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Full Speed Ahead? Poland in Baltic Sea Region Cooperation

With the adoption of the Polish Foreign Policy Priorities for 2012-2016 in March, Poland underlined the will to develop the regional dimensions of the country's foreign policy. These dimensions include aspirations to develop a coherent policy in the Baltic Sea Region (BSR)¹. The goals are bold, but so are the challenges. Internally, there is no overarching strategy for foreign policy in the BSR. For almost two decades it has been led by the northern, coastal Polish voivodeships, rather than the landlocked capital. Externally, BSR cooperation has two overarching features. On the one hand, it is equipped with a broad, project-oriented institutional network. On the other hand, cooperation focuses on tackling soft challenges, and sidelining issues that could cause friction. This latter factor makes it difficult to attract attention at the highest political level, which in turn translates into insufficient leadership, coordination problems, and, last but not least, financing shortages.

The development of Polish policy in the BSR will be largely influenced by these conditions. Can the cooperation be deepened and developed further? If so, what role could Poland play in this process? Is it willing, and able, to move full speed ahead?

Conditions for BSR Cooperation

In the last two decades, the rules of the game of Baltic Sea regionalism have changed twice. Firstly, the Cold War ended, which laid the ground for regional rapprochement and trust building. Establishment of a wide-ranging inter-governmental forum, the Council of the Baltic Sea States (CBSS), in 1992, has triggered a process of development of the dense network of both governmental and non-governmental institutions. They have been driven by a pragmatic principle of developing only these fields of cooperation, in which consensus

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¹ The Baltic Sea Region in the text covers the Baltic Rim States: Denmark, Estonia, Finland, Germany, Latvia, Lithuania, Poland, Russia, and Sweden, as well as Norway and Iceland.

could be reached. Secondly, the rules have changed with the enlargement of the European Union enlargements in 1995 and 2004, and the creation of the European Economic Area in 1994.

Since 2004, all the countries of the region – except for Russia – have become EU members. As a result, the decisions taken at EU level affect the BSR significantly. However, this configuration has a severe handicap, as Russia is not involved in the process. The Baltic Sea serves as the main route for the export of Russian energy resources, Russia is conducting the biggest transportation, infrastructure, and energy transit projects aimed at the re-orientation of export/import cargo from the East-West Railway towards the national ports in the Gulf of Finland. These projects include the completion of the second Nord Stream gas pipeline, from Russia to Germany, development of the port of Ust-Luga, with an annual oil reload capacity of 20 million tonnes and a cargo capacity of 180 million tonnes, and the largest cruise shipping project in the BSR, *Marine Façade* in St. Petersburg. At the same time, Russian engagement in BSR cooperation is limited to the CBSS, Northern Dimension Partnerships, and environmental cooperation within the framework of the Helsinki Commission for the Protection of the Baltic Marine Environment (HELCOM). It is through these organisations that Russia participates in what was meant to become the most important instrument of the cooperation, the EU Strategy for the Baltic Sea Region (EUSBSR).

All of the institutions involved with BSR cooperation have small budgets, and limited efficiency as there are no sanctions for the non-implementation of the provisions. This enables the regional players to choose the level of their engagement selectively. Russian selective disengagement has a destabilising factor on BSR co-operation. For example, Russia is not formally obliged to consult other states in the region about its substantial projects. Neither the militarisation of Russia's North-Western regions, nor the Nord Stream project, have been subjected to discussion on the BSR forums, although clearly they affect the regional balance of power. Similarly, plans to develop nuclear power plants in Kaliningrad, Finland, and Poland, and the German decision to phase out nuclear power generation, have not been subjected to multilateral debate.

