

DEVELOPMENT OF FAEROES AND ÅLAND ISLAND'S WITHIN THE WORLD TRADE SYSTEM

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ABSTRACT

The article deals with the problem of “ultra small region”, which being the independent subject of the West European countries, is their territorial, political and economic part, possessing constitutional independence. The initial factors of such regions special status are national-cultural ethos type and geopolitical position. The goal of the article is the identification of ultra-small territories, revealing features of their economic development and the modern trade status in a world and European trade system context. Ultra-small trade is diversified geographically and the main trading partners of these autonomous areas are the large highly developed countries, except for the four neighboring countries of Northern Europe. The main summing up conclusion is that Ålands and Faeroes island's ultra-small autonomous territories are converting nowadays into the business bridges between different European regions and countries, into the “competitive sub-peripheries” areas and points out the role of their trade in this conversion.

KEY WORDS: *small-scaled economies, ultra-small regions, “core-periphery”, foreign trade.*

JEL CODES: F430, N100, O110, O500.

Introduction

The goal of the article is the identification of ultra-small territories, revealing features of their economic development and the modern trade status in a world and European trade system context. The article is focused on West European and Nordic countries small economies as well as ultra-small autonomous territories of Ålands and Faeroes Island's affiliated to Finland and Denmark. The hypothesis of the article considers the important issue of trade interaction between peripheral territories of Faeroes and Ålands with their mainland (Denmark and Finland) as well as within the European sub-continent and draw special attention to trade of these ultra-small autonomous regions with the other countries and regions of the world including Russia predetermining a specific role of these regions as an international trade centers connecting different parts of the world economy in the model of “core-periphery” communication. The methods of the article deal with analysis-synthesis, historical and logical methods of investigation, methods of international comparisons.

In the given research we mean economic dynamics of different scaled states depending on a degree “a maturity of territorial structure of an economy”, “intensity of economic space usage” and population density

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(Машбиц, 1983; Одессер, 1986). S. B. Saul (1982: 111) has noticed that there exist some limits of growth of the population for the small countries, defined in its density, natural, climatic and historical conditions. The idea was argued by the analysis of the concrete economic historical data for the West European small countries during 1870–1914. Analysis of long-term dynamics (Кузнецова, 2001: 103–104) shows that industrialization in the small West European countries passed faster, smoother and more rationally, than in the large-scaled economies. One of the important reasons of such phenomena lays in the relative ease of agrarian reforms (XVIII–XIX centuries), rather low social tension, constant inflow of the qualified and cheap labor from large West European countries captured by religious and civil wars. The small countries of Western Europe which have begun industrialization only in the end of XIX century, implemented export orientation of the international specialization which can be defined as mono-cultural, directed on production by handicraftsmen-immigrants of a special kind of the raw goods and the high-quality products satisfying diversified European and world demand. For this reason rate of labor productivity growth in the small countries was higher than in large, observing its lower initial level.

1. Trade relations of Faeroes and Åland islands as a competitive periphery of Denmark and Finland metropolises

One of the very important problem connected to scale and almost not reflected in academic literature and even mass-media publications – economic development of the dwarfish states⁴ and ultra-small independent territories, which have no chance to expand beyond national borders, owing to their island, peripheral, spatially independent (from the mother country) position. This type of states and territories possesses the characteristics similar to the small countries, representing a certain symbiosis of the second and third variant of economic development preserving an obvious specificity of an autonomy and “competitive periphery”. These countries and independent territories’ possibilities of growth lie in integration regional complexes participation and submission to the general regional policy, in uniqueness of their geographical position which presumes their role as the transport-logistical, infrastructural business bridge between larger neighbors-partners in sub-continental region of the Western Europe.

Ultra small independent territories are the regions acquiring the quantitative indicators of micro-countries. Politically they are a part of any metropolis possessing the partial constitutional sovereignty, own system of the legislative and executive authority, special tax and commercial codes. Nowadays the similar status in the Western Europe is acquired by Canary Islands (Spain) overseas departments of France (Guadeloupe, Martinique, Guyana, Re-Union), British Isles in La Manche and Irish Sea (Maine), Åland (Finland) and Faeroe (Denmark) islands, and Gibraltar – the unique colony that has remained in continental Europe.

The “ultra-small region” category was rarely mentioned in the modern academic literature. In Russia ultra-small regions similar to such regions in the European and world economy exist but subject to analysis only recently (Ефимова, Кузнецова, 2012). The basic components of its working out are: 1) relations “core-periphery” research and dependence of autonomies from a political-economical kernel; 2) definition of various factors influence on the island competitive peripheral territories development.

Within the limits of mutual relations “core-periphery” research and dependence of autonomies from a political-economical kernel we have tried to reveal dependence of the balance of trade from the degree of trade – economic relations intensity between the Center and the Autonomy (table 1).

