

RUSSIA AND THE EUROPEAN UNION IN THE BALTIC SEA REGION

Introduction

In the expert assessments of Russia's cooperation with the countries of the Baltic Sea Region (BSR), especially the Baltic States, the main focus has traditionally been paid to bilateral relations. At the same time the membership of these countries in the European Union - with the attendant obligations for the implementation of common decisions - has been insufficiently taken into account. In the analysis of their interaction with Russia references to the EU are more common in the context of the subject matter of energy with a new emphasis on sanctions and reprisals.

From the point of view of the prospects of cooperation between Russia and the BSR, the EU factor and the channels between Moscow and Brussels should receive higher evaluation in the light of the natural dependence of other countries in the region from the general decisions of the Union. In addition to the transfer of many powers in the adoption and implementation of decisions in respect to Russia to supranational mechanisms, these countries receive and in the future count on even more EU assistance both in their development and in order to compensate for a variety losses, caused by the emerging deterioration of pan-European situation. Let us not forget the present EU Strategy for the Baltic Sea Region, macro-regional policies, programs of frontier area and cross-border cooperation with Russia and other major projects of the Union.

At the same time it is necessary to take into account the significant strengthening of the political voices of the BSR countries in the moulding and implementation of the joint policy of the Union - in the unfavourable direction for Moscow on the wave of Ukrainian crisis. For Brussels under this influence it is more difficult to work with Moscow even in neutralising the augmenting problems. A sharp imbalance between the political motives and the economic interests has emerged in favour of the former, which creates difficulties in finding proper junctions on the Russian track.

Moscow, in turn, by raising the stakes in the field of European security and propensity to conflict with the West in general, gradually narrows the room for manoeuvre in the establishing of dialogue both with the EU and its neighbours in the BSR. This adds to the increasing lack of understanding of a number of areas of Russian domestic policy by a significant part of the European Union members.

As a result, the guidance sign of lengthy no return to the former (albeit very complicated) condition of Russia's relations with the EU and the majority of its members is coming closer on our horizon. The given reality with an unusually large tangle of challenges and with mutual accusations of violating the “basic rules of the game” has no analogues in the last quarter of a century. Therefore one of the key challenges for policy-makers and experts is to clearly recognize this reality and to find non-trivial approaches for rectifying the situation.

Such efforts should be based on an interdisciplinary foundation with departure from the now dominant debates on individual even though most pressing issues - such as the increase of traditional security threats. This will assist the development of procedures and agendas for conciliatory proposals, linking together different areas of interest - ranging from security to humanitarian cooperation. In BSR these interests are intertwined even more often and more closely than in other regions.

Policy and Security

The new realities and presumptive prospects for the relations between Russia and the EU, directly affecting the course of events in the BSR, are already evident in the basic documents of the European Union. The approval by the European Council at the end of June 2016 of the draft “Global Strategy” was the response of Brussels to the new, non-traditional challenges in the field of foreign and security policy - “terrorism, hybrid threats, climate change, economic instability and threats in the field of energy security”. Although the document is not focused on the “Russian threat” (which is often, however, present “between the lines”), “Russia's violation of international law and the destabilisation of Ukraine” is called “challenge to the European security at its core”. Increased attention to hybrid threats is largely explained by the Russian factor.

It is also important that this time the indicated challenge has been linked to the traditional threats of military and military and politic nature. The level of the EU concern on the Russian track in respect to this category seems to be of the highest level since the fall of the “Iron Curtain”, including the period of the conflict with Georgia in 2008.

This was reflected in a marked emphasis of the document on the securitisation of policy for the foreseeable future. The Russian factor is felt more considerably in various directions, including that of foreign trade, as well as in the perception of the current EU common policy adopted in 2003 and still in force in the area of defence and security.

However, along with the lack of recognition of “illegal annexation of Crimea” and concern regarding “destabilisation of eastern Ukraine,” the need to build relations with Russia has been mentioned. At that “interdependency” of the EU and Russia and the possibility of cooperation are recognised, “if and when our interests overlap”.

As areas of “selective engagement” with Moscow “climate, Arctic, maritime safety, education, research and cross-border cooperation” are mentioned in the strategy. Engagement should also “include deeper societal ties through facilitated travel for students, civil society and business”.

Thus, in addition to the freedom of manoeuvre, proposed in the wording, the offered (and by far not exhaustive) list of areas of “selective engagement” indicates the opportunity to use their potential for mitigation of disagreements on foreign policy issues. It also highlights the degree of contribution to the potential of the BSR states, many of which in the list of areas of cooperation with Russia are well above the European average.

In addition to the Russian factor, also other themes at the darkening horizon on the borders of the Union mentioned in the document (terrorism, migration, etc.) will maintain the focus on securitisation. However, when building the policy on the Russian track, these factors may lead to positive denouement: successful cooperation here has the potential to assist the reduction of political tension.

While Moscow has not reacted with a similar document, its freedom of action is greater than that of the EU. Thus, lately at the summit and upper levels in Russia louder voices are heard in favour of strengthening economic and trade cooperation, and even in favour of the search for integration formats herein. Thereby the importance of non-military factors in the course of carrying out the removal of other problems is increasing.