The region also remains shattered by differences. For everything that could be said about it, the opposite would be also true. Cooperation involves small states, such as Estonia (population 1.3 million), and populous countries such as Russia (population 140 million). The Baltic Sea is where NATO members, neutral Sweden, and Russia intersect. They represent different levels of economic development. Sweden, Finland, Germany, and Denmark are among the most competitive economic powers globally, whereas Latvia and Russia lag behind the global top-60.² Since 1992, and the beginning of cooperation, per capita income in the Southern Baltic countries (Russia, Latvia, Lithuania, Poland and Estonia) has increased twofold as compared to the OECD average. Some of the investment projects would have

² "The Global Competitiveness Report 2011-12", World Economic Forum, www3.weforum.org.

been much harder to undertake, had it not been for the extensive network of BSR cooperation. Still, after two decades, the southern Baltic states generate per capita GDP below 11,000 EUR (the lowest is Latvia, at 8,000 EUR), whereas in Germany and the Nordic countries it is above 30,000 EUR (the highest is Norway – 64,500 EUR).³

State of Play in Selected Sectors of BSR Cooperation

Regional differences influence cooperation, even in regard to the soft challenges faced by all of the littoral states. These challenges include trade barriers, the research and development gap between the Baltic Rim states, the deteriorating ecology of the Baltic, and inadequate transportation infrastructure. Development in these domains has, over the last two decades, been varied, thus posing a question of whether cooperation on meeting these challenges could be developed further. The problems stem not so much from the lack of coordination, as from insufficient financing, or lack of political will.

Deeper Internal Market to Enhance Trade

After 2004, the EU became the main forum for addressing economic cooperation. It was further underlined by the closure of the Working Group on Economic Cooperation within the CBSS. Still, the economic differences are clear, as illustrated by the conflicting interests in the EU Multiannual Financial Framework negotiations. The countries are split into two groups, EU net payers and EU net receivers. The points of discord between them range from the size of the prospective EU budget, to the future shape of the Cohesion Fund and the Common Agriculture Policy. On the other hand, the EU macro-regional instrument – the EU Strategy for the Baltic Sea Region - devotes two out of fifteen Priority Areas to trade development. The best prospects for regional cooperation are seen in deepening the internal market, and the development of small and medium enterprises (SMEs).

As far as trade is concerned, Germany holds the unquestionable status of regional hub. It has the biggest trade exchange with all of the countries of the region. However, the potential for developing new trade channels is hampered by remaining trade barriers, the strong position of the trade unions in the Nordic countries, and remaining links between business and politics, especially in Russia and Latvia. Moreover, scarce information on the southern Baltic states (except for Estonia) results in stereotypical thinking and a lack of trust on the side of Nordic enterprises and customers.

Necessity to Bridge the Research, Development and Education Gaps

In research and development, and in education, the differences between the southern Baltic states, and the Nordic states and Germany are still vivid. Not all of the countries have undergone transition towards innovation-driven economies. Sweden, Finland, and Denmark

³ Eurostat, “GDP per capita - Annual Data”, Eurostat, www.appso.eurostat.ec.europa.eu. Data on Russia according to the World Bank, www.data.worldbank.org.

are among the world's top 10 innovators, with an even distribution among the regions. Norway and Germany are medium-high innovators, Estonia average, Lithuania medium-low, and Latvia, Poland, and Russia low (apart from the medium-low innovators in four of the Polish regions)⁴. Consequently, the innovative countries can base their economies on the export of human capital intensive products, whereas the lower-end innovators tend to base their competitive advantage on lower costs of the labour force.⁵

The CBSS has addressed the problem by conducting a Baltic 21 Project on Innovation for Sustainable Development, and by forming Euro-faculties targeted at improving the standards of higher education in Russia and the Baltic states. However, these initiatives lacked necessary political backing. Over the last 20 years, the representatives from the ministries of education and science from the member states of the CBSS have held only three high level meetings. As a consequence, the organisation's success in bridging the educational gap has been rather limited, with the exception of some of the projects in the Baltic states and in the Russian Baltic regions. The Euro-faculties were established in Kaliningrad and Pskov, and the CBSS 16th Ministerial Session in Oslo in 2011 decided to implement a programme of modernisation of the South Eastern Baltic Area (SEBA), with special focus on the Kaliningrad region and its neighbourhood. At this stage, the project aims to define the areas and modes of the modernisation of the region, including the fields of university cooperation, youth services, sustainable development, tourism, and private-public partnership.

