



REPORT

THE NORDIC-BALTIC REGION IN THE EU 27 TIME FOR NEW STRATEGIC COOPERATION

| PIRET KUUSIK | KRISTI RAIK |

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Ohter photos used in the report: U.S. Defense Secretary James Mattis (L) shakes hands with Chinese Minister of National Defense Gen. Wei Fenghe before their meeting at the Pentagon in Arlington, Virginia, U.S., November 9, 2018. REUTERS/Yuri Gripas

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EXECUTIVE SUMMARY

This report examines Nordic-Baltic cooperation in the European Union. The three Nordic EU members (Denmark, Finland and Sweden) and the three Baltic states (Estonia, Latvia and Lithuania) closely coordinate their positions in the EU. The report examines their shared interests and aims regarding the future of Europe in the light of the discussion over the “Hanseatic League 2.0” and rising coalition politics in the EU.

Aim of the report. The report advocates strategic cooperation among the Nordic-Baltic member states of the EU. In view of Europe’s challenges—such as the weakening of democracy and the rule of law, new economic challenges, Brexit, deterioration of the European security environment and unpredictable EU politics—the authors argue that strengthening NB6 cooperation is not only desirable, it is a must. At the same time, the nature of NB6 cooperation should remain open, issue-based and flexible, allowing the group to team up with other member states with shared views.

Overview of NB6 cooperation. NB6 cooperation has grown out of close regional ties. Today, the six member states informally coordinate their policies and act as the first port of call for support and discussion on topics high on the EU agenda. The cooperation is flexible, with member states working together where there are shared interests, while staying open to other like-minded states. Teaming up with the Netherlands and Ireland on eurozone reform allowed the perception to grow of the NB6 as a bloc. However, this is not the image that the NB6 countries wish to pursue.

Areas of shared interest and recommendations. The authors have identified three broad areas of shared interest: open society, open economy and shared security. In light of the erosion of the EU’s fundamental values, the NB6 countries should take a stronger stance on the protection of shared values of democracy and the rule of law. Second, in the economic field, the focus should turn on prioritising the EU’s competitiveness on the global stage through digitalisation, the promotion of free trade and further development of the single market. Finally, regional and European security is a shared concern of all NB6 countries. Against the backdrop of European defence momentum, the NB6 countries should step up in shaping the debate about increasing Europe’s strategic autonomy in a manner that strengthens EU-NATO cooperation and maintains unity in the transatlantic relationship.

Conclusion. Recent political developments in the EU have created new space for medium-sized players and regional formats. Informal NB6 cooperation is already established and taking place daily. Thus, the authors argue that the NB6 countries should actively pursue more strategic cooperation in key areas to achieve a more competitive, secure and united European Union.

LIST OF ABBREVIATIONS

CETA	Comprehensive Economic and Trade Agreement (EU-Canada)
CSDP	Common Security and Defence Policy
CFSP	Common Foreign and Security Policy
DG	Directorate-General
ECFR	European Council on Foreign Relations
EII	European Intervention Initiative
EKRE	<i>Eesti Konservatiivne Rahvaerakond</i> (Conservative People's Party of Estonia)
EMU	European Monetary Union
ESM	European Stability Mechanism
GDP	Gross domestic product
MEP	Member of the European Parliament
NB6	Nordic-Baltic 6 (Denmark, Estonia, Finland, Latvia, Lithuania, Sweden)
NB8	Nordic-Baltic 8 (Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Norway, Sweden)
NGO	Non-governmental organisation
NOMAD	Nouvelle méthodologie anti-dumping (new anti-dumping methodology)
PESCO	Permanent Structured Cooperation
QMV	Qualified majority voting
TEU	Treaty of the European Union
TTIP	Transatlantic Trade and Investment Partnership
V4	Visegrád Four (Czech Republic, Hungary, Poland, Slovakia)

INTRODUCTION¹

The working dynamics of the European Union have been changing over the past couple of years. The UK is leaving and France has returned to centre stage, keen to revitalise Franco-German cooperation. At the same time, Germany's future direction is somewhat unclear and the number of rebellious member states is increasing – notably Italy with the populist government that came to power in May 2018. These changes have created new space for medium-sized players such as the Netherlands and cooperative regional formats such as the Visegrád Four (V4) and the six Nordic-Baltic member states (NB6).²

Coalition-building has always been a feature of the EU decision-making process but in recent years it has become more significant. Intergovernmentalism in general and the role of the European Council in particular have strengthened, as the EU has experienced several major shocks and crises.³ At the same time, EU matters have become more politicised: the permissive consensus of earlier decades has been replaced by political contestation and new divisions within and among member states over EU-related issues.⁴ These changes

have increased the importance of teaming up among like-minded member states. Coalitions in the EU tend to be open, flexible and issue-based, with member states operating nimbly to find partners in the process of informal negotiations and pre-cooking of decisions.

This report aims to untangle the Nordic-Baltic cooperation in the EU and provide a picture of the shared interests and goals among the NB6. We argue that, in a changing Union and an increasingly volatile global context, it is time for the Nordic-Baltic member states to cooperate more strategically in areas where common positions can be identified, such as reform of the eurozone, protection of shared values, free trade, digitalisation and regional security. Such cooperation needs to be flexible and open to like-minded countries beyond the NB6 group.

It is time for the Nordic-Baltic member states to cooperate more strategically in areas where common positions can be identified

It is well known that the Nordic-Baltic group consists of countries with different levels of integration and different trajectories as member states, which has constrained their cooperation in the EU.⁵ These differences are likely to persist. However, due to the changed nature of the EU's everyday work and shifts in the balance of power among member states, working with old and new partners and friends requires some fresh thinking. To promote and advocate shared interests and objectives, working together is not only desirable, it is a must.

Based on the premise that working together is needed, we have chosen three broad themes where the NB6 countries have strong shared interests and where they can also make an essential and unique contribution to the EU: open society, open economy and shared security. The report starts by discussing the regional context and nature of NB6 cooperation in the EU and then examines each of the three areas of shared interest.

¹ This paper draws on relevant public documents, interviews conducted by the authors at the permanent representations of the NB6 countries to the European Union in Brussels in July 2018, and the conference "Nordic-Baltic visions for Europe: Does the EU unite or divide the Nordic-Baltic region?", organised by the Estonian Foreign Policy Institute/International Centre for Defence and Security, in cooperation with the Representation of the European Commission in Estonia and Friedrich Ebert Foundation, in Tallinn on 6–7 September 2018.

² Denmark, Estonia, Finland, Latvia, Lithuania and Sweden.

³ Christopher J. Bickerton, Dermot Hodson and Uwe Puetter (eds.), *The New Intergovernmentalism: States and Supranational Actors in the Post-Maastricht Era* (Oxford: Oxford University Press, 2015).

⁴ Swen Hutter, Edgar Grande and Hanspeter Kriesi (eds.), *Politicising Europe: Integration and Mass Politics*, Cambridge: Cambridge University Press, 2016.

⁵ This report focuses not on the differences, but on shared interests. For an overview of the differences, see Piret Kuusik and Kristi Raik, "The Nordic-Baltic region in the EU: A loose club of friends", European Policy Analysis, Swedish Institute for European Policy Studies, October 2018. <http://www.sieps.se/en/publications/2018/the-nordic-baltic-region-in-the-eu-a-loose-club-of-friends/> (accessed 6 November 2018).

1. NORDIC-BALTIC COOPERATION IN THE EU

The Nordic and Baltic countries have been working together in the EU since the Baltics acceded in 2004. The Nordic countries supported the latter’s accession and helped the new members to find their feet in the EU. This mentorship has today evolved into a family-like cooperation, characterised by a high level of coordination and dialogue and first port of call for support, questions and discussion. The accession of the Baltic states to the EU and NATO made the Nordic-Baltic region one of the most integrated regions in Europe.

