding may also be allocated to private colleges if they offer quality study programmes absent at public universities. However, the new system would not preclude state-established institutions of higher learning from accepting fee-paying students on top publicly funded slots.

The performance-tied funding is a major change that is expected to make public universities and colleges much more accountable for the results of their work. The amounts disbursed will depend not only on the number of international students, share of dropouts and employability of graduates but also on amount of research funding from sources other than the state budget, bibliometric data, and transfer-of-knowledge indicators. Criticism has been voiced that the new system puts an excessive emphasis on funding attracted from municipalities, giving unfair advantage to particular colleges established and/or co-funded by municipalities.

The development funding is expected to strengthen primarily the research profile of public institutions of higher education, which were to coin their research development strategies by the end of 2015. It is the implementation of these strategies that the development funding will primarily be directed towards. In addition, the development funding may be used to forge innovative study programmes, to increase the number of graduates in STEM disciplines and to improve university governance. However, only EU funding will be allocated for developmental needs in a foreseeable future.

This is the most ambitious reform of Latvia's higher education and research in years. It ties the much-needed additional public funding for universities and colleges to changes in *modus operandi* of this sector, which should make institutions of higher learning more accountable for their performance and attune them to broader developmental goals and priorities of the country. This well-intended reform, however, creates risks of overproduction of STEM graduates as the national economy may not be able to absorb the expected increase in STEM enrolments, which may facilitate economic migration from Latvia. ■

JĀNIS IKSTENS

Professor in Comparative Politics
University of Latvia
Latvia

¹ Eurostat data, <http://ec.europa.eu/eurostat/tgm/table.do?tab=table&init=1&language=en&pcode=tec00114&plugin=1> (last accessed on 3 January 2016)

² National Development Plan of Latvia for 2014-2020, http://www.pkc.gov.lv/images/NAP2020%20dokumenti/NDP2020_English_Final.pdf (last accessed on 3 January 2016)

³ Izglītības un zinātnes ministrija (2013). Informatīvais ziņojums "Par Viedās specializācijas stratēģijas izstrādi", <http://tap.mk.gov.lv/mk/tap/?pid=40291636> (last accessed on 3 January 2016)

⁴ Izglītības un zinātnes ministrija (2015). Pārskats par augstāko izglītību Latvijā 2014.gadā, http://izm.gov.lv/images/statistika/augst_izgl/14.pdf (last accessed on 3 January 2016)

⁵ CSB (2015). Pētniecības statistika. http://www.csb.gov.lv/sites/default/files/nr_36_petniecibas_statistika_15_00_lv.pdf (last accessed on 3 January 2016)

RISTO HIEKKA

Latvian economy as a business environment for a Nordic SME company

Expert article • 1942

After gaining its independence in 1991, Latvia has fully integrated in EU and NATO as well as developed rapidly as other Baltic States. The change of the Country after early 90's has been remarkable and Latvia has found a solid position in the fields of politics and economy. The past 25 years have been a continuous string of changes and converge to the old continent. Naturally the starting point was not the most favorable: Infrastructure missing or disabled, industrial base created during Soviet time and standard of living close to the average eastern European country. But this did not prevent Latvia to take huge steps towards freedom, improving standard of living and general development of the society and economy. How has this been possible and what were the main obstacles on way to change and development within only a quarter of decenium?

The population of the Latvia is today 2,03 million representing only some 2 percent of the Baltic Sea region. The nation has always been fast and flexible; able to change rapidly its direction. The central location between two other Baltic countries has also supported Latvia and ice free ports have been a strong value for trade and exports. Good education system and R&D of certain industrial fields have made it possible to create some top quality European enterprises. However, nothing happens without high spirit and strong will and awareness of the glorious past. In the history Latvia has always faced dramatic times and it has been under several occupations; first under German knights and Hanseatic league, then under Sweden and later part of Russian Empire. Latvia has always benefited from it's position as a gate between east and west.

High quality education system both in technical and economical faculties of Riga generates educated workforce for needs of Latvian enterprises. One should not forget the other studies Latvian Universities offers just to mention agriculture, forest sciences, medical and different arts. Today it is not difficult to find competitive, skillful and well educated management when expanding activities towards Latvia. When visiting Riga, one finds out great architectural treasures and it is easy to imagine the standard of living a century ago. The same high quality goes with different fields of arts no matter if one compares music, ballet, opera, hand crafts, design or just visits some of the excellent restaurants of Riga. A certain flavor of art is everywhere and in many cases this has been successfully combined to different fields of business activity. Of course there some exceptions and for example the opinions may vary when judging the architecture of the recent library. In general Latvians are innovative, creative and ready for something new.