⁴ According to the terminology of the United Nations and the World Bank “dwarfish (micro)-states are sovereign states with the population not exceeding 1 million. The European dwarfish countries are: Andorra, Liechtenstein, Malta, Monaco, San Marino and Vatican. Sometimes this group includes Luxembourg, more rare Cyprus and Iceland (Eccardt, 2005).

Table 1. Faeroes and Åland islands balances of trade (2010)

| | Share of export “Autonomy – Center” in total Autonomy’s export volume | Share of import “Autonomy – Center” in total Autonomy’s import volume | Balance of trade “Autonomy – Center” | Aggregate balance of trade |
|---------------|---|---|---|-------------------------------|
| Åland islands | 67.4 % | 57.6 % | -141 074 € | -270 664 € |
| Faeroes | 10.4 % | 34.2 % | -1 012 000 DKK | 274 000 DKK |

Source: Faroe Business Report. (2011). Faroe Islands in figures, p. 34.

According to the Table 1 data the center’s export-import share in aggregate export-import volume doesn’t influence on “core-periphery” mutual trade balance value (positive either negative). The latter manifests Autonomy’s economic dependence from the Center. From the other hand favorable market situation and effective commercial activity provide positive aggregate trade saldo. Autonomy’s balance of trade depends presumably not from the world commodities’ market but from its separate segments. The considered regions structural shifts were not very significant. Hence it is possible to suppose that volatility of the balance of trade can be explained by the quite narrow market segments conjuncture.

We will consider Åland and Faeroes balance of trade through the decade 2001–2010 (table 2).

Table 2. Faeroes and Åland islands dynamics balance of trade (2001–2010)

| | Åland islands | | Faeroes | |
|------|---|--|--|--|
| | Trade balance with the Center (thousand €) | Aggregate general trade balance (thousand €) | Trade balance with the Center (million DKK) | Aggregate trade balance (million DKK) |
| 2001 | -147374 | -198068 | -131498,0 | 139377 |
| 2002 | -151714 | -211770 | -379674,9 | 300540 |
| 2003 | -142164 | -196829 | -351839,5 | -953384 |
| 2004 | -162610 | -248780 | -518956,4 | -73590 |
| 2005 | -149884 | -247484 | -622000,0 | -903480 |
| 2006 | -152016 | -240182 | -945952,3 | -823441 |
| 2007 | -160738 | -305041 | -1073495,2 | -1465582 |
| 2008 | -165440 | -224394 | -1069000,0 | -675263 |
| 2009 | -151459 | -268416 | -827000,0 | -106116 |
| 2010 | -141074 | -270664 | -1012000,0 | 274693 |

Source: Faroe Islands in figures. (2006, 2009–2011). P. 33–34.

Comparison of the balances of trade between Åland and Faeroes during 2001–2010 allows to come to the following results:

1) The Åland – continental Finland balance of trade and the aggregate trade balance of islands shows insignificant fluctuations around negative indicators. Average value of Åland trade balance with continental Finland is -152447 thousand euro. The biggest deviations from average value were observed in 2008 (-12993 thousand euro, or -8.5% from the average value) and in 2010 (+11373 thousand euro, or +7.5 % adequately). Average value of the Åland aggregate trade balance is -241163 thousand euro. The biggest deviations from average value were observed in 2007 (-63878 thousand euro, or -26.5 % adequately) and in 2010 (+44334 thousand euro, or +18.4 % adequately). These figures reflect the metropolis’s primarily trade with islands focused on energy resources, high tech industrial products and goods, not produced in an autonomy. The export-import flows amplitude increases in depression periods.

2) Faeroes trade balance with Denmark and the aggregate trade balance of islands show negative values through the periods of economic stability as well as in the years of depression. “Regional” (centre-periphery) trade balance is illustrated by negative values through overall time horizon under consideration. Average value of Faeroes - Denmark trade balance reached -693141.63 million DKK with the biggest deviations from average value observed in 2007 (-380353.37 million DKK, or -54.9 % from the average value) and in 2010 (+561643.63 million DKK, or +81.0 % adequately). Through the considered period (2001–2011) with the exception of 2001, 2002 and 2010 the aggregate trade balance of islands showed essential fluctuations around negative values. Average value of the Faeroes aggregate trade balance is -428625 million DKK. The biggest deviations from the average value were observed in 2007 (-1036957 million DKK, or -241.9 % adequately) and in 2002 (+729165 million DKK, or +170.1 % adequately). Such macroeconomic indicators volatility can be explained by the assumption that a number of the main Faeroes trading partners (Great Britain, Germany, France) imported (and still import) big volumes of fish and seafood (Statistical Yearbook, 2011) as well as island’s special invisible services (financial, rent)⁵ (Table 3). Such mutual relationship with large countries has allowed generating the model of competitive sub-periphery of ultra-small territory.

