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Fostering the socio-economic potential of the Baltic Sea region

Report[1]
Committee on Economic Affairs and Development
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Summary

The report presents an overview of the socio-economic development trends and co-operation in the Baltic Sea region. Building on fruitful regional exchanges aimed at tackling environmental problems, educational issues and economic challenges, the region's countries now need to rethink their strategic development orientations in the light of the changing global context and the ongoing economic crisis which revealed multiple national vulnerabilities.

The launching of the European Union Strategy for the Baltic Sea in 2009 offers a strong impetus for projects in favour of environmental sustainability enhanced competitiveness through small and medium-sized enterprises and innovation, improved regional interconnections and better risk prevention strategies. It is important that the national parliaments and regional parliamentary assemblies in the area should play a major role in preparing relevant projects and overseeing their implementation.

The report also highlights the importance of close and constructive dialogue with the Russian Federation, in particular as regards the Kaliningrad region, and with neighbouring Belarus, with a view to supporting grass-roots entrepreneurship and democracy building. It urges the region's countries to show more solidarity in working out joint participation mechanisms for the generation and realisation of projects driven by their shared interests, notably with regard to energy supply, labour mobility, cross-sector partnerships and the pooling of know-how.

1. Reference to committee: Doc. 11678, Reference 3483 of 29 September 2008.

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A. Draft resolution[2]

1. The Baltic Sea region, bringing together eight European Union member states (Denmark, Sweden, Finland, Estonia, Latvia, Lithuania, Poland and Germany), the Russian Federation and some of their close partners, has established itself as a distinct and very dynamic European area. Aware of their cultural proximity, common resources, shared political concerns and economic interdependence, the states of the Baltic Sea region have sought to develop co-operation structures since the 1950s when the Nordic Council was created. However their substantive co-operation was hindered for decades by the East-West division which exacerbated social and economic differences in the region.

2. The 1990s opened a new era of co-operation with the spread of market economy and democracy to the south-eastern part of the region. A variety of regional structures emerged, forming solid grounds for fostering socio-economic development and stability in the region. They include the Baltic Sea Parliamentary Conference (set up in 1991), the Council of the Baltic Sea States (set up in 1992), the Baltic Sea Chambers of Commerce Association (set up in 1992), the Baltic Sea States Sub-regional Co-operation (set up in 1993), the Union of the Baltic Cities (set up in 1991), the Baltic Sea Commission of the Conference of Peripheral Maritime Regions of Europe (set up in 1996) and the Baltic Sea Seven Islands Co-operation Network (B7, set up in 1989).

3. These complementary co-operation schemes have stimulated particularly fruitful regional exchanges concerning environmental problems, educational issues and economic challenges. It is essential that these sub-regional networks continue working in concert towards further sustainable development of the region, not least in the light of the economic and financial turmoil which has strongly affected public finances and development prospects across the region. Rising unemployment, a dramatic fall in investment and shortcomings in financial regulation reveal national vulnerabilities in the changing global context while offering a new opportunity to rethink strategic development orientations.

4. The Parliamentary Assembly welcomes the launching of the European Union Strategy for the Baltic Sea in 2009 and appreciates the importance of making good use of the European Union funding earmarked for projects in favour of environmental sustainability, enhanced competitiveness through SMEs and innovation, improved interconnections for communications, transport and energy sectors and better risk prevention strategies over the 2007-2013 period. The Assembly believes that the national parliaments and regional parliamentary assemblies of the Baltic Sea region should play a central role in preparing relevant projects and overseeing their implementation.

5. The Assembly views a close and constructive dialogue with the Russian Federation as a core element of co-operation in the Baltic Sea region and a means of advancing co-operation between the European Union and the Russian Federation in a broader context. It recalls the special circumstances pertaining to the situation of the Kaliningrad enclave and reiterates its readiness to assist the furthering of regional integration through support for the unimpeded movement of people and goods. Moreover, the Baltic Sea region countries should consider engaging more actively in supporting grass-roots entrepreneurship and democracy projects in neighbouring Belarus.

