



# BalticSeaagenda

Roadmap to the New Growth Centre

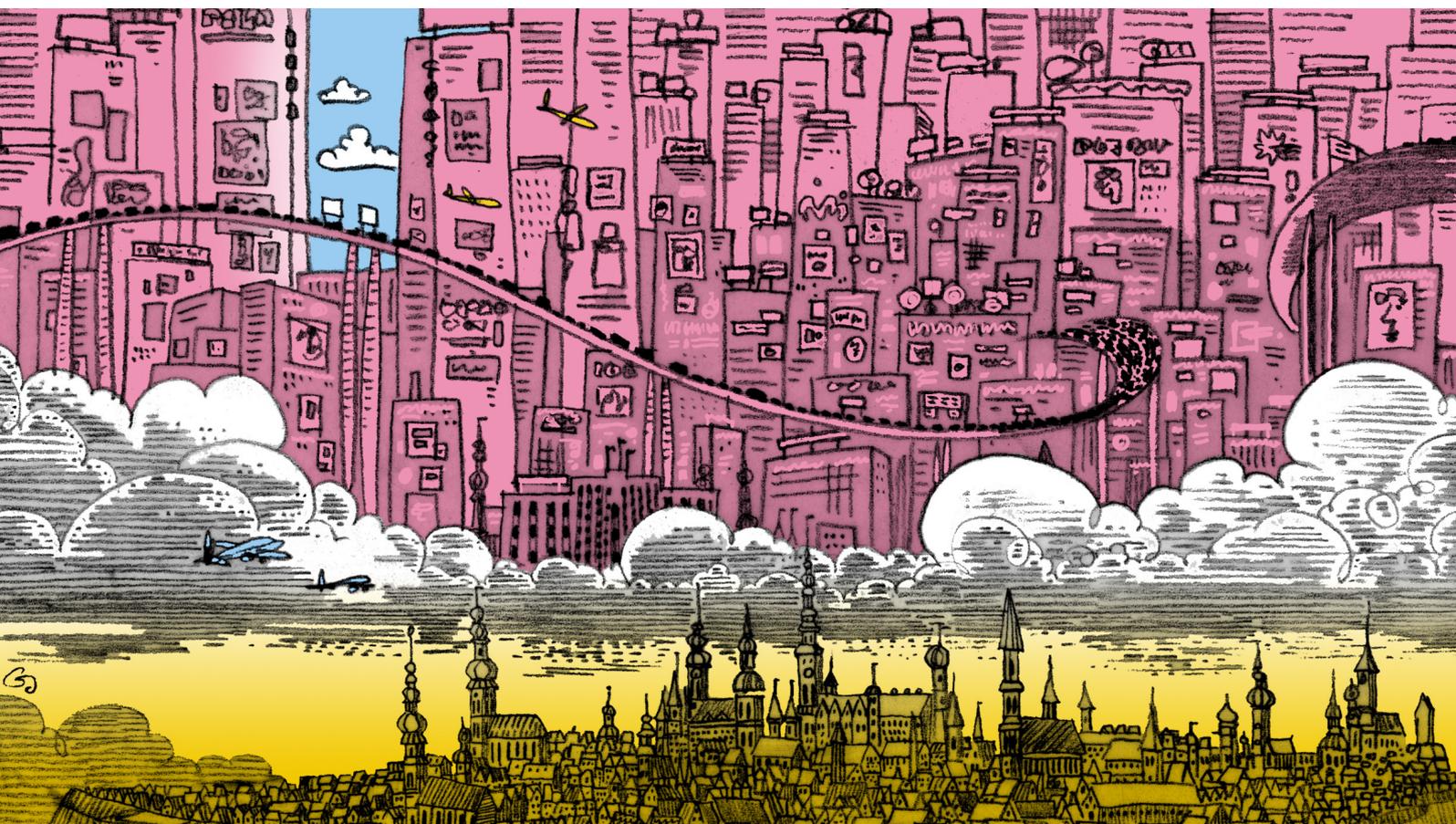
Vol. 2  
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“Moscow Ready to make  
Kaliningrad a Eurobridge”  
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“Kaliningrad Deserves a  
Better Future”  
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Christopher Patten

## Kaliningrad - Growth Centre or Dead End?



## The Agenda

# An Exercise in the Art of the Possible

by **Samuel Rachlin**  
Managing Editor



**COPENHAGEN** The EU is coming and the Russians are worried. Not because they are against the expansion, but they have a problem with what it will mean for Kaliningrad. “We would like to do it, but it’s prickly” as the Russian saying goes. The turns and twists of history and political events have once again made Kaliningrad – a region with such a turbulent history – the focal point of diverse political and economic interests at the crossroads of Europe

But if the issue is prickly, it is not only a Russian problem. It is definitely a European problem, too, and a challenge for the EU of a kind that the community has never faced before. The merging of geography, history and politics makes Kaliningrad something special. In its numerous expansions, the EU has had various experiences in order to accommodate new members and adapt itself to new realities. But with Kaliningrad, there is no precedent and there is no one to pass the buck on to. To find the right approach and a solution that will be mutually acceptable will require all the political creativity and diplomatic skills that both Bruxelles, Moscow and the other European capitals can muster.