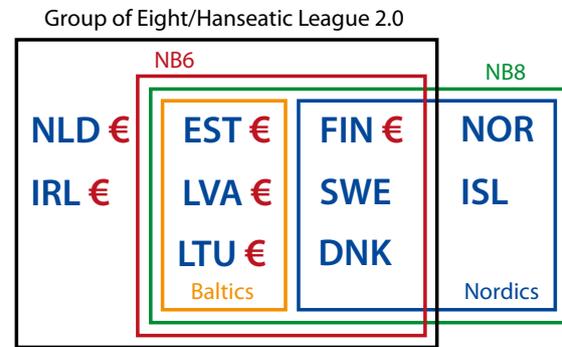
The NB6 group is part of a mesh of various cooperation formats in the Baltic Sea region. The five Nordic and three Baltic countries have their separate cooperative formats as well as shared structures. The Nordic countries – Finland, Sweden, Norway, Iceland and Denmark – cooperate in the format of the Nordic Council at the parliamentary level and the Nordic Council of Ministers at the government level, while the Baltics (Estonia, Latvia and Lithuania) come together in the Baltic Assembly and the Baltic Council of Ministers. Of the two subregions, the Nordic Council of Ministers is more organised and institutionalised, while the Baltic Council of Ministers is in its nature more ad hoc and issue-specific. The Nordic countries hold on to their distinct regional brand and cooperation formats, which do not include the Baltics.

Nevertheless, the regions meet in the format of the Nordic-Baltic 8 (NB8), bringing together all these countries. NB8 meetings tend to be informal and practical, often organised alongside meetings of the Nordic Council of Ministers. The NB6 group, consisting of Nordic-Baltic EU members, grew out of the NB8. The NB6 format meets mostly in Brussels and focuses on the EU agenda.

Broader regional networks including the Nordics, Baltics and beyond are also part of the regional cooperation architecture. The Council of the Baltic Sea States includes Poland, Germany and Russia. Furthermore, the Nordic and Baltic states initiated an EU Strategy for the Baltic Sea Region, adopted in 2009, which is a macroregional

strategy developed between the member states and the European Commission and aims to facilitate projects in fields including the environment, innovation and education.⁶

Figure 1. Regional cooperation structures of the Nordic-Baltic states



- DNK Denmark IRL Ireland NOR Norway
- EST Estonia LVA Latvia SWE Sweden
- FIN Finland LTU Lithuania
- ISL Iceland NLD Netherlands € Eurozone

1.1. AN OPEN NETWORK, NOT A BLOC

Socialising among the NB6 countries both in the region and Brussels is high. The permanent representatives are known to meet for lunches and breakfasts. The heads of state meet before every EU Council for breakfast, as do foreign ministers prior the Foreign Affairs Council.⁷

The NB6 format is well established but continues to be informal, and there is no need for this to change. Unlike the Benelux countries, the NB6 has no joint institutions. In contrast to the V4, it also lacks a rotating presidency or a leader. Administrative responsibilities are shared through a “rotating chair”.

NB6 cooperation is characterised by its openness to other partners. This is determined by the NB6’s character of informality and issue-based cooperation

⁶ European Commission, “EU Strategy for the Baltic Sea region”. https://ec.europa.eu/regional_policy/en/policy/cooperation/macro-regional-strategies/baltic-sea/ (accessed 27 November 2018).

⁷ Ilze Ruse, (Why) Do Neighbours Cooperate? Institutionalised Coalitions and Bargaining Power in EU Council Negotiations (Opladen: Budrich UniPress Ltd, 2013): 101–3.

NB6 cooperation is characterised by its openness to other partners. This is determined by the NB6's character of informality and issue-based cooperation.

Yet the perceptions of the NB6 are somewhat paradoxical. NB6 diplomats stress that the cooperation is informal, they are not a bloc and, in the Council, permanent coalitions do not work.⁸ Nevertheless, NB6 cooperation is sometimes perceived as a bloc.⁹ From outside, cooperation among the six countries looks more structured and significant, to the extent that the Financial Times has dubbed the NB6 together with the Netherlands and Ireland a new "Hanseatic League".¹⁰ Moreover, close cooperation between the Nordic-Baltic states, Ireland and the Netherlands has come under strong criticism from France, with the French finance minister accusing the Group of Eight of being a bloc and dividing the EU.¹¹ What is behind this paradox?

The NB6 countries are small and medium-sized countries and therefore particularly conscious of EU Council politics and the distribution of votes. The consensus-building politics favours such states. However, getting heard and ensuring that one's concerns and wishes are included requires political and diplomatic skill. Probing the rules of Qualified Majority Voting (QMV), it is clear that the NB6 countries do not have the required number of votes to block, let alone pass, legislation.¹² Combining all their votes, the NB6 constitute only 5.36% of the total EU population, far short of the 35% required to form a blocking minority. Hence, even on matters on which they have a shared position, they need the support of other member states.

⁸ Authors' interviews, Brussels, July 2018.

⁹ Marlene Wind, "Session I: Institutions, Unity and Differentiation" at the conference "Nordic-Baltic visions for Europe". <https://www.youtube.com/watch?v=ZGg2MXbCsjA&list=PLfeQoXG-0Q2ep9Pb-LV2C1Nnol6FXz2M5> (accessed 22 October 2018).

¹⁰ Jim Brunson and Michael Acton, "The Hanseatic League 2.0", Financial Times, 7 November 2017. <https://www.ft.com/content/83e0427c-c399-11e7-a1d2-6786f39ef675> (accessed 6 November 2018).

¹¹ Mehreen Khan, "France warns Hanseatic alliance risks weakening Europe", Financial Times, 23 November 2018. <https://www.ft.com/content/d47c60cc-ef20-11e8-8180-9cf212677a57?emailid=5bfad2f217a34c00049cc5db&segmentid=488e9a50-190e-700c-cc1c-6a339da99cab> (accessed 29 November 2018).

¹² See Council of the European Union, "Voting Calculator", 18 April 2018. <https://www.consilium.europa.eu/en/council-eu/voting-system/voting-calculator/> (accessed 1 November 2018).

Moreover, the NB6 countries are very aware of their differences. The absence of Sweden and Denmark from some areas of integration, most notably the eurozone, limits deeper cooperation, even though they themselves may have the political will and need to cooperate more closely.

1.2. WHO ARE THE PARTNERS AND FRIENDS OF THE NB6?

From 2011, the Nordic-Baltic states (including Norway and Iceland) used to meet annually with the UK under the leadership of Prime Minister David Cameron, who envisaged a "Northern European alliance".¹³ Following the result of the Brexit referendum in June 2016, the meetings were postponed. However, the tradition was revived in October 2018. Prime Minister Theresa May attended the annual Nordic Future Forum, which included Nordic and Baltic prime ministers, and gave a speech at the opening session of the Nordic Council. In this, Prime Minister May emphasised the continuation of the partnership between the Nordic countries and the UK.¹⁴ It is likely that, after Brexit, due in March 2019, and in pursuit of the UK's Global Britain policy, it will reach out to the Nordic and Baltic states. For the latter, the UK remains a key ally for regional security and a partner with shared economic interests.¹⁵

With the British leaving, the NB6 have lost a powerful like-minded partner

However, the loss of the UK as a partner within the EU means that the common agenda will be more limited. Brexit increases the need for the Nordic and Baltic member states to work together and seek partnerships with like-minded countries. The UK used to represent the interests of the NB6 on several important issues of shared interest, such as strengthening

¹³ "Cameron calls for northern European alliance", BBC News, 20 January 2011. <https://www.bbc.com/news/uk-politics-12233939> (accessed 23 October 2018).

¹⁴ Theresa May, "PM Nordic Council Speech: 30 October 2018", Prime Minister's Office, 10 Downing Street, 30 October 2018. <https://www.gov.uk/government/speeches/pm-nordic-council-speech-30-october-2018> (accessed 23 October 2018).

¹⁵ See Riina Kaljurand, Tony Lawrence, Pauli Järvenpää and Tomas Jermalavičius, "Brexit and Baltic Sea Security", Tallinn: International Centre for Defence and Security, 2016. <https://icds.ee/brexit-and-baltic-sea-security/> (accessed 23 October 2018).

the single market, commitment to free trade and liberal economic policies in general. Now, with the British leaving, the NB6 have lost a powerful like-minded partner and stronger regional cooperation, also in various extended formats, is therefore needed to fill the void.

Since the Brexit vote, the NB6 countries, together with the Netherlands and Ireland, have very visibly furthered their cooperation on eurozone matters. A joint letter published in March 2018 marked the first time the countries stepped into the public domain as a like-minded and willing group in discussion of eurozone reform.¹⁶ Since then, the countries have expressed their shared views on several occasions. These steps allow the perception to grow that the northern coalition is becoming more of a bloc and a force to be reckoned with.