Several new Finnish SME's should enter to the market and benefit of local competitive advantages.

When competing with other European nations Latvian economy has shown excellent GDP growth rate over the last years. After several highly intense years of economical growth starting in 1999 and lasting to 2007, world wide finance crisis hit Latvia even harder than any other European nation. The GDP dropped some 18 per cent in 2009 and unemployment rate was close to 26%. That time the youngest European Prime Minister Valdis Dombrovskis was facing extremely difficult and demanding task to guide Latvia towards stability and growth and he did it with success. Each and every Latvian citizen was paying the bill by cutting their salary, benefit or pension and the standard of living dropped widely. After highly painful cuttings Dombrovskis was elected also to the second period which shows the great spirit and profound understanding from the nation. Needless to mention that this was a 180 degree variation to the IMF / EU supported Greece path. Since 2012 the Latvian economy has faced a growth rate of 3,0 % to 4,5 % which brings a podium place almost every year in European scale. Could Finland learn or copy anything of that? The answer is : We could and we should.

Latvian companies are successful in the fields of wood industry, metal industry, medical R&D and food production. Today there is quite stable business society from Finland in Latvia and some 350 Finnish companies are represented in Latvia, most of them located in Riga. At the same time there is less than 20 Latvian companies having activities here in Finland. In the year 2014 Finland's export to Latvia was some 640 mill euros but Latvian export to Finland only some 360 mill euros. Under the prevailing sanctions and Russian counter sanctions export to Russia has calmed down and there is a certain need for Latvian companies to find new markets. When Latvian president Berzins made a state visit to Finland in January 2015 the business delegation included some 85 members from Latvia. A year before when president Niinistö had a similar state visit to Latvia only three large Finnish companies were participating: Fortum, Gasum and Holming. Very few Latvian companies have found their way to Finland and the latest targets are set in food industry. The Latvian investment agency LIIA has decided to open a permanent representative in Helsinki and Ms. Alise Barvika started last year. She has a demanding task of bringing new Latvian exporters to Finnish markets with the current focus on groceries.

Expert article • 1942

In early 90's the first large Finnish investments in Latvia were made by State owned companies, like Enso-Gutzeit (later Stora-Enso) NesteOil and Sonera. At the end of 90's and around Millenium Latvia attracted more medium size and small companies and such branches like construction, real estate, banking, insurance, logistics and transport. Since 2002 the two large food retailers have entered to the market. First Kesko Group made strong efforts to create a chain followed by S-Group since 2007.

The activities of Finnish companies are rather stable in Latvia and most of the companies acting in Latvian market have already been there more than 10 years. This does not mean that there is not living space for new entries; on the contrary. Several new Finnish SME's should enter to the market and benefit of local competitive advantages. Instead of transferring production to Far East one may found much closer such business environment that makes it worth considering. Local salaries, premises and taxation are competitive and professional and motivated employees available. Latvia may offer also three separate economic-zones which provide taxation benefits for new entries to Latvia.

Summary: The business relations between Latvia and Finland are excellent and the two minor European nations living on the cost of Baltic See have many things in common both geopolitically in the past but more economically in the future. Mentally it is easy to co-operate with Latvians and the physical distance is small as Riga is closer to Helsinki than Oulu or Stockholm. ■

**RISTO HIEKKA**

Chairman
Castor Construction Sia

Chairman
Finnish Latvian Trade Association
Finland

Pan-European Institute

**BALTIC RIM
ECONOMIES**

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SIGITAS BRAZINSKAS

Role of regional integration in market selection: the case of SMEs

Expert article • 1943

World economies and global trade face continuous challenges, bilateral sanctions have been applied by trade blocks and countries. It caused changes in international trade between economies and made a significant impact in companies development where the trade nature has been steady and predictable for decades. Asia-Europe trade has declined by 6 %, Russia's import through Europe-by 25 % (2015). Multinational companies start looking on international business from regional perspective where trade across borders becomes more intense. The current international business environment is uncertain and requires constant policies review by trade policy makers, implementers, facilitators and business itself.

Under such circumstances the business and SMEs have to find and adjust to new market conditions, diversify existing and explore new markets. SMEs have limited resources in production, R&D, financial and human capital, any new action requires to review and assess growth opportunities. While SMEs implement their growth strategies, they might be guided by knowledge based actors as universities, business promotion organizations, business advisers, trainers.