The vision is there and the goodwill seems to be present on both sides, too. What is needed is a combination of

political talent and diplomatic prowess to lay the foundation for a durable, sustainable solution. It’s not just a deal or a settlement to be signed and then forgotten. The very specific circumstances require something that will live on as a process that will not only involve the three neighbours most affected by the change, Poland, Lithuania and Kaliningrad, but also pave the way for future relationships between Russia and the EU.

### For Russia Kaliningrad is the Key

Chris Patten has pointed out some of the fears on both sides in connection with the forthcoming enlargement. He is not underplaying the problems either with regard to Kaliningrad’s internal difficulties or with the tricky visa and transit issues. But Patten nevertheless recognises that the EU enlargement offers tremendous opportunity for the region and prosperity for its people. He cannot promise any quick fix of the visa problems, but invites Russia to start a constructive dialogue and cooperation on the substance of the issue.

The EU has already provided technical and economic assistance for a sizeable amount of money, but the point is that it is not enough to throw money at various projects if the institutional infrastructure is not in place. Kaliningrad needs more than money to catch up and live up to its potential. Several contributors to this issue of Baltic Sea Agenda point out that good intentions must be followed up by action. The onus is not only on Russia.

The EU could do a better job, too.

This point is driven home by the Russian foreign minister, Igor S. Ivanov, who airs some of the Russian concerns and explains why the visa and transit issue is so important for Moscow. This, in the Russian view, is the most sensitive aspect of the consequences that will affect Kaliningrad in the wake of the enlargement. It is simply the key to future relations between Russia and the EU. If no acceptable solution is reached, the EU expansion will lead to new dividing lines in Europe. He does not leave any doubt that the Russians do not take this issue lightly and expect Bruxelles to show more interest and be more active.

#### **From the Drama of History to Politics as Beautiful as Art**

Kaliningrad, Königsberg, East Prussia, kingdom, region, oblast – a dear child has many names, as we say in Denmark. But the fact of the matter is that to many people, even in political life and academia, Kaliningrad is a somewhat confusing and often hardly recognizable entity. To be more frank, many people simply do not know what Kaliningrad is. Well, here is the chance to find out and learn about the history of the region. This is the subject explored and presented in the piece by Lars Poulsen Hansen, Senior Research Fellow from DUPI, the Danish Foreign Policy Institute. It is a dramatic story of a region at one of the cruxes of European history, embattled and desired like one of the jewels in Europe's crown.

In this issue of Baltic Sea Agenda, we have asked authors from five of the countries of our region to present their take on the Kaliningrad issue (we also asked the administration of Kaliningrad for a contribution, but received no response. There is a frank give and take on some of the controversial questions that determine the agenda for the

future of Kaliningrad. The chairman of Baltic Development Forum, Uffe Ellemann-Jensen, writes in his piece that he is convinced that the EU enlargement will give a tremendous boost to Europe and the Baltic Sea Region. He is very much aware of the problems that will occur if Kaliningrad is left out, and that this is a task which will require action and participation by all interested parties. The wisdom of the Russian saying, "We would like to do it, but it's prickly," works both ways.

Politics is the art of the possible, as we know. The events since 1989 have shown that much more is possible in European politics than we had ever imagined or could have hoped. As we witnessed the fall of walls and empires, we saw, with wonder and awe that the times of miracles has not passed. Compared with those events, the approaching transformation of Europe and our region does not seem overwhelming at all. What is needed in Kaliningrad is by no means impossible, even less a miracle. The contributors to this issue of Baltic Sea Agenda make it clear that the challenge will require the political will and creativity of the decision makers on both sides. If they measure up to this challenge, we will see that the risk of divisions and even confrontation will be replaced by cooperation and healthy competition. And all it takes is the art of the possible.

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*Uffe Ellemann-Jensen  
Chairman, Baltic Development Forum*

Kaliningrad remains in strong contrast to the economic growth and social development of most of the Baltic Sea Region. According to Uffe Ellemann-Jensen, Chairman of Baltic Development Forum, lack of vision and initiative from both the Russian and the European side is the major obstacle to long-term stability in the region. Despite many great plans for the region, the central authorities in Moscow have failed to design attractive solutions for the enclave. However, the expansion of the European Union will bring renewed impetus to the region. Moscow, Bruxelles and Kaliningrad must be urged to forge a clear vision and a stringent long-term plan – and secure the necessary political and financial support. The time to act is now!

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## **The European Perspective** **Need for Cooperation and Joint Action**

*The Rt. Hon. Christopher Patten  
External Relations Commissioner, European Union*

There is some fear in Kaliningrad that the EU enlargement will bring isolation and other burdens on the region. But according to External Relations Commissioner for the European Union, Chris Patten, the EU would like to see more joint projects of a genuine cross-border nature. In his assessment, the enlargement offers new opportunities for cooperation and better mutual understanding between Kaliningrad and an enlarged EU and for more prosperity for the region's citizens. The European Commission supports cross-border cooperation across the region and is ready to help tackle the most pressing issues in Kaliningrad through real cooperation on substance – to help Kaliningrad benefit from the potential advantages of its geographical position.

