

# Europe's Strategy for the Baltic Sea Region

## Foreword



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*It is timely a year after the successful European Union Enlargement to draw the necessary conclusions in a wholly changed situation.*

*The Baltic Sea is bordered by nine countries, eight of them EU Member States, the enclave of Kaliningrad and the St Petersburg region in Russia.*

*This contribution to the development of a European Baltic Sea Strategy is compiled by European Parliamentarians from all the eight Member States in the Region and supported by others from further afield. It should serve as a substantial contribution to the reappraisal of the scope and activities of the Northern Dimension to reflect the changes since the enlargement of the EU.*

*I hope this will form an important basis for future discussion of how we assure that once again the Baltic returns to being a region of great stability, prosperity, realizing once more her full potential and contributing to the overall success of the European Union.*

*This document will be presented to the Presidents of the European Commission and European Parliament as well as the Presidency of the Council in November 2005. Finnish and German Presidencies of the Council in 2006 and 2007 form a window of opportunity for realising the strategy.*

## Introduction



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As of 1 May 2004 the Baltic Sea has, for all intents and purposes, turned into a European Union lake. All but a small section of the Baltic littoral is limned by EU members, sharing not only a common waterway, once again free for movement of people, goods and services but sharing in large part a common cultural heritage as well as legislation. This provides us with a unique opportunity to develop within the EU, regional programmes and policies that take into account the specific issues faced by all the EU countries bordering the Baltic Sea. It has also provided us with the opportunity to think further on the Northern Dimension. The ideas developed by members of the Baltic Intergroup of the European Parliament are now formulated in the Baltic Strategy Paper. Broadly, we focused on four areas the members considered most important: environment, economy, culture and education as well as security.

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## **I Environment**

- The Baltic Sea is one of the most polluted seas in the world. The EU needs a coherent action plan to protect the Baltic Sea.
- The load of eutrophication nutrients to the Baltic Sea must be drastically reduced via new activities in the EU agricultural policy. Also co-operation between EU, Russia, Belarus and Ukraine is needed.
- Protecting Baltic Sea should be taken into account in developing the transport policy and infrastructure.
- Co-operation between EU member states and between EU and Russia should be further developed to reduce the risk of oil tanker accidents, oil field exploitation and to improve nuclear safety.
- The Baltic Sea fisheries must be developed in a sustainable way.

## **II Economics**

- Deepening the integration of the markets in the Region is imperative to tackle the low of competition in the Region.
- The older EU members must drop all their restrictions on the new member states joining the common labour market.
- The transport system must be improved to support the further integration of the regional economy.
- Kaliningrad could act as a pilot for regional integration with Russia. The aim is to create a common economic space between EU and Russia.
- The Region is too dependent on Russian energy and must develop a diversity of supply.

### **III Culture and Education**

- Establishing links between Universities throughout the region is vital to create centres of excellence.
- A common think tank, focusing on the interests of Region as a whole would contribute to a common understanding among decision-makers and decision-making across the Region.
- Student exchange in the Region should be promoted. Particular attention should be paid to exchanges between old and new Member States.
- The exchange of civil servants between Member States should be enhanced, particularly within the Region.
- The EU should support national Governments' initiatives in the field of modernising educational infrastructure as well as in organising cultural tours and exhibitions.

### **IV Security**

- A stable and close relationship between Russia and the EU is imperative for the security of the whole Region. The EU must speak with one voice in relation to the Union's neighbours.
- The development of the Common Foreign and Security Policy must recognise and take seriously the security concerns of all the Member States in the Region.
- A strengthened Europol presence and security co-operation is required to combat the significant level of organised crime in the Region.
- Fighting counterfeiting requires co-operation between police and border control authorities.
- The spread of HIV/AIDS and high figures of alcoholism call for co-operation in the social and health sector.

# APPENDIX

## Background for the Baltic Sea Strategy

For centuries the Baltic Sea has united areas and countries along its coast, and brought them closer to one another and the outside world. Still, throughout most of its history, aspirations to dominate other states and areas have overshadowed political and economic relations. In the years following the Second World War, relations in the Baltic Sea Region were hampered by East-West antagonism.

The strategic position and importance of the Baltic Sea has changed fundamentally over the past few years. Due to the collapse of the Soviet Union and enlargements of the European Union, the Baltic Sea Region is now a showcase laboratory for integration processes in Europe. The emergence of “a Baltic corner in the European house” is seen as part the change resulting from enlargement.

The Countries around the Baltic Sea consist of a third of the population and a third of the GDP in the European Union. The region has the potential to become a core of Europe, not a marginal periphery as it was in the 20<sup>th</sup> century.

Meanwhile, the sea itself is in peril. It is shallow, its water changes slowly, and it is polluted heavily. Saving the Baltic Sea is of vital importance for all the countries in the Region.

The actions and initiatives we propose in this document form the substance of a new Baltic Sea strategy for the European Union. To tackle these worries adequately, a new political framework must be established. This requires the involvement of, besides the eight member states in the region, also of all the EU institutions and of the various organisations already working in the area. These include e.g. Council of the Baltic Sea States, Baltic Sea States Subregional Co-operation, Union of Baltic Cities, Helsinki Commission and the Baltic Development Forum.