In this situation, emergence of regular and unscheduled Concept of Foreign Policy of the Russian Federation may be expected in the near future. It will serve as a practicable guide to action for the coming years, and its provisions may carry the imprint of the current course of events and the current mood into the future. Most likely, the response will be the same selective approach, without return in the foreseeable future to “comprehensive” cooperation with the EU in all possible directions, worded with different nuances in previous concepts.

Unfortunately, so far the issues of politics and security in the EU-Russia dialogue, including BSR, have steamrolled other areas of cooperation of economic and humanitarian character, which can be important instruments for straightening of the overall situation. This has affected BSR significantly more in comparison with a number of other EU regions. Especially there the echoes of the Ukrainian crisis, the chill in relations between Russia and NATO and the EU and the imposed sanction measures may be perceived.

The relations of Russia with the BSR countries in the field of security are defined by the NATO membership of Latvia, Lithuania, Poland and Estonia and the neutral status of Finland and Sweden. After the onset of the “Ukrainian crisis” significant deterioration of the situation and marked militarization of the region were reflected in these relations.

Russia has significantly expanded the scope of military activity near its western borders. In turn, the neighbouring countries engaged in the opening of centres of excellence (in the field of cyber defence, energy security and strategic communications) aimed primarily at countering Russia, in establishing of cutting-edge NATO command points, deployment of heavy weapons; at the Warsaw Summit of NATO a decision was adopted to deploy additional troops in the Baltic States and Poland.

The mutual augmenting of the mentioned spiral, even without significant changes in the military balance has increased the potential for conflict - with the probability of dangerous failures and miscalculations with unpredictable consequences. At the same time it is already affecting the assessment of the prospects of the “action-response” principle in the military and foreign policy planning. Reaching of new tension levels in the field of security and foreign policy preferences creates additional barriers to achieving positive momentum in other areas of cooperation. As a result, the voice of NATO becomes louder than the voice of the EU on the agenda of the BSR, and at the same time the role of the channels between those associations increases.

The new “headache” of Moscow, concern over the scenarios of Sweden and Finland joining NATO, added to the dangerous development of the situation in the Baltic region.

However, even without such scenarios, the development of events takes place with an unfavourable vector for Russia. Much more significant than the probability of joining the NATO, are the actions of both countries as the EU members with the new emphasis on the field of security affecting the BSR and the new level of cooperation with the Alliance.

The mentioned EU document, approved at the NATO summit in Warsaw in July 2016, cannot fail to influence the policies of Sweden and Finland. In these countries a shift in the attitudes of politicians and general public has gained pace – of a very unpleasant nature for Russia.

In this situation, for Russia the character and areas of cooperation of these countries with NATO without membership in the Organization acquire great importance. Obtaining by the Alliance of the right to carry out military exercises and deploy rapid intervention teams on the Swedish territory means entering a new level of cooperation with enshrined formalization of relations with NATO.

Apparently, the Swedish and Finnish cooperation with NATO will gain momentum in parallel with the increase in the degree of interaction between the Alliance and the

EU. The latter will allow both countries to engage in the strengthening of military capabilities, while maintaining a neutral status.

In addition, both countries are significantly stepping up cooperation with the United States. Communication through other channels, affecting cooperation with NATO, including the Northern defence cooperation is being dynamically strengthened. Finally, in the last couple of years, Finland and Sweden have significantly expanded bilateral cooperation.

For Russia, these moves, especially on the part of Finland, are a new and important factor in the policy building in the BSR, in the actions through the channels with the NATO and the EU. In order to remove this additional tension rectification of the overall situation through dialogue with the EU, the Alliance and these countries is necessary.

At present the most demanded task is to reduce the risk of military confrontation in the region in order to avoid all sorts of errors and accidents with unpredictable consequences. In addition, both Russia and the BSR have experience of constructive cooperation with NATO: supply provision and then reverse transit of non-military goods for International forces ensuring security via the Baltic-transit" train involving the transport and logistics infrastructure of Russia and the Baltic States, as well as mutual implementation of the open Skies Treaty - even under the conditions of the Ukrainian crisis.

However there are other areas of cooperation, no less fraught with danger. Among them is the removal of cyber threats, where it is extremely difficult to find common ground with NATO, but easier through the mechanisms of the Organization for Security and Co-operation in Europe (OSCE). The project launched by the Organization on the formulation of rules in the framework of this new direction of confidence-building measures opens the prospect of relieving differences, and afterwards – a road to a mutually acceptable agreement between Russia and other associations (EU and NATO) and their individual members. Here the standpoint of the European Union could play a significant role.

However, much is stalled by the deficit of political will, especially in the relations of Russia with the Baltic States. The official dialogue of Russia with them has turned out to be almost frozen. There is even no question of the possibility of summit-level state visits. Working meetings of foreign ministers (except Latvia) were repeatedly carried out only on the sidelines of international fora. The contacts have been mainly retained on the level of the departments of relevant ministries involved in bilateral cooperation, as well as some of the sectorial working groups of intergovernmental commissions.