Moderate Progress Towards Improvement of the Environment

With regard to environment, the restoration of the Baltic Sea has been one of the driving forces for regional cooperation. The poor state of the sea results from its semi-enclosure, shallowness, intense human activities on what is one of the world's busiest shipping lanes, proximity to the urban areas, and a landmass catchment area that is four times the size of the sea. The projects addressing the challenges focus on fighting hypertrophication (overloading of nutrients in the sea, which stimulate excessive growth of algae and oxygen depletion), liquidation of toxic waste, restoration of biodiversity, and implementation of pro-environmental solutions to marine activities. Their efficiency, however, varies greatly from one Baltic state, to another. Finland and Sweden are the leaders and driving forces, while development of environmental social awareness and sensitivity in the southern Baltic states is slow.

It is worth noting that only in the environmental field does cooperation have a targeted and coherent BSR-wide plan. In 2007, the Action Plan for the Sea protection was

⁴ European Innovation Scoreboard, "The Innovation Union Scoreboard 2011", European Innovation Scoreboard, www.ec.europa.eu. For Russia's Innovation Capacity Index, see: Augusto López-Claros (ed.), *The Innovation for Development Report 2010-2011: Innovation as a Driver of Productivity and Growth*, Palgrave McMillan 2011, pp. 280

⁵ "Labour costs in the EU-27 in 2011", Eurostat, April 2012, www.epp.eurostat.ec.europa.eu.

adopted by the main inter-governmental pro-environmental forum, HELCOM. However, a lack of sanctions for missing targets has caused the delays in the implementation of the HELCOM Action Plan. Five years since its adoption, it still needs to be implemented at national levels, in the form of National Action Plans.

Competing Interests in Transport

The transport sector is arguably where competition between the Baltic Rim states is fiercest. The stakes are high: with 15% of the global cargo shipment and 2,000 ships at any given moment, the Baltic Sea is one of the busiest lanes in the world. There are examples of successful regional investments where financial and political conditions were met. They include the biggest European bridge, Oeresund, linking Denmark and Sweden, and the fast speed train “Allegro” from St. Petersburg to Helsinki. Currently, the most promising projects include the Fehmarnbelt Link tunnel between Denmark and Germany, a complex multi-modal EU-Nordic Triangle scheme, upgrading road, rail, and maritime infrastructures in Sweden and Finland, the development of Gdańsk feeder hub terminal in Poland to serve shipping from Asia, and the creation of the Gothenburg/Aarhus transshipment hub.

At the same time, three major challenges run through the region. These are the substantial Russian infrastructural investments, lack of connections between the southern Baltic states, and the external challenge of a risk of the modal shift in transport, with an obligation to reduce the content of sulphur in marine fuels from 2015 onwards. Even the Baltic Rim countries that are EU Member States are unable to reach a consensus on how to address these challenges. With reference to the Russian projects, neither the BSR nor the EU forums were considered adequate for addressing these projects, although judging from the scale of the projects, their completion will shift the transport modes.

The southern Baltic states were also unable to integrate their transport networks through the multilateral Via Baltica expressway, or the Rail Baltica projects. Via Baltica, from Warsaw to Helsinki, is a part of the Trans-European Corridor I, but the delays are likely to hamper the completion of the project by the 2013 deadline. Regarding Rail Baltica from Warsaw to Tallinn, the delays occurred despite from EU financing under the TEN-T priority project, currently in the Lithuanian, and Latvian stages, and the completion of the dual-gauge line between Poland and Lithuania.

Last, but not least, the implementation of the pro-environmental standards for marine fuels under Appendix VI of the International Convention for the Prevention of Pollution from Ships (MARPOL 73/78), of the International Marine Organisation, may decrease regional competitiveness vis-à-vis the Mediterranean and the Black Sea basins. From 2015 onwards the ships passing through the Baltic Sea Region will have to limit the content of sulphur dioxide in the fuels to 0.1% (currently 4.5%). Different studies show that this can increase transport costs by up to 50%, causing a modal back-shift on the specific routes for up to 46% of transport (1-9% according to the European Commission). Moreover, the revised EU

Directive 2005/33/EC extends the sulphur content requirements in marine fuels to the fuels used by passenger ships.⁶ But Russia will not be bound to the EU conditions, thus likely to cause unequal competition.