The Baltic Sea Strategy is part of the Northern Dimension of the Union. It should serve as a substantial contribution to the reappraisal of the scope and activities of the Northern Dimension to reflect the changes since the enlargement of the EU.

# I Environment

The Baltic Sea is extremely vulnerable for several reasons. The sea is shallow, the average depth being only 58 meters, whereas that of the Mediterranean Sea, for example, is several kilometres. The channel between the North Sea and the Baltic Sea is narrow and therefore the water changes slowly: it takes 30 years for the water of the Baltic Sea to fully change. Polluting substances therefore stay in the sea for a long time. The human burden for the sea is intensive as there are 85 million people living in the catchment area and the maritime transport is among the most intensive in the world. The Baltic is a pool of brackish water. There are both freshwater and seawater species living in the Baltic Sea and for many of them the conditions are extreme, close to the survival limit.

The main environmental challenges for the Baltic Sea are eutrophication, persistent pollutants, e.g. dioxin, PCB and organic tin compounds, alien invasive species, deliberate illegal discharges from ships, growing risk of oil accidents, from oil field exploitation and rapidly growing oil transport, as well as nuclear safety.

After the recent enlargement, the Baltic Sea is almost internal to the EU, with the exception of Kaliningrad and the Eastern end of the Gulf of Finland which belong to Russia. Therefore, many of the environmental problems can mainly be solved by the actions of the EU and the Member States. But there are also areas where co-operation with Russia is needed. The EU needs a more coherent action plan to protect the environment of the Baltic Sea.

The European Maritime Strategy foresees a regional approach to the protection of the marine environment across European seas. The EU Marine Strategy should form the environmental pillar of the foreseen Maritime Strategy. EU should support the specified actions and targets in the Baltic Sea action plan by HELCOM in bilateral relations with Russia, Belarus and Ukraine. Projects developed under the Northern Dimension, TACIS and other financial instruments negotiated between EU and these countries should be formulated in a way that they take into account Baltic Sea aspects and support the implementation of the HELCOM Baltic Sea action plan.

HELCOM has produced a list of “hot spots”, the most important pollution sources around the Baltic Sea. Over 50 of the 132 hot spots identified in 1992 have already been cleaned up.

- The special characteristics of the Baltic Sea should be taken into account in formulating the EU Maritime Strategy. An improvement in sea monitoring and the elaboration of joint measures to prevent coastal erosion are required.

## 1. Eutrophication

The visible sign of eutrophication is murkiness of water and growth of algae, e.g. the toxic blue green algae which has caused many coastal areas to become useless for recreation activities in summertime. The situation is worsened by an internal burden of the sea. Nutrients, nitrogen and phosphorus have been accumulating at the bottom sediments of the sea for several decades, so signs of eutrophication have not been visible. When there is oxygen deficit in the bottom, nutrients are released from the bottom sediments to upper water layers. This makes reducing nutrients in the water column more difficult. A recent study published in Sweden suggests that the Baltic Sea

may have already passed beyond a critical threshold, which means that the ecosystem may possibly never fully recover.

The biggest point load source of eutrophication in the Baltic Sea is the city of St Petersburg. St. Petersburg's South-Western wastewater treatment plant was opened in September 2005, which brought previously untreated waste waters of 700 000 people to modern treatment. But the waste water of 800 000 people still goes untreated to the sea. Further investments are needed to channel this waste water to treatment plants and to improve the processes in existing waste water treatment plants. There are also several smaller cities along the Russian coastline without proper wastewater treatment. The enlargement of EU has improved the situation in the new EU member states; they are implementing community legislation also in the field of sewage water treatment. There are important point load sources also in Belarus and Ukraine. Activities related to the reduction of the pollution of transboundary waters in order to decrease the pollution load to the Baltic Sea need to be implemented.

- Further co-operation between EU and Russia, including funding from EU and the member states and from European financial institutions, is needed to reduce the load from Russian cities, both from St Petersburg and Kaliningrad as well as from smaller cities. Co-operation with Belarus and Ukraine is also needed to reduce the point source load from these countries.

The biggest eutrophication nutrient load of all comes, however, from non-point load sources such as agriculture and transport, the biggest source being Poland's agriculture. Also load from Ukraine and Belarus is carried to the sea by river Vistula. Also rivers like Neva and Nemunas are carrying eutrophication nutrients from non-point sources. When agriculture is being modernized in the new Member States, it is important to prevent further increase of eutrophication nutrient load. Additionally, releases from old Member States need also to be reduced further.

- Special measures in the EU agricultural policy are needed to reduce the eutrophication load from agriculture to the Baltic Sea. This should be taken into account in developing the Common Agricultural Policy. A number of new activities may be introduced and co-ordinated across the Baltic Sea Region, particularly in the agri-environment measure of CAP.
- Co-operation with Russia, Ukraine and Belarus is needed to reduce the eutrophication load from agriculture and other non-point load sources of these countries.