The working channels with Poland and Sweden are operating with the same constraints. With some favourable differences on the Russian-Finnish track, it has also significantly reduced speed.

To revive the dialogues the renewal of meetings of intergovernmental commissions at high level is necessary. With individual countries it would be beneficial to resolve some issues – such as, the completion of the process of ratification of the border treaty with Estonia.

In this regard and in the context of Russia-EU relations an important item on the agenda of the BSR seems to be the prospect of the existing regional mechanisms for cooperation with the participation of Russia and the members of the Union. These include first of all the Council of the Baltic Sea States (CBSS), Barents Euro-Arctic Council (BEAC) and Arctic Council (AC). Prior to the current crisis CBSS occupied a high ranking in the priorities of Russia; high value is still attributed to the “Northern Dimension”.

Signs to maintain constructive attitude are being received from the AC, which is now chaired by the United States - even with active counteraction of Russia to granting an observer status to the European Union.

The question is how to stimulate the work of these organizations under the current complicated conditions, taking into account their traditional attention to solving local and specific problems. On the one hand, they have become victims of “high politics” and are compelled to work under the deteriorating relations between Russia and the European Union and its allies. On the other hand – there remain important areas of engagement that require permanent joint efforts, for example in the field of ecological safety of the Baltic and Arctic areas.

In resolving of this dilemma voices become stronger than before in support of the release of a broader agenda, which would allow both to revitalize these mechanisms as well as to crowd to a certain extent the now weakened multiple channels of Russia and the EU. However such voices emanate mainly from the expert community, rather than from the corridors of power.

At the same time, this would require increasing of the level of authority and representation of these organizations, as well as the political will to promote their work – in order for Moscow and Brussels to consider the decisions of these structures.

Such reformatting however is fraught with new challenges. With access to a larger field of agendas (with the attendant additional differences) really important local issues may become forgotten.

Apparently, in the present circumstances it is more logical for regional mechanisms to rely on the policy of “small issues”, where it is possible to find a synergy of interests of all participants. This will assist in minimizing damage from the broader challenges in the relations between Russia and its western neighbours and the repair of bridges between Moscow and Brussels. Such cases are common environmental challenges, increasing of cross-border and humanitarian cooperation, revitalising of programs and projects in the North-West Federal District and others.

Trade and economic relations

For the politicians and experts dealing with the BSR, it might be useful to pay more attention to how the situation in the region might be altered with the help of interaction between Moscow and Brussels. Mutual foreign economy interests of the EU and its Member States in the BSR and Russia should be liberated from the shadow of the current reflections regarding military and political threats. Taking into account that in the past as well disagreements on international policy issues in the area of foreign economy exceeded the level of proneness to conflict, while the latter to a large extent contributed to the relief of the former.

Proceeding from the desire to improve relations between Moscow and the EU as a whole and with its individual members, reconciliation of mutual interests on the track of foreign economy is needed, identification of the extent of their impact on the overall relationship and possible future alignments. This is necessary *inter alia* in order to reduce political tension and to lead the overall dialogue to a mutually acceptable path.

At the same time this kind of efforts should take into account not only the new realities that have emerged with the introduction of the sanctions regime (and will not fundamentally alter even in the post sanction situation - at least at its early stages). They are related to changes on the (regional and global) markets of supply and demand of goods and services themselves, to the impact of sanctions regimes and the response of Russia on the long-term priorities of the EU and Russia, the consequences of Russia's "turn to the East" in respect to cooperation after the possible cancellation of reciprocal sanctions and, respectively, with the removal of a number of political differences. These circumstances should be evaluated with a careful eye to fresh priorities of Moscow and Brussels, as well as applied to the prospects of the relations of Russia with other countries of the BSR.

Let us mention some of the new realities on the European area. This is useful in order to determine both the "points of no return" to the previous situation and options for the further course of cooperation in the Baltic region.

In contrast to earlier times with their officially declared vector towards "comprehensive development" of relations, in the short term, it is necessary for the European Union and Russia, as noted above, to focus on "selective cooperation" according to a significantly reduced list of issues. This also applies to foreign economic cooperation. Even with complete or partial removal of sanctions with the resolution of the conflict in the South-East of Ukraine and preservation of "the Crimean factor", the

trend towards selectivity will continue - to a greater extent on the initiative of the European Union. The only question is its nature and scope.

This is due to a tangle of mutual concerns - ranging from foreign policy to internal development of Russia and the European Union. This “tangle” has been mentioned in the five principles underlying the EU policy towards Russia adopted in March 2016.

One of the principles involves “selective cooperation” both for foreign policy, and “other issues of interest to the EU”. Foreign trade issues are partly related to the latter as well.

With foreign policy issues the picture is clearer: the settlement of the crisis in the Middle East, the situation around North Korea, as well as migratory movements, combating of international terrorism, climate change. Let us add to this the first principle – in respect to the implementation of Minsk agreements.

As regards the “other issues”, the experts need to understand in more detail the choice of areas of interaction in their respect. However such an analysis should proceed from the actual feasibility of the presumptive “road map” of interaction without escaping to the well-trodden declarative path.