Preliminary assessment of existing situation has caused a need to compile a survey among Lithuanian SMEs by identifying their methods on market selection and diversification as well as assess the degree of global and regional approaches on foreign market selection. As there have been different external advices by different actors as public institutions and trade associations to look globally and explore markets which have not considered previously, a natural question became open on market selection and a need for further recommendations. Therefore, an on-line survey of 450 Lithuanian companies was conducted in September 2015. The main objective of the survey was to discover the perspectives of companies regarding their relationships with methods used in foreign market selection and evaluate the degree of a perspective to regional integration.

Companies were asked to select among five methods (scale from 1 (least used) to 5 (most used)) used in foreign market selection: 1) external recommendation; 2) to follow other companies; 3) systematic market research; 4) neighboring (geographic proximity) market; 5) accidental market selection. While entering foreign markets, 62 % of companies simply use neighboring markets primarily. In contrary, market research and to follow other companies export strategies (to play a role of followers) are used by 30 % of companies as dominating methods. Accidental market selection and following external recommendations are used by 20 % of companies only. The research has drawn attention to two methods as systematic market research and external recommendations on target markets used by 30 % and 20 % of companies respectively as dominating one. Hence, there is a clear gap in knowledge based approach to use market research principles and analysis of other knowledge based stake holders and actors as consulting, research and training companies, universities. Companies

prefer to enter, expand and use understood and on cultural similarities and geographic proximity based foreign market selection methods and prefer to establish cooperation with Nordic markets. However, combination of two essential components must emerge: 1) promotion (international trade fairs, presentations, visibility) and 2) development (market research, business opportunities analysis, meeting technical standards, continuous R&D, disruptive technologies).

The research shows a five-year perspective strategy from 2015 upwards used by Lithuanian SMEs. Almost 50 % believe to continue their development based on regional approach. In addition, market selection will be affected by perspectives of efficient transport costs, existing market share growth instead new markets expansion, further strengthening in host countries due to gained experience. Foreign markets mentioned were Nordic countries and United Kingdom primarily. Only 20 % companies believe to be global players. The 5-year strategy approach has set up guidelines and SMEs vision towards future development. It has to be admitted that companies started to assess growth strategies on a more systematic way by assessed growth opportunities worldwide and regionally.

By incorporating the perspectives of regional integration through market selection methods used by Lithuanian SMEs, this research provides with a more complete view of the geographic proximity and regional cooperation importance. When traditional markets do not provide with growth opportunities, SMEs are faced by a demand to redirect their foreign market growth strategies in a short period of time where the combination of promotion and development measures is an inherent component of international growth. ■



SIGITAS BRAZINSKAS

Lecturer
Vilnius Gediminas Technical University
Lithuania

LIDIA DANIK & IZABELA KOWALIK

The Polish international new ventures: strategies and success factors

Expert article • 1944

Revenues from exports constitute over 40% of the Polish GDP, and in 2014 they increased by more than 7% (GUS, 2015). In the past few years the export dynamics in the Polish small and medium-sized enterprises group were exceeding the dynamics of the exports generated by large-scale firms. Jointly the SMEs are generating over 82% of the Polish exports (PARP, 2014). Almost one-fourth of the Polish small firms and over 40% among the medium-sized firms are exporters (repres. CATI study, PARP, 2015). Moreover, the so-called „intensive exporters” (generating 50% or more of their revenues from export) constitute 28% of the small, and 33% of the medium-sized Polish exporters groups. According to various estimates from 35-50% of the Polish SME-exporters initiate functioning on the foreign markets at the moment of their establishment (PARP, 2014). Such companies, generating at least one-fourth of revenues from exports during their early stages of existence, and active on several foreign markets at once, have been the focus of management studies for the last two decades. They are defined as “International New Ventures” (INV), “Born Globals” or “International Start-ups”, and large numbers of such enterprises were identified mainly in the Scandinavian, North-American, and other highly-developed economies. Market concentration coupled with a clear differentiation of offering is supposed to be the dominant strategy of International New Ventures. Does it work also for the companies from an emerging economy as Poland, which for the last decades was enjoying the comparative advantage at producing low-technology goods?

Two studies conducted in 2013 and 2014 by the Warsaw School of Economics indicate some idiosyncratic traits of the Polish INVs. Both of them included large, representative samples of SMEs from the manufacturing industry, studied by means of CATI method. Together they comprised almost 500 Polish SME-exporters, of which 360 fulfilled the strict “born global” model criteria.