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## **The Russian Perspective** **Moscow Ready to Make Kaliningrad a Eurobridge**

*Igor S. Ivanov  
Minister for Foreign Affairs,  
The Russian Federation*

For Russia, Kaliningrad is the gateway for her future relationship with the European Union. Russian Foreign Minister Igor S. Ivanov envisions Kaliningrad as a Eurobridge and indeed his government stands ready to do its part to create the best conditions for the dynamic development of the region. Moscow sees Kaliningrad as a laboratory for developing the new relationship between Russia and the EU. But it is obvious that real success will only be possible through cooperation and interaction between Russia and the EU. The pace at which the Kaliningrad issue is presently being discussed is cause for concern in Moscow. The Russian Foreign Minister calls for a more interested and proactive approach from Bruxelles. The right venue for action and decision-making will be the EU-Russia Summit in Moscow.

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## **A Historical Analysis** **From Königsberg to Kaliningrad – A Battlefield of Interests**

*Lars P. Poulsen-Hansen  
Senior Research Fellow,  
The Danish Institute of  
International Affairs*

A major obstacle to handling the ill-fated Kaliningrad Region is the general lack of knowledge and understanding of its problems that can be traced back to World War II and beyond. This is the conclusion of an expert on the historical development of the region, Lars P. Poulsen-Hansen, Senior Research Fellow at the Danish Institute of International Affairs. Kaliningrad stands out in European history as a battlefield of interests. When the Iron Curtain divided Europe and sealed off her eastern sector, Kaliningrad fell out of the European loop for almost half a century. As the region returns to the European political stage it is consistent with its history that this reappearance is surrounded with controversy, disagreement and diplomatic manoeuvring. As Countess Marion Dönhoff, one of the heroines of the region's recent past, might have said: "It is very Königsbergish."

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**Business as Unusual**

**Kaliningrad: Hong Kong on the Baltic Sea?**

*Dr. Stephan Stein  
Head of the St. Petersburg and Kaliningrad branches of the Hamburg Chamber of Commerce and of the German Business Association in the Russian Federation*

The vision is, of course, great: Kaliningrad as a free trade zone, a Hong Kong on the Baltic Sea. But in the experience of many Western businessmen, this remains wishful thinking. Kaliningrad continues to be a regional backwater with slow economic growth and but a trickle of direct foreign investment. To Dr. Stephan Stein, head of the St. Petersburg and Kaliningrad branches of the Hamburg Chamber of Commerce, the reasons are obvious. Infrastructure problems, lack of professional management in the regional leadership and abuse of the relationship between politicians and friends in the business community are all impediments to the success of the region. In addition, there is uncertainty about Moscow's motivation and sincerity concerning the development of the region. But political leaders in Europe also have their share of responsibility for the problems. The European Union must rise to the challenge and help to resolve the most urgent issues in Kaliningrad. **Page 20**

**Future Trade Scenarios**

**A New European Order**

*Ramūnas Vilpišauskas  
Senior Expert, Lithuanian Free Market Institute*

How will trade develop in the Kaliningrad Region? This is an important question, as trade is going to play a crucial role in the development of future relations between Kaliningrad and the European Union. Ramūnas Vilpišauskas, Senior Expert at the Lithuanian Free Market Institute, has developed four scenarios for the future of trade in the Kaliningrad Region. Which scenario becomes reality hinges on two key questions. How supportive will Moscow be in granting Kaliningrad the necessary flexibility and the special status to become a "pilot region" for the relationship between the EU and Russia? And how innovative and creative will Bruxelles be in devising EU policies towards Kaliningrad? Both sides have challenges to meet, but this is the way to ensure progress for Kaliningrad and a new European order. **Page 24**

**New Alliances**

**Poland Stands Ready to Forge a New Relationship with Kaliningrad**

*Tomasz Paszewski  
Project Manager, Centre for International Relations in Warsaw*

As the European Union expands, Tomasz Paszewski, Project Manager at the Centre for International Relations in Warsaw, assesses that Poland and Lithuania will be on the cutting edge of the new relationship with Kaliningrad. Both the government and the business community in Poland stand ready to actively work to resolve some of the most dividing issues and tackle some of the political, economic, and practical obstacles to forging a new European reality. Despite some discouraging signals and statements aired by Moscow, there is a clear understanding in Poland of the difficulties that hamper a smooth and quick transformation of the region and its relationship with neighbour countries. But with the right approach from both sides, the problems can be solved to the mutual benefit of the entire region. **Page 31**

**News from Baltic Development Forum**

**From St. Petersburg to Copenhagen**

*Ole Frijs-Madsen  
Director, Baltic Development Forum*

The Baltic Development Forum announces the next Baltic Development Summit to take place in Copenhagen. The theme for this fourth annual Summit is "EU enlargement and beyond: Connecting the Baltic Sea Region". This will also be the main focus of the political/economic segment of the Summit. The business segment will focus on biotechnology and transport infrastructure in the Baltic Sea Region. The Summit will also include sessions on Russia and the Kaliningrad Region. **Page 35**

**BalticSeaagenda**

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## The Political Challenge

# Kaliningrad Deserves a Better Future

by **Uffe Ellemann-Jensen**  
Chairman,  
Baltic Development Forum



**COPENHAGEN** During the last 12 years, literally all parts of the Baltic Sea Region have experienced dynamic growth and an encouraging development of their societies, thereby enhancing the prosperity of their citizens. Look at countries like Estonia, Poland, Latvia and Lithuania. Look at Russian cities like St. Petersburg and Moscow. These countries and regions have gradually established the economic framework conditions to develop new and modern societies.