However, this cooperation is not limited to the north. The Group of Eight has also engaged in discussions in an extended format, including some central and southern member states, on promoting the completion of the single market.¹⁷ This group shares an interest in making the single market more competitive, investment-friendly and fully open to services. It is yet to be seen how the initiative will develop and be received, since it has been France and Germany that have blocked opening up the single market to services.

The flexibility of these formats highlights the fluctuating nature of coalition-building in the EU.

NB6 diplomats have strongly emphasised the limited nature of the group and do not wish to see the Netherlands as a regional leader.¹⁸ The letter of 6 March 2018 was indeed focused on the development of the eurozone. Nevertheless, it also hinted at broader issues related to the future of the EU. The letter emphasised support for the completion of the

Banking Union and further development of a European Monetary Fund. It also stressed the importance of national reforms, the inclusivity of EU discussion formats and the need to strengthen the link between developments and policies in the EU and public support in member states.

The NB6 has also developed relationships with other regional formats. The NB6, together with Ireland and the Netherlands, has met the Benelux and Visegrád 4 countries.¹⁹ However, the relationship between the NB6 and other regional formats seems to be more one of courtesy visits and there are no indications of moves towards active and well-established cooperation.

The ECFR Coalition Explorer confirms that the NB6 countries tend to be each other's closest allies in the Union.²⁰ Affinity towards Germany also emerges, indicating that the NB6 countries feel closest to Germany out of the bigger member states. However, looking at Berlin's own partnership preferences and interactions, the Netherlands also dominates, after France. Links between Germany and the Netherlands are strong in both directions, while relations with the NB6 countries are not of primary importance for Germany. This suggests that maintaining a strong relationship with the Netherlands is strategically important for the NB6 due to the close Dutch relations with Germany.

2. OPEN SOCIETY: THE COMMUNITY OF SHARED VALUES

The erosion of the EU's fundamental values should be a major shared concern of the Nordic-Baltic states. Weakening of the rule of law and democracy has broad implications

¹⁶ "Finance ministers from Denmark, Estonia, Finland, Ireland, Latvia, Lithuania, the Netherlands and Sweden underline their shared views and values in the discussion on the architecture of the EMU", Government Offices of Sweden, 6 March 2018. <https://www.government.se/statements/2018/03/finance-ministers-from-denmark-estonia-finland-ireland-latvia-lithuania-the-netherlands-and-sweden/> (accessed 22 October 2018).

¹⁷ Mehreen Khan, "The EU's new Hanseatic League picks its next Brussels battle", Financial Times, 1 October 2018. <https://www.ft.com/content/ca9dc2dc-c52a-11e8-bc21-54264d1c4647> (accessed 22 October 2018).

¹⁸ Authors' interviews, Brussels, July 2018.

¹⁹ "Ratas meets with Benelux, Nordic, Baltic leaders in the Hague", ERR News, 22 June 2017. <https://news.err.ee/603573/ratas-meets-with-benelux-nordic-baltic-leaders-in-the-hague> (accessed 23 October 2018); "Margot Wallström to host Nordic-Baltic meeting in Stockholm", Government Offices of Sweden, Stockholm, 15 June 2018. <https://www.government.se/press-releases/2018/06/margot-wallstrom-to-host-nordic-baltic-meeting-in-stockholm/> (accessed 23 October 2018).

²⁰ European Council on Foreign Relations, "EU Coalition Explorer", 30 October 2018. <https://www.ecfr.eu/eucoalitionexplorer> (accessed 30 October 2018).

for the operation of the EU and undermines the basis for solidarity and security. There are no easy solutions; however, the Nordic-Baltic states should at the very least flag their joint commitment to the rule of law as part of a pro-European northern agenda. It is also worth highlighting that safeguarding the rule of law within the Union is connected to maintaining the rules-based order globally, which is also a core interest of the NB6 and the EU as a whole.

Shared values of democracy, the rule of law and human rights are a key factor that binds the Nordic-Baltic states together and defines their belonging to the broader European and Western community. In addition, there are more specifically Nordic or northern values, such as openness of society and transparent governance, that serve as a positive trademark of the region. These are closely linked to digitalisation, which has become a strong northern theme within the EU, as discussed later.

However, what used to be a positive shared fundamental value has become an increasingly controversial and politicised issue. Liberal democracy is on the decline globally, challenged by strong authoritarian states in the non-Western world and the growth of populism and radicalism in the West.²¹ These trends are also visible within the EU. In two member states, Hungary and Poland, the European Commission has identified a systemic threat to the rule of law. This creates uncertainty over the legal foundation of the EU as a law-based community providing a high degree of certainty and stability for citizens and businesses.²² The Commission has invoked procedures under Article 7 of the Treaty of the European Union (TEU) in respect of Poland, and the European Parliament has voted to trigger the same process for Hungary.²³

Radical right-wing populism – which challenges liberal values and, in some cases, even liberal

democracy as the established political system – has gained popularity in many European countries. The Nordic-Baltic states are no exception. In Denmark, the minority right-wing governing coalition has relied on parliamentary support from the populist Danish People's Party between 2001 and 2011 and again since 2016. In Finland, the Eurosceptic populist Finns Party joined the government coalition in 2015. In Sweden, the radical right-wing party Sweden Democrats has been excluded from governing but achieved 17.5% of the vote in the latest parliamentary elections, held in September 2018. This has meant a radical change in the political landscape that has effectively paralysed the coalition-building process.

Are shared values something that the Nordic-Baltic states can and want to defend together in the EU?

As for the Baltic states, the radical right-wing Conservative People's Party of Estonia (EKRE) is in third place in opinion polls ahead of the March 2019 parliamentary elections, with close to 20% support. In Latvia, recent parliamentary elections resulted in an extremely difficult coalition-building process due to the success of populist parties.²⁴ In Lithuania, the Eurosceptic populist Order and Justice Party reached just 5.6% of the vote in the latest elections.

In such circumstances, are shared values something that the Nordic-Baltic states can and want to defend together in the EU? In principle, their commitment to democracy and the rule of law remains strong and unchanged. It is far from clear, however, how best to tackle this issue in the EU context. Although the values are shared, there are differences between the Nordic and Baltic approaches to this issue.

2.1. LIBERAL NORDICS, CONSERVATIVE BALTICS

It is common in public debate in the Nordic countries to hear clear condemnation of illiberal democracy in general and the situation in Hungary and Poland in particular. For instance,

²¹ Freedom House, "Freedom in the World 2018". <https://freedomhouse.org/report/freedom-world/freedom-world-2018> (accessed 23 November 2018).

²² Heather Grabbe and Stefan Lehne, "Defending EU Values in Poland and Hungary", Carnegie Europe, 4 September 2017. <http://carnegieeurope.eu/2017/09/04/defending-eu-values-in-poland-and-hungary-pub-72988> (accessed 23 November 2018).

²³ Article 7 of the TEU defines an infringement procedure against a member state that is in "serious and persistent breach" of the Union's fundamental values.

²⁴ The Russia-friendly Harmony Party came first, with close to 20% of the vote, followed by two populist newcomers (KPV LV and the New Conservative Party), winning about 14% each.

Alexander Stubb, a former prime minister of Finland, described defending liberal democracy against illiberalism as a key theme of his campaign to be the European People's Party's candidate for the presidency of the European Commission. (Stubb lost out to Manfred Weber, a German MEP.)

The discussion in the Baltic states is generally more reserved, and naming and shaming Poland and Hungary is rarer. The Baltic leaders have opposed sanctioning Poland over the breach of the rule of law.²⁵ Lithuania in particular has been reluctant to criticise Poland, a close neighbour and ally.

Does this mean that the Baltics are actually less concerned about the above described developments or less committed to the values of liberal democracy? How can the difference between the Nordic and Baltic countries in this respect be explained?