Nitrogen oxide emissions from maritime and land transport also play a role in eutrophication, because nitrogen oxides dissolved in the seawater act as nutrients. About one fourth of the nitrogen load to the Baltic Sea comes from airborne inputs. The deposition will not decrease by 2010 even if the NEC Directive targets are fulfilled.

- It is necessary to continue measures to reduce emissions from land and maritime transport. When it comes to land transport, investments in railways are more favourable for the Baltic Sea environment than investments in road transport. Nitrogen emissions to the Baltic Sea should be taken into account in the revision of the targets of the NEC directive in 2006/2008.



## **2. Persistent harmful substances**

Persistent organic pollutants, such as dioxin, PCB, organic tin compounds and brominated flame retardants accumulate in nutrient chains. In Baltic herring, the content of brominated flame retardants is 5 times higher than that in Atlantic herring. The dioxin content of Baltic herring exceeds the EU dioxin limit for human food. Also the content of persistent pollutants in fish eating species such as seals and sea eagles living in the Baltic Sea region are 2-5 times higher than in the North Sea.

The situation, however, used to be even worse in recent decades, at least in some respects. In the 1970s the seals in the Baltic Sea almost became extinct because organic pollutants made most female seals infertile. Now the seals are recovering. Legislation and international conventions to ban emissions of persistent organic pollutants have been adopted. But new problems are emerging. The harmful nature of organic tin compounds has been understood only recently. These substances have been used for decades in anti-foul paints for ships and they are present at high levels in the sea bottom sediments close to shipyards. Similarly, it has only fairly recently been realised that many of the organic pollutants act as endocrine disruptors, which can alter the sexual organs of fish and affect also the human hormone system.

Emissions of harmful substances have been partially cut. But there are, for example, sources of dioxin which are not yet fully identified. There are also dumping grounds for toxic substances in Russian territory, e.g. an open dumping ground called Krasnyj Bor close to St Petersburg. If the dam around the dumping ground should break, huge amounts of toxic substances would be released into the river Neva and flow to the Baltic Sea.

The first selection of priority substances under EU Water Framework Directive did not include information from new member states, or Russia, nor did it take into account the marine aspects.

- Further research is needed to better understand the sources of toxic substances in the Baltic Sea and the influence of these substances in ecosystems. Further measures are also needed to stop and limit the emissions of harmful substances to the sea. Co-operation with Russia is needed to stop emissions from Russian sources and to treat the dumpsites of toxic substances in the Russian territory in a proper way.
- EU financial instruments could be targeted for capacity building in order to be able to identify and address specific hazardous substances and in order to improve data collection.
- EU legislation e.g. on pesticides should allow derogations for Baltic Sea catchment area taking into account of the vulnerability of the sea.

## **3. Oil discharges and oil transport**

For decades there have been deliberate illegal discharges of oily water from ships, although the Baltic Sea is a MARPOL 73/78 special area to control discharges of oily waters. HELCOM, the governing body of Helsinki Convention to protect the Baltic Sea, adopted a recommendation on “non-special-fee” some years ago, to include the price of waste treatment of ships in the normal harbour fee, to discourage releasing oily ballast waters and other waste waters to the sea.

- The HELCOM “non-special-fee” Recommendation and the requirement on mandatory delivery of wastes as contained in the Helsinki Convention should be considered when EU is revising the port reception facilities in 2006. Co-ordinated action of Baltic Sea countries in fining the shipping companies releasing illegal discharges is also needed. Environmentally friendly transport solutions should be promoted, including the development of pipeline transportation through the Baltic States and Poland and in sea transport with the application of the concept of "clean ships"

The new oil harbours in Russia have doubled the oil transport in the Gulf of Finland in a short time, and oil transport will continue to increase. This, of course, increases the risk of oil spills. To reduce this risk a control system called VTMISS (vessel traffic monitoring and information system), “a maritime version of air traffic control”, has been established in co-operation between Estonia, Finland and Russia. Every ship coming to the Gulf of Finland is registered and monitored by the system.

After the accident of the Prestige tanker near the Spanish coastline the EU banned single hull heavy oil tankers from entering EU harbours. The difficult conditions in wintertime, however, present a particular problem for the Baltic Sea. The norms for ice strengthening of ships are different in different countries. In winter 2002 oil was transported from Russian harbours by tankers which would be sufficient in summertime, but, at least according to Finnish standards, were not sufficient for ice thickness of 70 cm. These ships were transporting oil to harbours in EU countries. To improve safety of winter navigation in the Baltic Sea, the Parties of Helsinki Convention adopted a new recommendation on ice classification of ships in March 2004.

- Co-operation between EU member states should be further developed to reduce the risk of oil tanker accidents and to improve capability of action in case of accidents. The requirements for icy conditions should be taken into account when revising the Directive on vessel traffic monitoring and information system. The Union should refuse to receive tankers in EU harbours if they have travelled through icy conditions without proper ice strengthening.

In 2004 Russia started offshore oil drilling 7 kilometers away from the Lithuanian-Russian sea borderline and 22 kilometres away from Curonian Spit National Park, a UNESCO World Heritage site. The Curonian Spit is a 99 kilometers long cultural landscape and a sensitive ecosystem, shared by Lithuania and Russia (Kaliningrad).