Unfortunately Kaliningrad remains “the black hole amongst a string of pearls” around the Baltic Sea. Why is that so? I believe that history is an important part of the explanation. But lack of vision and initiative from the Russian as well as the European side seems to be the major obstacle to long-term stability in this beautiful corner of the Baltic Sea Region. This must change!

Kaliningrad Oblast is a de facto isolated enclave of the Russian Federation with an important strategic access to the Baltic Sea and the Euro-

pean Union. This obviously poses particular problems for Kaliningrad as well as for mainland Russia herself. One has to understand and respect this particularity when addressing this question.

What Kaliningrad needs is a clear and stringent long-term plan developed in close cooperation with professional, experienced experts and administrators – and supported financially by the EU as well as Russia. Why should it be difficult to achieve this? After all Kaliningrad is an area (15,000 km<sup>2</sup>) about 1/3 of Estonia, with a population of 1 million, less than half the city of Greater Copenhagen. It ought not be an impossible task.

” **What Kaliningrad needs is a clear and stringent long-term plan**

In my view, Kaliningrad’s real problem is that the central authorities in Moscow never seriously put their minds to designing an attractive solution for the enclave. “Muddling through” has been the recipe, and the result has obviously been a depressing status quo. Along with this came a long period of weak management in the oblast itself and possible rivalry from neighbouring Russian parts of the Northwest Region.

Anyone with the faintest idea of Kaliningrad's recent history will know that the region has not – to say the least – been blessed over the last 55 years. After the Soviet Union gained sovereignty over the enclave in 1945, it was closed to the outside world until 1989.

Since 1989, Russia has announced more or less grand plans for the region. These have, however, never been followed up by the necessary practical steps and tools, nor received serious political and economic backing. One might get the impression that Russia either does not really care about the Kaliningrad Region or simply expects others to solve the problem. Whatever the answer is, all countries along the Baltic shores as well as the European Commission should join forces to assist Kaliningrad. This is our moral duty and indeed is also in our common interest.

**” EU enlargement could be an interesting incentive to make Kaliningrad a more attractive neighbour and trading partner**

EU enlargement will bring enormous impetus to the whole of Europe, including the Baltic Sea Region. It will increase trade and economic growth and could be an interesting incentive to make Kaliningrad a more attractive neighbour and trading partner. However, if this fails, the contrasts between Kaliningrad and the rest of the region will be shamefully striking.

The EU must take a lead in this question of close cooperation with the leaders in Moscow and the Kaliningrad Oblast. Schengen-rules within the EU will affect Kaliningrad once Poland and Lithuania join the Union. This is a serious issue which needs to be addressed. But this should certainly only be regarded as a temporary problem. Creating the optimal framework con-

ditions for trade and development is the crucial thing. This can be done.

Moscow, Bruxelles and Kaliningrad Oblast must be urged to jointly put forward a clear vision and a detailed working plan. I have no doubt that all countries around the Baltic Sea stand ready to support such an initiative politically as well as financially. Wisdom and courage are needed, but of course it can be done. And the Kaliningrad issue should be regarded as a litmus test for the seriousness of the whole philosophy behind the EU's Northern Dimension.

**” Moscow, Bruxelles and Kaliningrad Oblast must be urged to jointly put forward a clear vision**

I seriously hope that decision-makers in all quarters will take time to study this question – and do something about it. This special publication on Kaliningrad points to some of the steps needed.

The future of the Baltic Sea Region, including a prosperous Kaliningrad is ours to build.

Let's get started!

## The European Perspective

# Need for Cooperation and Joint Action

By **The Rt. Hon. Christopher Patten**

External Relations  
Commissioner,  
European Union



**BRUXELLES** Since it was launched by the first Ministerial in Copenhagen ten years ago, the Council of Baltic Sea States (CBSS) can be credited with many achievements, and I applaud the foresight of its founding fathers, notably Hans-Dietrich Genscher and Uffe Ellemann-Jensen.

As we look at the future development of the region, I would like to focus on two issues that are particularly important for the Commission:

1. Developing the Northern Dimension, and
2. The challenges for Kaliningrad in the forthcoming EU enlargement.

The CBSS is of course one of the basic actors in the Northern Dimension, a broad concept that touches many aspects of EU policy in this region. I want to focus on four priorities for the Commission: the environment, nuclear safety, Kaliningrad, and organised crime:

- in the environment, we have recently agreed a €22m contribution to the St. Petersburg Wastewater Treatment Plant, in addition to a number of activities in and around Kaliningrad;
- in nuclear and environmental safety, we have been pushing to develop the Northern Dimension Environmental Partnership, and have offered to contribute €50m to the NDEP Fund, the largest contribution by far to this important initiative;
- regarding organised crime, the finan-

cial requirements are less, but a promising dialogue is developing on issues such as money-laundering and trafficking in women, issues which affect us all;

- and for Kaliningrad in particular, since 1991 we have committed some €40m to a wide range of projects.