Table 3. The largest importers – Faeroes trading partners according to the indicator of the positive balance of trade (2010)

| No | The country | Import (Million DKK) | Export (Million DKK) | Balance of trade (Million DKK) |
|----|---------------|----------------------|----------------------|--------------------------------|
| 1. | Great Britain | 152 | 754 | 602 |
| 2. | France | 73 | 415 | 342 |
| 3. | Germany | 275 | 531 | 256 |
| 4. | Spain | 30 | 203 | 173 |
| 5. | Japan | 40 | 53 | 13 |

Source: Faroe Islands in figures. (2006, 2009–2011). P. 34.

National institutes of considered autonomies play stimulating role in their trade and economic development. Particularly it is reflected in the general conditions of the system of business governance formation. For example the Finland’s tax system rules are completely harmonized with the EU norms of governance, adequate to the Åland islands. However Finland tax code application to the Åland’s doesn’t allow to consider an autonomy as a tax harbor. Certain Åland’s specific tax norms are very favorable to business development such as: 1) creation of special tax privileges. Firms registered on Åland’s can be released from VAT payment, if the cost of their business is below the established level; 2) realization of tax-free trade by islanders. The international competitive advantage of the Åland islands could be focused on their special position as a third party in trading negotiations owing to their membership in the European Union and due to the fact that they are not included into the EU VAT system; 3) outsourcing of logistical functions of the foreign companies on Åland’s causing 3S economy⁶ which provides high level of business specialization and competitiveness of this European region.

According to the 2010 Regional Year-book data published by Eurostat, regional specialization and concentration of business on the Åland Islands is the highest among the other European regions of the EU NUTS III level countries and Norway. 45 % of employees are occupied in commodity sector (qualifier NACE I – Transport, storage, communication), 17 % – in NACE G sector (Trade, distribution). The type of transport services depends on geographical position of a certain region. Islands and coastal territories to a greater

⁵ Trade indicators in 2009 are characterized by the following export-import transaction data of Denmark: export of services was 1.122 million DKK (including sea-born services), export of goods (fish and seafood export is 98 % from total export) – 4.098 million DKK, import of services – 2.102 million DKK, import of the goods of 4.023 million DKK. Thus the role of services exported by Denmark cannot exceed a share of fish export.

⁶ The so-called 3S economy means the economy formed from synergy effects: economy caused by scale of production (economies of scale), liaison of various consumer properties of the final goods and services (economies of scope), connections of the involved personnel qualification (economies of skills).

degree involve a sailing charter (NACE I 61) while air communication (NACE I 62) is important for the areas, which are located near big cities, or island territories with the developed tourist sector. Åland's possess narrow specialization in a sailing charter services. About 35 % of employees worked in this sector in 2007, exceeding a similar indicator in the Norwegian regions – Vestlandet and Agder og Rogaland (which occupied second and third positions in the European economic space embraced by Eurostat data) or almost in 8 and 10 times accordingly (Eurostat regional yearbook, 2010: 102–116). The Faeroes air transport plays a significant role due to the islands remoteness from the European main land (especially in passenger transportations provision), but marine traffic still keeps the general superiority (Faroe Islands in figures, 2011: 28–29). High international and regional competitiveness is supported by the special financial aid in the framework of the European regional programs and the national governmental projects. Prospects of independent territories business development are connected with the formation of business bridges between Finland and Denmark – and the other EU countries and hence with the EU financial aid within the limits of structurally depressive regions and far-distant northern territories support programs.

Official documents and academic literature there do not contain uniform criterion for definition of a region facing difficult economic problems. B. Korsunsky and S. Leonov argued that such area should be defined as a specific territory in which sustainable development demands the state intervention (Корсунский, Леонов, 2006: 21). According to A. Granberg's classification Ålands and Faeroes could be referred to a category of northern territories where negative factors (an adverse climate, high cost of life, high industrial and transport costs, ecological vulnerability) are not compensated by strong competitive resource advantages (oil, gas, diamonds) (Стратегическое управление: регион, город, предприятие, 2004: 42). More detailed categorical analysis is contained in E. G. Efimova's monograph (Ефимова, 2008: 70).

2. Foreign trade of ultra-small autonomous territories with the Russian Federation (case of Faroe and Åland Islands)

Global economy is under uncertainty due to recent meltdown of economic and industrial growth strengthened by a continuous chain of the last decade financial crises. The current slowdown in the economy is a major concern of all countries, although process of globalization has boosted economic growth resulting in the structural changes of the world economy. This has triggered rapid changes in developing economies and may predominantly contribute to global economic growth in the coming decade, though it has posed several challenges in resource abundant large countries (raising countries giants) such as Russia that may emerge as a biggest part of future global economy reflecting a could-be major shift in the global economic balance and hence could play raising role in the world and in the regional European economy. This process is reflected in the trade balance shifts between small and ultra-small European regions under consideration and Russia

The problem of ultra-small autonomous territories trade with ultra-large resource-abundant country using the practice of such trade of Faroe and Åland with the Russian Federation has not been studied neither in the Russian and national islands' nor in the world contemporary literature. We observe this problem as very interesting not only from the academic point of view but considering the practical interests of ultra-small autonomous territories development implementing very specific model of competitive periphery formation independent from their metropolises.