Poland and the Baltic Sea Region—a SWOT Analysis

The revision of the EU Strategy for the Baltic Sea Region, undertaken by the Polish Presidency of the EU Council in 2011, together with an intensification of bilateral relations with Finland, Denmark, Sweden, Norway, and Russian Kaliningrad, create favourable conditions to step up the BSR cooperation. Uninterrupted economic growth and a favourable geographical location make Poland an attractive partner for regional investments and for the development of economic, transport, and political bonds on the North-South axis. Poland is leading robust investments which will positively affect the environmental state of the Baltic Sea. By the end of 2012, the projects related to the improvement of the catchment areas of the rivers will have totalled 18.9 billion PLN (approx. 4.5 billion euro). By 2015, 98% of urban, and 75% of the rural population, is to have the sewage system, as compared to 85% in urban, and 23% in rural areas in 2008.⁷

However, the low starting point for Polish political engagement should count as a weakness. It reveals the years of negligence in leading the northern dimension of politics, which are hard to be overcome within a fortnight. Although Poland's interests in the BSR have not yet been defined, the Foreign Policy Priorities for 2012-2016 indicate the general will to develop trade or to import good practices from the Nordic states. However, knowledge about Poland in other countries in the region is low, and dominated by negative stereotypes. Relations with Lithuania are tense, and reflect historical animosities. Polish trade is streamlined along the East-West axis. Aside from Russia, Germany, and Lithuania, trading channels with more distant regional neighbours are underdeveloped; with Estonia they are almost non-existent, and with Latvia trade is primarily unregistered and cross-border. Moreover, Poland has a trade deficit with Russia, Finland, and Norway, due to the import of raw materials, diesel, paper and pulp, and to the Finnish offset agreement. Poland has a low innovation profile and spends as little as 1% of GDP on investments in innovation. Because of the size of the catchment area of the main Polish rivers, deployment of fertilizers in the agricultural sector, and the under-developed sewage system, the country is reckoned to be predominantly responsible for Baltic hypertrophication. In terms of transport, the large-scale development of the transport channels and the Polish ports only began after the accession to the EU. Their timely completion is a precondition for the development of regional transit.

⁶ "Frequently Asked Questions", European Commission – DG Environment, www.ec.europa.eu, "Statement on the IMO MARPOL Annex VI regulations", Baltic Ports Organisation, 8 November 2011, www.bpoports.com.

⁷ "Program wodno-środowiskowy kraju" [National Water and Environment Programme], National Water Management Authority, Warsaw 2010, www.kzgw.gov.pl.

In this complex pattern, opportunities arise. In trade, the Nordic and Baltic countries offer much greater potential for Poland than, for example, cooperation with other Visegrad countries. In 2010, the Nordic and Baltic countries had almost the same population as the Czech Republic, Slovakia, and Hungary – and four times more money to invest. Moreover, Eurostat's recent prognosis of the real GDP growth rate in the EU over the next two years shows the greatest growth potential on the northern axis of Poland.⁸ Poland is also an interesting market for investors, due to its unhampered economic growth in times of crisis. Since the 2011 re-election, the government has begun to introduce the reforms that could bring about an increase in the country's competitiveness, through the deregulation of some of the professions, and through reform of the pensions system. The Nordic countries have at their disposal the models of best practice in developing innovations which should be deployed in Poland. In terms of ecology, the revolutionary investments in the development of the Polish sewage system will improve the condition of the Baltic Sea. They are also reckoned to be the most cost-efficient way to address the problem of the hypertrophication.⁹ This could present opportunities for the development of the tourist sector, also by attracting the tourists from the other BSR countries. The completion of the transport systems could increase the transit capacities of Poland. Currently, it serves 10% of Baltic freight, but the ports of Gdańsk and Gdynia have the third biggest container capacity in the Baltic Sea (0.5 million TOE each). The introduction of 0% value-added-tax rate on marine services in Poland raises the competitiveness of the ports of Gdańsk, Gdynia, Szczecin, and Świnoujście.