First, the political reason for the cautious positions of the Baltic states is their wish to preserve EU unity and avoid the sharpening of east–west divisions. Poland in particular is a key security ally for the Baltic states and central to security in the Baltic Sea region. Furthermore, there is a degree of solidarity and mutual understanding among the eastern member states. One of the reasons behind developments in Poland and Hungary is their experience of being treated as second-class members of the EU, which has created a favourable basis for Euroscepticism (even though EU membership itself is not questioned). Such feelings are familiar to the Baltic states, too, which have experienced a big-brother attitude from longer-established member states. It is a popular perception in the Baltics that Brussels is not fair towards Poland and Hungary, does not treat all member states equally, and is tougher towards Eastern Europeans because of prejudices in long-established member states. Perceptions that the rule of law is a concern of “Brussels” rather than of the EU as a whole, and about “Brussels” being something distinct and distant from the member states, are ill-founded, but widespread.

²⁵ “Baltimaad on vastu Poola karistamisele kohtureformi eest”, ERR Uudised, 9 March 2018. <https://www.err.ee/688603/baltimaad-on-vastu-poola-karistamisele-kohtureformi-est> (accessed 23 November 2018).

Nordic-Baltic cooperation serves as a positive example of relations between countries of the former East and West becoming more equal and old divisions gradually losing relevance. Unfortunately, the Visegrád Four have lacked partners comparable to what the Nordics have been for the Baltics.

The second, more fundamental explanation is that the values of people in the Baltic countries are less liberal in comparison to the Nordic countries. There is a strong contrast between the Nordics and Baltics with respect to “self-expression values” such as the tolerance of differences, public freedom of expression, support for political liberties and gender equality.²⁶ This difference in values partly explains the wish of the Nordics to maintain their distinct regional identity and cooperation structures.

Conservative criticism of liberal values is strong in the eastern member states, including the Baltics. It is mainly targeted at family values, gender issues, the rights of minorities and human rights in the context of migration. The perception of the EU as “too liberal” lumps together very different matters ranging from same-sex marriage—which is not at all something imposed by the EU – to the rights of asylum-seekers, which are defined by international law.

And yet, the EU's criticism of Poland and Hungary is specifically targeted not at a lack of tolerance, but independence of the judiciary, which is an essential component of liberal democracy. The rule of law is a more abstract and distant issue for many people than, say, same-sex marriage. Restrictions on the independence of

Despite the Nordic-Baltic differences along the liberal-conservative axis, respect for the rule of law within the EU should be a strong shared interest

the judiciary can be introduced in a creeping manner, without most people realising the consequences before it is too late to turn the clock back. However, subordination of the courts to political control and subsequent lack

²⁶ World Values Survey, “Findings and Insights”. <http://www.worldvaluessurvey.org/WVSContents.jsp> (accessed 23 November 2018).

of justice is rarely viewed positively by citizens anywhere. Despite the Nordic-Baltic differences along the liberal-conservative axis, respect for the rule of law within the EU should be a strong shared interest.

2.2. INTERNATIONAL RULES-BASED ORDER

An additional factor that makes the endurance of liberal democracy particularly important for the Nordic-Baltic states is its link to the fate of the international rules-based order. The Western understanding of liberal order entails both liberal democracy within countries and the idea of a rules-based order between them. These two elements of liberal order can be separated analytically and practically; indeed, the post-Second World War international order was established in the context of a bipolar structure of the international system and fierce ideological rivalry between the two superpowers. Now that the international system is moving towards multipolarity, preservation of a global rules-based order requires acceptance of the existence of different major powers with discrete political systems. The world might be becoming not only multipolar but also increasingly “multi-order”,²⁷ with the liberal order surviving (possibly) only in the shrinking West.

However, the strength of democracy in the world is of paramount importance, especially for small states. It is no coincidence that global periods of the spread of democracy have been favourable for small states in Europe, including the Nordic-Baltic countries. In particular, the third wave of democratisation that embraced the former Eastern bloc in the 1990s created favourable conditions for the Baltic states’ return to Europe. Normative arguments referring to shared values played a key role in the enlargement of the EU and NATO. Furthermore, as a rule, democracies do not wage wars against each other. A multipolar or multi-order world is bound to be less stable and more conflict-prone, which weakens in particular the security of countries situated on the borders between competing poles.

Within the EU, integration based on shared values has created a unique system that gives

²⁷ Trine Flockhart, “The coming multi-order world”, *Contemporary Security Policy* 37(1) (2016), pp. 3–30.

small states a strong voice and a formally equal position next to the large member states. It is questionable whether the system can survive if the common values basis falls apart. The position of small, peripheral states in Europe would certainly be weaker without the EU, or within a Union where the rule of law is weakened.

3. OPEN ECONOMY: BACK TO BASICS

A shared commitment to liberal economic policies, fiscal conservatism, innovation and digitalisation allows the NB6 group to carve itself a unique position in the debate about the eurozone and the economic future of the EU. Standing firmly behind the principles of single market competitiveness and adapting the single market to new challenges and opportunities, following the rules and fully implementing existing agreements are shared themes among the NB6 and their like-minded partners.

European integration has deepened intra-regional economic cooperation in the Nordic-Baltic region, and its access to Europe and new markets. Investment has moved from the Nordics to the Baltic countries, while labour has moved in the other direction.²⁸ The main banks operating in the Baltic states have their headquarters in the Nordic countries, which brings both strengths and risks. The interdependence between the Nordic and Baltic economies became particularly visible during the 2008 financial crisis. The EU has had a uniting effect on the Nordic-Baltic region.²⁹

Nevertheless, differences among the Nordic-Baltic economies remain. The Nordics are famous for their model of the welfare state, while the Baltic states have pursued neo-liberal economic principles since the 1990s. The Nordics are wealthier, having a much higher GDP than the Baltic states. However, the six Nordic-Baltic countries have a strong affinity to the open economy, free trade, a transparent

²⁸ “Session II: Markets, Money and Welfare”, Conference “Nordic-Baltic visions for Europe”, q.v. <https://www.youtube.com/watch?v=LS3LXRddOly&index=3&list=PLfeQoXG-0Q2ep9Pb-LV2C1Nno16FXzZM5> (accessed 25 October 2018).

²⁹ David Skilling, “The Baltic Sea Region Economies: Progress and Priorities” (Copenhagen: The Baltic Development Forum, 2018): 10.

public sector and digitalisation, and share a similar view on reform of the eurozone. All six countries are among the 30 most open economies in the world, with Estonia highest in seventh place and Latvia the lowest, in 28th.³⁰

Taken together, the Nordic and Baltic member states are outperforming the south-eastern and southern economies of Europe. Regional disparities between the Nordics and the Baltics are less obvious than in the south of Europe, making the Nordic-Baltic region a well unified economic area.³¹

3.1. FREE TRADE

The winds around free trade – a key function of the EU – have changed in recent years due to globalisation, the financial crisis, changing public attitudes and the rise of new trade partners. The failed negotiations on a Transatlantic Trade and Investment Partnership (TTIP) between the EU and the US are a real-life example of the alternative scenario, in contrast to the recently agreed and signed EU-Japan and EU-Singapore free trade agreements. The negotiations on TTIP and the free trade agreement between Canada and the EU (CETA) highlighted the protectionist trends that have (re)emerged in the EU. The Nordic and Baltic member states fall into a clear camp in the debate between protectionism and free trade: the NB6 are strong proponents of the latter.

The NB6 economies are small and highly dependent on trade. The total value of exports in the Baltic states varies between 115% and 155% of GDP. In the Nordics, the figure varies between 72% and 99% of GDP.³² Around 15–30% of jobs in the NB6 countries depend on free trade.³³ This consequently makes both the Nordics and the Baltics keen protectors of free trade.

The unequal debate between the pro- and anti-free traders during the TTIP negotiations is something the NB6 should learn from. Civil society's opposition to TTIP, facilitated through NGOs and political groups, was louder, more visible and consequently more effective. At the same time, the majority of citizens supported the agreement.³⁴ However, the part of civil society supporting free trade was hardly to be seen and very subtle in its communications.³⁵ The lesson learned by the European Commission and other policymakers has been that a lack of knowledge and explanation was one of the key drivers of opposition to TTIP. Consequently, the Commission increased the transparency and accessibility of the negotiations, so that, for example, the website of DG Trade is today one of the easiest to understand and navigate. This is a point of cooperation for the NB6 countries: to facilitate together healthier communication and raise awareness of the benefits and importance of free trade.