So far as Åland Islands are not a separate statistical territory of Finland we cannot provide official statistics and facts on the Russian-Åland trade. Keeping in mind the absence of facts and data on Åland-Russia trade we could limit our analysis to Russia-Faroe islands trade consideration and disseminate main results of Russia-Faroe islands trade analysis on the autonomous territory of Åland's. The unique reliable source of data is the RF Ministry of Foreign Affairs list of commercial contracts, which allow to judge the business interests of Russian counterparts in the Faroe Islands. Statistical Office of the Faroe Islands (Statistics Faroe Islands, Hagstova Føroya) gives statistics on Faroe major trade partners (Table 4) and shows trade flows between Faroes and its main trade partners information in 1993–2010 (See Figures 3, 4). Faroe Islands main trade partners (including RF) are represented on Table 4.

Table 4. Main trade partners of Faroes (thousand DKK 2010)

| № | Total turnover | | Export | | Import | |
|-----|----------------|-------------|-------------|-----------|-------------|-------------|
| | Country | Volume | Country | Volume | Country | Volume |
| 1. | Denmark | 1,973,790.5 | UK | 753,831.2 | Denmark | 1,492,917.0 |
| 2. | Norway | 1,016,617.3 | Germany | 530,672.4 | Norway | 773,401.6 |
| 3. | UK | 906,242.6 | Denmark | 480,873.4 | Sweden | 304,486.6 |
| 4. | Germany | 805,614.4 | France | 414,634.9 | Germany | 274,942.0 |
| 5. | France | 487,847.4 | USA | 353,824.3 | China | 191,868.5 |
| 6. | USA | 404,403.9 | Nigeria | 351,871.0 | UK | 152,411.4 |
| 7. | Nigeria | 351,871.5 | Norway | 243,215.7 | Poland | 151,167.6 |
| 8. | Sweden | 347,200.3 | Spain | 203,475.7 | Island | 121,100.6 |
| 9. | Poland | 261,403.6 | Argentina | 190,000.0 | France | 73,212.5 |
| 10. | China | 255,481.7 | Russia | 150,803.7 | Netherlands | 69,020.7 |
| 11. | Spain | 233,730.5 | Italy | 148,695.8 | USA | 50,579.6 |
| 12. | Argentina | 201,886.2 | Poland | 110,236.0 | Italy | 46,647.0 |
| 13. | Island | 198,091.0 | Netherlands | 109,443.8 | Spain | 30,254.8 |
| 14. | Italy | 195,342.8 | Island | 76,990.4 | Russia | 17,239.2 |
| 15. | Netherlands | 178,464.5 | China | 63,613.2 | Argentina | 11,886.2 |
| 16. | Russia | 168,042.9 | Sweden | 42,713.7 | Nigeria | 0.5 |

Source: Authors calculation with the use of the data from Statistics Faroe Islands (the national statistical authority of the Faroe Islands)

The data presented in the table show that trade is diversified geographically and the main trading partners of the ultra small autonomous areas are the large highly developed countries, except for the four neighboring countries of Northern Europe, including Denmark and the Netherlands. This list includes China, Argentina, USA, Nigeria and Russia, which occupies 16th place in total Faroe turnover, tenth position in its export. Figures 1 and 2 showing the dynamics of export and import of Faroe Islands demonstrate high density of the statistical data. The first 2–3 partner countries (Denmark, Sweden, Norway) demonstrate high level of trade interaction and the rest trade partner's curves are located near each other. Russia's curve is located in the mob of the rest trade partners of Faroes.