6. The Assembly is convinced that efforts to increase energy security and to pursue a “greener” development path offer much room for pragmatic collaboration in the Baltic Sea region and vast opportunities for enhancing competitiveness. The cost-benefit rationale of the Russian-German undertaking to build the Nord Stream gas pipeline on the Baltic seabed is debatable and the consultations leading to this grand project proved insufficient. However, the countries of the Baltic Sea region should now show more solidarity in working out joint participation mechanisms for the realisation of projects not only in the field of energy but also transport and innovation. Co-operation in these matters should go beyond bilateral agreements and be driven by the shared interests of all the countries in the Baltic Sea region.

7. Germany, which is at the heart of the European Monetary Union, and Denmark, Finland and Sweden, which are leading European Union countries in terms of global competitiveness underpinned by innovation and high quality public institutions, possess a wealth of experience that should be shared more widely in the Baltic Sea region and beyond. The Assembly believes that it could serve as a relay for the lessons that can be drawn in this context to the benefit of other countries and regions across Greater Europe.

8. The Assembly is convinced that the Baltic Sea region, endowed with high economic, social and political potential, builds its prosperity on an open co-operation model that could nurture interaction with other sub-regional co-operation schemes such as the Organisation of the Black Sea Economic Co-operation, the Union

2. Draft resolution adopted unanimously by the committee on 27 April 2010.

for the Mediterranean and the Northern Dimension policy, both initiatives of the European Union. Towards this end, more joint activities could be envisaged in the short term with a view to generating joint projects in the medium term, notably as regards energy supply and labour mobility.

9. The Assembly underscores the importance of managing the Baltic Sea region in an integrated way. Strengthened transfrontier co-operation, political co-ordination, adequate funding and cross-sector partnerships between governments, parliaments, local and regional authorities, the private sector and civil society, will form the axis of development and secure a more prosperous future for all stakeholders in the Baltic Sea region.

10. The Assembly therefore calls on member governments of the Baltic Sea region to:

10.1. work actively for a closer political and economic partnership at all levels of governance in the Baltic Sea region, and promote continued confidence building and genuine participatory democracy in the region and its neighbourhood;

10.2. give priority to multilateral agreements which will allow the complex development challenges common to the countries of the region to be tackled in a spirit of solidarity and mutual understanding;

10.3. consider laying the foundations of a unique regional structure that would enable a smoother and more efficient co-ordination of multilateral co-operation initiatives, foster the sense of unity and provide for high-ranking representation by a “Mr/Ms Baltic”;

10.4. ensure that European funds for priority projects in the Baltic Sea region receive adequate additional input at national level;

10.5. facilitate the economic co-operation and trade between countries of the region by reducing trade barriers and improving mobility of labour and goods;

10.6. support innovative co-operation projects, such as the Baltic Sea Action Group, a body in which public, private and civil society organisations combine their resources and contributions in order to save the Baltic Sea.

11. The Assembly underlines its support for the European Union Strategy for the Baltic Sea and urges the European Union to:

11.1. involve the Russian Federation not only in projects in the environmental and maritime fields but also in most of the programmes and projects that will be conducted under the Baltic Sea Strategy;

11.2. consider allocating additional funding to the social programmes to be implemented under the Baltic Sea Strategy, especially taking into account the erosion of public finances as a result of the economic recession afflicting in particular the eastern part of the region;

11.3. foster the implementation of research and development projects involving countries of the Baltic Sea region under the European research programmes;

11.4. seek that new nuclear power plant projects in Kaliningrad Region and Belarus near the European Union border should be implemented according to the international nuclear safety and environmental standards and conventions. Final decisions regarding nuclear projects should be made after completion of an international process of environment impact assessment and reasonable concerns of neighbouring countries should be respected.

B. Explanatory memorandum by Mr Kaikkonen, rapporteur[3]

1. Introduction

1. People, and with them their culture, have from time immemorial been using the Baltic Sea to expand into new areas. The sea has brought the states around its shores closer to each other and united them to form a distinctive region. Then the regional development of the Baltic was interrupted for decades by the East-West divide that came into being after the Second World War. Political antagonism and the difference between social systems set limits to trade and other contacts between East and West and created other problems in the relationship. Trade always benefits both parties and creates a mutual dependence between them. This was perceived as a problem in East-West trade, in which the aim was often to limit the advantage that the other party gained and one's own dependence on trade.