Apart from the external challenges common to all of the countries of the region, Poland has to overcome some hurdles on a national level. They result from the need to acknowledge the specifics of BSR cooperation. Even more than political attention, it requires the deployment of additional financial and human resources, and a sustained, project-based approach. Due to limited external financing, the success of this cooperation will thus depend on the scope of national investments, and on the deployment of the money available from the EU funds. However, the limitations to the development of the Baltic area projects will rely upon regional dynamic – the engagement, and maybe more importantly, the disengagement, of the countries of the BSR.

Conclusions and Recommendations

Poland has a role to play in shaping BSR cooperation, although it is bound by the limits of this collaboration. As a consequence, the Polish northern policy, which is currently being drawn up, needs to be tailored to regional dynamics. It needs to be pragmatic, project-based, and results-oriented. Therefore, Poland needs to acknowledge that difficult

⁸ "Real GDP growth rate – volume", Eurostat, www.epp.eurostat.ec.europa.eu.

⁹ Mia Pihlajamäki, Nina Tynkkynen (eds.), *Governing the blue-green Baltic Sea: Societal challenges of marine eutrophication prevention*, Report of the Finnish Institute of International Affairs, November 2011, www.fiia.fi.

challenges will need to be addressed outside of the multi-lateral forums. In addressing the soft challenges, identifying specific goals and means to achieve them will be crucial. The success of the Polish strategy in the BSR will thus depend on the deployment of additional human and financial resources on a national level. By increasing activity on the pan-Baltic forums, Poland could shape those areas of cooperation common to all of the littoral states, in its own favour. These areas include trade, R&D, environment, and transport, including the projects with Kaliningrad.

In relation to BSR trade, Poland needs to diversify its economic policy. To boost trade with the Nordic countries, especially Denmark and Sweden, Poland needs to eliminate the non-tariff barriers for the trade in goods and services, such as the obligation to become a party to collective agreements in the Danish construction sector, or the monopoly in the distribution of Swedish food and agricultural products. In Estonia, Polish companies could use favourable conditions for investment, such as the transparency and stability of regulations and financial controls, and the lack of trade unions. While shaping a strategy for export promotion, Poland should intensify administrative relations with the Nordic countries, in order to benefit from their good practices.

In trying to bridge the research and development gap, Poland should use the instruments of the EU Strategy for the Baltic Sea Region. Within this framework, Poland coordinates Priority Area VII with Sweden, "To exploit the full potential of the region in research and innovation". Its development, as well as the reception of good practices from the Nordic countries will depend on the deployment of additional R&D funding in relation to GDP, to bring it at least to the level of the EU average. The creation of a national fund for project development in the Baltic Sea Region would stimulate the engagement of the Polish academic institutions in the regional networks, such as The Baltic University Programme, ScanBalt Campus, The Baltic Sea Region University Network, the Conference of Baltic University Rectors, and BALTECH. There is little hope for an increase in the level of funding on a regional level, firstly, because it has been debated without success for the last twenty years, and secondly, because the BSR countries have reduced their budget expenses. Even the most active of them, Sweden, cut the budget of the national fund that supports the projects around the Baltic Sea.

From the point of view of Poland, there is vast potential for R&D expansion. Finland and Sweden have the expertise in development of clusters, in internationalisation of domestic export, and in education that boosts innovation. To share this good practice, Poland should establish an administrative exchange programme like the Nordic-Baltic Mobility and Network Programme for Public Administration under the Nordic Council of the Ministers. Poland should also define the areas in which it has a comparative advantage, such as biotechnology, and promote these adequately.