Second, the wider context has highlighted the growth of new and aggressive trading players, who defy the rules and take advantage of the open economy, even leading to trade wars. China's more active and belligerent push into the European market has made the European Commission alert, and the latter has developed trade defence tools such as an investment filtering mechanism and anti-dumping methodology (NOMAD).³⁶ Maintaining an open market while simultaneously ensuring the protection of European consumers and companies is the future challenge. The NB6 countries must find the right balance between their traditional stance against protectionism and the changing geopolitical context, including China's growing economic influence.

³⁰ The Heritage Foundation, "2018 Index of Economic Freedom", Washington DC, 2018. <https://www.heritage.org/index/> (accessed 23 October 2018).

³¹ Gunnar Lindberg and Linus Rispling, "Economic Development: The Nordic Region still performing well in relation to the EU". In *State of the Nordic Region 2018*, edited by Julien Grunfelder, Linus Rispling and Gustav Norlen (Denmark: Nordic Council of Ministers, 2018): 102–16.

³² The Heritage Foundation, "2018 Index".

³³ European Commission, "In Focus: Trade means jobs", Brussels, 27 November 2018. <http://ec.europa.eu/trade/policy/in-focus/trade-and-jobs/> (accessed 27 November 2018).

³⁴ Eurobarometer, "Europeans' Views on the priorities of the EU", Brussels, December 2015. [http://ec.europa.eu/COMMFrontOffice/publicopinion/index.cfm/Survey/getSurveyDetail/instruments/STANDARD/surveyKy/2098/%20\(3\)%20European%20Parliament%20resolution%20of%208.7.2015](http://ec.europa.eu/COMMFrontOffice/publicopinion/index.cfm/Survey/getSurveyDetail/instruments/STANDARD/surveyKy/2098/%20(3)%20European%20Parliament%20resolution%20of%208.7.2015) (accessed 20 November 2018).

³⁵ Charles de Marcilly, "Is the European Trade Policy under Threat by Public Opinion?" In *Schuman Report on Europe 2018*, edited by Thierry Chopin and Michel Foucher (Paris: Fondation Robert Schuman, 2018): 187–95.

³⁶ European Parliament, "Anti-dumping measures: 'A modern way of addressing unfair trading practices'", Brussels, 30 May 2018. <http://www.europarl.europa.eu/news/en/headlines/economy/20180530STO04606/anti-dumping-measures-addressing-unfair-trading-practices> (accessed 12 October 2018).

Finally, the nature of trade has changed. Today, trade policy is less about protection – lowering tariffs and quotas – and more about precaution – the harmonisation of rules and protecting standards. Trade talks do not focus on removing measures hindering the flow of goods, but rather on bringing different systems with their respective rules and standards together and into harmonisation.³⁷ EU trade agreements have thus become more ambitious, including conditions on workers' rights, action against climate change and environmental protection.³⁸

NB6 countries must reassess the new environment and the future of trade and rethink how they can benefit from the coming developments

One of the drivers of popular protests during CETA and TTIP negotiations was the potential lowering of European standards. This poses a difficult challenge: when do the rules and standards become a hindrance to trade? Where does the right balance lie? For the NB6 countries, standards are important, especially for the Nordics, but so is free trade. Considering the changed nature of trade and subsequent political developments, the NB6 countries must reassess the new environment and the future of trade and rethink how they can benefit from the coming developments.

3.2. EUROZONE REFORM

As described above, the “Hanseatic League 2.0” first gained attention when the finance ministers of the eight countries published a declaration on the future architecture of the European Monetary Union in March 2018.³⁹ A second declaration, signed by the eight countries plus the Czech Republic and Slovakia, on reform of

the European Stability Mechanism (ESM) was published in November 2018.⁴⁰

These declarations are characteristic of NB6 cooperation, stressing unity and inclusivity. The first argues that behind the success of the euro are national reforms and EU leadership. It calls for the completion of the Banking Union and supports the creation of the European Monetary Union (EMU). It argues that stronger EMU must be achieved, first and foremost, through national reforms. The declaration on reform of the ESM is more nuanced and technical, but a number of political messages come to the fore. First, the involvement of non-euro member states in the development of financial crisis-management functions is stressed several times, highlighting the continuing efforts by the NB6 to include Sweden and Denmark in the eurozone developments. Second, it emphasises support for the ESM as an intergovernmental institution, indicating the reluctance of the Group of Eight and its partners to give more financial and economic management powers to the Commission at the expense of member states.

Underlying these statements is a deeper political message. It is a response to president Macron's call for re-energised Franco-German cooperation and deeper integration of some states, predominantly the eurozone members.

Fears of a multi-speed Europe and the gap left by the UK sparked the NB6 to cooperate more deeply and to be more vocal over their shared interests in the eurozone

Part of president Macron's vision manifested itself through the Meseberg Declaration.⁴¹ Fears of a multi-speed Europe and the gap left

³⁷ Vincent Stuer, *Curb your idealism: The European Union as seen from within* (Brussels: VUBPRESS Brussels University Press, 2018): 75.

³⁸ Saila Turtiainen, “EU:n kauppapolitiikka koetuksella: Kompastuuko unioni omiin jalkoihinsa?”, FIIA Briefing Paper 236, 22 March 2018 (Helsinki: Finnish Institute of International Affairs). <https://www.fiaa.fi/en/publication/eun-kauppapolitiikka-koetuksella> (accessed 27 November 2018).

³⁹ “Finance ministers from Denmark, Estonia, Finland, Ireland ...”.

⁴⁰ “Shared views of the Finance Ministers from the Czech Republic, Denmark, Estonia, Finland, Ireland, Latvia, Lithuania, the Netherlands, Sweden and Slovakia on the ESM reform”, Government Offices of Sweden, Stockholm, 5 November 2018. <https://www.government.se/statements/2018/11/shared-views-of-the-finance-ministers-from-the-czech-republic-denmark-estonia-finland-ireland-latvia-lithuania-the-netherlands-sweden-and-slovakia-on-the-esm-reform/> (accessed 6 November 2018).

⁴¹ “Meseberg Declaration: Renewing Europe's promises of security and prosperity”, Die Bundesregierung (Cabinet of Germany), 19 June 2018. <https://archiv.bundesregierung.de/archiv-de/meta/startseite/meseberg-declaration-1140806> (accessed 6 November 2018).

by the UK sparked the NB6, especially Sweden and Denmark as non-eurozone countries, to cooperate more deeply and to be more vocal over their shared interests in the eurozone.

The Group of Eight and Germany hold similar views on the eurozone. Hence Germany has been quietly delighted to see a fiscally conservative coalition forming. President Macron's activism and at times too ambitious policy ideas are hard for Germany to accommodate. The Meseberg Declaration is an example of the difficult and uncomfortable compromise that today's Franco-German cooperation involves. For example, the declaration includes an agreement on creating a eurozone budget, which Germany has been resisting for years and on which domestic disagreement persists. Opposition from outside thus helps to balance France and the southern alliance of the EU.

Sweden and Denmark staying out of the eurozone is becoming a more difficult reality to accommodate. President Macron has called for eurozone members to become "the heart of Europe", as the agenda-setters and drivers of the EU.⁴² Sweden is compelled under the Maastricht Treaty to adopt the euro but, responding to public opposition, has so far not done so. Denmark, on the other hand, negotiated an opt-out from the treaty in 1992 and is therefore under no obligation to join. In both countries, joining the eurozone is occasionally discussed. However, there is currently no structured and consistent political movement for joining the eurozone in either country. Maintaining unity in the EU despite deepening of the eurozone is a shared Nordic-Baltic interest.

3.3. DIGITALISATION

The NB8 are already working to create a digitally integrated Nordic-Baltic region. In April 2017, the five Nordic countries and the three Baltic states signed a declaration promoting the digital connectivity of the Nordic-Baltic region. The objective of this cooperation is that the region

⁴² Emmanuel Macron, "Initiative pour l'Europe - Discours d'Emmanuel Macron pour une Europe souveraine, unie, démocratique", Sorbonne University, 26 September 2017. <http://www.elysee.fr/declarations/article/initiative-pour-l-europe-discours-d-emmanuel-macron-pour-une-europe-souveraine-unie-democratique/> (accessed 5 November 2018).

should pave the way for Europe in digitally transforming its economies and societies and becoming competitive with global players.⁴³ High-level digital skills and the use of digital infrastructure and services saves money and improves efficiency of the public and private sectors.