In addition, we support cross-border cooperation across the region, working not only on border-crossing infrastructure, but on promoting economic cooperation between border regions, and on addressing trans-border environmental issues. We want to strengthen coordination between the different Community instruments in this field (Tacis, INTERREG and Phare), and would like to see more joint projects with a genuine cross-border character.

The Northern Dimension has undeniably made a difference to EU activities across the region. I congratulate the CBSS on its work in this area. The importance of the Northern Dimension can only grow as the context of the region changes, and as four more Baltic countries become members of the EU.

For me, there are three key-words for Baltic regional cooperation in the coming decade: **focus**, **leadership**, and **opportunity**.

- focus, through enhanced coordination between the numerous regional bodies and working groups that are active in this area;
- leadership, expressed through an effective division of labour. Each of us must limit ourselves to areas where we offer the most added value and then be proactive in bringing all partners together to achieve common goals;

- opportunity, in working together to seize the opportunities that enlargement offers to the Baltic region as a whole, and to all Baltic partners.

### **Nothing to Fear, Much to Expect**

Many of these concepts come together in our policy on Kaliningrad. Kaliningrad's geographical situation gives it many potential advantages. Yet the region faces many problems and challenges too.

Some of the most immediate questions concern the effects of EU enlargement. Some people fear isolation. Some fear further burden on the region. The reverse is true. Enlargement offers first and foremost new opportunities for more cooperation, for better mutual understanding and more prosperity for the people of Kaliningrad. This is all the more important since Kaliningrad has lagged behind the rest of the Baltic, and many other regions of Russia. I know that the authorities in Kaliningrad are worried about the spread of organised crime, illegal immigration, environmental pollution and diseases like AIDS. They challenge the security of Kaliningrad and Russia as well as that of present and future EU Member States.

We are keen to do what we can to help tackle these problems. The Commission provides technical assistance amounting to 40m. And in January last year, the Commission presented a comprehensive paper as a basis for discussion with Russia and the candidate countries bordering on Kaliningrad. We remain optimistic that the ideas in this paper will help us to make progress. And I welcome the constructive and businesslike way the Spanish government is using their EU presidency to take the debate forward.

In this context, we have been increasingly active in addressing the difficult issues which seem of most importance to our friends in Moscow, in particular visas and transit between Kaliningrad and the rest of Russia. We are working intensively with EU Member States and

with Lithuania and Poland to define a position which will help us to make progress in the EU's forthcoming meetings with Russia.

We first need calmly to assess the true scale of the problems. We have asked Russia for information, for example on border movements, and have proposed a series of technical meetings. I hope that we will receive replies on these issues very soon.

Then we need to explore common ground between Russia's wish to ensure easy transit between Kaliningrad and the rest of Russia, and our own need to ensure our security. We cannot override our basic rules here, including the Schengen acquis, nor undermine the enlargement negotiations themselves. Efforts will be necessary on all sides: for example, I hope that Russia will soon be able to take steps to issue the Kaliningraders with valid international passports.

### **On the Threshold of New Opportunities**

My message to our Russian friends on Kaliningrad is simple. Let us move on from sterile argument about things like the format of meetings and start real cooperation on substance. We have a number of Ministerial and technical meetings over the coming months, and we are ready to hold a special meeting of senior officials in Kaliningrad in May. We should use this Cooperation Committee to agree on a picture of what we can do for Kaliningrad on the issues I have mentioned. This will ensure good preparation for the Moscow Summit a few days later.

I am confident that with goodwill and a spirit of cooperation, there is a great deal we can achieve together. We are ready to continue making a major effort to resolve all outstanding issues.

I am convinced that Europe's Northern Dimension stands on the threshold of tremendous new opportunities for continuing democratic development, for enhanced regional cooperation, and for shared prosperity.

” I am confident that with goodwill and a spirit of cooperation, there is a great deal we can achieve together

## The Russian Perspective

# Moscow Ready to Make Kaliningrad a Eurobridge

by **Igor S. Ivanov**  
 Minister for Foreign Affairs,  
 The Russian Federation



**MOSCOW** In the nearest future, the geopolitical situation of the Kaliningrad Region is to undergo serious changes. The European Union has set itself an ambitious task – to be completed before the end of this year’s talks with a group of the most advanced candidate countries about their accession to the EU. If this goal materialises, Lithuania and Poland may become fully-fledged members of the EU as soon as 2004, and the Kaliningrad Oblast will be surrounded by the territory of the European Union.

All this adds a new dimension to the issues of economic and social development of the region, whose life support is directly dependent on its relations with both mainland Russia and the outside world. The Russian leadership and the oblast administration consider it their goal to create conditions necessary for normal life in dignity and prosperity for the population of the Kaliningrad Oblast in a long-term perspective.

For these purposes, in late 2001, the Government of Russia adopted a Federal Target Program of Social and Economic Development of the Kaliningrad Oblast till 2010. It envisages, inter alia, the implementation of a number of large-scale projects of a strategic nature, that include the development of the power sector, maritime navigation,

transport and telecommunications infrastructure, etc. The realisation of the Program will require considerable funds – about 3 billion US dollars. But we presume that the said projects will have a powerful impact on the investment activities in the region, to promote which a new, favourable climate will be developed in the Kaliningrad Oblast, including for foreign partners. And this means that the realisation of the Program will help attract significant additional funds to the region.