As already noted, signals from both sides highlight the need for expansion of interdisciplinary approach on the international discussion platforms in respect to the issues in relations both between Russia and the EU and in the BSR. The “obsession” of many platforms with security challenges, which has at present become natural, should be supplemented and gradually replaced by interdisciplinary agendas. In this process, the role of the subject of foreign trade should be objectively increased. Such agendas will enable better assessment of the situation, prospects and directions of “selectivity”, as well as finding mutually acceptable compromises with engagement of related political and economic factors.

“Selective” approach highlights the issue of the “point of no return” to reverse movement. It directs towards the identification of areas for interaction, where it has already been passed with the expectation of withdrawal of reciprocal bans or those, where all the parties are rapidly approaching this point. By reference to a list of priority foreign trade partners, the EU has, apparently, already commenced to determine it.

As approved by the European Commission in October 2015, in the trade policy for the foreseeable future, Russia, which in previous documents traditionally occupied the third and fourth positions, has now been ranked last.

Moreover, in contrast to the indicated six regional and country blocs, Russia has not received more or less distinct orientations for the future¹. It is only mentioned in

¹ “Trade for All. Towards a More Responsible Trade and Investment Policy”. Russia ranks behind the USA and Canada together with the countries ranking

the part devoted to energy, but not in the context of development of industrial cooperation with the EU and its Member States the important to it. All this provides a strong signal that Russia's position in this table of ranks will continue to decline, both in respect to statistical indicators and priority in building long-term trade and economic policy of the Union beyond its borders.

At the same time the rather vague references to Russia also give the EU a certain freedom of manoeuvre - depending on the change in the situation. In the document this relationship is reflected in the statement: "The EU's strategic interest remains to achieve closer economic ties with Russia. The prospects for this, however, will be determined primarily by the course of Russia's domestic and foreign policy, which so far gives no signs of necessary changes". This message regarding the trade and economic chapter later added to the "tangle" of five principles.

Same as in these principles, Brussels has not definitively dotted all the i's in the foreign economic direction and has adopted a wait-and-see position with an eye to the future "behaviour" of Russia. It follows thence that a lot depends on its assessment of progress in the internal and foreign policy of Moscow. Apparently, among the latter, the leadership in the near future will belong to the external dimension and probable alignments on a number of international and bilateral issues. These alignments, on the one hand, will stimulate positive developments in addressing the foreign trade tasks, and on the other hand - feedback will also take place.

Meanwhile, the wait-and-see (actually less rigid) position on the foreign economic track in comparison with the political one, without major positive changes in the situation will continue to increase the level of internal conflict of interests of the members of the European Union - with different preferences regarding the nature and scope of cooperation with Russia. In this situation the "intermediary" role of the governing bodies of the EU with all the mechanisms and channels of influence will increase. This effect also applies to the BSR countries.

In turn, in spite of the "turn to the East" and sanctions, Moscow still considers the EU an important strategic partner in the foreign trade area. This is a given for the retention of scale and balance of foreign trade engagement for Russian interests. Highlights in official statements indicate the hopes for at least some restoration of cooperation and the return of the position of Russia on the list of the EU's leading foreign trade partners with the removal of mutual sanctions.

lower than the former two: Asia and the Pacific Region, Africa, Latin America and the Caribbean, Turkey and countries from the area of the "European Neighbourhood Policy" - to the east and south of the borders of the Union (in which it is formally included, but without mention).

However, in addition to foreign policy vicissitudes, in this effort much will depend on the prospects of the internal situation in Russia and their assessment in the EU. On the one hand, Brussels may make calculations that in the course of the deteriorating economic situation the likelihood of changes on the political, economic and humanitarian tracks, favourable for the EU, will increase. On the other hand – on the likelihood of further tightening of domestic policy with the respective anti-Western foreign policy guidelines, concerns of which becomes more evident in expert reasoning. This dilemma to a large extent explains the ambiguities in the official EU formulae.

In turn, in Moscow internal vicissitudes will encourage more strongly the key interest (in addition to energy) in cooperation with the EU, namely, investments. The European Union has always held the leadership in foreign direct investments - more than 70%. Their sharp decline with the beginning of phasing out of production on the territory of Russia very significantly impacts the prospects of economic development of Russia. However without clear and precise rules of the game for investors and measures to improve the investment climate the “point of no return” in this area of interaction with the EU may be passed fairly quickly.

At the same time, the “point of no return” has obviously already been passed in respect to the most sensitive area for Russia - energy. Moscow will have to adapt to the new situation, associated with changes on the global and regional energy markets. It is not worth relying on the removal of sanctions, rising oil prices and increase in the level of trade with the EU as the main consumer of Russian exports. It should be taken into account that the real interests of all members of the EU including “energy security” are by no means limited to the fear of the “Russian threat”.

Reality indicates other long-term interests of the EU Member States, largely tied to the challenges of competitiveness in the world, especially in the industrial and technological sectors, concern regarding environmental and climate issues, and many more. Therefore setting for implementation of energy efficient technologies, renewable energy sources and other solutions of this kind is unlikely to be revised. In turn, also the route towards diversification of supplies with the concomitant impact on energy prices, including for reduction of own costs of production and household needs of citizens is unlikely to be revised.