According to the results, the managers of the Polish INVs perceive maintenance of high product quality and customer focus to be crucial attributes in competition with other internationalized SMEs. Furthermore, their competencies such as responsiveness, ethical business conduct and experience are treated as vital success factors. About 61% of Polish INVs under study stated that they exceeded the competition at the rate of introducing new products and 57% - at the product development. Moreover, above two-thirds of respondents perceived the distributional effectiveness to be extremely important for their success. At the same time 77% of them admitted that the source of their main competitive advantage was flexible pricing, which seems to be the unique factor, not observed in studies on INVs from other countries. Apparently the Polish INVs manage to maintain attractive pricing of their offering without compromising the quality, which is

their specificity. They are successfully applying this approach, which is rather not Porter’s “being stuck in the middle” strategy, but a hybrid strategy. It consists of offering upscale products, and thus meeting the customers’ expectations, at a price that constitutes superior value, and allows for achieving sufficient margins to maintain differentiation. However, one may suspect that Polish entrepreneurs assume, that even if their products or services are as good as, or better than the foreign ones, they have to be offered for lower prices.

On one hand the difficulties the INVs face in selling high quality products for high price can indicate a strong and negative country of origin effect, which makes it hard to convince foreign customers about the superior quality. On the other hand, they testify to the poor promotion skills and abilities of Polish companies. Polish companies are aware of their shortcomings in this area. About 41% of the sample companies admitted they did not exceed the competition in promotional effectiveness, and additional 34% of them chose the middle of the scale. The weakest point of the Polish early internationalized enterprises seems to be their lack of marketing planning. Only 19% of the polled claimed they excel the other companies in this area.

Although the Polish INVs applying the described hybrid strategy are already successful, those which are using the differentiation strategy are more profitable. Therefore one can claim, that Polish exporting SMEs could improve their competitive position by strengthening their brand building abilities and managerial skills. Moreover, the Polish authorities should engage more not only in the promotion of Poland as a tourist attraction and the country offering cheap labor, but also as home of high quality branded goods. ■

**LIDIA DANIK**

PhD, Assistant Professor
Institute of International Management
and Marketing
Warsaw School of Economics
Poland

**IZABELA KOWALIK**

PhD, Associate Professor
Institute of International Management
and Marketing
Warsaw School of Economics
Poland

MARIAN GORYNIA, JAN NOWAK, PIOTR TRĄPCZYŃSKI &
RADOSŁAW WOLNIAK

FDI from Central and Eastern Europe: the Polish perspective

Expert article • 1945

The concepts of international competitiveness of national economies and firms, and foreign direct investment (FDI) have always stood at the forefront of international business research. Their relationship has played a particularly pronounced role in the context of transition of former centrally planned economies of the region of Central and Eastern Europe (CEE), including Poland, to a market-led system. This process of economic transformation was accompanied by an increasing integration of national economies into the global business environment. One of the significant features of the Polish transformation was the systematic opening of the economy to foreign direct investment. This process was facilitated by economic reforms, including the liberalisation of FDI and foreign trade regulations, as well as privatisation of state-owned enterprises. As a result, Poland has received substantial FDI inflows since 1995, and has emerged as a significant outward foreign investor since mid-2000s, with accelerated growth rates over the past years.

Firms from Poland and other CEE countries have been recently intensifying their expansion into foreign markets via FDI. The cumulative value of outward FDI (OFDI) from Poland, for example, exceeded 65 billion USD in 2014. The ratio of the cumulative value of Polish OFDI in 2012 to that in 2003 reached the level of 2682.5% compared to that for the European Union (EU) of only 201.3%. It should also be stressed that in the Polish case, for every year in the 2004-2013 period, including the economic downturn, this ratio was higher than 100% recorded on a year to year basis. This rising trend has generated a pressing need to better understand and explain the expansion strategies of these newcomer foreign investors. The interplay between inward and outward FDI in conjunction with economic development of a given country constitutes the essence of the investment development path (IDP) paradigm. In this context, the concept of IDP can be applied to a transitional economy, in this case Poland, since 1990. The IDP approach combines the effects of inward and outward FDI on the country's growth and development patterns, exerting a major influence on the extent and speed of the transition process. Our research shows that in Poland the lag between outward and inward FDI is still greater than the country's GDP level would imply. This is mainly due to the pull of the large internal market, the still weak competitiveness of domestic firms in international markets and insufficient government policies stimulating more actively the formation of firm specific ownership advantages and implementing them abroad via outward FDI.