- Enhanced co-operation with Russia to improve the environmental safety of oil field exploitation in the Baltic Sea is needed, including risk assessments and emergency plans.

The environmental impact and costs of construction of the North European Gas Pipeline under the Baltic Sea should be considered.

The development of the sustainable exploitation of renewable natural resources of the Baltic Sea Region should be explored. Support for joint research in the field of natural resources of the Baltic Sea should be encouraged, as well as the evaluation of the exploitation of these resources in the context of the preservation of the Baltic Sea's environment.

## 4. Nuclear safety

In Sosnovyi Bor, close to St Petersburg and 200 kilometres away from Helsinki and Tallinn there is a nuclear power station with 4 reactors of the same type as in Chernobyl, 1000 MW capacity each. The oldest of these reactors reached the 30 year lifetime for which it was designed in 2003. It received a further operating permit allowing it to continue for some years. The operating permits of the other reactors are going to expire in less than 10 years. The intermediate waste storage for used nuclear fuel in Sosnovyi Bor has been full for several years. It is located only some tens of meters from the sea shore. There are nuclear reactors of the same design also in Ignalina in Lithuania, but these reactors are going to be closed due to the EU accession of Lithuania. The special safety problem of nuclear reactors of this design is the carbon inside the reactor. In Chernobyl the cooling water was lost from the reactor, air flowed in, and the hot carbon ignited. The smoke of the fire spread radioactive substances in several European countries.

The Russians are planning to extend the operating permits of all the 4 reactors in Sosnovyi Bor and even to construct more, similar reactor units. On the other hand the potential to improve energy efficiency in Russia is huge. The energy consumption to produce GDP of 1 billion euros is 17 times greater in Russia than in the EU-15. The position of the EU Commission is that the nuclear reactors in Sosnovyi Bor should be closed down.

- The EU should intensify efforts to close down the nuclear power station in Sosnovyi Bor. Possibly a win-win solution could be found, supporting investments to improve energy efficiency in North-Western Russia.

Measures to prevent radioactive waste and dumped chemical weapons should be adopted and the necessary financing should be envisaged.

## 5. Biodiversity

The EU and the member countries have a special responsibility to protect and revitalise fish stocks in the Baltic Sea, in co-operation with Russia. The sensitive nature of the Baltic Sea and the effect of pollution on fish requires comprehensive monitoring. The sustainable management of fisheries by conducting high quality research on fish stocks as well as ensuring efficient control over fishing should be supported. The further development of coastal fishing to maintain and create new jobs should also be supported. Cod is particularly important to the Baltic Sea. Salmon used to spawn in rivers all around the Baltic Sea basin and migrate to areas rich of shrimps and fish. Nowadays many spawning rivers are spoiled and fishing in the sea is indiscriminate and too intensive. Some of the fishing methods do not make it possible to differentiate between wild and reared salmon.

The Atlantic Salmon has been protected effectively in the framework of NASCO e.g. by implementing the principle of state of origin.

Revitalising the wild salmon stocks would give excellent possibilities for developing tourism in the Baltic Sea area.

- The wild salmon stocks should be revitalised by rehabilitating the spawning rivers around the Baltic Sea basin and by adopting the state of origin principle and by controlling the fishing methods

The EU Habitats and Bird Directives do not fully take into account the marine biodiversity, including the Baltic Sea. In 1994 HELCOM initiated the establishment of 62 Baltic Sea Protected Areas (BSPAs). At present HELCOM is assessing the implementation status of these protected areas. Some of the BSPAs are also Natura 2000 sites. The results so far indicate that there is an urgent need to continue the work and to include offshore BSPAs into the network.

It is important to raise awareness of the effects of pollution on the sea and assist education and prevention programmes directed towards the sources of pollution e.g. industries and agriculture.

## **II Economy: Achieving the Lisbon goals regionally**

The Baltic Development Forum has compared the competitiveness potential of the Baltic Sea region with three other regions of approximately same size: The Central European Region (Austria, southeast Germany, the Czech Republic, Hungary, Slovenia, Slovakia, and southern Poland), The British Isles and The Iberian Peninsula.

According to the research, the Baltic Sea Region leads in the Competitiveness Index. The Baltic Sea region has in recent years outperformed European peer regions on key performance measures such as prosperity growth, labour productivity growth, and scientific innovation. Key strengths are a strong physical infrastructure, a skilled labour force, low level of corruption, strong clusters and a strong science system.

The competitiveness potential is not fully exploited. Prosperity of the region is below the level of peer regions. The Region is home to only 27 of the 500 fast growing companies ranked in the “Europe 500”. This share is only about half its 10.5% share of EU-25 GDP.

It turns out that the key weakness of the region is the low level of internal competitive pressure. None of the countries in the region alone has a market big enough to promote needed competition. The only solution to the problem is to deepen the integration of the region. This chapter aims to give some examples of the measures that should be taken to achieve this goal.

If the regional weaknesses can be overcome, the Baltic Sea Region has the best growth potential out of the compared regions. The predicted potential for prosperity improvements is close to 10% of current prosperity. Central Europe (14% above the expected level) and the Iberian Peninsula (20% above) conversely enjoy a current prosperity that seems unsustainable given their microeconomic fundamentals.