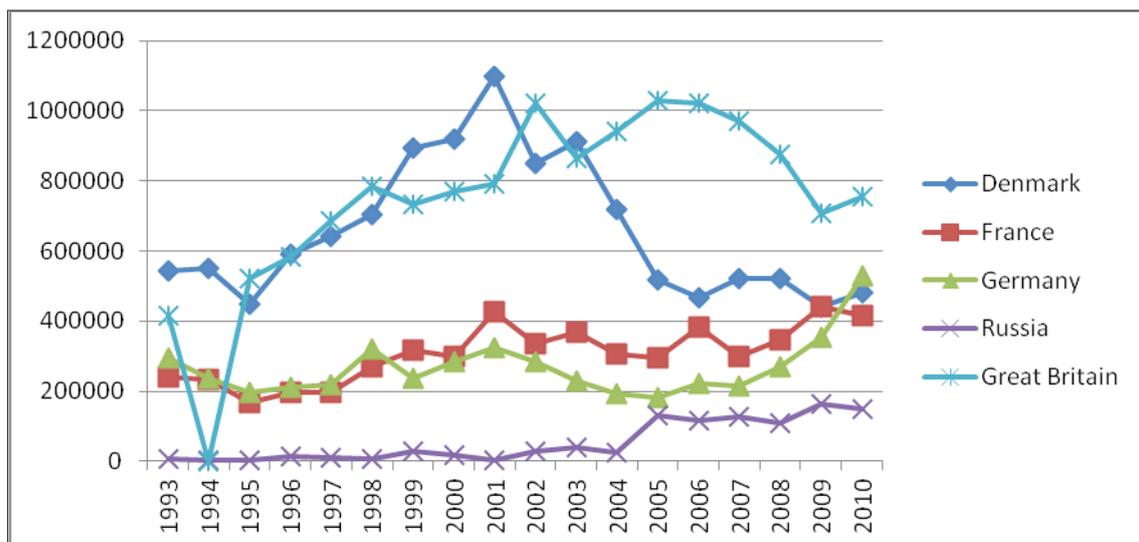


Fig. 1. Faeroes islands export according to the goods by country of origin Thousands of DKK

Source: Statistics Faroe Islands (the national statistical authority of the Faroe Islands)

Faeroe Islands export is relatively evenly distributed between countries. Certain difference is observed considering trade to the UK (the most stable position), Denmark (loosing its advantage), Germany (raising volumes) and Norway showing volatile volume of exports.

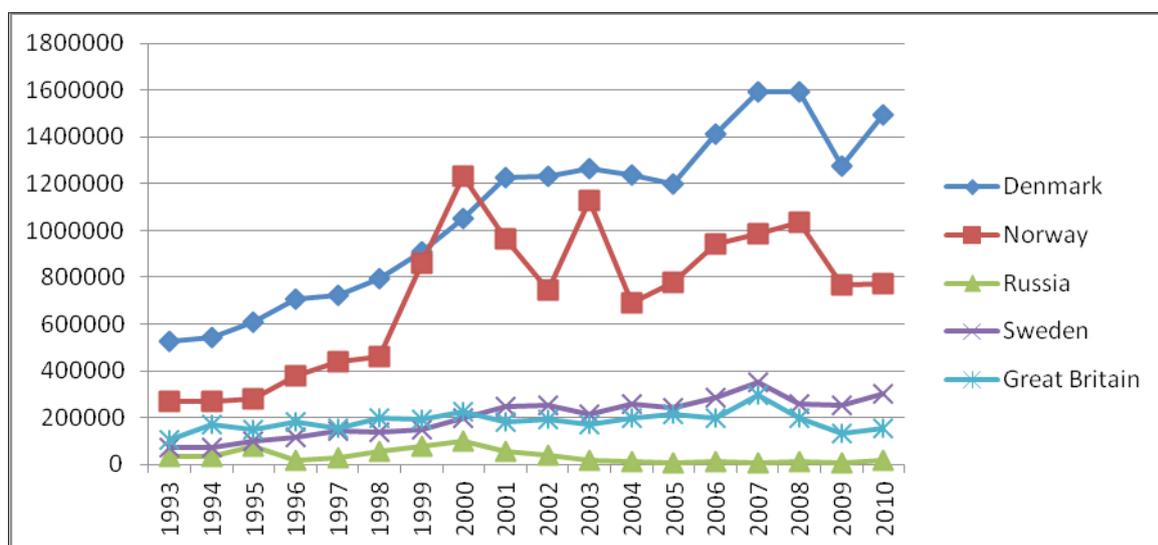


Fig. 2. Faeroes islands import according to the goods by country of origin. thousands of DKK

Source: Statistics Faeroe Islands (the national statistical authority of the Faeroe Islands)

Imports to the Faeroe Islands are more stable and predictable than export. Essential and raising share of Denmark and Norway (that is explained by the dependence of Faeroe from the historic homeland⁷) is accompanied by uniform trade diversification and relatively small and stable amounts of Faeroe import from the other trade partners.

Faeroe Islands occupy more than a modest position in the foreign trade of Russia. Russian official statistics do not observe trade with Faeroe Islands separately from Denmark. From the other hand official statistics of Faeroe islands and International Trade Center Data consider foreign trade of Russia-Faeroe (1996–2010) based on different national and UN COMTRADE statistics.

Data on Faeroe-Russia trade in 1993–2010 are presented on Table 5.