2. A new reality came into being in the Baltic Sea region in the early 1990s, when all the countries around the shores of the sea declared themselves to be market economies and democracies or at least to be aspiring to achieve that status. Another revolutionary development has been the accession to membership of the European Union of all the Baltic riparian states – with the single exception of Russia.

3. The core and unifying element of the Baltic Sea region is the inland sea itself. The region also has other features that are unique to it, but perhaps this natural geographical fact explains why the Baltic Sea region, albeit within varying borders, has become an established entity on the map of Europe. The Baltic Sea region has not been defined officially, unambiguously or within precise borders. There are several valid definitions – none completely satisfactory. One definition that can be considered justified is that by which six riparian states are included in their entirety, but only the coastal areas of Russia, Germany and Poland. The latter three countries are indeed often included, because they share "Baltic" characteristics with all riparian states. Also Norway and Belarus, and sometimes Ukraine and even Iceland, can in some contexts be counted as belonging to the region.

4. As one of Europe's sub-regions (see the appendix), the Baltic Sea region is a necessary and beneficial expression of internationalism and a focus of co-operation. By no means all phenomena and problems fit within national frontiers. For example, the environment is a current concern, both nationally and internationally. It makes sense to develop transport connections and energy management through international co-operation. Trade can be livelier with neighbours across a border than with one's own compatriots. The fact that for all riparian states, with the exception of Germany, the most important trading partner is another riparian state, testifies to the Baltic Sea region's real existence and benefits.

5. While the need for cross-border co-operation has increased in various sectors, changes in technology, telecommunications and production, as well as progress towards European integration, have created better preconditions for a functional sub-region. Maintaining and improving the competitiveness of the countries, economies, sectors and companies in the region involves networking that assumes many forms. Regional integration may be an incentive for outside companies, but above all the region's different areas and companies need integration in order to exploit new opportunities and solve shared problems.

6. As already mentioned, there is an acute awareness in the Baltic Sea region of interdependence. But there are also unexploited linkages. For example, ecology and economy are two sides of the same coin: all economic activity pollutes the environment, which is why improving the situation will require changes in the economic behaviour of people, companies and communities. However, an economic approach to environmental problems remains unusual, even though the objective of sustainable development calls for it. The objectives sought through the co-ordination of ecology and economy are greater efficiency in the use of energy, the lowest possible level of pollution from all economic activity as well as sparing use and recycling of resources.

2. The diversity of the Baltic Sea region as a challenge and a resource

7. A special feature of the Baltic Sea region has been its unique diversity as a European sub-region. Although it is not particularly extensive, it contains examples of state disintegration following the collapse of socialism (the Soviet Union), unification (Germany) and continuity (Poland). Adding to the region's diversity is the fact that the nine riparian states have built their relations with international organisations in different ways.

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3. The rapporteur would like to thank Professor Urpo Kivikari and Senior Research Associate Stefan Ehrstedt, from the Pan-European Institute of the Turku School of Economics , for their help in drafting this report.

8. Eight of the countries with Baltic coastlines are members of the European Union. At the beginning of the 1990s, only two of them belonged to the European Community: a reunited Germany and Denmark. Sweden and Finland joined the Union in 1995, followed by Latvia, Lithuania, Poland and Estonia in 2004. Among the riparian states, only Russia remains outside the European Union. All of the European Union (EU) countries except Finland and Sweden are NATO members.

9. All Russia's EU neighbours are in the Baltic Sea region. This physical contact gives the region special opportunities and responsibilities with respect to these two major European actors, Russia and the EU. Adding to the challenging nature of the situation is the fact that there are major differences in relations between Russia and the eight riparian states that are EU members. The relations between Russia and the Baltic States as well as with Poland are characterised by a painful inheritance from the socialist era and which developments of later years have failed to alleviate. Germany is not a neighbour of Russia, but – as its biggest trading partner – has wanted to cast aside the shadows of history. Neighbourly relations between Finland and Russia can be characterised as normal, and even good. Sweden and Denmark do not have the same ballast of recent history in their relations with Russia as do the other states in the Baltic Sea region, nor does Russia have the same importance to them as a trading partner as it does to the others.