An important aspect of OFDI from CEE countries is the ongoing, albeit inconclusive, debate on its effects on home countries and therefore the rationale for governments to promote it. Although in many cases substantial support measures have been implemented, the established policy frameworks are frequently still at a nascent stage. At the microeconomic level, OFDI can be viewed as a means of achieving the firms' strategic objectives and enhancing their international competitiveness. At the macroeconomic level, research in international business has been disproportionately concentrated on the impact of FDI on host economies and the local firms. While there is no firm evidence that OFDI has a detrimental effect on home economies,

the consequences of OFDI for home economies can vary in the short- and in the long-run, as well as between developed and developing countries, which makes formulating clear policy recommendations a difficult task.

We argue that OFDI support measures should be investigated in a wider context. Alongside financial and non-financial instruments explicitly devised by governments to promote OFDI, broader policies supporting the competitiveness and internationalisation of local firms should be incorporated in the discussion on OFDI support. This approach is of particular relevance in the context of emerging markets, where it is still to be evaluated whether direct OFDI support can be effective unless preceded by an overall improvement of the domestic economies' and firms' competitiveness. This aspect should be an important consideration for policy-makers in choosing policies which serve the home country's sustainable development in the long-run. Finally, at the implementation level, a crucial determinant of effectiveness of an OFDI support system is its availability to and awareness by its potential recipients. The analysis of the Polish case shows that OFDI support measures are still dispersed and partly overlapping.

A salient advocated feature of government strategy in Poland regarding FDI resides in the adoption of a rational approach which stresses both the continuation of efforts to attract foreign investors to Poland and at the same time to encourage Polish firms to expand abroad using all available modes, especially exporting and OFDI. Since the outward thrust of Polish economic policy has been intensified only relatively recently (for approximately the last 3 years), taking advantage of these efforts by the corporate sector and their transmission into sustainable foreign expansion is still to be observed. Their principal aim and design should not only be guided by the logical and paramount drive to improve and develop the competitiveness of Polish firms in foreign markets, but also to upgrade the international competitiveness of the Polish economy as a whole. ■

MARIAN GORYNIA

PhD, Professor
Poznań University of Economics
Poland

JAN NOWAK

PhD, Professor
IBD Business School
Poland

PIOTR TRĄPCZYŃSKI

PhD, Assistant Professor, supported by
the Foundation for Polish Science (FNP)
Poznań University of Economics
Poland

**RADOSŁAW
WOLNIAK**

PhD, Senior Lecturer
University of Warsaw
Poland

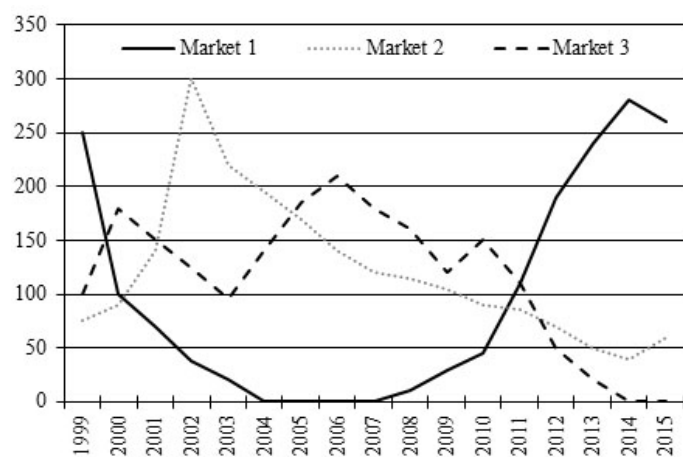
TIIA VISSAK

Estonian evidence on exporters' nonlinear internationalization

Expert article • 1946

International business scholars have mostly studied exporters' linear internationalization defined as achieving slowly or quickly increasing involvement in export activities. Nonlinear internationalization can be defined as "experiencing substantial changes in export shares (including the shares of some markets) or the pace of internationalization" (Vissak 2014: 232)¹. A nonlinear internationalizer can de-internationalize – exit some markets completely and/or reduce exports to some others but still continue exporting there – and also re-internationalize: re-enter some markets fully or partially. These "jumps" can occur once or several times (Vissak 2010).² Such an internationalization path is depicted on Figure 1.