The differences across the sub-regions of the Baltic Sea Region are higher than in peer regions. This gives the Region higher potential for integration benefits. Empirically, we find that the prosperity of neighbouring countries has a significant impact on a nation’s own economy. This indicates that working together to improve the state of the Region is in the interest of all participants.

A stable, outward-orientated and competitive macro-economic policy setting, a solid knowledge base, well functioning institutions, an environment conducive to global learning and a competitive environment for the generation and diffusion of new technologies are some of the necessary conditions for sustained growth in the Baltic Sea Region.

### **Winning the Lisbon Challenges together**

The Baltic Sea region has become a leader in economic growth and innovation. It is recognized in the EU as the frontrunner in terms of achieving the ambitions laid out in the Lisbon Agenda. It is clear that a regional view has to be an essential part of the national implementation programmes of the Lisbon strategy that will be presented first to the national parliaments and then to the European Commission in near future.

## **Free movement of Labour, Capital, Goods and Services**

The working internal market is a key demand of the Lisbon agenda. The Baltic Sea Chambers of Commerce Association has launched a campaign for 3T = Triple Trade in Ten years. 3T could be a good goal for the regional Lisbon strategy.

Free movement of Labour means first of all that the older EU members drop all their restrictions on the people of new member states joining the common internal labour market. The discussion on labour mobility in the wake of EU accession has highlighted the danger that governments in the Western countries feel forced to curtail regional integration. This threat must be eliminated.

Free movement of Capital can be fully utilized only after the adoption of the euro by Sweden, the Baltic States and Poland.

Truly free movement of Goods and Services requires reducing the costs of the existing trade procedures in the EU internal market. It has been estimated that a normal international trade transaction in the Baltic Sea Region includes 27-30 actors, 40 original documents, 360 copies and 200 data elements. International reports estimate the costs of trade procedures to 2,5-15% of the value of a trade transaction. For example in Sweden trade procedures cost 300 million euros in 2003. Free movement requires also harmonisation of certain standards and requirements across the Region also in cases when the EU is proceeding too slowly.

The Kaliningrad Region of the Russian Federation - as a pilot region of the EU-Russian co-operation - should gradually be integrated into the area of free movement of labour, capital, goods and services.

## **Improving the cross border infrastructure**

Long distances make transport costs count. Therefore transport issues are of special interest to the Region's policy makers. Now, the enlargement of the EU in the Baltic Sea region creates a unique opportunity for the development of a transport sector adapted to modern needs. Ferry connections are of special importance in the Region.

The current transport system is designed to meet national needs and is not optimal for a modern situation when transport is more and more international. For example, the Baltic Sea Chambers of Commerce Association has estimated that the main problem for Swedish rail transportation is the lack of coordination between operators in Europe, rather than the lack of investment in Swedish rail capacity. Econometric studies show Sweden benefiting more from the Danish Öresund Bridge than Denmark; and that Sweden will benefit a lot from the Fehmarn belt while not sharing the burden.

The development of cargo transportation by the creation of an efficient transport chain in the Region promoting combined means of transportation and establishing the Baltic Sea Region as a central transportation link between West and East should be supported. Integral to this should be the creation of new sea transportation routes, thus increasing the capacity of West-East transportation corridors by combining sea and road transport.

An inland route linking the three Baltic States to the other member countries is vital. A new railway "Rail Baltica" should be one of trans-European transport network priority projects. The continuation of the development of essential road construction projects,

including the TEN-T route of the "via Baltica" as well as the financing of secondary transport networks promoting mutual connections of national transport networks should be supported.

The issue of funding is one of the reasons behind the very nationalistic outlook for the infrastructure in the region. It would be profitable for Swedes to pay a part of the costs of the Fehmarn belt in order to facilitate earlier completion, but historic structures prevent them from doing so.

The simplest solution to the problem is to allow credit markets to enter the picture. The State of Denmark could finance the Fehmarn belt with bank credits and then collect the money from all users, also Swedes, afterwards.

Funding is perhaps the biggest source of bias but the traditional planning structures with narrow nationalistic views are also part of the problem. There must be a different planning approach, where planning and prioritizing is done in collaboration between existing authorities in the nations. A process for merging planning between neighbours is needed.

### **Ensuring the supply of safe and clean energy**

Cold climate of the region and the concentration in energy intensive industry mean that the supply of energy must be secured in all situations.

The fast economic growth of the Baltic States, Russia and China may reduce the supply of energy at a reasonable price in the region. In the Baltic Sea Region Russia has approximately 90% market share of gas consumption (not including Germany). It is also a leading regional supplier of oil and cross-border electricity.

Currently about 50% of oil exported, and roughly 60% of natural gas exported, from Russia goes to the EU. Russia is building capacity for transferring oil, gas and electricity to China and Japan. The enormous energy demand of China will make Russia less dependent on demand from the European energy market. This means that the price of Russian energy will rise. A diversity of supply is therefore required.

The Yamal II or Amber Gas Pipeline should be constructed as quickly as possible, as this has strategic and economic importance for Central and Eastern Europe as well as the Union as a whole.