In terms of the environment, Poland needs to acknowledge the role it plays in the national politics of Germany, and of the Nordic states. For these countries, engagement in

pro-environmental regional projects is a precondition for acknowledging Poland's credibility and trust. Poland should better promote the revolutionary investments that it is undertaking, which will positively affect the condition of the Baltic Sea. To improve it even further, Poland needs to raise environmental awareness, and not to limit its actions to EU policies. For example, upgrading the standards for the reduction of the nutrients load in wastewater plants beyond EU requirements could benefit the regional fight against hypertrophication.

Moreover, Poland should pay particular attention to the timely completion of the projects it is embarking upon. In HELCOM these projects include the assessment of the risk of the oil spills, BaltSeaPlan (spatial maritime planning), and the Cooperation Platform for improvement of the infrastructure for the sewage reception in ports. In the EUSBSR, Poland, together with Finland, coordinates actions in Priority Area I, on the reduction of the nutrients load to the Baltic Sea, and leads flagship projects regarding the reduction of chemical weapons, and the assessment of the potential risk presented by LNG tankers.

With regard to transport, the competition between the Baltic Rim states in attracting transit will not be eliminated, but it is in the interest of all these countries that it takes place on an equal footing. This means the simultaneous implementation of equal standards by all of the Baltic Rim states, including Russia. To this end, Poland should participate actively in the regional forums that include the cooperation of all of the states, the CBSS and the Northern Dimension Partnership for Transport and Logistics, and should also carry out projects aimed at enhancing the transport links between Poland and Kaliningrad.

At the same time, to reduce the risk of the modal shift from the Baltic to the Mediterranean and the Black Sea (which is likely when the MARPOL convention comes into force), Poland should apply for EU assistance to balance the costs for the ports and for the ship owners in a transition to low-sulphur marine fuels. With reference to the pan-Baltic projects, EU TEN-T financing is an indispensable condition for their completion; however, it is not sufficient. As long as there is political reluctance, both Via Baltica and Rail Baltica will not be completed. Their completion should be a subject raised by the countries in both multi-lateral and bilateral forums.

On a national level, Poland should conduct a feasibility study into exploiting its favourable location between the northern and southern transport axis, to attract transit. To compete with Lubeka, Rostock, Klajpeda, Goeteborg, Copenhagen, Malmoe, Aarhus, or Kotka, the Polish ports need to increase their connectivity. Necessary investments include the modernisation of the port services, and an increase in the inland transport links with the conurbations via rail, roads, or inland waterways. The feasibility study should also focus on the market potential of cruise shipping. Currently, this comprises 3 billion passengers annually, to the benefit of the ports of Copenhagen, Stockholm, and St. Petersburg, but to a lesser extent of the Polish coastal cities.

The BSR forums can be also employed to carry out specific projects with Kaliningrad. The Polish-Russian Local Border Traffic Agreement, signed in December 2011, will enable the residents of Kaliningrad Oblast, and the adjacent territories of Poland, to make short-term visits (excluding labour migration), thus opening the possibilities of improving trade dynamics, and increasing people-to-people contacts. The creation of a coherent policy regarding Kaliningrad should include consultations with the northern Polish voivodeships, especially the adjacent Varmia and Masuria, because of their experience and expertise. The Northern Partnership instruments give room for the development of civil security projects in Kaliningrad, as does the CBSS project SEBA, which could additionally benefit the northern Polish Varmia and Masuria and Pomorskie voivodeships.

To sum up, the development of the northern dimension of Polish foreign policy could contribute to the modernisation of the country, as well as to the strengthening of its overall standing in the region. However, regional cooperation has its limits, and is far from fulfilling its whole potential. It requires both human and financial investments, and it is not suitable for solving the hard problems haunting the region. At the same time, project-based cooperation gives prospects for achieving concrete results, not only on a national level, but also regionally. Deeper engagement of Poland can result in an increase in regional trade, development of innovation and competitiveness, a better environmental condition of the Baltic Sea, increased transport fluidity, and attraction of transit from Asia. Better understanding and trust-building could evolve as the by-products of Poland's enhanced commitment region-wide. Whether this turns out to be feasible will depend on the resources that the Polish authorities decide to invest in regional cooperation.