ENERGISING THE NEW NORTHERN DIMENSION

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1. INTRODUCTION[1]

Northern Europe has assumed greater strategic importance during the new millennium. In particular, the importance of the Barents Sea, the Baltic Sea and northwestern Russia has increased. Several reasons underlie this strategic shift. They include Russia's re-emerging strength as a great power. This is highlighted in the north due to Russia's long land border with the EU and Norway. Various energy projects are another reason for the growing importance of the region, and here for example bilateral Russian—Norwegian co-operation is already underway alongside multilateral regional coordination. The potential opening of the Arctic sea route as a result of global warming, and the unexploited energy resources in the Arctic Sea shelf represent further policy drivers for a wider interest in the north.

The policy and institutional network in northern Europe is rich. After its official unveiling in 1998, the Northern Dimension (ND) programme of the EU became an attempt to coordinate the various activities and introduce some strategic priorities. However, the EU's action plans for the ND for the years 1999—2006 received criticism from various angles, but perhaps most notably from the Russian government for not taking its views properly into consideration. The political declarations and lists of projects in the EU's action plans did not pay enough attention to the practical implementation and financing of tangible projects. However, the Northern Dimension Environmental Partnership (NDEP) which was launched in 2001 remains today a workable model for concrete project cooperation in the field of environmental protection and nuclear safety. Another partnership, the Northern Dimension Health and Social Well-being partnership (NDHSP), is also in operation. However, so far it has not been able to produce as good project outcomes as the NDEP, especially when it comes to concrete multilateral projects.

The new ND starting in 2007 has a more flexible framework where Russia, Norway, Iceland and the EU are equal partners. The NDEP and NDHSP partnerships still remain at the core. The *logistics and transport sector* is mentioned as the next new area for setting up a formal partnership, and the possibility of an *energy* partnership is explored. It is in this context that this policy paper seeks to *assess the prospects for the new ND whilst also suggesting ways for 'energising' it*, both literally and in the sense of analysing how energy policy could fit in.

2. THE POLICY CHALLENGE FOR THE NEW ND

Any assessment of the new ND must first relate the policy to its wider institutional context of the EU—Russia strategic partnership. At this level it is notable how the principle of *equality* is a key defining feature of that partnership. The principle was strengthened by the launch of the 'common spaces' project in 2003 and the agreement for roadmaps that end in 2005. The new ND, for its part, functions as a regional manifestation of the roadmaps.

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The ND thus faces the challenge of demonstrating how the principle of equality can be put into practice at the regional level. This is crucial when considered against the background that many earlier EU policy tools towards Russia were characterised by mostly one-sided EU-defined priorities, such as the EU common strategy on Russia, Tacis, and the Partnership and Co-operation Agreement (PCA).

Second, the principle of equality is also new in the context of the ND itself. The 'old' ND was first agreed within the EU in 1998. Its new, less EU-centric version was launched in the presence of high-level representatives from Iceland, the EU, Norway and Russia in connection with the EU—Russia summit in Helsinki in November 2006. But naturally, even the new ND builds on the long history of north European regional interaction. For example Norway and Russia have co-operated at the regional level since the early 1990s, and Finland and Russia at least since the 1970s. The difference that the new ND makes is its role as the major multilateral platform in northern Europe manifestly based on equality among its participants despite vast differences in their size and capabilities. The challenge it encounters is getting all partners equally on board in order to put the promise of equality into practice.

Third, the new ND is also very different from the currently planned Baltic Sea strategy for the EU which was initiated by the European Parliament during 2006—7 and to which the European Commission is committed, and is set to give a report during Autumn 2008. As a result of being based on the principle of equality, the ND avoids the paradoxical nature of this initiative. The suggested Baltic Sea strategy is to an important degree geared towards solving problems in which Russia is an important party, but very unfortunately, the strategy does not include nor consult Russia. The large geographical overlap of the Baltic Sea Strategy and the ND sets the challenge of how to link the two fruitfully without damaging the promising start of the new ND in relation to engaging and involving Russia constructively.