In this sense, it would be worthwhile for Moscow to read the EU documents on the Energy Union more attentively. It's founding is the question formats and names, but not of the content of the selected vector of development, where departure from dependence on Russia is just one of the motives.

Consequently, for Russia in the evaluation of the intentions of the EU and its Member States in the Baltic Sea Region in the field of energy policy it might be useful to read their motives not only in the context of the “anti-Russian sentiment”, realizing

that needs of the EU for energy supplies from the East will remain massive, but will continue to decline.

At the same time, Moscow cannot ignore the fact that in the presence of all the indicted objective interests of the EU, events around Ukraine have provided a significant impetus to the formation of a common energy policy - one of the few areas where the sovereign rights of the EU Member States for the time being dominate over the powers of Brussels. The European Commission has succeeded in easing differences between States, although rather high barriers still exist on its path.

Given the significant share of supplies and transit of energy sources on the foreign trade balance of Russia with other countries of the BSR, it would be useful to pre-define mutual future interests on the foreign trade track. Thus, in the long term perspective Russia cannot but be interested in energy efficiency programs, where the EU and its members are world leaders. The philosophy of the EU energy policy with an emphasis on the cluster of “clean technology” and “green economy” is therefore important for Russia as well. In respect to RBM cooperation, for instance, with Finland in this cluster has a high potential.

In turn, Russia has extensive experience, for instance, in the development of the Arctic region and technologies of eliminating the consequences of man-made and natural disasters. It is already in demand on some markets, and this area of cooperation in the BSR seems to be promising.

Thus, cooperation with the EU and the countries of the BSR has a significant potential to provide a balance in energy trade and the modernization of the economic base of Russia through large-scale introduction of energy saving technologies, renewable energy sources and other technologies that same as provided in the EU documents on the Energy Union, should be based on the tasks of increasing competitiveness and others. Let us note that the leadership of Russia lately pays special attention to these tasks.

In the search for compromises that would affect political and economic issues and reflect on the interaction with the EU and the BSR, interest should be increased in establishing cooperation between the Eurasian Economic Community (EAEC) and the EU. This would encourage Moscow to cooperate also on other tracks. Lately Moscow, in addition to the emphasis on the revitalization of trade and economic interaction, underlines the great importance of contacts between the Eurasian Economic Commission and the European Commission as a driver to improvement of the overall climate. Certain positive responses to such interaction are voiced in the European capitals. On the whole however in the EU lukewarm attitude to the prospects of the Eurasian Economic Union is prevailing. These sentiments are also characteristic of some BSR countries.

This is primarily in reference to the instrument that will assist overcoming of a number of differences. Under the conditions of retaining the sanctions the development of contacts between the Eurasian Economic Commission and the European Commission seems to be important for the improvement of the current climate.

For the European experts it would be useful to move away from the usual scepticism regarding the prospects of the EAEC and the emphasis on the thesis regarding its political rather than economic basis. It would be useful to calculate more objectively all the benefits and drawbacks of this association together with the gains and losses of establishing channels of cooperation with the European Union, and at that in respect to a set of issues, taking into account not only the foreign economic interests, but also the need to unravel the “tangle” of the five EU principles and other long-term landmarks.

Such contacts directly affect the interests of the BSR countries in the framework of cooperation with Russia. Establishing of interaction with the EAEC and other countries and associations, especially in the East, which can directly impact the interests of both the EU and its member states in the BSR, should not be overlooked either.

Other important issues in the framework of EU-Russia relations, directly related to cooperation of Russia in the BSR, refer to the agricultural and transport areas.

Even with the removal of the sanction regimes by the two sides and establishing of a dialogue between the EU and Russia, the demand for agricultural products by Russia from the EU Member States, while maintaining large volumes, is likely to show a tendency to further reduction. The response of Russia has already gained its own internal dynamics and revitalized state import substitution programs. In addition, new markets to replace the agricultural products from the EU (together with the “gray schemes” of deliveries of the latter to Russia) have been elaborated fairly quickly. Apparently, this time the point of no return has been passed by the Russian side.

However, Russia will continue to be interested in the import of goods from the EU Member States, albeit in smaller amounts. In addition to the prospects of removal of the sanction regime, much will depend on cost competition, the rouble exchange rate against the euro and other factors. In general, for its European partners it should be useful to focus more on the “new reality” on the agro-industrial market of Russia.

For the BSR countries, particularly the Baltic States and Finland it might be useful to consider this reality more carefully. In difference from them, some other members of the EU have adapted more successfully to the Russian response.

Against the present unfavourable background the efforts Russia to reduce dependence on the transport infrastructure of the Baltic States have intensified. A clear policy in this direction has emerged already at the beginning of the century, but for various reasons has not been implemented to the prospected extent.

Obviously, also in respect to the transport component it can be said with some reservations that the point of no return on the initiative of Russia has been passed. Here as well cooperation will continue, but on a much smaller scale than before.

These scales will depend not only on the status of the overall relationship. Their maintenance to a certain extent is determined, for example, by the loss of a number of Ukrainian ports, the financial capacity to implement the approved development plans for the North-West port infrastructure of Russia (including success in the search for non-European foreign partners), tariff policy etc.