10. The debate engendered by the Nord Stream gas pipeline project well illustrates the different points of departure and objectives of the states in the region with respect to Russia. The idea is to bring gas from Vyborg in Russia to Greiswald in Germany through a pipeline running along the bed of the Baltic Sea. The gas will mainly supply German needs. The central considerations in assessing the project are, naturally, calculations to do with energy policy, economics and technical features. However, associated environmental, political and security issues, to which the riparian states accord varying degrees of emphasis, have equally assumed great importance. What is positive is that the two heavyweights in the region, Russia and Germany, are capable of long-term co-operation because, without their good mutual relations, the Baltic Sea region as a functional entity would not exist at all. Of course, a partnership of two must not discriminate against outsiders nor harm the interests of the other countries in the region, something that is feared in some of the other countries.

11. Relations between the EU and Russia are most comprehensively covered by the 1994 Partnership and Co-operation Agreement (PCA). Its replacement with a deeper strategic partnership has proved elusive so far (like Russia's long-planned WTO membership) despite progress made at the latest EU–Russia Summit in Stockholm. When assessing the prerequisites of the EU and Russia for a strategic partnership, a key question is to what degree the EU and Russia are similar or different as partners. The fundamental question is whether the partners can be regarded as so similar with respect to their social and economic systems that co-operation between them can produce a strategic partnership. Do the EU and Russia see themselves as representing the same values? Even when partners do not share a sufficiently similar foundation of values, co-operation can work well without a strategic partnership as long as the parties recognise the differences between them. Perhaps the delay in creating a strategic partnership reveals that the prerequisites for a relationship of this kind between the EU and Russia do not yet exist.

12. An agreement providing for a strategic partnership or even a somewhat more modest relationship between the EU and Russia would be especially significant for the Baltic Sea region, where its role in promoting the development of co-operation would be comparable to the constant deepening of EU integration.

13. The Kaliningrad region, cut off from the rest of Russia, is an interesting potential link between Russia and the EU, although the role that it could play in that capacity remains undefined. The opportunities and problems stemming from the Kaliningrad region's special status have long been weighed up in Moscow. But it remains unclear whether what Russia primarily wants there are commercial centres or garrisons. If the Kaliningrad region is to have a significant military role for Russia, it will be difficult to implement a major contact corridor between Russia and the EU, planned on the same site as a military base. Looked at from the angle of economic relations, of course, it would be preferable for the Kaliningrad region to be a channel between Russia and the EU rather than a thorn in the side of the NATO countries that are its neighbours.

14. The Cold War division that still lingers in the Baltic Sea region shows itself in the per capita incomes of the different countries, but also in, for example, international comparisons of competitiveness. On average, the Baltic Sea states are quite competitive: four of the old market economies in the region (Sweden, Denmark, Finland and Germany) are generally placed among the top 10 in global comparisons. This is unique as a regional achievement, because several of the other most competitive countries are located in different parts of the world. A worrying development has been a relative weakening of Russia's and Poland's competitiveness in the 21st century.

15. The same division into two groups has been revealed in a comparison of corruption. The same situation prevails in comparisons of research and development. In this sector, the Baltic Sea region as a whole is above the EU average.

3. Prerequisites for regional integration

16. The competitiveness of both the entire region and the individual countries and companies within it derives great benefit from the fact that the markets of the Baltic Sea economic region are still integrating. Indeed, until the present recession at least, it has been possible to operate in the region in the context of falling barriers to trade, growing integration and advancing globalisation. National domestic markets have given way to new home markets covering the entire region, which have been subjected to growing competitive pressures from outside.

17. In the final analysis it is companies and people – as entrepreneurs, employees, tourists, students, and so on – who implement, or fail to implement integration. What is of primary importance from the perspective of trade is that states have eliminated obstacles and unnecessary costs from international business operations. A study conducted in Sweden in 2007 revealed that eliminating all of the remaining obstacles and other factors impeding international economic links could increase the GDP of the region by 1%. This assessment indicates that, compared with most other regions, the Baltic Sea region has already come close to the ideal of free trade.