### Mutual Benefits – Not New Dividing Lines

I would like to stress that the efforts of the federal authorities of Russia are aimed at ensuring the dynamic development of the oblast. But we cannot but take into account that, due to the specific geographical situation of the region, the solution of its internal problems in many ways also depends on external factors.

That is why the Russian side is so eager to see that the forthcoming expansion of the EU should not lead to the appearance of new dividing lines in Europe, bringing good for some states and peoples and becoming a source of difficulties for others. This would be fraught with the emergence of new and serious obstacles on the way to forming a common economic space of a Greater Europe.

On the contrary, measures should be taken to ensure that the Kaliningrad Oblast and other western regions of Russia for that matter do not lose, but

rather benefit, from the accession of new countries – even more so their immediate neighbours – to the European Union. It is a matter of principle to ensure that the oblast gets additional impulses for the growth, becomes a laboratory of sorts for the elaboration and realisation of new forms of cooperation between Russia and the EU.

**” The development of the Kaliningrad Oblast is only possible with effective and constructive interaction of Russia with foreign partners – primarily with the European Union**

It is quite apparent that the development of the Kaliningrad Oblast is only possible with effective and constructive interaction of Russia with foreign partners – primarily with the European Union. Such discussion with the EU has already commenced and we are pursuing it on those issues of the life support of the oblast that are within the competence of the European Union. In the first place, we are considering problems of transport and transit, power supply and fishing.

#### **Moscow's Concerns as Time is Running out**

Because of its exclusive importance, the issue of ensuring maximum freedom of movement of people stands out separately. We mean travels of oblast residents to adjacent countries and states of the European Union. The most sensitive aspect for Russia is preservation of freedom of communication with the rest of the Russian Federation. The problem of railway and road transit through the territory of Lithuania has not only an economic, but in many ways also a purely humanitarian dimension. As we understand it, the solution of this problem remains a key issue in terms of identifying further prospects of Russia's cooperation with

the EU and its future members.

It is also important for the Kaliningrad Oblast to attract European financing in the form of grants and credits, completing the TACIS and Interreg programmes within the Northern Dimension, target social and scientific programmes of the EU. We also hope that, in cooperation with the CEC, such issues as customs duties regimes, the management of trade and investments, as well as the competition policy, technical standards, preferences, the status of our compatriots will be settled in good time, before the actual expansion of the European Union.

Let me put it straight: we cannot but be concerned about the pace the Kaliningrad issue is being discussed at. It might seem that, given the European Union's declarations about stepping up its search for ways to solve the pro-

**” We cannot but be concerned about the pace the Kaliningrad issue is being discussed at**

blems of life support of the Kaliningrad Oblast within the context of the EU's expansion, the Russian side could expect a more interested approach on the part of Bruxelles. Time is running out. It is important to activate, as soon as possible, the negotiation mechanism to find solutions to specific issues, inter alia, with the participation of Lithuania, Poland and Latvia. We hope that a forthcoming EU-Russia Summit, to be held in late May, will formalise an arrangement on a joint working group to find a comprehensive solution to the problems of life support of the Kaliningrad Oblast, and will give a strong initial impetus to its work.

#### **Lithuania and Poland in a Key Position**

The life support problems of the Kaliningrad Oblast have also been

actively considered by us within the Council of Baltic Sea States, as well as bilateral relations with Lithuania and Poland.

We appreciate growing positive interdependence of the Baltic Sea states and their stronger sense of common responsibility for the state of affairs in any part of the region. We are satisfied to note active involvement of our Baltic neighbours at the recent CBSS session in Svetlogorsk in solving the problems the Kaliningrad Oblast faces in the context of the European Union's expansion. We hope to attract the CBSS potential in bilateral trans-border cooperation for the implementation of a number of major multilateral projects.

In view of the geographical position of the Kaliningrad Oblast, we attach particular importance to constructive interaction with Lithuania. A solid legal framework of relations has been established over recent years, and a Lithuanian-Russian council on long-term cooperation between regional and local authorities of the Kaliningrad Oblast of the Russian Federation and the republic of Lithuania has been efficiently functioning.

Lithuania accounts for half the volume of foreign trade of the oblast and more than 80% of foreign investments. It is a known fact that major transport routes linking the oblast with the rest of Russia pass through Lithuania, and gas and electricity are also supplied through that country.

**” It is essential to show the political will and readiness for what may be non-standard solutions**

At a meeting of the Heads of Government of our countries, held in early March in the Kaliningrad Oblast, Mikhail Kasyanov and Algirdas Brazauskas agreed to expand cooperation in the field of transport, fuel and energy com-

plex and interaction between the ports of Kaliningrad and Klaipeda.

The Kaliningrad issues have been discussed in detail with our Polish partners as well, in particular during the visit of President Putin of the Russian Federation to Poland on January 16-17, and at the bilateral talks between Mikhail Kasyanov, Chairman of the Government of the Russian Federation, and his Polish counterpart Leszek Miller, held in Kaliningrad on March 6.