Fourth, no less important is that the new ND promises to extend the good experiences gained from the NDEP into the transport and logistics sectors, and possibly to energy questions, in addition to the existing NDHSP partnership. Of these policy areas, this policy paper will pay special attention to energy issues. Energy is set to remain one of the key themes in European policy. The geographical area covered by the ND represents a significant reservoir of mostly untapped energy sources. Increasingly important energy transport routes cross the ND area. The region is home to some innovative experiments in environmentally friendly energy technology and boasts the example of the avant-garde Nordic electricity market Nordpool and its related NORD-EL grid and its regulatory mechanisms. The harsh northern conditions also create a fruitful environment for testing energy efficiency policies and technical solutions. In short, it would be foolish not to consider what role energy can and should play in the ND, as energy is already part and parcel of the northern policy agenda.

Three questions are addressed in this policy paper before arriving at a *ten-point list of policy recommendations*:

- What are the important lessons to be learned from the ND process?
- What common interests do the ND partners share?
- What are the best practices for project development?

3. WHAT ARE THE IMPORTANT LESSONS TO BE LEARNED FROM THE ND PROCESS?

It has taken more than a decade for representatives of EU institutions, member states and actors engaged in European—Russian cross-border co-operation to realise that any co-operation with Russian actors must be based on the principle of *equality*. In defence of the EU side, however, it must be admitted that in the 1990s, the setting for EU—Russia relations was highly asymmetrical in favour of EU and EEA area actors. Reasons for this include Russia's internal weakness after the Soviet Union's collapse, the power struggle between the regions and the federal centre, Russia's insufficient institutional and financial capacity to contribute to and implement projects, and Russia's general, albeit short-lived policy of 'blind westernisation'.

A long process of 'learning by doing' in the north has helped most actors to realise that today, in order for co-operation to succeed, any *objectives must be jointly defined*. Projects must be formulated with the active involvement of Russia's federal centre and its authorised representatives. This means for example relevant ministries, other relevant state agencies and the office of the presidential representative to the North-Western Federal District. NGOs, local administrations and businesses complete the palette of actors. For willing project patrons and entrepreneurs this means a lot of consultation between the EU and EEA area partners, Russia's northwestern actors and state bodies in Moscow and St. Petersburg. In most cases it also means that even more *time* has to be invested before a project can be launched. However, when a common understanding has been ensured, given Russia's re-merging strength and ability to contribute on an equal basis, the chances for success are today bigger than ever before.

Apart from these general parameters that must characterise any ND activity, there is *no universal formula* for what makes a successful project. Northern co-operation can take place along a wide continuum of topics, ranging from the environment to health, education, civil society and transport issues. The funding mechanism in Russia is still non-transparent but it is clear that money can be found from the Russian budget and relevant ministerial budget lines for topical, well planned projects in areas of common interests. Despite obvious sectoral linkages in many cases, each jointly defined field has its own requirements in terms of the size of funds needed, personnel required, the format and level of co-operation, time scale, and so on. Both large projects and smaller, sectorally and temporally limited projects have succeeded.

However, it is clear that very large-scale projects in the field of *energy* – such as the exploitation of the natural gas resources within the Shtokman fields in the Barents Sea – cannot be fully dealt with within the ND's regional confines. In these projects, large international oil and gas companies (IOCs) are involved, as are international financial institutions (IFIs), as well as states external to the ND area due to the large geographical span of energy chains. Issues of high politics, security and national prestige also characterise energy politics today. Further problems in fitting large-scale energy projects into the ND platform include the fact that some of the ND area states (Baltic states and Poland) are looking for ways to diversify away from Russian energy supplies. The EU enjoys only a limited competence in this policy field, mostly pertaining to internal market and competition issues, and policy areas of indirect relevance like technology, environment and transport.

Regardless of these cautious words, it is clear that many pilot and supporting projects of relevance to large-scale energy issues can very well be implemented within

the ND context, in this way also supporting the EU—Russia energy dialogue. A model can be found, for example, in the way that StatoilHydro set up educational facilities in Murmansk – known as the Hydro Murmansk Scholarship Programme – as part of the company's Shtokman Supplier Development Programme.