Some discrepancies exist among the NB6 countries. While the Nordic countries and Estonia score high on the EU's Digital Economy and Society Index,⁴⁴ faster development is needed in Latvia and Lithuania to catch up with the others and to ensure comprehensive digital progress in the region.

Digitalisation is one of the seven pillars of the Europe 2020 strategy.⁴⁵ While Europe in general has progressed in digital development, the differences within the EU persist. The challenge is to ensure the rapid catch-up of southern and eastern member states, which would level the digital playing field in the EU. Countries like Hungary, Romania, Bulgaria, Italy and Greece lack both the digital infrastructure and the high level of digital skills among the population to keep up with and benefit from the digital advances taking place in the wider EU.

It is important that the EU becomes not only a force for control and restraint of digital development but also a creator of new opportunities and a supporter of digital progress

While digitalisation opens up many new opportunities, it naturally carries risks as well. In recent years, the EU has scored many victories against tech giants in protecting people's personal information and ensuring that the rights are fit for the 21st century. However, it is important that, amidst the turmoil of fake news, interference in elections, increased pressure on

⁴³ Nordic Council of Ministers, "Nordic and Baltic regions to co-operate on digitalisation", Oslo, 25 April 2017. <https://www.norden.ee/en/about-us/news/item/8698-nordic-and-baltic-regions-to-co-operate-on-digitalisation> (accessed 20 Nov 2018).

⁴⁴ European Commission, "The Digital and Economic Society Index", Brussels, 26 October 2018. <https://ec.europa.eu/digital-single-market/en/desi> (accessed 6 November 2018).

⁴⁵ European Commission, "Europe 2020 Strategy", Brussels, 3 March 2010. <http://ec.europa.eu/eu2020/pdf/COMPLET%20EN%20BARROSO%20%202007%20-%20Europe%202020%20-%20EN%20version.pdf> (accessed 6 November 2018).

social media companies and growing cyber risks in both the public and private sectors, the EU becomes not only a force for control and restraint of digital development but also a creator of new opportunities and a supporter of digital progress. It is a fine balance, but the NB6 have a unique role to play due to their small size, high levels of digital skills and well-developed digital infrastructure.

The role of the NB6 here is fourfold. First, they should continue to pursue digital cooperation regionally. Second, they should rally support for a digital future among EU member states, so that EU policies enhancing digital developments gain support in the Council and are subsequently implemented. Third, the NB6 countries should find ways to engage the private sector, since that is where digital innovation largely takes place. And finally, they should prepare and explain the changes in society and the context around digital progress to citizens of the region and the EU, and manage fears and expectations. The EU lacks a “comprehensive approach” that encompasses aspects ranging from public engagement and innovation to EU Council politics. Here, the NB6 countries are in a unique position to take the lead and find the best solutions for embracing new technologies, protecting people, improving efficiency and reducing costs.

4. SHARED SECURITY: GROWING CLOSER

Despite the differences among the NB6 in this field, one can identify important shared interests on European security and defence. Four issues in particular emerge from the following analysis. First, it is vital for all NB6 countries to maintain a strong transatlantic relationship, the credibility of NATO and the US commitment to European security, including in the Baltic Sea region. Second, EU-NATO cooperation should be further developed and the EU should support the strengthening of European capabilities in a manner that also strengthens NATO. Third, European and transatlantic unity vis-à-vis Russia should be maintained, as this is of vital strategic importance and provides the basis for practical cooperation on defence, deterrence and countering hybrid threats. Finally, the NB states should be proactive in jointly shaping the debate on European strategic autonomy in accordance with the above interests, stressing

stronger European capabilities as a positive contribution to the transatlantic relationship.

Looking at recent history, the Nordic-Baltic region looks like a laboratory of different small-state responses to a similar, rather demanding security environment. Despite shared security concerns, their national security- and defence-policy solutions are very different (even more so if one includes all the Nordic countries in the picture). The main dividing line runs between NATO members – Denmark, the Baltic states and Norway – and non-members (Finland and Sweden). There is no common framework for addressing shared regional security. This is unlikely to change in the short term: the region will continue to include non-NATO EU members and non-EU NATO members, as well as EU countries with different levels of integration. However, there is a shared understanding, also by the non-NATO Nordics, of the key importance of the American commitment to regional security in order to counterbalance Russia.

All six countries have traditionally been lukewarm about the EU’s Common Security and Defence Policy (CSDP), but for opposite reasons: the northern NATO members due to their transatlantic orientation, and Finland and Sweden due to their policy of not belonging to the Alliance. Nevertheless, Finland, Sweden and the Baltic states have taken a constructive position and participated in CSDP operations (Denmark has an opt-out).

The current security environment is pushing the countries closer together

There are well-known historical reasons for these regional differences,⁴⁶ but as these become more distant, the current security environment is pushing the countries closer together. Any major conflict in the region would inevitably involve all the Nordic-Baltic states.⁴⁷ It is thus in the interest of each of

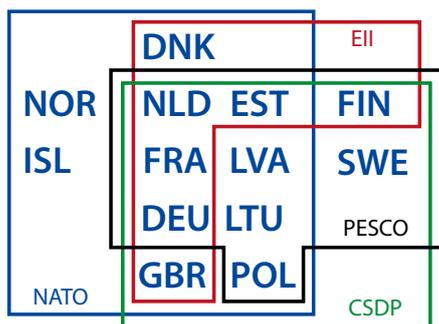
⁴⁶ For a short overview, see Hiski Haukkala, Tobias Etzold and Kristi Raik, “The Northern European Member States”, in *Foreign Policies of European Union Member States: Continuity and Europeanisation*, edited by Amelia Hadfield, Ian Manners and Richard G. Whitman (London and New York: Routledge, 2017): 23–37.

⁴⁷ Katri Pynnöniemi and Charly Saloniemi-Pasternak, “Security in the Baltic Sea Region: Activation of risk potential”, FIIA Briefing Paper 196, June 2016 (Helsinki: Finnish Institute of International Affairs). <https://www.fia.fi/en/publication/security-in-the-baltic-sea-region-2> (accessed 4 December 2018).

them not just to worry about national security in a narrow sense but also to contribute to the security of other members of the group. Operational defence cooperation in the region has significantly increased in recent years, as indicated most recently by the NATO exercise Trident Juncture.⁴⁸ The attitude of the Nordic-Baltic countries towards EU defence cooperation has become more favourable. At the same time, the importance of the US for regional security has remained and, in some respects, even increased, notably when it comes to strengthened defence cooperation between Finland, Sweden and the US.

Against this backdrop, the key questions for the NB6 grouping with respect to EU defence are: How does the EU’s new activity in the field of defence influence regional security in northern Europe? What does the EU contribute and what more could it do? How can the complementarity of different institutional frameworks and defence structures – above all the EU and NATO, plus various smaller initiatives – be ensured? And, most important, how can European defence be developed in a manner that helps maintain a strong US commitment to European security?

Figure 2. Regional security structures of the Nordic-Baltic states and their major European partners



- | | | |
|--------------------|------------------------|---------------------------|
| DNK Denmark | ISL Iceland | NOR Norway |
| EST Estonia | IRL Ireland | POL Poland |
| FIN Finland | LVA Latvia | SWE Sweden |
| FRA France | LTU Lithuania | GBR United Kingdom |
| DEU Germany | NLD Netherlands | |

4.1. THE EU “DEFENCE REVOLUTION”..

In recent years, the EU has experienced a number of shocks that have pushed it to do more for European security and defence. The following three developments are particularly relevant from the Nordic-Baltic perspective. First, in 2014 the EU was indeed shocked by Russia’s aggression against Ukraine, which was followed by increased hostility and the use of hybrid methods by Russia against the EU and its member states. Second, in 2016 came the UK referendum on Brexit, and hence the imminent departure of one of the two leading member states (alongside France) in terms of defence capability and international weight. Third, in late 2016 the election of Donald Trump as president of the US ushered in a new period of uncertainty over America’s role in Europe and globally, unprecedented in the post-Second World War era. Furthermore, the wider global context to these events is characterised by increased great-power competition, the relative decline of the West and a weakening of the rules-based international order – all decidedly negative developments for Europe and for small states.