18. Thus national frontiers no longer prevent internationalisation of activities in the Baltic Sea region and do not generally cause undue costs. Consequently, the supply and demand of market economies that are close to each other combine as companies seek objects that are expensive when sold, cheap when bought or advantageous for the location of operations. More and more companies have announced strategies in which the Baltic Sea region forms its home market. At the moment, only two of the countries in the region, Germany and Finland, are members of the EU's Economic and Monetary Union (EMU). The region's character as a home market for local companies will strengthen substantially when and if the other EU members there join the EMU.

19. Companies have had to seek new operational concepts in home markets that have enlarged to the size of the Baltic Sea region, meaning that they are already encountering globalisation. The region has become almost in its entirety an open and single market for competitors and partners from the outside. In the new economic geography, this situation and the alternatives that it offers companies are assessed as the starting point for examining the region's "market potential", which is determined by the number and proximity of customers, business partners and competitors. Customers and partners make locating there an attractive proposition. If competitors are numerous, they eat into profits, causing the opposite effect.

20. An agglomeration of customers and business partners attracts more companies; the positive external effects of an extensive pool of customers and companies have a similar impact. The opposite effect results from the high prices and costs that are caused by concentration of customers and production, stiff competition as well as problems associated with transport, the environment and crime. The benefits and drawbacks of agglomeration seem to vary in different sectors of production. Typical features of sectors that favour agglomeration are exploitation of economies of scale, generally a strong position in the market, firm linkages between inputs and outputs, the key importance of mobile factors of production (including skilled human resources) as well as a rapid pace of introduction of new products.

21. All in all, the appraisals of prospects for the integration of the Baltic Sea region that have been made are mutually contradictory. The potential of regional integration is regarded as being at its best when countries are similar in their levels of development, political backgrounds and cultures. Thus the heterogeneity of the Baltic Sea region could be disadvantageous for trade. The fact that the centre of gravity of the economies of the region's biggest countries, Russia, Germany and Poland lies outside the region is not a constructive element from the point of view of integration. On the other hand, the numerous initiatives for the common good of the region and the organisations created for this purpose as well as trade and investment statistics testify to deepening integration, in which it has proved possible to transform diversity into a feature that enhances the region's possibilities. This, among other conclusions, emerged clearly from the high level seminar, Contribution to a Pan-European Economic Strategy for the Baltic Sea Region organised by the Finnish Parliament in Helsinki in May 2009 on the occasion of the meeting of the Parliamentary Assembly's Committee on Economic Affairs and Development.

4. Trade and movement of factors of production

22. The significance of an enlarged domestic market area, that is, of trade between the Baltic countries, varies from country to country depending mainly on the size of the country in question. In the case of Germany, one of the top countries in world trade, the other Baltic countries account for about a tenth of its total trade, whereas their share of Russia's total is about a fifth. For Poland, Sweden, Finland and Denmark the share is around 40%, whilst the figure for the three Baltic States is about two thirds of all foreign trade. Although trade with the other riparian states is not particularly significant for Germany, that country is nevertheless the clear number one in trade between the states of the region.

23. Does trade between the states in the Baltic Sea region correspond to the level that their GDPs, populations and proximity to each other would suggest? This question is often examined with the aid of the so-called "gravity model", in which the three factors mentioned in the question are used to predict trade flows. A striking result of these analyses has been that all countries' exports to Russia and Poland have remained markedly smaller than the "normal level" that the model would indicate, thus it appears that these two countries offer the others in the region unrealised export opportunities. Of course, the reality is more complex than the assumptions underlying a simplifying model, but it nevertheless appears likely that the centre of gravity of the region's trade will shift eastwards from the traditional Stockholm-Hamburg axis.

24. A distinction often made in analyses of foreign trade is that between intra-industry trade, in which exports and imports consist of products belonging to the same category, and inter-industry trade, in which imports and exports between the partners have different product structures. Countries' proximity to each other and a similar (high) income level have been found to increase the share of intra-industry trade. Intra-industry trade also results from the fact that nowadays production processes are largely affected by the international division of labour.