Another lesson is that projects that may be sensitive to the Russian authorities – dealing with target groups such as prisoners, prostitutes, drug addicts, etc. – do carry some risks despite the evident will of working jointly in these areas that prevails strongly on the EU/EEA side. At the same time it should be kept in mind that Russian civil society is at its strongest in social and health questions, and that here there is evidence of successful partnerships with international networks and actors. Hence, possibly sensitive projects should not be discouraged, but even more care than normally should be assigned to their planning and implementation, including securing strong *project ownership* on the Russian side. This brings us to the question of what common interests prevail among the ND partners.

4. WHAT COMMON INTERESTS DO THE ND PARTNERS SHARE?

It is important to understand that there is *wide agreement on many general principles of international interaction* among northern EU members, Iceland, Norway and Russia. These principles provide a firm foundation for mutual relations not only within the context of the ND. They also enable other regional co-operation within the Arctic Council, the Barents Euro-Arctic Council, the Council of the Baltic Sea states and the Nordic Council of Ministers. Keeping in mind this common basis will be useful whenever things go sour, and will help to eventually re-establish relations.

All northerners value *international law* highly. However, it is not much more than a starting point for their mutual relations due to these laws being far too generic and subject to interpretation for regulating the fairly detailed and, in global comparison, advanced co-operation in progress in the north. All northerners also respect *sovereignty* even though some of them have delegated part of it to the EU. This means that regardless of the region's states having diverse ties with NATO, there exists a good understanding of each other's defensive concerns as a legacy of the Cold War era 'Nordic balance', especially among the Nordics and Russia. It furthermore means that the region's states underline the need to have *secure and clearly demarcated borders*, and that none of them wants to seal those borders, even in the circumstances of the two remaining border disputes (the maritime border dispute between Norway and Russia in the Barents Sea, and the non-ratified land border treaty between Estonia and Russia).

All of the region's countries value *diplomacy* in its bilateral and multilateral forms as the primary means of solving conflicts. Where diplomacy has been lacking, as in Russo—Baltic and Russo—Polish relations, the best that the ND can do, is to provide fora of less controversy where both sides can be partners and where addressing practical issues is the rule. In this sense the challenge for the ND is to find regional co-operation projects where the Baltic States and Poland can participate outside the shadow of sensitive foreign policy issues. Given their limited investment capacity, these must be projects where they are willing and able to contribute financially.

The *market* as an idea and a principle is something which the northerners share too. Despite the current trend of Russia's re-centralisation, it should not be confused with de-marketisation. What we in broad terms are witnessing is the creation of a

state-led or state-supervised, socially oriented mixed economy in Russia, which is not fundamentally dissimilar from that of the other states of the region. Further, there is not much evidence of foreign investments flows to Russia becoming curbed despite problems in individual cases and sectors, such as the abolishment and re-definition of production sharing agreements (PSAs) in the energy sector, heightened tariffs to exports of Russian timber, and port infrastructure becoming seen as strategic.

The *environment* and its protection is a growing concern among the ND actors. This is well seen in the universal commitment to the Kyoto protocol goals by all states in the region. Many of the region's companies have become integral participants in the European CO_2 emissions trade mechanisms. These trends are evident in several examples:

- In StatoilHydro's Ormen Lange gas field project, CO_2 released during the gas extraction process is recollected, as it is in the world's northernmost gas project in the Snøhvit fields and in gas fired power plants in Norway
- Certain areas in Norway's Barents Sea shelf are closed to energy related activities due to environmental concerns
- The environmental performance of Russian IOCs such as Lukoil is much better in the Komi Republic than the record of the regional companies which operated there in the 1990s
- The oil field operations in Timan Pechora where the Finnish company Fortum was involved in a consortium with Lukoil early in the millennium included a special environmental action plan as part of a financial package brokered by the European Bank for Reconstruction and Development (EBRD)

Despite many doubts about Russian commitments to environmental protection and future planning compared to the eagerness of the Nordics, environmental problems receive growing attention in Russian budgeting and administrative behaviour. Getting the Baltic States and Poland to sit at the same table as Russia over environmental issues within the ND area should be an instance of a clear common interest. Here they are both aware of their own role in generating part of the problems and of the room for improvement. However, for the Baltic States and Poland, the 10 bln euros threshold for contributing to the flagship instrument, the NDEP projects, has been proved high. Solutions can be found though if there is enough political will. The Baltic states and Poland could well combine their efforts and contribute as a trio or quartet.