Figure 1. A hypothetical example of nonlinear internationalization, thousand EUR



According to Vissak and Masso (2015)³ who used firm-level data of all Estonian exporters, 69% of Estonian exporters can be considered nonlinear internationalizers as they have reduced and/or stopped exporting to at least one foreign market. Moreover, a majority of these exporters only tried exporting for a year and, thereafter, some continued selling only on their home market and some were closed down. Exporting for 10 consecutive years or more is very rare: less

¹ Vissak, T. (2014). Nonlinear internationalization in the context of nonlinear economic development: The case of Krenholm Group. *Transformations in Business & Economics*, 13(2A): 431-447.

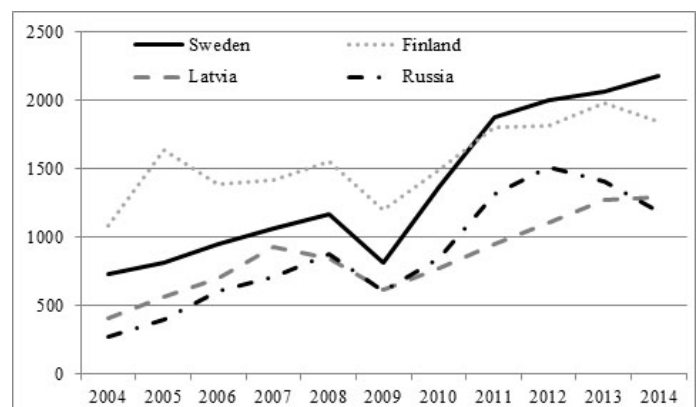
² Vissak, T. (2010). Nonlinear internationalization: A neglected topic in international business research. In: T. Devinney, T. Pedersen, & L. Tihanyi (Eds.), *The past, present and future of international business & management*, Bingley: Emerald, 559-580.

³ Vissak, T. & Masso, J. (2015). Export patterns: Typology development and application to Estonian data. *International Business Review*, 24(4): 652-664.

than 8% of Estonian exporters manage to achieve this. Vissak and Masso (2015) also stated that exporting is more risky than only focusing on local activities as in Estonia, non-exporters' survival rates are about two times higher than exporters' survival rates.

According to Statistics Estonia's foreign trade data⁴, Estonia's overall exports have also developed nonlinearly: although the general trend is positive, in several years, exports to some countries have decreased. The country's exports to its four main trade partners are depicted on Figure 2. It shows that Estonian exports to these countries have fluctuated considerably and in recent years, these "jumps" are especially evident in trading with Russia and Finland.

Figure 2. Estonia's exports to its four main target countries, million EUR (based on Statistics Estonia)



Estonian exporters' nonlinear internationalization has been caused and influenced by several factors. Some of them can be regarded external like changed business/industry or political environment (in terms of production costs, competition, demand, exchange rates, tariffs, entry restrictions or export quotas). On the other hand, owners' or business partners' problems (especially as many firms only have a few foreign customers and they only export to a couple of foreign markets), unstable foreign orders or changes in exporters' strategies can also result in full or partial exits and/or re-entries (Vissak 2010; Vissak 2014; Vissak and Masso 2015).

⁴ Statistics Estonia (2015), Foreign trade, <http://www.stat.ee/foreign-trade>

Expert article • 1946

Nonlinear internationalization is not only an Estonian phenomenon. It has been also observed in other countries: for instance, in Italy (Bonaccorsi 1992, Vissak and Francioni 2013)⁵, Hungary (Halpern and Muraközy 2011)⁶, Germany (Wagner 2012)⁷ and Chile (Álvarez and López 2008)⁸. Thus, it needs more attention from researchers, policy-makers and business people as they cannot expect that

all firms' export growth can continue forever. Moreover, they should understand that "jumps" in exporters' international involvement can be completely normal and sometimes managers cannot do much to achieve a more linear export growth. ■

TIIA VISSAK
Senior Researcher
University of Tartu
Estonia

⁵ Bonaccorsi, A. (1992). On the relationship between firm size and export intensity. *Journal of International Business Studies*, 23(4): 605-635. Vissak, T., & Francioni, B. (2013). Serial nonlinear internationalization in practice: A case study. *International Business Review*, 22(6): 951-962.

⁶ Halpern, L. & Muraközy, B. (2011). Firm size and extensive margin: Hungarian exports. *Economic and Business Review*, 13(1-2): 27-50.