25. These facts also apply in the Baltic Sea region. Intra-industry trade is at its greatest between countries with a high level of income. The country that is least involved in this kind of trade is Russia, whose exports consist mainly of energy and raw materials, and its imports of manufactured goods. In the country with the smallest economy in the region, Estonia, a factory does not usually produce Estonian end-products for the market, but instead engages in intra-industry trade by contributing to the manufacture of the products of Nokia, Siemens or some other international company. The quality, environmental, logistical and other such standards that production in Estonia must meet are the same and just as stringent as those required of international brands. This is a tough requirement for new market economies, but at the same time it promotes all-round development of their economies and societies.

26. Trade in energy is important for the countries of the region – exports for Russia and mainly imports for the others. The total share of energy imports from Russia varies from just over 10% in the case of Denmark to over 90% in the case of Lithuania. The share of natural gas imports from Russia is even higher, varying by country from nearly 50% to 100%.

27. Foreign direct investment has been of major significance in helping to adapt production in the former socialist countries to the modern international division of labour and trade. It has brought not only capital, but also new technology, managerial skills, risk-taking and marketing know-how as well as channels to other markets. Also from the perspective of deepening integration, investment is a more effective means than trade in goods. All in all, foreign direct investment totalling over a trillion euros has been made in the countries fringing the Baltic Sea. Statistics show that Sweden has been the biggest foreign investor in the region before Germany.

28. Besides capital, labour also moves within the Baltic Sea region much more freely and in greater volumes than it used to. Foreign investment by companies already results in labour mobility, in which workers change countries while their employer remains the same. However, this accounts for only a small part of labour movements. A low income level and possible unemployment in the source country provide an incentive to move in search of a better level of income.

29. Labour mobility and immigration in all their aspects are relevant issues in all the countries of the Baltic Sea region. In the light of demographic and fertility statistics, the countries of the region will in the future encounter a decline in their labour forces, which migration will mitigate only in part. The region's own population is well-educated and skilled. The demand focused on foreign labour is diverse in nature. The closer the place that new arrivals come from and the closer the cultures of the source and destination countries are to each other, the better the reception that foreign labour and immigrants in general receive. Thus it would be desirable for countries in the Baltic Sea region to receive migrants from the region's other countries. However,

that would mean a regrettable “beggar-my-neighbour” policy, which would hardly be practicable on an extensive scale. The share of foreign labour coming from further afield, especially Asia, will probably increase in the region.

30. Especially when immigrants come from far away, it must be borne in mind that what is involved in immigration is hardly ever merely a worker, but rather a person who spends twenty-four hours a day in a new home country and has perhaps brought along a family and other relatives as well. Thus there are more aspects than international mobility of labour to be looked at in an examination of the matter; there is also a much broader range of social and economic factors. Unless we are prepared to deal with it properly and ensure the integration of new arrivals, the hoped-for influx of labour can become more a cause of problems, for both the destination country and the immigrants, than a solution for them.

31. Immigration from outside the region can mitigate the labour shortage, but it brings with it the problems of demographic policy mentioned above. In addition, ageing of the local population is a challenge to which other solutions besides immigration must be found. In all the countries involved, growth in the relative share of the elderly segment of the population will require measures designed to increase the productivity and participation of ageing people in the labour force. We must also be able to improve public and private services for the elderly.

32. The Baltic Sea region is in many respects, even before the expected of influx of labour, a heterogeneous “mini-world” in which there is great variation in its countries’ recent history in general and with respect to European integration, as well as in the strength of their economies. This has provided good opportunities for an international division of labour within modern production processes and for intra-industry trade. The wide variety of characteristics that the region offers creates opportunities for movements of capital and labour both within the region and across its borders. It is not always necessary to go to the ends of the earth to find more suitable production conditions for some or other parts of a process. All in all, the new economic geography favours the Baltic Sea region.

5. Conclusions and recommendations

33. The Baltic Sea region is quite well known as a concept both within its own borders and beyond. Numerous organisations bring together actors belonging to various sectors in the region. The region’s competitiveness and economic growth have performed well in international comparisons, something that has attracted investment and immigrants to the region. Over the long term, it is forecast that the region will suffer from a shortage of labour, a fact that poses big challenges relating to integration of people arriving from other parts of the world. For companies, the new opportunities in the region must be seized. Unless a company takes account of them in its operations, it will lag behind those of its competitors who respond more sensitively to their environment. Burying your head in the sand will provide no defence in an open market.