The *health* sector is where the Nordics have a relatively good record and a good status in Russia, as witnessed at the popular level for example in the proliferation of private clinics advertising Scandinavian standards as their competitive edge. The outgoing Russian president Vladimir Putin as well as his successor Dmitry Medvedev have raised their public profile in this sector in recent years. Public health is becoming perceived as a long-term security issue in Russia. Substantial extra federal funds have already been committed and are going to be channelled to this sector in the short to mid-term perspective. One of the four so-called national projects that have been coordinated by Dmitry Medvedev prior to the 2008 presidential elections deals directly with health issues. There are strong signals coming from Russia that the authorities are considering spending substantial amounts of money on this sector. This budget line increase may create a window of opportunity for bolstering the NDHSP partnership.

Education and research is clearly an underexploited common interest. Russian universities are entering the Bologna process of unifying degree structures across Europe. This sector is key to the EU's Lisbon goal of becoming the world's leading knowledge-based economic area. Education and research co-operation with Russian actors provides a cost-minimizing long-term strategy not only in the natural but also in the social sciences where there is a large pool of human resources in Russia and simultaneously shrinking research opportunities in universities for example in Finland. This sector provides a very interesting and cost-effective channel of co-operation in the long-term, potentially leading to increased integration.

Cultural issues are an area where there has been a history of exchange and mutual learning, and where a clear interest in building on that in the future has emerged. Russian artistic culture with its world-wide significance is obviously of interest to the Nordics and Balts alike. The Nordic way of organising society, the tradition of the welfare state and related policy approaches, on the other hand, have long been admired by the Russians. An idea of 'northerness' is clearly visible on both sides of the EU/EEA—Russia border, but it does not extend very deeply into the Russian cultural tradition and society overall. In the final analysis, the potential for integration in this sector is just as high as in the education sector. Education and cultural issues currently represent a single common space at the strategic partnership level. However, at both the strategic and regional levels interest is emerging in reinvigorating activities in this sphere.

Logistics and transportation is an area where public—private funding partnerships are very much in the common interest. Such partnerships are also favoured by the Russian side, which faces a big investment challenge. Awareness of the extent of mutual coordination in this sector is, however, only beginning to emerge. Spatial planning in the EU, Russia and Norway is still far too separate and each party has developed its own transport strategies. In addition, the division of competencies between the EU—Russia transport dialogue and the ND is unclear.

Energy policy is a joint interest due to the EU—Russia energy trade in and across northern Europe. Both sides need each other. Russia's available energy transport routes mostly point towards the EU area. Only in the long-term is there any prospect for Russia to significantly re-orient towards the Asian energy market. And this will not be a question of trading the bulk of its resources from the northwest eastwards, but rather of using East Siberian resources that are impractically distant from Europe. Norway, the other main energy producer in the region, is slowly becoming a more notable supplier in the region alongside its traditional global and western European markets. The Scanled natural gas pipeline from Southern Norway is projected to reach southern Sweden, possibly Denmark and in some scenarios even Poland. Norway supplies hydropower to the Nordic electricity market that in the mid-term is set to become part of the all-European grid and market, very possibly including Russia.

