

As we all know, since 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 more importantly sharing a common cultural heritage as well as legislation. 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. The strategic position and importance of the Baltic Sea has grown fundamentally over the past two decades, including the emergence of “a Baltic corner in the European house”. 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 20th century.

As a result of the political and artificial cultural divide during the last century, there are today noticeable and substantial economic differences amongst the Baltic Sea States. The elimination of these disparities must be one of the main aims of any Baltic policy. Today the region faces a number of challenges, not all of them being auspicious, where easy, obvious or quick solutions are not necessarily available.

**To begin with, the environment.** The sea itself is in peril. It is shallow, water exchange is slow, and it is heavily polluted. Saving the Baltic Sea is of vital importance for all the countries in the Region. 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 the water changes slowly: it takes 30 years for the water of the Baltic Sea to be fully exchanged.

With 85 million people living in the catchments’ area, the human burden for the sea is immense. As of today, the Baltic Sea is almost internal to the EU, with the exception of Kaliningrad and the Eastern end of the Gulf of Finland. The maritime transport is among the most intensive in the world, involving increasing transport of oil products and other potential contaminants for the environment. In 1991, Russia exported some 15 million tons of oil a year through the Baltic Sea. Today that amount is 75 million and last year Russia announced that by 2015, seven years from now, they plan to export 150 million tons of oil a year, a 10-fold increase over a 25 year period. This is something to bear in mind while planning large-scale industrial actions in the Baltic Sea area and/or in the sea itself.

We know what one ship, the Paradiso (incidentally loaded with its oil cargo in Ventspils Latvia) did to the coast of Spain when it sank 200 miles offshore and to a depth of 2 kilometres. I remind you the average depth of the Baltic is 58 meters and its deepest point is a third of a kilometre. Let’s face it, a single disaster like the Paradiso will ruin our sea for thirty years, a generation and a half.

In addition, we face a dramatic challenge with eutrophication of the Sea that threatens to

leave areas of our common lake devoid of animal life. Sea traffic is another issue: as my friend Paavo Lipponen once joked, with all the North-South and East West traffic in the Gulf of Finland we are going to have to erect traffic lights.

**On competitiveness**, the Baltic Development Forum has previously compared the competitiveness potential of the Baltic Sea region with three other regions of approximately the same size: The Central European Region, The British Isles and The Iberian Peninsula. According to an analysis published just last month by the World Economic Forum, the Baltic Sea Region leads in the Competitiveness Index, with Finland, Sweden, Denmark, and Germany, four of the worlds most competitive nations and Estonia, the most competitive of the new EU member states and itself ahead of over a quarter of the EU15. 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, a low level of corruption, strong clusters and a strong science system. Yet the competitiveness potential is not fully exploited. Prosperity of the region is below the level of peer regions. 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, allowing competition to do its work. If the regional weaknesses can be overcome, the Baltic Sea Region has the best growth potential out of the compared regions.

To achieve this, the working **internal market** is a key demand. 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. International reports estimate the costs of trade procedures to 2.5-15% of the value of a trade transaction. Free movement requires also harmonisation of standards and requirements across the Region also in cases when the EU is proceeding too slowly.

It is especially important for us to work on the service side. Here the new states of the EU are especially strong, off-setting the current imbalance in favour of free movement of Capital. A Swedish bank can buy up banks across the sea, but an innovative Internet Service Provider from Estonia cannot provide cheaper more effective Internet in Sweden because it simply is not allowed to.

Land transport infrastructure is another issue, especially on the Eastern littoral. With problems with the EU commission regarding construction of the Via Baltica through Poland and sluggish or no progress on the Rail Baltica Project, we cannot develop commercial ties to Central Europe to the degree we need to.

**Turning to energy**, the cold climate of the region and the concentration in energy intensive industry mean that the supply of energy must be secure. The Baltic States' energy system remains, 17 years after the collapse of the Evil Empire, 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. At the end of the day, this is an integral part of the Europe-wide energy security discussion.

**On innovation**, in the 21<sup>st</sup> century the capability to create an innovative business environment is necessary for any region to compete successfully. There are at least three reasons why it is vital to create a common innovation vision for the Region.

First, it is a special feature of the Baltic Sea Region that it shares a major 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 needs 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 and Poland offer new perspectives, creativity, dynamism, flexibility and high momentum. What these two combined and in synergy can produce is best exemplified by the Swedish-Estonian product we know as Skype.

Third, one particular challenge shared by many of the countries in the Baltic Sea Region comes from our small size. Private sector R&D tends to be concentrated in a handful of large and primarily foreign-owned, companies while 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.

If we address these three challenges, I believe that there are strong indications that the Baltic Sea Region can become a world-leading region for innovation.

To begin to conclude, Europe needs to reacquaint itself with the history of the region, both its 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 trade and commerce. Most notable was the Hanseatic League, whose markets included England, the Netherlands as well as the North German coast and the Baltic Sea Region. The Region must restore its identity in its own right while supporting the rich cultural diversity within the Region. The cultural heritage of the EU member states in the Region is not only a considerable asset, but its very nature represents a significant component of Europe's common cultural heritage.

Finally, much of what I said today I lifted from something I wrote over two years ago for the Baltic Intergroup in the European Parliament, of which I was a member. The good news is that much of that in turn, reached the status of a European Parliament Report, passed last year, after I had already left the Parliament to take up my current position.

As a direct result of that report, three pilot projects, financed by the European Union to a tune of 6.5 million Euros, are underway. One to clean poisons in the Baltic Sea, a second to improve

maritime waste disposal, a big problem with so many ships using such a fragile inland lake like the Baltic, and third, a project to get the 30-odd think tanks around the Baltic Sea that deal with issues related to the Baltic, to begin to co-ordinate.

The Commission is strongly behind the Baltic Sea Strategy, President Barroso is on board, and Commissioner Danuta Hubner, in charge of Regio, is in charge.

On the Council Side, Sweden, which will chair the Presidency in 14 months, is gung ho. Yet this is not enough. We don't want a weakly and meekly funded programme, we want a full-bore EU strategy like the Northern Dimension, addressing *internal*, I stress *internal* EU issues, with the kind of funding we have ourselves paid for other areas, as we paid for Russia under the Northern Dimension as well as the Northern Coast of Africa. What we need – and this is where the Baltic Development Forum Participants come in – is to lobby, pressure, cajole your governments. Our governments need to agree to put the Baltic Sea Strategy into the conclusions of the Presidency as Finland managed in 1997 to get the Northern Dimension placed in the conclusions of the Luxembourg Presidency, something many of us missed as that was when Estonia was invited to begin EU negotiations. For that we Baltic littoral EU heads of government need to co-ordinate so we can at last have a serious programme for  
*our*

sea, or as the Romans said,

*Mare Nostrum*

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With that I shall end. I have spoken longer perhaps than a normal Presidential greeting should last, but take this as an indication of how important the issue of the Baltic is to me.

Thank you.