34. Their Baltic nature is, naturally, only a part of the identity of those countries that have interests also in other sub-regions. Indeed, it is somewhat problematic from the perspective of identity that the biggest riparian states, Russia, Germany and Poland, do not perceive themselves as being primarily Baltic countries. Russia now possesses coastal areas that, in the light of history, have shrunk to small dimensions, but which nevertheless mean a lot more to the country than their share of its total area or population would suppose. The centres of gravity of the Polish and German economies are not in the coastal areas, either, which makes these areas pretty peripheral in terms of economic geography.

35. As mentioned at the beginning of this report, the Baltic Sea region is not definable in only one way, which makes both the emergence of a sense of identity and the strengthening of its image more difficult. But more important than an unambiguous regional definition, which would not work in all contexts, is to emphasise functionality as the core of the regional identity. Interests associated with economic relations, transport, environmental protection, social questions and so on, are relevant in a definition of the Baltic Sea region. The region is a functional entity, not an administrative one. It will never have a king, a president, a parliament or “sacred” borders to strengthen its identity nor to burnish its image.

36. There is no longer any need for the European Union to expand on the Baltic shores, nor any prospect of that happening. Instead, every step of progress in neighbourly and other relations between the EU and Russia advances co-operation in the region and its unity. To complement the EU’s common Russian policy, every country in the region has a right and also an obligation to cherish its bilateral relations with Russia. The EU and its member states can, through their own policies influence Russia’s preparedness to participate in the integration of the Baltic Sea region and other forms of co-operation there. As the most important energy producer and supplier in the region, Russia has a special responsibility to ensure that there is light and heat and that the traffic flows.

37. The EU and Russia need a mutual partnership on the shores of another inland sea as well. The accession of Bulgaria and Romania to the EU in 2007 brought the EU to the shores of the Black Sea. The importance of this sea to the Union may further increase in the future, because at least Ukraine and Georgia, in addition to Turkey, have indicated their wish to draw closer to it. The EU and other stakeholders will have their work cut out to develop this sub-region. The experience gained in the Baltic Sea region could be of valuable help in this project because this region has been a pioneer in the co-operative development of European sub-regions in the post-Cold War period. The region encompasses countries that have become EU members at various stages, but also the Baltic riparian state Russia as well as Norway and Belarus, which border riparian states. The experience gained in developing the Baltic Sea region should be applied elsewhere in Europe, especially in the Black Sea region and in other sub-regions that contain both EU members and states that are not in the Union. Sub-regions of this kind, which would benefit from closer co-operation than at present, also include the Danube Basin and the Western Balkans.

38. From the perspective of the Baltic Sea region's significance and the reputation it enjoys, it is of first-rank importance that the parties involved in it as well as the rest of Europe perceive its development, and co-operation with it, to be beneficial to themselves. Much remains to be done here, although there has been no shortage of speeches on a general level about the benefits of co-operation. Making contributions into environmental protection, transport and energy networks, the effective functioning of economic relations as well as combating crime, will undoubtedly benefit the individual countries, the Baltic Sea region as a whole and all of Europe. Good international contacts in training and research will add to the population's wellbeing and competitiveness, in addition to promoting democracy and the development of market-economy institutions. The neighbours' well-being is a part of one's own best interests.

39. Of course, the Baltic Sea region cannot be exploited in the same way as a colony or some other kind of client state from which riches can be repatriated. The region is comparable to a garden, where in order to derive benefit everyone has to tend their own patch, look after their country's institutional and physical environment and in addition contribute to all-round co-operation with one's neighbours.