As for large-scale projects, a significant number of actors can potentially benefit from energy projects like the Shtokman. It is not only about constructing the drilling rigs that have been ordered from the Vyborg shipyard, but also about maintaining adequate environmental standards; controlling the levels of CO_2 that will be released during the extraction process (here Norwegian companies possess state-of-the-art technology); building ports, terminals, roads, bridges, and facilities for the army of workers, etc. Alongside Russian and Norwegian actors such projects should be of equal interest to Finnish businesses. A good example of what the emergence of a new oil and gas

province will need and will generate can be seen by looking at the tremendous changes in Russia's Tyumen region since the big oil extraction projects started a few decades ago. One must hence keep in mind that despite the evident differences in energy policy priorities between energy buyers, producers and transit states – all of which are present in northern Europe – interdependence and concrete cases of expertise sharing and pooling characterise their mutual relations alongside competition.

A good example of the continuing energy sector interdependence is the shared interest in *renewable energy, energy efficiency and energy saving technology and practices*. This joint interest is there regardless of whether the motive is to guarantee domestic supply in energy importing countries, or to ensure that enough hydrocarbons are left for income-generating export. Furthermore, these issues are not as sensitive politically as for example energy transport, field ownership questions, etc. Although there have been problems in mutual energy relations – as in the Baltic states' once lucrative but now drying up Russian oil transit – the situation is not gloomy in the energy sector overall. Gazprom has an interest in continued gas supplies to the Baltic states simply because it is involved in their gas distribution markets in a shareholder capacity, as it is in Finland through a 25% stake in the monopoly Gasum.

Finally, all ND partners have an interest in *maintaining the EU's presence in the north*, including the continued availability of its large funds. The transformative effect provided by the scale of European funding available should always be kept in mind whenever the institutional framework of northern co-operation is discussed.

Alongside the common interests in many sectors already enumerated, all northerners share the same structural problems of putting together the necessary funds, developing the hardware and software for mutual relations and all-European trade, as well as other exchange, in conditions of sparse population, wide geography and harsh nature, and in the midst of climate change.

COMMON INTEREST	CURRENT/EMERGING ACTIVITY
Respect for international law, sovereignty and inviolability of borders	Maintenance of secure borders with well-functioning and regulated cross-border traffic
Primacy of diplomacy	Identifying non-controversial issues for getting the Baltic states, Poland and Russia to the same table
Market principles	Support for state-supervised, socially oriented mixed economies; regulation enabling foreign investment
Environmental protection	Kyoto commitments, linking of energy and the environment, bolstering of NDEP
Health	Public health investment, bolstering of NDHSP
Education and research	Bologna process; student exchange; research co-operation by pooling the shrinking university research opportunities in the Nordic countries and competitively priced and abundant Russian human resources
Culture	Cultural exchange, branding with 'northerness'
Logistics and transport	Public-private partnerships
Energy	The Shtokman project and its support infrastructure; sharing of renewable energy technology, energy efficiency and savings technology
EU's role	Availability of funding and investment

5. WHAT ARE THE BEST PRACTICES FOR PROJECT DEVELOPMENT?

The best practices for realising the common interests at the project level flow from the lesson of learning by doing and involving the relevant Russian actors, including state bodies, from the very start in any project. Sticking to agreements and commitments during the mutual learning process will slowly but steadily help to generate *trust*. Conversely, trust can evaporate overnight as a result of unilateral and controversial policy choices especially when major national interests are at stake. Trust is slow to build up again. Reciprocating any co-operative measure is an important habit that also helps to generate further trust through time.

Related to the lesson of learning by doing is the practice of persisting to offer co-operation even when the door appears shut. The way in which the Norwegian StatoilHydro finally got involved in the Shtokman consortium is a good example, even though its role is at this stage limited, with the final decision on the engagement to be made by 2009. In addition, the company's role is limited to being a shareholder in a fixed-term capacity in the company developing the field without a stake in the field as such. Even though there are certain limitations as to the role that this partly state-owned Norwegian company is to play, the agreement can function as a door opener for realising other interests. At the state level, it may facilitate the long-standing negotiations for the delimitation of the Norwegian—Russian maritime border. Moreover, it is crucial that during the bidding process the Norwegian side persisted in its practice of linking energy exploitation with environmental protection. For the moment there is no public evidence of the deal compromising this Norwegian principle, but it is rather seen as an opportunity for ensuring that Norwegian environmental standards are to be applied in this strategic project.