Table 5 data analysis results the following conclusion. Up to 2002 the balance of Faeroe-Russian trade reached negative values. Beginning from 2003 due to the start-up of continental shelf oil extracting and continuation of significant fish-seafood import this indicator was converted into positive values. The data of table.5 and general indicators of Faeroe-Russian foreign trade (Table 6) allow to define the RF status as a trade partner of this Danish autonomy.

Russian Federation and Faeroe Islands trade through the period 1999–2006 years was characterized by a low volume of trade turnover affected by fluctuations depending on the conjuncture situation and determined to a large extent by fish products trade as well as by bunkering vessels transactions.

In order to understand the causes of these trends, we consider the Faeroe-Russian trade structure. The main items of Russian export to the Faeroe Islands were items relating to product group 44 – “Wood and articles of wood, charcoal” – of Russia’s Foreign Economic Activity Commodity Nomenclature (CN FEA). The second place is occupied by the goods of CN FEA group 03 “Fish and crustaceans, mollusks and other aquatic invertebrates”, the third place – by the goods of group 72 CN FEA “Heavy metal”. Group 40 CN FEA “Rubber and rubber products” heads the fourth position. At the fifth position there are products of Chapter 84 CN FEA “Machinery and mechanical appliances, boilers, parts, nuclear reactors” representing the equipment for pipelines and boilers. Sixth position belongs to “Furniture and accessories” related to Chapter 94 of Russian CN FEA.

⁷ Faeroes language is similar to old-Norwegian language that allows to suppose that Vikings who captured Faeroes were Norwegians.

Table 5. Faroe-Russia trade (thousands DKK (1993–2010))

| | Import, CIF | Export, FOB | Turnover | Trade balance |
|------|--------------------|--------------------|-----------------|----------------------|
| 1993 | 32,644.9 | 5,919.2 | 38,564.1 | -26,725.7 |
| 1994 | 35,872.3 | 2,695.7 | 38,568.0 | -33,176.6 |
| 1995 | 75,170.9 | 3,750.2 | 78,921.1 | -71,420.7 |
| 1996 | 18,054.5 | 12,732.6 | 30,787.1 | -5,321.9 |
| 1997 | 26,234.2 | 11,349.7 | 37,583.9 | -14,884.5 |
| 1998 | 55,066.2 | 6,586.7 | 61,652.9 | -48,479.5 |
| 1999 | 75,495.7 | 27,328.2 | 102,823.9 | -48,167.5 |
| 2000 | 98,116.8 | 16,844.3 | 114,961.1 | -81,272.5 |
| 2001 | 55,795.1 | 3,997.4 | 59,792.5 | -51,797.7 |
| 2002 | 41,030.4 | 27,990.9 | 69,021.3 | -13,039.5 |
| 2003 | 18,167.8 | 38,882.4 | 57,050.2 | 20,714.6 |
| 2004 | 10,748.3 | 23,674.3 | 34,422.6 | 12,926.0 |
| 2005 | 8,141.4 | 131,531.5 | 139,672.9 | 123,390.1 |
| 2006 | 10,147.8 | 115,396.3 | 125,544.1 | 105,248.5 |
| 2007 | 8,611.8 | 126,810.9 | 135,422.7 | 118,199.1 |
| 2008 | 11,854.8 | 109,537.2 | 121,392.0 | 97,682.4 |
| 2009 | 8,076.9 | 163,935.4 | 172,012.3 | 8,076.9 |
| 2010 | 17,239.2 | 150,803.7 | 168,042.9 | 133,564.5 |

Source: Authors calculation with the use of the data from Statistics Faroe Islands (the national statistical authority of the Faroe Islands)

Table 6. Share of Faroe-RF trade in the aggregate Faroe trade volume (1993–2010)

| | Aggregate import CIF, thousands DKK | Share of import from Russia, % | Aggregate export, FOB, thousands DKK | Share of export in Russia, % | Foreign turnover, thousands. DKK | Share of RF in foreign turnover of Faroe, % |
|------|--|---------------------------------------|---|-------------------------------------|---|--|
| 1993 | 1426108 | 2,29 | 2132426 | 0,28 | 3558534 | 1,08 |
| 1994 | 1566148 | 2,29 | 2076343 | 0,13 | 3642491 | 1,06 |
| 1995 | 1792751 | 4,19 | 2026269 | 0,19 | 3819020 | 2,07 |
| 1996 | 2150096 | 0,84 | 2423884 | 0,53 | 4573980 | 0,67 |
| 1997 | 2369846 | 1,11 | 2574986 | 0,44 | 4944832 | 0,76 |
| 1998 | 2602452 | 2,12 | 2934182 | 0,22 | 5536634 | 1,11 |
| 1999 | 3301287 | 2,27 | 3270266 | 0,84 | 6571553 | 1,56 |
| 2000 | 4309636 | 2,28 | 3832068 | 0,44 | 8141704 | 1,42 |
| 2001 | 4171148 | 1,34 | 4310526 | 0,09 | 8481674 | 0,70 |
| 2002 | 3933879 | 1,04 | 4234419 | 0,66 | 8168298 | 0,84 |
| 2003 | 4865624 | 0,37 | 3912241 | 0,99 | 8777865 | 0,65 |
| 2004 | 3762855 | 0,29 | 3689265 | 0,64 | 7452120 | 0,46 |
| 2005 | 4490144 | 0,18 | 3586663 | 3,67 | 8076807 | 1,73 |
| 2006 | 4692091 | 0,22 | 3868650 | 2,98 | 8560741 | 1,47 |
| 2007 | 5522108 | 0,16 | 4056526 | 3,13 | 9578634 | 1,41 |
| 2008 | 5020920 | 0,24 | 4345656 | 2,52 | 9366576 | 1,30 |
| 2009 | 4210856 | 0,19 | 4104739 | 3,99 | 8315595 | 2,07 |
| 2010 | 4364654 | 0,39 | 4639347 | 3,25 | 9004001 | 1,87 |