An agreement was reached to focus attention on the development of transport and border infrastructure, and the creation and upgrading of new and existing border-crossing posts. Bilateral interaction in the field of investments is becoming more meaningful. The Polish side put forth a number of proposals concerning the development of the energy complex of the Kaliningrad Oblast, cooperation in the sphere of industrial production, processing of agricultural products, as well as construction and transport. Many of them are quite consonant with the Russian Federal Program of the Development of the Region.

### **Russia is Ready**

Summing up, I can confidently say that there are all the necessary prerequisites for transforming the Kaliningrad Oblast into a kind of Eurobridge, designed to establish even closer ties between our country and the expanding European Union. To use them to the full extent, it is essential to show an appropriate political will and readiness for what may be non-standard solutions.

Russia is ready for constructive interaction with all the interested partners for the welfare of the residents of the oblast itself, its neighbours and Europe as a whole.

## A Historical Analysis

# From Königsberg to Kaliningrad - a Battlefield of Interests

By **Lars P. Poulsen-Hansen**  
Senior Research Fellow,  
Danish Institute of International Affairs  
(DUPI)



**COPENHAGEN** A blue-eyed, 35 year-old German countess was having supper with her housekeeper in her home in the southwestern part of East Prussia. Around midnight, they stepped out of the house leaving the food and the silver cutlery on the table and the door open. Together with hundreds of thousands of Germans they fled from the Soviet troops that were invading East Prussia. It was January 25, 1945. However, their group of refugees lost courage in the snowstorm and decided to return to the Red Army rather than freeze to death in the snowstorm. Only the countess turned her horse to the West and continued her flight through the ice-cold night in the direction of the Vistula. After seven weeks on horseback she arrived in Hamburg.

The countess was born at the family castle of Friedrichstein outside Königsberg in the northern part of East Prussia. In the thirties she studied economics in Frankfurt am Main and took part in the German resistance against the Nazi regime. Sympathising with the German leftists, she became known as the 'red countess'. In 1939 she took over the administration of the family estates, and during the war she was part of the German resistance movement, working closely together with the men that made the attempt on Hitler's life on July 20, 1944. However, having been interrogated by the Gestapo, she was lucky to be released.

In 1946, she became a member of the editorial staff of the Hamburger weekly "Die Zeit" and started advocating a reconciliatory Ost-Politik and reunification of Germany. In 1968 she took over the job as editor-in-chief of the newspaper and four years later she became

its publisher. Her name was Marion Dönhoff, but her colleagues always respectfully called her "the countess".

The countess, who died in March 2002, aged 92, can be seen as a link between the past and present of East Prussia, a region which has been a battlefield of interests among the great powers of Europe since medieval times.

In her memoirs, she tells the history of this region, which was inhabited by Germans after the Teutonic knights conquered the Prussians, the original population, and took over their name. In 1410, a Polish-Lithuanian army totally defeated the knights, and East Prussia came under strong Polish influence for a couple of centuries. In 1701 Königsberg, founded in 1255, became capital of the newly established Prussian kingdom. The Russians entered the scene during the Seven Years War, in 1758, when Russian troops overwhelmed the Prussian King Frederick's forces in East Prussia, took the city of Königsberg and held parts of the region until 1762.

As a result of the partitions of Poland at the end of the 18<sup>th</sup> century, East Prussia again became part of the Prussian Kingdom. It suffered significantly from Napoleon's wars. The peace treaty signed by Napoleon and Czar Alexander of Russia in the town of Tilsit (present day Sovetsk on the border between Kaliningrad Region and Lithuania) in June 1807 was disastrous to Prussia, as it lost half of its territory. It took half a century for Prussia to rise from the ashes under the Iron Chancellor Bismarck, who turned Prussia into the core of the German Reich. During the First World War, the Germans won some decisive battles against the Russian troops in East Prussia. After the war the region remained German, but divided from West Prussia and Germany by the Polish corridor, giving the Poles access to the Baltic Sea in the area around Danzig (Gdansk). It was during these years the countess, born in 1909, grew up on the family estate outside Königsberg.

Despite her fate and the loss of the family estate which was finally demolished by Soviet soldiers at the end of the 1950's, the countess contributed to the enhancement of the relations between East and West during the cold war through newspaper articles and several books. She also travelled back to her native land, and in 1992 she gave Kaliningrad a monument for Immanuel Kant, the outstanding German philosopher (1724-1804), author of, among other philosophical treatises, "Perpetual Peace." He was the city's most famous inhabitant, being born there and never leaving the precincts of the town, as the countess was forced to.

### **Western Policy of Concessions**

Being a theatre of war for long periods of its long history and enjoying no perpetual peace, East Prussia received its final blow as a German region at the end of World War II, when it once again suffered from being the battlefield of interests between the great powers of Europe.

The Soviet occupation of East Prussia in January 1945 was in line with the agreements negotiated by Stalin, Churchill and Roosevelt during the war. At the Tehran Conference in November 1943, Stalin used the occasion to submit his postwar territorial demands: "The Russians have no icefree ports on the Baltic. That is why the Russians would need the icefree ports of Königsberg and Memel (Klaipėda – LPH) and the corresponding part of the territory of Eastern Prussia."