At the more concrete level, reciprocity would imply that companies based in the EU/EEA area and the Russian side can get deals done and can invest on each other's territory. Finnish companies are involved as investors and shareholders for example in Russia's telecoms, forestry, construction and consumer goods sectors. Norwegian companies are involved in the energy sector in production and consultancy, as well as in engineering, shipbuilding and offshore construction industries. However, in instances where Russian energy companies such as RAO Nord or Rosenergoatom have tried to invest in Finland, they have been defeated in the bidding process or not granted a licence. The usual EU-level explanation that the state cannot decide on behalf of the companies in a market economy is not entirely convincing, given the state's role as an owner, strategic planner and licence issuer in the European energy sector. Achieving a positive momentum requires that states on both sides are actively involved and that they do their utmost to assist and protect foreign companies in order to make them European—Russian business bridges.

The best practices of investing in Russia are various. As a rule any project should engage the Russian public sector and cultivate personal contacts in an institutional environment that can be deemed as developing and transforming. Knowledge of the business, societal and political culture in Russia is of key importance. When acquiring assets, choosing a target that from the Russian state's perspective is non-strategic may be a very wise tactic for avoiding controversy. Sometimes having a Russian partner on board can be useful but is no automatic guarantee of success as the bitter experience of the British—Russian TNK-BP consortium in the East Siberian Kovykta gas fields demonstrates. A go-it-alone strategy, for its part, is best realised within non-controversial sectors, but this

strategy may well result in delays and in a slowly building market share. Refusing to accede to the widespread corruption among the authorities is a possible practice as well, as is testified by the example of the Finnish retailer Stockmann and the Swedish Ikea. However, it should be kept in mind that there should always be a clear exit strategy.

In the long term, the ground for business and other exchange is best built by facilitating student and scholarly exchange on an even larger scale and in a greater number of sectors than today. This requires significant investment in order for the current levels of exchange to expand and institutionalise further. Expecting the basic higher education resources and normal EU funding to handle this task will be unrealistic. For example the Finnish—Russian Cross-Border University project that was started in 2007 will require continuous, long-term state/ministry sponsorship. Finnish universities are unlikely to take any extra burdens on their shoulders in the current situation of hugely expanding tasks assigned for them to handle with an unchanged or declining body of human resources.

6. POLICY RECOMMENDATIONS

On the basis of the assessment of lessons learned, common interests found and best practices suggested for European—Russian relations in the context of the new ND, the following ten-point list of policy recommendations can be presented:

1. It will be extremely important to *ensure that the currently developed EU's Baltic Sea strategy does not risk spoiling the promising start made in the new ND in engaging Russia in a mutually profitable way*. One way of avoiding duplication and harmful overlaps would be to use the planned EU-centred Baltic Sea set-up to agree on proposals forwarded to the Russian side, or to agree on joint responses to Russian initiatives within the ND. Even then the added value seems ambiguous. A more profitable use of the new Baltic Sea Strategy would be to deploy it as a tool for engaging the Baltic states and Poland into regional co-operation, for example in the field of the environment. This would be a step towards engaging those countries constructively in case ND co-operation involving Russia on an equal footing really is too sensitive for them at the current moment. Deploying this tool could also speed up actions in this area where quick results and input from everyone is needed in order to further the prospect of reviving the Baltic Sea eco-system.

2. Competition between projects within the ND framework should be avoided. Tensions between multilateral and bilateral cooperation should be minimised or at least kept manageable by better coordination. When planning projects within the ND framework, the possibility of competing projects within other existing or planned cooperation formats should be addressed and if possible eliminated. An illustrative example concerns different railroad projects. The Finnish priority is the fast speed rail connection between Helsinki and St. Petersburg, while the Norwegian priority would be linking the Murmansk region to Norway. These projects have been on the agenda for a long time but have been overshadowed by the fact that the Russian authorities have been prioritising the rail link between Kaliningrad and the rest of Russia via Lithuania. Only once one project has been finalised will the Russian attention turn to the next. This should be taken into account in the early stages of planning projects. With better coordination and cooperation ensured, it is important to keep in mind that projects which involve national interests can also be completed faster.