Source: Authors calculation with the use of the data from Statistics Faroe Islands (the national statistical authority of the Faroe Islands)

Russian import from the Faroe Islands consists presumably of two product groups: products related to a group of 03 CN FEA “Fish and crustaceans, molluscs and other aquatic invertebrates”, and products relating

to Chapter 27 CN FEA “Mineral fuels, mineral oils and products of their distillation, bituminous substances, mineral waxes” which are basically represent fuel for Russian ships entering at the Faroe Islands.

Since the Faroe Islands represent self-administered and independent custom territory it uses customs tariff of its own referring to Russia. Faroe Islands Customs Tariff, is similar to the EU tariff applied for third countries (non-EU member states). The Faroe Islands in trade-economic relations with Russia, have always applied most-favored-nation basis (MFN). The use of MFN with respect to goods from the Faroe Islands were not legally ratified by Russia up to the August 1, 2006 In some periods there existed uncertainty about the interpretation of the applicable regime with respect to Faroese exports goods to Russia, so far as they are subject to customs duties on the part of Russia’s general conditions for third countries.

On August 1, 2006 the Agreement between the Government of the Russian Federation, on the one hand, and the Government of the Kingdom of Denmark and the Local Government Faroe Islands, on the other hand, came into force. According to the latter part the trade between Russia and the Faroe Islands in products originating from the customs territory of the Russian Federation and customs territory of the Faroe Islands was permitted. The main content of the Agreement is a binding legal provision for reciprocal Most Favored Nation Treatment in trade between Russia and the Faroe Islands. With the accession of Russia to the WTO this agreement lost its force.

Russia-Faroese fishing cooperation was legally drawn up much earlier in the Agreement between the USSR Government, on the one hand, and the Government of Denmark and the Local Government of the Faroe Islands, on the other hand. The mutual relations in the field of fisheries between the USSR and the Faroe Islands were established on 27 November 1977. It is based on the mutual exchange of living aquatic resources quota production in the exclusive economic zones of both countries, fixed and signed annually in the additional protocols. For the purpose of consultations on practical issues of fisheries and plans of cooperation Joint Russian-Faroese Fisheries Commission was established, which meets once a year alternately in the territory of each Party.

The main functions of this Joint Commission are: 1) coordination of activities of the Party for control of fisheries; 2) exchange of information to monitor the work of the fishing organizations in the exclusive economic zones of both countries, as well as in the open part of the Barents Sea; 3) the development and implementation of a unified system of calculation of conversion factors for raw products use by all actors in the Barents Sea; 4) a joint inspection control over fishing in the Barents Sea, the prevention of uncontrolled fishing.

The last protocol on cooperation between Russia and the Faroe Islands in fisheries was signed on 30.11.2011 according to the results of the 35th Session of the Mixed Commission in Torshavn. Russia has acquired a right to have 50 000 tons of blue whiting, including by-catch of herring (3 %) and anchovy (10 %) and 12,500 tones of mackerel, including the 3 per cent of herring by-catch. In 2011 the Russian exchange quota with Faroe Islands decreased and Russia had only 8000 tons of whiting and 25,000 tones of mackerel.⁸

In 2010 the Fisheries Commission of the North-East Atlantic (NEAFC) a very low total allowable catch of blue whiting – 46 thousand tons in 2011 was approved: According to Russia’s opinion the stock was undervalued in 3–4 times. The recommendations of the International Council for Exploration of the Sea (ICES) inventory level allowable catch of 250,000 tons was offered. In 2012 the volume of allowable catch of whiting confirmed is several times more – 391 thousand tons. Therefore, the Faroe Islands have increased Russia’s quota (Рыбачья газета, 2011).