An important area of analysis of the future of foreign economic relations of Russia with other BSR countries is the issue of the possible niches, when changing partners, and the impact of the restriction of cooperation on the economic development of all countries in the region.

Search for proper compromise in the trade and economic part on the basis of perspective niches in the new reality is in the interests of both Russia and other BSR countries. That is what specifically seems to be a prerequisite for removal of political differences.

At the same time, for Russia it might be useful to objectively analyse its impact on economic development and the interests of other countries in the BSR. Moreover, in official statements and in the media, Russia pays great attention to the processes of crisis in the European Union, encompassing also the Baltic Sea Region countries. Nevertheless, compared to the negative dynamics of economic indicators in Russia, in these countries growth of the GDP, even though minor, is present and is expected in the short term.

For Russia, given the serious upheavals on energy markets and the firm intention to increase food security by stimulating domestic producers, it is essential to define new niches for cooperation in the Baltic Sea Region and the EU as a whole beyond the sanctions regime. This task is, however, complicated by the lack of own development program for at least the next couple of years; talking of serious industrial modernization and technological potential, many foreign trade “seesaws” could be avoided.

The currently small experience of “turning to the East” evidences serious obstacles to the said modernization, even if such a program is adopted in the presence of strong political will. At the same time the BSR countries should monitor more closely the growth of competition between the leading countries of the Asia-Pacific region for the Russian market, including the non-resource sectors. After a certain lull, Japan and South Korea have started to express concerns over the shift towards cooperation between Russia and China. These changes are taken into account also in Brussels.

It seems that for the BSR countries, because of their success, compared to many EU Member States, in the field of innovative economy it might be useful to determine

the areas and projects of cooperation with Russia in advance. Finland, which is one of the key partners of Russia in technology, has a better position in this respect.

Frontier area, cross-border and humanitarian cooperation

Cultural cooperation has traditionally been the most trouble-free area of relations between Russia and other BSR countries. In the Baltic area however in recent years even this is starting to be considered in terms of projecting Russian influence, as a tool of “cultural imperialism” and “propaganda”. Closing music festivals, banning the tours of Russian artists, shutting down broadcasting of Russian TV channels: all of this does not promote positive development of Russian-Baltic cultural dialogue.

Moreover, as the statistics of the issued visas by relevant type indicates, the number of visits of scientists and cultural figures from the Baltic countries to Russia decreases, even the number of applications to Russian universities from the Baltic students (except Estonia) is shrinking. This seems to be an alarming signal.

Cooperation in the humanitarian field practically cannot influence the contemporary political conjuncture. But it is able to create favourable environment, as well as contribute to the formation of a critical mass of people, aiming at the development of positive and mutually beneficial cooperation.

In this regard, resumption of the work of joint commissions of historians, maintaining as far as possible the expansion of cultural cooperation at the existing level: theatre tours, musical groups, exhibitions and so on, increasing the number of academic exchanges and abstaining from entering artists into the sanction lists rank among other urgent tasks.

BSR has long been excelling with a high degree of cross-border cooperation. Essential role is played by joint projects in various fields, which are designed to promote establishing of long-term cooperation mechanisms. In the current complicated environment, this cooperation gains particular importance for positive developments in the region, also the processes of its institutionalization and the creation of sustainable networks should not be forgotten. Let us recall that it was mentioned in the basic documents of the Kremlin in the more trouble-free times.

Frontier area cooperation traditionally occupies a special place in the overall Russian-EU dialogue, as it is practically not affected by international political conditions, and retains the role of a very important driver of development of Russian relations with the EU and with the BSR countries. The goals and objectives implemented on this track of interaction are of solely practical character. They are

focused on the resolution of problems, which are specific to and characteristic of their regions, without attempting to quickly resolve political differences.

Partly because of this the mentioned trend was little affected by the deterioration of the current climate. All regional cooperation programs with Russia are still working, even though the EU has reduced the funding of several projects, including programs of scientific and educational character.

The EU has approved or coordinated the new frontier area cooperation programs for the period from 2014 to 2020, and Moscow is carrying out negotiations with the Union regarding an agreement on the funding and implementation of these programs. Moscow has recently signed a letter of participation in the program of transnational cooperation "Interreg Baltic Sea Region" for the period from 2014 to 2020 and taken a decision to continue co-financing of the "Northern Dimension".

In the near future the restoration of small border traffic between Poland and Kaliningrad region is probable, and the local government of the latter plans to start the implementation of new Russia-EU projects in 2017. The Intergovernmental Commission on cross-border cooperation between Russia and Finland has resumed work.

Frontier area and cross-border cooperation is of great importance to Russia and its neighbours. It concerns inter alia the development of small and medium-sized businesses, improvement of transport and logistics and customs infrastructure, implementation of best practice in the projects of the North-West Federal District, the development of industrial cooperation and support of cluster initiatives.