In response to the weakening security environment and these new uncertainties, the EU has stepped up efforts to strengthen its security and defence policy. Against the meagre historical track record of European cooperation in defence, the progress made since 2016 has been so remarkable that it has been dubbed a “defence revolution” in Brussels. Defence, which used to be a marginal issue on the EU agenda, has become a top priority, not only under the Common Foreign and Security Policy (CFSP) and the CSDP but also on the agenda of the European Commission.⁴⁹ The debate has shifted from the earlier focus on external crisis management towards an increased emphasis on defence cooperation, aimed at “protection” of the Union, its member states and citizens. Defence cooperation has gained a prominent place in the implementation of the EU’s Global Strategy.⁵⁰

⁴⁸ Jack Watling, “NATO’s Trident Juncture 2018 Exercise: Political Theatre with a Purpose”, RUSI Commentary, 20 November 2018. <https://rusi.org/commentary/nato-s-trident-juncture-2018-exercise-political-theatre-purpose> (accessed 30 November 2018).

⁴⁹ European Commission, “European Defence Action Plan”, COM(2016) 950 final, Brussels, 30 November 2016.

⁵⁰ Council of the European Union, “Council Conclusions on implementing the EU Global Strategy in the area of Security and Defence”, 14149/16, Brussels, 14 November 2016.

Building on their different earlier trajectories, the NB6 have taken somewhat varying positions on the EU's new activity in the defence field. It is noteworthy, however, that all NB6 countries have become more forthcoming and interested in taking part in European defence cooperation.

All NB6 countries have become more forthcoming and interested in taking part in European defence cooperation

In short, this is explained by the combination of increased assertiveness by Russia and new uncertainty about the transatlantic relationship, which has forced the NB6 countries to explore different options to strengthen their security. Furthermore, increased cooperation between the EU and NATO has alleviated concerns about duplication. The core interest of the NB6, like other member states, is to engage in EU activities that help to strengthen capabilities required for national defence. At the same time, collective security obviously requires contributing to a broader agenda that brings together the different national concerns of EU member states and NATO allies.

The EU has introduced several new initiatives to advance practical defence cooperation among member states. Twenty-five members have joined the Permanent Structured Cooperation (PESCO) on defence, which includes joint projects for developing defence capabilities and enhancing operational readiness. The participating countries also signed up to "regularly increas[e] defence budgets in real terms in order to reach agreed objectives".⁵¹ Denmark is not part of PESCO due to its opt-out from CSDP, but the Baltic states, Finland and Sweden participate in a number of projects.⁵² The most important PESCO project for regional security in which the five countries (and most other EU member states) participate is

the project on military mobility, pursued in cooperation with NATO.⁵³

The European Commission has adopted its own Defence Action Plan, which aims to create an open, integrated and effective European defence market and an integrated and competitive European defence industry. This is supported by the newly established European Defence Fund, which supports collaborative research projects on innovative defence technologies and joint capability-development projects of the member states. Here the shared interest of the NB countries (and other smaller member states including Sweden, which has a significant defence industry) is that EU support should not favour large member states.

In response to instability in the eastern and southern neighbourhoods, notably Russia's "hybrid war" against Ukraine, the EU is also developing measures to counter so-called hybrid threats.⁵⁴ Strengthening Europe's resilience against these is a top priority in EU-NATO cooperation.⁵⁵ A number of EU policies contribute to important aspects of resilience, including energy, cyber, border and maritime security, thus being relevant for countering hybrid threats. However, linking these policies from the viewpoint of security and resilience remains a challenge. NB6 countries are active

⁵³ Marta Kepe, "Preparing for the NATO Summit: Why Military Mobility Should Be on Top of the Agenda", Real Clear Defense Commentary, 26 February 2018. <https://www.rand.org/blog/2018/02/preparing-for-the-nato-summit-why-military-mobility.html> (accessed 23 November 2018).

⁵⁴ According to the EU's own definition, hybrid threats are "the mixture of coercive and subversive activity, conventional and unconventional methods (i.e. diplomatic, military, economic, technological), which can be used in a coordinated manner by state or non-state actors to achieve specific objectives while remaining below the threshold of formally declared warfare". European Commission/High Representative of the Union for Foreign Affairs and Security Policy, "Joint framework on countering hybrid threats – a European Union response", JOIN(2016) 18 final, Brussels, 6 April 2016. <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52016JC0018> (accessed 27 November 2018).

⁵⁵ European Union and NATO, "Statement on the implementation of the Joint Declaration signed by the President of the European Council, the President of the European Commission, and the Secretary General of the North Atlantic Treaty Organization", Brussels, 6 December 2016. https://www.nato.int/cps/en/natohq/official_texts_138829.htm?selectedLocale=en; "Third progress report on the implementation of the common set of proposals endorsed by EU and NATO Councils on 6 December 2016 and 5 December 2017", Brussels, 8 June 2018. https://www.nato.int/nato_static_fl2014/assets/pdf/pdf_2018_06/20180608_180608-3rd-Joint-progress-report-EU-NATO-eng.pdf (accessed 23 November 2018).

⁵¹ Council of the European Union, "Council Decision establishing Permanent Structured Cooperation (PESCO) and determining the list of Participating Member States", 14866/17, Brussels, 8 December 2017.

⁵² Finland and Sweden each participate in four PESCO projects, Estonia and Latvia in three and Lithuania in two. The total number of PESCO projects approved thus far is 34. For an overview, including a map, see Nicolas Gros-Verheyde, "Union européenne de défense : ce qui avance, ce qui bloque", Bruxelles2, 19 November 2018. <https://www.bruxelles2.eu/2018/11/19/union-europeenne-de-defense-on-avance/> (accessed 23 November 2018).

in this area in the framework of both NATO and the EU. For instance, Estonia has a prominent role in both organisations in the field of cyber security. Finland has established the European Centre of Excellence for Countering Hybrid Threats, which is endorsed by both the EU and NATO and brings together members of both organisations.⁵⁶

Apart from EU activities, European defence cooperation is increasingly taking place in smaller formats. The UK-led Joint Expeditionary Force is an important initiative for northern Europe in which all NB6 countries (plus Norway and the Netherlands) participate. It is worth also noting the French-led European Intervention Initiative (EII), launched in June 2018, which aims at more ambitious cooperation among a smaller group of countries willing and able to develop a shared strategic culture and operational readiness. Among Nordic-Baltic countries, Denmark, Estonia and Finland have joined this initiative. The EII provides a way to engage both Denmark and the UK, which do not participate in PESCO, in European defence cooperation. The multiplicity of smaller initiatives is not without problems: it raises questions over coordination and fragmentation of scarce resources of small states in particular.

4.2. ... TO ACHIEVE WHAT?

The strategic goal of all the EU's defence-related activities is, according to the EU Global Strategy, to strengthen Europe's strategic autonomy. This concept has been actively promoted by president Macron as part of his push for EU reform. However, the concept is a source of disagreement, confusion and, in strongly transatlanticist countries such as the Baltics, concern. The EU's strategic autonomy might be understood as the capability to take care of all aspects of security, including territorial defence, but there is broad agreement in the Union that this is not what it means. The EU does not aim to take over NATO's task of

territorial defence; it lacks the political will, military structures and capabilities to do so. The EU's defence initiatives are defined as being complementary to NATO. The prevailing understanding of the EU's strategic autonomy has been more modest: the EU should be able to undertake military operations on its own, when necessary. This has been the goal of the CSDP since the late 1990s, but in reality the EU still lacks many key military capabilities needed for autonomous action, including strategic lift, air-to-air refuelling, and shared intelligence and situational awareness assets.⁵⁷ It is in Europe's interest to work seriously on this agenda, with an eye to possible future crises in the EU's vicinity where the US might not be willing to engage.

Furthermore, for some member states (notably France) an important aspect of Europe's strategic autonomy is an increased reliance on capabilities produced within the EU. Hence the new push, supported by the Commission, to strengthen the European defence industry.

The EU's most important contribution to security in Northern Europe stems not from its defence activities, but above from all its unity and consistency vis-à-vis Russia

So far the EU's contribution to European defence remains limited, to say the least. Moreover, Brexit will significantly weaken the defence capabilities of EU member states.⁵⁸ The EU's most important contribution to security in Northern Europe stems not from its defence activities, but above all from its unity and consistency vis-à-vis Russia, including through maintaining sanctions as long as the reasons for the sanctions (the annexation of Crimea and destabilisation of eastern Ukraine) have not been resolved.