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IRINA RANNAK

Socio-cultural identification of Russian-speaking population of Estonia in the evolution of tourism activity

Expert article • 1947

The goal of this presentation is to show the socio-cultural identification of Russian-speaking population of Estonia in the process of evolution of socio-cultural practices of Estonian tourism, starting with its origins, in other words, in the Estonian tourism period of the first Republic of Estonia (20-30 years of XX century), its recent history as a Soviet-style tourism, up to modern tourism of the Republic of Estonia as a factor of constructing personal behavioral strategies of the intelligentsia of the Russian community, which is a part of Estonian society.

Here is being presented the Etymology of representatives of this small community within Estonian society: from the descendants of the Old Believers, 17th century, coming up to the population of the former Soviet Union until the early 90's of the last century. Informants were people from 36 to 80 years of age, born or living in Estonia almost their entire adult lives, characterized by gender and education. During the interview each person was asked to refer to the earliest personal memories of travel experience, to recall the practice of their parents and, if possible, their ancestors, in order to obtain a more complete picture of the Estonian tourism in the above mentioned periods. Each informant, due to his or hers particularity gave their unique impressions and interpreted their practice differently.

The analysis is based on a qualitative research method and motivations for social change in the system of cultural tourism practices of this community representatives of the Estonian society.

In Estonia, in the Middle Ages, the practice of tourism, both as a studying tourism and as travel for the purpose of self-discovery, appeared for the first time in the environment of the Baltic Germans. In the 19- 20th century, according to the informants and other sources, on the development of tourism in the Russian and the Estonian community, strongly influenced by the practice of the German tourist population of Estonia.

Let's look back at the times of the first Estonian Republic. After the monetary reform of 1933 it was decided by the Government that tourism may even out the challenging budget balance of the country, so in various periodicals of the 30s are published easily written materials for travelers about cities, popular vacation sites and Estonian islands. One of the April editions starts with a famous aphorism of Gustav Flobert "The world is great and the traveler is its true owner". The impression is that Estonian people could afford all the routes, inside and outside the country, but there were conducted multiple campaigns to persuade the people to take on the national routes, that is very understandable from the internal economics point of view.

So, prior to the establishment of the Soviet regime free Estonian citizens could travel without restrictions. As per G. Simmel, "the border is not a spatial fact with sociological effect, but a sociological fact that is spatially referenced". As they were again in the spatially limited Soviet territory and keeping the memory of a possibility of free travels in Europe and the rest of the world, Estonians kept traveling within the vast Soviet borders.

The practices of the travels in all the republics of the Soviet Union was majorly used as creating the identity of the "Soviet people", also it was giving the Estonians an opportunity to explore all the diversity of this enormous territory, "one fifth of planets dry land". There were no borders in Soviet Union, only restricted zones close to the Soviet border.

Therefore, in the period of the First Estonian Republic people adopted the habit of traveling, discovering new destinations and nourish their interest towards the new reality. Exactly this interest remained unsatisfied at the time of "closed borders" of Soviet times, adding the limited freedom of movement. As a result one of the forms of social capital was born – social memory of the lost freedom of travel of the "free Republic times". The cheapness and the availability of Estonian tourism of the Soviet period were positive components. In such a way, regardless of the fact that the domineering aspects of patriotism and collectivism were cultivated and there was no freedom of travel outside the Soviet borders, this period was transformed into a positive social memory. This was possible because of realization of the main goal – a possibility of travel, and considering that the possible traveling ground was immense, it has contributed to realization of various cultural practices.

Yet at the same time socio-cultural practices of Estonian tourism during late 80s of last century, that is, the Soviet times, marked by the dominant aspects of education of patriotism and collectivism, the absence of freedom of movement outside of the former State, it negatively affected the development of personal identity. After the country regained its independence, the extraordinary tourism burst was possible with the help of the easy entrance and exit, the basics for which for Estonian people was the so close possibility to make their dream of seeing the forbidden world come true.