Against this background, the main task of all participants should be to maintain the achieved level of cross-border cooperation. Interaction with the Baltic States in the Euroregion format, as well as implementation of bilateral strategies of cross-border cooperation objectively remain a resource to maintain working relationship in the areas of mutual interest and an important tool to smooth out the problems on other tracks in the relations between Russia and the EU and the Baltic Sea Region.

Conclusion

Growing tensions on the European continent, observable in the Baltic Sea region, significantly impact the status and the prospects of relations between Russia and the European Union. Weakening or removing them is a vital task to be resolved together and in a prompt manner via the channels of interaction with the EU, NATO, OSCE and other important mechanisms.

However, its implementation should not be limited to a dialogue on security issues, and other significant areas of cooperation should be “pulled up” as part of the overall package of mutually acceptable agreements, focused on the improvement of the political climate in Europe. Such areas include the development of foreign economic relations, humanitarian and cross-border contacts, overcoming of non-traditional security threats (including migration flows), the implementation of environmental programs, combating climate change and others.

Here a significant potential in promoting the relief of security risks may be discerned. It is especially noticeable in the BSR, where Russia is widely represented in the diverse areas of cooperation.

High political differences, which “overridden” the agendas of interaction in the region should be resolved, including through “grassroots mobilization” of the business community, local governments, non-profit organizations. They should work more actively with government agencies, as well as regional structures and Brussels.

At stake are the economic interests, preservation of humanitarian and scientific ties, and the opportunity for positive changes in the current extremely unfavourable situation. This applies not only to Russia and other countries of the region, but also to all members of the European Union.

Such shifts can be significantly stimulated through the Russia-EU channels, bilateral contacts between Russia and other countries of the BSR as well as positive signals from the capitals of the latter addressed to Brussels. It is extremely difficult, but necessary to accomplish this now.

In order to reduce the tension, to return to the former scale of mutually beneficial cooperation between Russia and the West, including the countries of the Baltic Sea Region as a part of the Wider West, it is absolutely necessary that both sides display genuine political will, notably not only at the summit level, but also at all other levels of interaction. But it will be possible to implement this will only with a clear, detailed and sober understanding of the potential and organisation of each specific channel of interaction. The present report sets out general approaches to this issue; it represents a wide field for expert work. Persistent and prompt request for such work is required from Moscow and Brussels, as well as from the capitals of the BSR countries.

ATTACHMENT
Trade and economic relations between Russia and the Baltic States
(For the Russian version)

Table 1
The ranking of Russia in the imports of the Baltic States (%) *

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Latvia	8.7 (3)	8.5 (3)	7.8 (3)	8.4 (3)	10.6 (3)	10.7 (3)	10.0 (3)	8.6 (3)	9.5 (3)	8.4 (4)	8.1 (4)	8.4 (4)
Lithuania	23 (1)	27.8 (1)	24.4 (1)	18.0 (1)	29.9 (1)	29.9 (1)	32.6 (1)	32.8 (1)	32.3 (1)	29.2 (1)	21.6 (1)	16.9 (1)
Estonia	9.2 (4)	9.2 (3)	12.8 (2)	10.1 (4)	7.6 (6)	8.2 (6)	8.2 (5)	8.3 (5)	7.3 (6)	5.7 (7)	6.2 (7)	5.8 (7)

Sources: <http://www.stat.gov.lt> (Lietuvos statistikos departamentas); <http://www.csb.gov.lv/> (Latvijas statistika), <http://www.bank.lv/> (Latvijas banka); <http://www.stat.ee/> (Eesti statistika).

* In parentheses the ranking of Russia is indicated among all the countries-importers of the respective country.

Table 2
The ranking of Russia in the exports of the Baltic States (%) *

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Latvia	6.4 (6)	7.9 (5)	8.9 (4)	9.6 (3)	10.0 (3)	8.8 (3)	10.6 (3)	10.6 (3)	11.5 (3)	11.6 (3)	10.8 (3)	8.0 (3)
Lithuania	9.3 (3)	10.4 (1)	12.8 (1)	15.0 (1)	16.1 (1)	13.2 (1)	15.7 (1)	16.6 (1)	18.6 (1)	19.8 (1)	20.8 (1)	13.7 (1)
Estonia	5.6 (5)	6.5 (4)	7.8 (4)	8.8 (4)	10.4 (3)	9.3 (4)	9.7 (3)	11.0 (3)	12.1 (3)	11.5 (3)	9.8 (4)	6.7 (4)

Sources: <http://www.stat.gov.lt> (Lietuvos statistikos departamentas); <http://www.csb.gov.lv/> (Latvijas statistika), <http://www.bank.lv/> (Latvijas banka); <http://www.stat.ee/> (Eesti statistika).

* In parentheses the ranking of Russia is indicated among all the exporting countries of the respective country.

Under the influence of sanctions the trade turnover in 2015 (compared to 2014) decreased with Latvia by 44%, with Lithuania by 30%, with Estonia by 25%, at the same time in the structure of Russian exports dominance of mineral products is continuing to persist.