3. The existing and planned ND partnerships should represent the core activity whilst they also offer some ingredients for spicing up the common

spaces of the EU—Russia strategic partnership. This testing ground function presupposes good coordination between the strategic and regional levels. Once that is ensured, the ND partnerships provide platforms where concrete and clear tasks are easier to define, funds and consortia can realistically be assembled, and where impact can best be monitored within clear-cut issue areas, and reported back to the funding bodies. Such a compact and transparent set-up feeds perceptions of real project returns and fits with the requirements of the public sector, supranational institutions and other funding bodies of showing that their projects have tangible and measurable impacts.

In developing the ND partnerships, depending on the particular case, there may be a need, on top of expert level co-operation, to include public information and other campaigns directed towards the broader population at the grass-roots level. Significant awareness-raising outcomes and policy returns in areas of health, the environment, energy savings and efficiency can be achieved in this way, especially if accompanied by the provision of low-cost devices helping the consumers to change their habits (see below). For these ends a project selection mechanism needs to be developed further to avoid situations where the Russian party comes to meetings with concrete proposals – which it has already done – without getting any firm or satisfactory response as happened in the unfortunate old ND. Roadmaps for the new ND may be one option but agreeing on them may require substantial political capital and time that risks holding up concrete progress. In any case, timescales should be flexible. Actors, their responsibilities, funding and evaluation mechanisms should be clearly defined in any project. The establishment of a mutually agreed project prioritisation mechanism would be essential in order for the equality principle to be realised.

4. To develop the NDEP partnership further and generate trust, it is essential to move towards abandoning single-hull ships in the Baltic Sea. Such a regulation should not affect transport volumes or the operating companies significantly. Tankers are merely an exchangeable medium whereas the goods flow and core business would remain intact. But the measure would provide for more environmental security and help to abolish one very controversial question from the policy agenda. Other priorities can also be short-listed on the NDEP agenda, but it will be useful to keep the list short in order to generate success stories supporting the whole programme.

5. As for the NDHSP partnership, more emphasis should be put on the dissemination of information. The project data base should be used more actively. The federal level should be widely engaged, but in some issues the federal district level suffices due to the de-centralised decision-making in this sector in Russia. Some projects require engaging the research community better, by means of funding research collaboration in order to create sufficiently wide advocacy coalitions for realising the stated project objectives. The partnership should work at engaging a larger number of potential funders for projects, including funds for multilateral activities. Taking into account the large number of actors, the diversity of activities, the ambitious goals and the complex set-up involved, the recent proposals for evaluating the partnership seem useful.

6. As for the planned transport and logistics partnership, there is a heavy need for investment which is best achieved through public-private partnerships. There is new legislation laying out the structure for such partnerships in Russia. Experience of how it has worked in infrastructural projects so far should be taken into account. It will also be useful to keep in mind that on the Russian side, the companies involved may be state owned or state controlled. Involvement of

IFIs will most likely be welcomed by Russia even though the sector is becoming seen as 'strategic'. All non-infrastructure bottlenecks should be eliminated. This includes standardising transport-related technical and administrative structures, and developing spatial planning and transport corridor strategies together. For example, at present each party has its own transport strategy even though we are talking about transport volumes where there is a shared interest in ensuring smooth flows. The roles of the ND transport partnership and the EU's Trans-European Transport Axis programmes should be clearly defined.

In energy transit, land-based pipelines should be encouraged and considered as a trust-generating strategy to address the Russo—Baltic—Polish—Swedish controversy evoked by the Nord Stream gas pipeline project on the Baltic Sea bed. In return, transit fees should be lowered or not charged at all against Gazprom's commitment for guaranteed long-term supplies priced competitively. The Russian side should be encouraged to abandon double invoicing at the borders in order to save time. It should also be encouraged to reduce the number of unnecessary border staff which results in multiple and unnecessarily time-consuming controls. This would have the advantage of releasing part of the workforce, which is becoming scarce in the country's northwest, for more productive purposes.