The North European Gas Pipeline NEGP was granted the status of Trans-European Energy Network in 2000, as of common interest to the European Union. While the common need for increased energy supply is of common interest to the enlarged Union, the route proposed for the pipeline ignores the interests of a number of Member States in terms of security of energy supply. Particularly as the Baltic Pipeline will act as the monopolist supplier of gas to large parts of the Region and will also reduce the transit flow of the existing pipeline (Yamal I).

Baltic energy system is still an integral part of Russia's energy system. The Baltic States are in a vulnerable position due to strong import dependency from one source and virtually non-existent integration into the EU energy networks. In this context the creation of a Baltic electricity ring and the continuation of joint activities to develop preconditions for the creation of an integrated Baltic electricity market and its integration into the Nordic and EU electricity markets should be a priority area of

action. Therefore, the Region's participation in the programmes of the Trans-European (TEN-E) energy network should also be supported.

## **The most innovative region in Europe**

As a result of the historical divide during the last century, there are today noticeable and substantial economic differences amongst the Baltic Sea States. The elimination of these great disparities must be one of the main aims of this Strategy because if this issue is not addressed, the brain-drain from these countries could seriously threaten their further development. In the 21<sup>st</sup> century capability to create an innovative business environment is necessary for any region to gain success. This is also the basis of the Lisbon agenda. Analyzing the results of the World Economic Forum's Business Competitiveness Index gives a clear answer: better mobilization of the economic potential of innovative capacity is especially critical for the Baltic Sea Region. There are at least three reasons why it is vital to do this together and to create a common innovation strategy for the Region.

First, it is a special feature of the Baltic Sea Region that it shares a strength in higher education and human capital assets, but to a varying extent displays weaknesses in turning these human assets into financial gain.

The Baltic Sea Region has to build a distinctive economic and social framework that transforms a competitive advantage of diversity of cultural heritage and intellectual capital into innovation driven productivity growth.

Second, many researchers and businessmen have commented on the apparent complementary nature of the countries of the Baltic Sea region with regards to innovation: the Nordic countries and Germany offer experience, stability, and lessons from global leaders, while the Baltic countries, Poland and Russia offer new perspectives, dynamism, flexibility and high momentum.

Third, one particular challenge shared by many of the countries in the Baltic Sea Region is the fact that business sector R&D tends to be concentrated in a handful of large and primarily foreign-owned, companies and that the countries of the region are alone too small to create the critical mass for a working and stable cluster-structure around these international top companies.

Finally, there are strong indications that the Baltic Sea Region can become a world-leading region for innovation, and there are clear opportunities both for policy development and for cooperation on concrete key issues. However, there are also a number of barriers to overcome: different legal and regulatory environments (start up laws, financial reporting, tax, employment regulations, etc.), limitations to international (venture capital) investments and protection of intellectual property, nationally distinct educational and research systems, and varied levels of understanding/trust among the different countries. The development of an e-business, e-commerce, ITC, e-governance environment should also be supported in the context of contributing to achieving the targets set out in the Lisbon agenda.



## **Piloting the Common Economic Space with Russia**

There are at least three reasons why integration with Russia could be a special niche for the economy of the Baltic Sea Region and why the momentum is right now.

First, the Baltic Sea Region already is the arena for the most active interaction between the EU and Russia. The Region is the only place where Russia and EU are physical neighbours. In near future the central European route to Russia will present a serious challenge for the Baltic Sea Region. If we want the Baltic Sea Region to act as the major transition-route to North-West Russia, we must act now.

Second, Russia has a huge potential in acting both as an accelerator of the Region's industrial production by offering possibilities for production with lower costs, and as a huge growing market for the goods that are produced in the region.

The economies of Western Europe tend to linger in 1-2% per annum growth. The Russian economy is already in its seventh year of growth at a speed of more than 5% a year. The Russian middle class is emerging. It's consuming capacity is growing fast. For example, Finnish export to Russia grew 25% in 2004 and more than 30% in the first quarter of 2005. Since 2000, North-West Russia has experienced stronger growth than Russia as a whole. With its 6,8 million inhabitants, the Saint-Petersburg region is clearly the biggest metropolis of the Baltic Sea Region with the biggest economical potential.

Third, there is a certain open window for regional integration with Russia right now. The EU and Russia agreed on the 10<sup>th</sup> May, 2005 on a road map for the common economic space. This very comprehensive map includes tens of concrete goals from an EU-Russia investment agreement to the harmonisation of legislation to create a common market. The problem is that the concrete solutions are all open-ended. One may reasonably ask could there be opportunity for a regional pilot?

Special attention should be paid to the problems existing at national border crossings. Another important and urgent issue should be formation of a common investment area. A regional investment agreement is essential especially in the present investment climate after the Yukos case. In the long run, regional co-operation with Russia should include all the same areas that have already been mentioned in other sections of this paper: free movement of labour, capital, goods and services, improving the cross border infrastructure, ensuring a safe energy supply and supporting the innovativeness of the region.