Starting from the 90s, when the hard borders of "indestructible union" were slightly beginning to lift, Estonian tourists flooded the for decades forbidden Western world. Over the past 20 years new tourist practices were born and so their differentiation became clear. The main criteria of tourism activity is currently time and space. According to Z. Bauman, the nowadays traveler is a person "who is moved by a goal" and "the goal is a new experience." The consequence of any experience is an internal change that leads to radical changes in personality, changes in identity. According to the analysis of the interviews, it is possible that we are now seeing a return to Tourism - Travel, i.e. the knowledge of the inner self, the search for identity. ■

IRINA RANNAK

Lecturer

Institute of Economics, Tallinn
Estonia

LIUDMILA VORONOVA

The mediated “Russian world”: gender perspective

Expert article • 1948

The notion of the “Russian world” (*russskij mir*) has become a hot issue for discussions in political, media and academic circles. Depending on the actors who use the notion, it refers to compatriots living abroad, Russian speakers, a particular culture and ideology based on the unity of language, traditions or shared visions of the past and the present. The vagueness of the concept allows for appropriation of the notion by nationalists and ultra-conservatives who tend to draw the borders of the Russian world along the categories of race, ethnicity and religious and political views. An important role in the construction of the discourses of the Russian world rests with the media that suggest their own versions of what this world is like and who the ones populating it are. I suggest some examples of how the state-controlled Russian TV-channels constructed a gendered version of the Russian world covering the conflict in Ukraine in 2015.

Channel One, *Rossiya-1*, *Rossiya-24*, *NTV* and *RT* (formerly *Russia Today*) broadcast for both internal and external audiences and reach millions of viewers. The news broadcasts of the channels created a clear dichotomy where everything associated with Russia was acquiring traditional masculine characteristics, and all the Others were labelled “feminine” and “deviant”. Russia was primarily represented by men – the President, ministers, the Patriarch, military, and other white, mainly Slavic, heterosexual, young and middle-aged, physically capable men who explicitly support the state. For example, on his visit to Crimea in September, Vladimir Putin was surrounded by the dwellers (both female and male) scanning “Putin! Thank you for Russia! You are the best president!”, to which he replied, “You are the best, *muzhiki!* Behind the backs of such true *men* one can stand and do everything” (“Vesti v subbotu”, 2015, 12 September).

Ukraine was labelled in the news “a state under external control”, and in several news broadcasts the future of Ukraine in sexually deviant Europe was discussed when, for example, Sir Elton John visited Petro Poroshenko to suggest “rainbow perspectives” to Ukraine, or a sex festival was held on the territory of Ukraine where European citizens promoted “different sexual deviations” to Ukrainians. Europe itself appeared in the media discourses as a light-minded woman after Vladimir Putin in an interview to Italian newspaper *Corriere della Sera* suggested that Russia had never approached Europe as a female lover, but always proposed serious relations.

The Russian world – as constructed by the TV-channels, is also promoted to men ready to adopt the ideology of “spiritual ties” (*dukhovnye skrepy*). These spiritual ties, in the television version, are framed by army, Orthodox faith and traditional culture. The channels eagerly showed such activities as the Tank Biathlon, International

Army Games and MAKS air show. These events created primarily for the purposes of mediation inside and outside of Russia triumphed the progress of the Russian military industry and the skills of the Russian military forces. The viewers of *Channel One* were suggested that “the Russian army has become as much a brand as *matreshka*, *balalaika* and vodka” while demonstrated a collection of a newly opened shop “*Armia Rossii*” (“Army of Russia”), where everyone can buy clothes that look like those of the Russian military – and, thus, virtually become a part of the masculine Russian world.

This tendency of gendering the Russian world in the media discourses can be explained by two factors. First, by the context of what the scholars label the “conservative (re)turn” in Russia. Second, by the self-imposed gender-based censorship – the readiness of the media to comply with the traditional hierarchies in the society, with man on top. This leads even to a somewhat overdriven interpretation of the signals coming from the political power. In the speech by Vladimir Putin in 2012, where the expression “spiritual ties” was coined, these ties were comprised of features of charity, sympathy, compassion for one another, support and mutual assistance. These characteristics can be read as associated with femininity and with the image of *Rus'-matushka* – Mother Russia. Yet, the same concept is efficiently used by the TV-channels for deconstructing the feminine image of Russia and constructing a masculinized Russian world. In the other discourses, such as social networks, the Russian world is becoming a yet more exclusive entity allowing for entrance only to those who share the conservative views and values, where some users screened their avatars with a semi-transparent Russian flag as a symbol of dissent from the “rainbow Western world tolerance”. The question remains whether it is the conservative ideology that strategically uses the arsenal of post-modernist instruments suggested by TV and new media, or if it is the post-modernist media that gladly experiment with constructing a new “reality” on the basis of conservative ideology. ■

LIUDMILA VORONOVA

PhD in Media and Communication Studies,
Senior Lecturer
University of Gävle
Sweden



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