7. In order to promote a mutually beneficial market environment, it may not be ideal to have each party supporting its own 'national champions'. If national champions are the rule regardless, partners should be informed of when and how the national champions are to be privileged by the state. A useful tool for developing a predictable business environment would be to create an independent expert team/forum of policy makers, entrepreneurs and academics reporting biannually to the ND steering group and the wider societal, political and business circles. The model of the EU—Russia Roundtable of Industrialists can help to develop this concept. National and cross-country comparative research measures may include monitoring systematically the success of various business strategies such as acquisitions, 'go-it-alone', low-risk strategies etc. Supporting the health and growth of the domestic consumption sector in Russia will bolster Russia's economy and help to maintain a market for EU and EEA area exporters outside the potentially volatile energy sector. Asset swaps in the fashion of German—Russian energy relations should be considered as a model for overall economic relations; if no partner is available in the home country, allying with another EU area actor should be considered.

8. In the energy sector, a prerequisite for multilateral large-scale co-operation would be for the EU to first assume more competencies and to develop a more convergent approach to energy questions internally, and then to develop an external energy policy to match the record it has set in dealing with Russia in some other policy spheres. The currently predominant bilateralism results in collective losses in this geographical area characterised by a high degree of interdependence.

Further alarmist security talk in energy policy should be consciously avoided, and the interests of energy buyers (security of supplies) and energy producers (security of markets) should be ensured. Energy chains should be considered jointly and responsibility for their development and maintenance shared. The strengthening of energy links between old and new EU members should be continued as this may help to reduce some of the former socialist countries' fears of being hostages to Russian energy (even though energy supply may well be of Russian origin).

Every opportunity should be used to support the rise of domestic energy prices

in Russia as this will reduce waste of energy, spare non-renewable resources, reduce environmental load and help to maintain sufficient reserves for energy exports to the EU area. There should be a very strong governmental, EU and ND level policy on *developing renewable sources of energy, energy efficiency and savings*, as these are in the interests of buyers, producers and transit states alike. Concrete support measures in the field of sustainable energy should include:

- Technology transfers and joint development of renewable energy technology. German, Danish and Icelandic actors should be closely integrated into these efforts due to their considerable expertise in this sphere
- A ND renewable energy scholarship programme could be considered, as there is a lot of unexploited, yet latent technical expertise on these questions in Russia
- Commissioning a study on ownership of energy efficiency issues in Russia should be considered in order to help understand the prospects of promoting and institutionalising the concept there
- As a simple measure, the installation of heating regulators into households and blocks of flats should be supported financially and campaigned at the bureaucratic and grass-roots level
- Environmentally viable wood burning facilities should be promoted in Karelia, where currently coal is transported from a distance of thousands of kilometres from other parts of Russia

Finally, *electricity* should function as a priority area in grid interconnection and market integration. In this sphere, there is relatively little alarmism and decent market development on both the EU/EEA and Russian sides. As a concrete support measure, strengthening of grids on the Russian side should be supported in order to erode opposition to cross-border electricity traffic at the level of local authorities and to deter threats of grid collapse as a result of increased load.

9. A *partnership on culture* might be considered in order to exploit the common interests towards each other's culture that prevails widely on both sides of the EU/EEA—Russia border. Adding a partnership in this field would help the ND to become a more perfect testing ground and regional manifestation of the EU—Russia common spaces project where culture and education make up one of the four key areas. However, it is possible that education and research issues in the ND are best integrated as academic components into the other partnerships in order to support them as suggested above.

10. It is particularly recommendable to set up and fund *joint European—Russian research teams to study drivers of change in the ND area and to support the development of the partnerships*. Further comparison of Finnish and Norwegian experiences of working with Russian actors would be useful. This could also include some non-Northern countries to widen the scope and to share experiences. Interesting 'new' actors could be Hungary, Greece, Turkey and Ukraine. From the other side of the Atlantic, the US and Canada might also have an interest in learning from ND regional cooperation with Russians.