The transit and logistics sector of the Baltic States (*see. Table 3*) turned out to have suffered most, a general trend of the expansion of use of Russia's own port transit facilities in Leningrad region added to the consequences of the sanction war as well. At the same time, the dynamics of cargo turnover of the ports of the Baltic States is ambiguous. In particular, the transshipment through the Lithuanian ports is increasing, while the Latvian and Estonian ports for the second year display a decline of cargo turnover, which in turn requires a special activity to engage partners not only from Russia, but also from the Asian countries (taking into account the implementation by China of the strategy of “the New Silk Road Economic Belt”).

Table 3
Cargo turn-over of the eastern coast Baltic Sea ports in 2014-2016

Port	The total amount, ths. t		Change	The total amount, ths. t		Change
	January-December 2014	January-December 2015		January-July 2015	January-July 2016	
Total	368 196.4	368 550.0	+ 0.1 %	215 465.0	212 196.6	- 1.5 %
Ust-Luga	75 692.1	87 868.3	+ 16.1%	50 093.2	52 952.4	+ 5.7 %
Primorsk	53 656.3	59 606.1	+ 11.1%	34 251.0	37 669.0	+ 10.0 %
St. Petersburg	61 177.6	51 513.2	- 15.8%	30 370.7	27 846.4	- 8.3 %
Freeport of Riga	41 080.4	40 055.8	- 2.5%	23 707.5	21 230.1	- 10.4 %
Klaipeda port	36 410.6	38 507.1	+ 5.8%	22 216.9	23 150.3	+ 4.2 %
Butinge Terminal	7 332.2	8 678.6	+ 18.4%	5 017.1	5 204.7	+ 3.7 %
Ventspils	26 206.0	22 524.0	- 14.1%	14 828.0	11 473.0	- 22.6 %
JSC “Port of Tallinn”	28 321.4	22 431.3	- 20.8%	13 705.3	12 335.3	- 10.0 %
Vysotsk	17 428.1	17 483.6	+ 0.3%	9 896.5	9 626.1	- 2.7 %
Kaliningrad	13 897,3	12 712,1	- 8,5%	7 478,7	6 971,9	- 6,8 %
Liepaja	5 299,8	5 611,4	+ 5,9%	3 071,1	3 023,4	- 1,6 %
Vyborg	1 694,6	1 558,5	- 8,0%	829,0	714,0	- 13,9 %

Source: official website of Klaipeda port. URL: <http://www.portofklaipeda.lt/>

In addition, the process of post-Soviet demarcation of the interests of the economic entities of Russia and the Baltic States (for example, departure of “Gazprom” and “Lukoil” from the region) is still apparently continuing, when it reaches its limit, it

will be possible and necessary to re-seeK common ground. In this sense, some positive effects of the sanction regime may be found as well, as it has demonstrated the areas of cooperation where our countries are subject to a particular interdependence.

As the statistics of the issued business visas to the Russian Federation from the Baltic States demonstrates (*see. Table 4*), the business activity of the Lithuanian and Latvian businesses in the Russian direction in the medium term has rather significantly reduced; at the same time the number of this type of visas issued in Estonia in the past few years has been growing, even despite of the crisis.

Table 4**Statistical data on certain types of visas issued by the diplomatic missions and consular offices of Russia in the Baltic States, 2006-2015**

Country	Visa types	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Latvia	Total	128443	147426	104938	72494	77520	85680	82237	76325	72347	70328
	Business	21549	21916	21181	22612	29861	32890	31641	29011	27575	26648
	Study	312	362	333	302	337	304	279	308	375	386
	Humanitarian	4471	5744	6610	5461	7166	8463	9366	10165	8910	7764
Lithuania	Total	115523	88350	87279	73377	78254	81406	79708	79893	67979	53071
	Business	23887	22607	34220	33179	35296	38483	40801	40351	33864	23650
	Study	354	967	459	435	255	229	309	364	253	196
	Humanitarian	369	9683	4109	4314	6580	8038	7888	8091	6176	3983
Estonia	Total	127216	107807	87450	121860	70632	66976	74041	74420	73216	77953
	Business	14576	15010	17263	30099	17407	16906	22590	25116	25954	27942
	Study	255	184	230	306	208	254	283	240	338	721
	Humanitarian	2087	2306	4551	8917	9857	14205	15621	13803	12915	14007

Source: official website of the Consular Department of the Ministry of Foreign Affairs of the Russian Federation:

<http://www.kdmid.ru/cons.aspx?lst=cnslfunk&it=/visa.aspx> .

In the absence of political constraints the economy has the ability to create opportunities for business activity in the event that this activity will be profitable to all the participants of the process. To cite a few examples, Latvia continues to be a “safe haven” for the Russian capital - more than 53% of deposits in the Latvian banks are owned by non-residents, 80% of them account for the CIS countries, first of all Russia² - and there is no reason to believe that the situation will change. 80% of the patents registered in Latvia belong to the citizens of Russia, as it allows introducing innovative products directly to the EU markets. Finally, Riga Airport for many years has been used by Russian companies in the field of business aviation as home airport, as it is cheaper to pay for parking there and to fly to Moscow than to keep the aircraft within the Moscow air hub.

² Non-residents and the “golden age” of the Latvian banks. - «The Baltic Course», May 19, 2016; http://www.baltic-course.com/rus/kruglij_stol/?doc=120918