On February 20, 2012 next round of negotiations, on mackerel fisheries management in North-East Atlantic in 2012 in the Reykjavik’s Final Meeting of Iceland, the EU, Norway, the Faroe Islands and Russia was a total failure due to the unwillingness of the parties to compromise. Despite five rounds of consultations and talks held in autumn 2011 and early 2012, in which the EU and Norway have presented three series of proposals, neither Iceland nor the Faroe Islands were and are not really interested in the negotiation process. What is particularly disappointing is that neither Iceland nor the Faroe Islands have not made proposals that would respect the principles of zonal attachment and historical fishery – traditional basis for similar agreements in the past. Iceland emphasizes the provision of equitable share for Icelandic vessels fishing for mackerel, so far as the population of fish is migrating presumably in the Icelandic economic zone. Minister of Fisheries and Fish Production of Iceland pointed out that the mackerel fishery should be conducted in accordance

⁸ In 2012 Faroe Islands has given to Russia quota of 50 000 tones of whiting / (Рыбачья газета, 2011)

with the recommendations of the International Council for Exploration of the Sea (ICES) in order to ensure sustainable fisheries development. The adoption of such solutions is lobbied particularly by Sweden and the UK, which are the largest actors in the mackerel fishery. Such position could lead to the sanctions of the EU.

Significant volumes of sea-born bio-resources are located near the Faroes territories. Russia is interested in the international fish-catching cooperation causing the sustainable fish industrial organization development ceteris paribus provided by large volumes of traditional fish trade and fish-catching quotation.

Conclusions

1. Consideration of ultra-small independent Nordic regions (Åland and Faeroes) in a the world trade system allows to draw conclusion about high degree of a bilateral openness of small and a unilateral openness of ultra-small territories.
2. Comparison of trade balances Ålands and Faeroes during 2001–2010 allows to come to the conclusion, that trading balance Ålands with continental Finland and the general trade balance of islands shows insignificant fluctuations round negative sizes; Faeroes with the basic territory of Denmark and the general trading balance of islands negative values show trading balance at the general trade and economic stability in pre-crisis and crisis years.
3. Transformation of island autonomous territories (Ålands and Faeroes) into the business bridges uniting both countries of Northern region (Finland and Denmark), and other West European states.
4. Data presented in the article show that ultra-small trade is diversified geographically and the main trading partners of these autonomous areas are the large highly developed countries, except for the four neighboring countries of Northern Europe,
5. Faroe Islands export is relatively evenly distributed between countries. Certain difference is observed considering trade to the UK (the most stable position), Denmark (losing its advantage), Germany (raising volumes) and Norway showing volatile volume of exports
6. Imports to the Faroe Islands is more stable and predictable than export Essential and raising share of Denmark and Norway (that is explained by the dependence of Faroe from the historic homeland) is accompanied by uniform trade diversification and relatively small and stable amounts of Faroe import from other trade partners.
7. Faroe Islands occupy a modest position in the foreign trade of Russia with the loose of significance of raw-material resources import from Russia and special trade-economic relations concerning fisheries and its export-import flows between Russia and Faroes.
8. Russian Federation and Faroe Islands trade through the period 1999–2010 years was characterized by a low volume of trade turnover affected by fluctuations depending on the market conjuncture and determined by fish products trade and by bunkering vessels transactions.
9. The item concerning Russian-Faroe trade could be spread to Russia-Åland trade with special attention to the structure of trade flows and trade balances of Russia-Finland.

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FARERŲ IR ÅLANDŲ SALŲ VYSTYMASIS PASAULIO PREKYBOS SISTEMOJE

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Santrauka

Straipsnyje nagrinėjamos Vakarų Europos šalių, ypač mažų, teritorinę, politinę, ekonominę ir konstitucinę nepriklausomybę turinčių regionų problemas. Šių regionų specialaus statuso priežastis yra nacionalinis-kultūrinis veidas ir geopolitinė padėtis. Šio straipsnio tikslas – atskleisti ypač mažų teritorijų ekonominės plėtros ypatybes, aptarti prekybos statusą pasaulyje ir Europos prekybos sistemoje. Ultra maža prekyba yra diversifikuota geografiniu požiūriu, o šių autonominių sričių pagrindiniai prekybos partneriai yra išsivysčiusios šalys, išskyrus keturias kaimynines šalis Šiaurės Europoje. Pagrindinė išvada: Ålandų ir Farerų salos, kaip ypač mažos autonominės teritorijos, šiuo metu konvertuojamos į verslo tiltą tarp skirtingų Europos regionų ir šalių, į konkurencingas subperiferines vietas, atsižvelgiant į jų prekybinį vaidmenį.

PAGRINDINIAI ŽODŽIAI: *nedidelio masto ekonomikos, ypač maži regionai, core-periphery, užsienio prekyba.*

JEL KLASIFIKACIJA: F430, N100, O110, O500.