40. What could be proposed that is actually new to develop identity, integration and other co-operation? Since all of the riparian states except Russia are now in the EU, it seems natural that the Union will become an active player in the development of a valuable sub-region. Indeed, the EU launched its future strategy for the Baltic Sea on 10 June 2009, under the Swedish presidency. Sweden gave priority to pushing through the strategy during its semester at the helm. The Baltic Sea Strategy aims to co-ordinate action by the EU and its member states, regions, pan-Baltic organisations, financial institutions and non-governmental bodies with a view to promoting a more balanced development of the region. The four pillars of the strategy are to make the region more environmentally sustainable (for example, reducing sea pollution); more prosperous (for example, promoting innovation in small and medium sized businesses); more accessible and attractive (for example, improving transport connections); as well as safer and more secure (for example, enhancing accident response).

41. The strategy is accompanied by an Action Plan comprising 15 priority areas (each of which will be the responsibility of a Baltic member state to implement together with all relevant stakeholders). The strategy and proposed actions are to be funded by each Baltic Sea state, NGOs, private sources, financial institutions such as the European Investment Bank (EIB), the Nordic Investment Bank (NIB) and the European Bank for Reconstruction and Development (EBRD) as well as the EU Structural Funds (€55 billion for the 2007-13 period). The strategy will also include many horizontal actions designed to develop territorial cohesion, measures to co-ordinate the implementation of EU directives and to overcome bureaucratic barriers, measures to encourage the use of maritime spatial planning, the development of land-based spatial planning in Baltic member states, steps to improve and co-ordinate the collection of maritime and socio-economic data in the Baltic region and, last but not least, efforts to build a regional identity.

42. The European Council endorsed the EU Strategy for the Baltic Sea Region in October 2009. The strategy will be implemented over the course of 2010, with a stakeholder forum scheduled for 13-15 October 2010 in Tallinn, Estonia. In parallel, several convergence, competitiveness and co-operation programmes are being co-financed from the European Regional Development Fund (ERDF) in the Baltic Sea Region in the period of 2007-2013.[4]

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4. Opinion of the European Economic and Social Committee on Macro-regional co-operation "Rolling out the Baltic Sea Strategy to other macro-regions in Europe" (exploratory opinion) (2009/C 318/02) and http://ec.europa.eu/regional_policy/co-operation/baltic/#council2.

43. It is, however, true that in the present situation topical matters affecting all of the EU countries equally, and with which the Baltic Sea strategy will have to compete, are coming onto the EU agenda. There is no point now in other actors trying to develop alternatives that compete with the EU's Baltic Sea strategy, but projects that complement it would be desirable. Familiarisation with the contents of the strategy and its attendant proposals will provide a good starting point for new openings with a view to developing the Baltic Sea region through measures by parties other than the European Union.

44. Money and structures are often regarded as accelerators of development. Money is needed and certainly will be found to improve the environment as well as to build transport and energy networks. Funding will also be found for other programmes and projects. With the recession affecting the Baltic Sea region as well, financing from all sources will be scarcer in the near future than they were even a short time ago. To cope with the recession, all of the states and many of the institutions in the region will need very large injections of cash to safeguard their existence and operations. Thus significant funding cannot be expected for the implementation of either the EU's Baltic Sea strategy or other projects that generally strengthen cohesion in the region. It is desirable that, in general, funds intended to stimulate the economy should also be channelled to purposes that support the integration and identity of the Baltic Sea region.

45. One thing that is mentioned more often than a lack of structures as one of the problems of the Baltic Sea region is an abundance of different organisations and the fact that they partly overlap. However, this does not by any means imply that there would not be good grounds for setting up new structures. A promising new project is the Baltic Sea Action Summit, which took place in Helsinki on 10 February 2010 and brought together political and corporate leaders as well as civic groups from all the Baltic countries. Behind the project is the Baltic Sea Action Group, launched by the President of the Republic of Finland, Ms Tarja Halonen, and the Prime Minister of Finland, Mr Matti Vanhanen, a body in which public, private and civil society organisations combine their resources and contributions in order to save the Baltic Sea.

46. Something that might also be useful is a new institution that could be viewed unambiguously as a guardian of the Baltic Sea region's interests. Although it might not give a region with such flexible borders a "ruler", an organisation that actively championed the region's interests and was headed by a high-ranking representative could be good for the region's image, sense of unity and visibility. The Parliamentary Assembly of the Council of Europe could take the initiative in proposing the creation of such a body – a kind of "Baltic Sea Union".

Appendix – The Baltic Sea region