Kaliningrad is a special key issue for the whole Region and for EU-Russia relations. The problems at border crossings are identified as major obstacles for trade. Personal visas are needed to visit the Kaliningrad Oblast and quotas are put on goods, both of which are detrimental to the mobility in the community at large. The Kaliningrad Oblast is also in need of an improved physical infrastructure. There are also significant concerns regarding the closure of the Pilaw Straits and the detrimental impact this will have on the free movement of shipping and on the economy of North East Poland.

Local and regional authorities should continue to play an important role in EU-Kaliningrad co-operation. Euro regions Baltic and Niemen, containing Polish, Lithuanian and Kaliningrad subregions, provides an excellent example of good cooperation. The new Polish-Lithuanian Visa regime (cost free and fast) is extremely helpful in keeping close contact with the citizens of Kaliningrad.

### **III Culture and Education**

In order for the Baltic Sea Region to return to its rightful status as a harmonious and cohesive region, now within the EU, it is essential that culture and civil society are addressed. Parts of the region, having been artificially divorced from Western Europe now need attention in order that the region becomes a cohesive part of the EU.

The recent commemoration of the defeat of Nazism held in Moscow demonstrated the importance of highlighting the "Forgotten History" of occupation, oppression and savagery committed under Stalin's orders. The infamous Molotov-Ribbentrop Pact under which Hitler and Stalin collaborated to subject whole populations in the EU's newest Member States cannot be airbrushed out of the record. As Lech Wałęsa observed during the 25th anniversary of Solidarność - "without truth there can be no reconciliation". For example the 6.800 km long Iron Curtain tourist trail is one way of uniting the commercial, cultural and historical benefits of tourism.

The West of Europe needs to reacquaint itself with the history of the region, both in times of stability as well as of turbulence. But there are other important lessons from history, which demonstrate the interdependence of the Region and the great prosperity derived from mercantile and commercial operation. Most notable was the Hanseatic League, whose markets included England, the Netherlands as well as the North German coast and the Baltic Sea Region.

Great Powers dominated in the past: Denmark, from which Tallinn the Danish city derived its name, Riga the Swedish city and Imperial Russia. The Polish-Lithuanian Commonwealth is also an important example of shared history. Significant too was the contribution made by the Baltic Germans between the 13th - 20th Centuries, as was the substantial Jewish population in Vilnius. The baroque architecture in Vilnius also demonstrates the influence of the Renaissance. Notwithstanding the significant domination by great powers, a handful of small nations have managed to preserve their unique cultural heritage which in a significant way enriches and adds to the cultural diversity of the Baltic Sea Region.

#### **Education**

The Prime Ministers of the Baltic Sea States met in Kolding, Denmark on 12th to 13th April 2000 and designated education as a sector of crucial importance for sustainable development in the region, demonstrating the strong links in the region and willingness to co-operate. The Conference of Baltic University Rectors, with meetings every two years to establish stable co-operation between universities from the Region, is a further demonstration of links across the Region and should be supported. Exchanges of students and teachers between Member States in the Region would further integrate the Region as well as the benefits of shared experience and best-practice, as would conferences and workshops for teachers in the Region. Funding for students under programmes such as Erasmus or the British Government's Chevening Award have proved of great benefit and should be encouraged.

The creation of centres of excellence and the fostering of research and development institutions across the Region would help lay the foundations for further progress towards achieving the targets for Europe's economy as outlined in the Lisbon Agenda. Special attention should be paid to encouraging innovation of research. Career awards should also be investigated as a means of supporting the independence of young

scientists as well as attracting and retaining talented students in the field of research. Areas of research ripe for further development include information and communication technologies, food, agriculture, biotechnology.

In order to further labour mobility from Member States within the Baltic Sea Region the presence of mother-tongue kindergartens and schools is an asset. The Member States are encouraged to offer a broad choice of such facilities.

Many schools in Estonia and Latvia are former Baltic German properties and are, as such deserving of conservation both as valuable assets to the cultural heritage with potential for educational and tourism applications.

## **Culture**

There is a need, in order to promote the outward looking nature of the Region, for the EU to sponsor a greater level of awareness of the rich cultural heritage of the region throughout the EU.

The preservation and accessibility of cultural heritage is required. EU funding support for the maintenance, and display of archives and sites associated with the occupations and dictatorships of the Twentieth Century play a considerable part in the history of much of the region and are a significant part of our common European history. Equal recognition of the crimes committed against the populations of the Region by both Communist and National Socialist Regimes is essential.

Programmes in the Region aimed towards the generation of the new cultural projects, new forms of art and communication should be supported. Mobility, particularly multinational mobility and cultural exchange programmes should also be supported. Creative industries, whose success is determined not by the cost of labour, but by the intellect and creativity, may contribute to the competitive advantage of the Region. While links between stakeholders should be strengthened, conditions should also be created for transforming accumulated creative energy into the creative economic result - new ideas, high technologies and regional development.

The indigenous musical talent developed over the centuries requires little encouragement. However, assistance in promoting and marketing the high quality of musical achievement would be of great benefit, as would be encouragement to further developing the great technological skills present in the Region.