⁵⁶Nineteen countries have joined the Centre. On its early activities and aims, see Aapo Cederberg, Pasi Eronen and Juha Mustonen, "Regional Cooperation to Support National Hybrid Defence Efforts", Working Paper 1, October 2017 (Helsinki: The European Centre of Excellence for Countering Hybrid Threats). https://www.hybridcoe.fi/wp-content/uploads/2017/12/hybridcoe_wp1_regional_cooperation.pdf (accessed 23 November 2018).

⁵⁷Kristi Raik and Pauli Järvenpää, "A New Era of EU-NATO Cooperation: How to Make the Best of a Marriage of Necessity", Report, June 2017 (Tallinn: International Centre for Defence and Security). <https://icds.ee/a-new-era-of-eu-nato-cooperation-how-to-make-the-best-of-a-marriage-of-necessity-2/> (accessed 27 November 2018).

⁵⁸In 2017, the UK accounted for more than one-fifth of the total defence expenditure of EU member states. See Daniel Fiott and Jakob Bund, "EUISS Yearbook of European Security", 2018 (Paris: EU Institute for Security Studies): 200. https://www.iss.europa.eu/sites/default/files/EUISSFiles/YES_2018.pdf (accessed 23 November 2018).

However, tensions in the transatlantic relationship and repeated expressions of disregard towards European allies by US president Donald Trump have led to ever-louder calls in the European debate for more autonomy or independence of the EU.⁵⁹ All too often, such political statements seem to disregard the fact that the US commitment to European security will remain irreplaceable for many years, even decades, to come. In other words, maintaining a unique strategic partnership with the US is crucial for Europe.

The Baltic states (and Poland) are acutely aware of the irreplaceable role of the US for their security. At the same time, this is a shared Nordic-Baltic concern. In recent years, Finland and Sweden have substantially deepened their defence cooperation with the US and NATO.⁶⁰ Finland, which has been most proactive in respect of strengthening EU defence, has stressed that the growing European activity in defence is not an attempt to undermine NATO. On the contrary, stronger European capabilities can equally well be deployed through NATO, through the EU, through multinational coalitions or nationally.⁶¹

The renewed focus on defence cooperation has revived discussion about the meaning of the mutual assistance clause of the Lisbon Treaty (Article 42.7 TEU). French president Emmanuel Macron has been vocal in raising the need to strengthen this clause, but there is little clarity about the possible steps to be taken. The French government's request to activate it after the terrorist attacks in Paris in November 2015 serves as a precedent. The article currently foresees action by the member states only, meaning that the exact form of assistance is to be agreed bilaterally between the country

in need and each of its EU partners. There has been some discussion among member states and experts on possible ways to improve the EU's readiness to implement the article, e.g. by defining a role for the EU institutions and CSDP instruments in the implementation process, or the creation of other joint structures.

Any major crisis in the Baltic Sea region would involve both non-EU NATO members and non-NATO EU members, thus drawing in both organisations. It is therefore in the interests of the NB6 countries to plan and exercise joint EU-NATO responses in crisis situations, involving possible simultaneous activation of NATO's Article 5 and the EU's Article 42.7. In this context, it is also important to promote an understanding of the EU's role as complementary to NATO.

CONCLUSIONS AND RECOMMENDATIONS

The objective of this report has been to highlight areas of cooperation for the Nordic and Baltic member states in the EU. It has focused on three broad areas of shared interests: shared values, open economy and regional security.

The weakening of democracy and the rule of law within the Union and the erosion of rules-based order in the world is a shared concern of EU member states. It is particularly important for small countries such as the Nordic and Baltic states to maintain rules-based cooperation and shared norms that afford them better opportunities to influence developments in the EU and beyond and protect them against power politics and the dominance of big states. Democratic values and the rule of law are key pillars of the NB6 societies and strengthening these principles in the EU and the wider world is a common interest of the six countries. Furthermore, defending the rule of law in the EU is important for citizens, companies and other non-state actors.

How to reform and develop the eurozone and the single market is one of the key questions regarding the future of the EU. Here, the NB6 countries together with like-minded partners have an increasingly important role to ensure that the completion of the single market

⁵⁹ See Corentin Brustlein, "European Strategic Autonomy: Balancing Ambition and Responsibility", November 2018 (Paris: Institut français des relations internationales). <https://www.ifri.org/en/publications/editoriaux-de-lifri/european-strategic-autonomy-balancing-ambition-and-responsibility> (accessed 23 November 2018).

⁶⁰ "Analysts: 10 defence pacts in 2 years nudge Finland away from non-aligned status", YLE News, 9 September 2018. https://yle.fi/uutiset/osasto/news/analysts_10_defence_pacts_in_2_years_nudge_finland_away_from_non-aligned_status/10395276 (accessed 23 November 2018).

⁶¹ Sauli Niinistö, "Keynote Address by President of the Republic of Finland Sauli Niinistö at the Brookings Institution in Washington D.C.", 27 September 2018. <https://www.presidentti.fi/en/speeches/keynote-address-by-president-of-the-republic-of-finland-sauli-niinisto-at-the-brookings-institution-in-washington-d-c-on-27th-september-2018/> (accessed 23 November 2018).

continues, that the EU pursues free trade in an increasingly volatile global context, and that Europe will become competitive in new areas of development such as AI and digital services. The northern member states also share the view that national responsibility and reforms are essential for the viability of the eurozone.

The geopolitical location of the NB6 countries shapes their needs, perceptions and positions in the area of security and defence. They have a vital interest in maintaining close transatlantic ties and a US commitment to regional defence, while strengthening European capabilities in a manner that strengthens both the EU and NATO. Furthermore, regional security in Northern Europe depends strongly on European and transatlantic unity vis-à-vis Russia. Hence, despite their different security- and defence-policy solutions in the framework of the EU and NATO, the NB6 countries have shared strategic interests to be pursued.

The distribution of power and coalition-building in the EU is in the process of adapting to the post-Brexit reality of EU27. Any change is always less painful with reliable friends

and partners around. NB6 cooperation was described by a diplomat in Brussels as a “home away from home”. It serves as a format to consult close friends and, where possible, to pursue common interests and objectives.

The informal and flexible nature of NB6 cooperation in the EU serves the Nordic-Baltic countries well, especially in balancing different needs and future challenges. It allows cooperation when it is most appropriate, without institutional requirements that would demand too much attention or resources. It is also easy to extend cooperation to other like-minded partners in a flexible way, depending on the issue at hand. The “Hanseatic League 2.0” is one such example of an extended Nordic-Baltic group cooperating on shared interests over the future of the eurozone and the single market.

While pursuing further cooperation and linking up with new partners, the NB6 countries should remain vigilant over the potentially increasing dividing lines within the Union between north and south, and east and west. The key strength of the EU stems from its unity.

Summary of policy recommendations for NB6 cooperation in the EU:

- Maintain its informal, flexible and open nature.
- Extend cooperation to other like-minded member states wherever possible.
- Work for the EU's unity, keeping in mind that coalitions within it fluctuate while its unity is a permanent strategic interest.
- Highlight the importance of the rule of law for the Union, its member states and citizens as a shared pro-European Nordic-Baltic position. Protection of the rule of law within the EU is tied to another core interest: maintaining the rules-based order in the world.
- Support the EU's continued commitment to free trade. Assess together the new opportunities and limits inflicted by the changing geopolitical context, China's growing economic influence and the global rise of protectionism. Maintaining an open market while simultaneously ensuring the protection of European consumers, companies and geopolitical interests is the future challenge.
- Continue working together with like-minded partners on reform of the eurozone. Maintaining EU unity and pushing for well-functioning member state economies are the key to a successful eurozone and EU.
- Promote more rapid adoption of digital solutions and the completion of the single market in services in order to increase the EU's competitiveness in the increasingly fierce global market.
- Be proactive in shaping the debate on European strategic autonomy, stressing the need to develop European capabilities in a manner that helps maintain strong transatlantic ties while improving the EU's ability to undertake operations on its own where necessary.
- Support further development of EU-NATO cooperation and complementarity in the fields of capability development and countering hybrid threats, among others. Plan and exercise joint responses in various crisis scenarios.
- Work to maintain European and transatlantic unity vis-à-vis Russia, as a basis for practical cooperation on defence, deterrence and countering hybrid threats.

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