## **Image and Identity**

The Region must restore its identity, within the EU, in its own right while supporting the rich cultural diversity within the Region. The cultural heritage of the member states in the Region is not only a considerable asset to the Region, but its very nature and the history of the region shows strong elements of common European cultural heritage. German Baltic architecture and the Swedish cultural legacy in Finland are significant examples of cultural heritage common to many member states in the Region. This not only binds the Region together but also shows the cultural diversity of the region within the wider context of common European cultural heritage.

Marketing the Region as a whole does not only raise the political profile of the Region, it also opens up considerable mutual economic benefit through tourism. There are however, two issues to be addressed before this potential can be realised; transport and

investment to undo the damage done to much of the region by the occupation and domination by the USSR. Cultural and environmental tourism will only reach its full potential when tourists are better able to travel to and around the region and, when the considerable efforts of Member States to restore and protect Region's rich cultural heritage are fully supported by the EU and successfully marketed.

### **Tourism and sports**


Most of the tourists in the region are domestic or from neighbouring countries. There are no mass tourism sites in the region as in the Mediterranean area, but the concentration of tourist supply is very high e.g. on the German coast. Capitals throughout the region are also attracting large numbers of tourists. A new trend is the increasing travel from Russia especially to Finland and Sweden. Also the number of Polish tourists is increasing. The increase in tourism over recent years, both within the region and from elsewhere, demonstrates the attraction of resorts and their economic potential for the region. This potential can be maximised further investment in transport is required both in terms of transport into and within the region and in environmental protection. It is also necessary to establish throughout the whole of the Baltic Sea Region a substantial and qualitative tourism infrastructure so that, for example, a Baltic Sea tourism trail could be established. The natural beauty of the region must be conserved and protected, as well as the cultural heritage in this context.


States and sports organisations in the Region should be encouraged to take advantage of and responsibility for holding international sports events, which in many ways will improve economic growth and tourism in the area.

## IV Security


Security environment in the Baltic Sea Region has improved considerably. This can be accredited both to EU and NATO enlargements and also to the relative stabilisation of Russia's domestic politics and its growing economy. **However, there remains noticeable tension between Russia and the Baltic States, this being a direct consequence of the half century long Soviet totalitarian occupation. It would be desirable that these political differences are reduced.**

Further improvement depends mostly on the coherence of EU policy, continued pursuit of **democratic** reforms in Russia and open-minded co-operation between the two.

The coherence of EU's policy towards Russia has been brought into question due to individual actions and policies by some member state alking over the heads of the new member states in Russia's neighbourhood must be avoided - also in order to maintain mutual trust among EU member states.

Following violations by Russian military aircraft of the Finnish, Lithuanian, Latvian and Estonian borders it is essential national governments are supported by the EU as a whole . In case of border disagreements the EU must support its Member States.

**Close co-operation and certain agreements between EU Member States in the field of security of energy supply are also necessary.**

Russia's military is still in a transition phase with conventional capabilities in accordance with the CFE Treaty but maintains the ability to use force and also deploy tactical nuclear weapons in the region. The condition and age of much of the weaponry in Kaliningrad is also of significant environmental concern. Of further concern is the large scale dumps from the Second World War of chemical bombs and shells on the sea bed. The routes of any proposed pipeline should be checked by more than one interested e. Therefore the EU, reflecting the interests of all Member States without discrimination, should request detailed studies about the security of energy supply. Any plans of the Russian Navy to increase naval patrols along the route of any pipeline should be discussed at the highest levels.

Whereas conventional security threats have diminished in the region, new phenomena have risen to the public attention. The most acute security problems are of environmental, economic and social nature, not to forget organised crime. The development of a joint project to create a reserve e-communication network for crisis management in emergency situations should be supported in order that Member States in the Region are assisted in civil contingency co-operation.

The technological skills and facilities of the Defence industry in the Region should facilitate the transfer of high-tech defence production to the Region. The development of the non-fossil and renewable energy market to avoid excessive dependence on external energy sources should be encouraged.

The region's extensive Eastern border has seen a significant level of organised crime pass over it. Human trafficking and drugs trafficking are in need of action. A strengthened Europol presence and security co-operation at intergovernmental and EU level is required. Improving the level of border control by border guard exchange systems might provide added value. Cross-border co-operation presents a favourable

tool for sharing knowledge, and implementing best practice. The facilitation of exchanges of experience on the situation in respect to legal immigration and asylum seekers should be encouraged.

Following the success in Lithuania in combating Euro counterfeiting more support is required to national governments to continue to combat this. There is also a continuing problem for example in Poland and Russia with the manufacture of counterfeit; branded clothing, cosmetics, computer games, electrical equipment. This is not only detrimental to the states due to lost tax revenues and a distortion of the market, but the lack of awareness of the illegal nature of this activity points to the need to further develop civil society.

Mortality rates are still considerably worse than EU median in some new member states, for example 66 for men in Latvia and Estonia, compared with 78 in Sweden. The EU should act to support national governments in combating alcoholism and other causes of the mortality rate which is lower than much of the EU.

The spread of HIV/AIDS is a particular problem for the Region. This calls for co-operation in the social and health sector, but for also tighter border controls to reduce human trafficking.