Stalin referred to East Prussia as ancient Slavic land which was obviously not true, but this lie escaped the minds of Churchill and Roosevelt as well as the fact that the Soviets already controlled several ports in the Baltic republics, and Stalin's two allies consequently did not oppose his arguments. However, no agreement was made on this issue in Tehran, and it was put on the table again at the following conference between the allied leaders at Yalta in February 1945.

Before the conference, the U.S. State Department had prepared a memorandum on the eastern borders of Germany which, inter alia, stated the following:

"4. Poland

a) Boundaries: ... transfer of German territory (to Poland – LPH) to be limited to East Prussia (except Königsberg to Russia) ... "

It is worth noting that the northern part of East Prussia, demanded by Stalin in Tehran, is explicitly mentioned here, which may imply that the United States

and Great Britain tacitly accepted its transfer to the Soviet Union.

At the conference, Churchill formulated this American proposal in another way, stating that Poland in the west would include, inter alia, Danzig (Gdansk) and the regions of East Prussia west and south of Königsberg. This statement implied that the northern part of East Prussia should be ceded to the Soviet Union.

The proposals of Roosevelt did not substantially differ from those of Churchill, but merely underlined "that the final delimitation of the western frontier of Poland should thereafter await the Peace conference." Thus, the two western leaders in not explicitly mentioning the fate of the northern part of East Prussia were, in effect, tacitly accepting that it would be part of the Soviet Union. And the Soviet Foreign Minister Molotov was clever enough not to mention this specific region in his proposals.

However, after the conference, in a statement on March 1st 1945, Roosevelt told the American public that the greater part of East Prussia would go to Poland, and a part to Russia. At this time the Red Army had already occupied East Prussia and forced the young countess and her countrymen to abandon their homes.

After all, the fate of the Königsberg Region was a minor question in the big diplomatic game of dividing Germany, establishing new borders for Poland and installing a new Polish government, the main issue being the western border of postwar Poland. And on this issue Churchill and Roosevelt did not agree to Stalin's demands that it be the Oder-Neisse Line. They referred this issue for negotiation at the forthcoming peace conference.

At the Potsdam Conference, which was held from July 17th to August 2nd 1945, a permanent Council of Ministers of Foreign Affairs of the permanent members of the UN Security Council was created to prepare for a peace conference. According to the Potsdam agreement, the Allies, when concluding a final peace treaty with the Germans, should take as a basis the German Reich within the borders as of December 31st 1937, which included East Prussia. It was also stated that the borders mentioned in the agreement were not final but should be subject to regulation in a peace treaty.

Meeting with his new counterparts, President Truman of the United States and Prime Minister Attlee of Great Britain, who replaced Churchill during the Conference, Stalin made a formal case for acquiring



Central Europe after the Treaty of Versailles.

Königsberg and the areas surrounding it. East Prussia would be cleaved in two, with the Poles securing the southern two thirds of the territory and the Soviet Union the northern third. Truman and Attlee were inclined to concede to Stalin's wishes, and eventually the areas east to the Oder and the western Neisse were transferred to provisional Polish administration, while Königsberg and the adjacent area were transferred on the same legal basis to direct Soviet administration.

### Stalin Got More Than He Expected

Truman, Attlee and Stalin agreed that the territorial questions should be finally determined at the peace settlement. In the final protocol of the Potsdam Conference, they roughly described the new border between the Soviet Union and Poland in former East Prussia and stated the following:

"The Conference has agreed in principle to the proposal of the Soviet Government concerning the ultimate transfer to the Soviet Union of the City of Königsberg and the area adjacent to it as described above subject to expert examination of the actual frontier. The President of the United States and the British Prime Minister have declared that they will support the proposal of the Conference at the forthcoming peace settlement."

In 1987, The German historian Boris Meissner claimed that the pledge made by Truman and Attlee

only applied to the governments they were heading and therefore basically cannot be considered binding for their successors. In his recent book on Kalinin-grad, the American professor Richard Krickus writes: "U.S. commentators would argue that since a peace conference providing a de jure termination of World War II never occurred, that pledge was never acted upon. Henceforth the United States would concede Soviet administrative control of the territory but not Moscow's de jure possession of it." Furthermore, Krickus refers to the memoirs of Truman where he states that the most controversial issues discussed at Potsdam were Poland's western frontier and German reparations (but not Russia getting a chunk of Königsberg, Krickus adds).

Whatever the interpretation of the Potsdam agreement may be, it seems fairly clear that the British and American leaders and foreign ministers throughout the war took a more favourable attitude to Stalin's proposals on the postwar regulation of the German question than the sly Georgian expected.

### Prussia Turns into Russia

During the first postwar years, the Council of Ministers of Foreign Affairs, created at Potsdam, held six conferences to prepare the peace treaty. However, they did not pay much attention to the issue of the northern part of East Prussia, and basically nothing was

changed in the attitude of the United States and Great Britain to the Soviet takeover of Königsberg and adjacent areas. They were still willing to confirm it in the peace treaty.

As the iron curtain descended across the European continent from Stettin in the Baltic to Trieste in the Adriatic and left the ancient states of Central and Eastern Europe in the Soviet sphere of influence, no peace treaty was ever concluded.

In August 1945, the first Soviet-Polish border treaty was concluded, with reservations relating to the preliminary character of the border, and in October 1945 the northern part of East Prussia was incorporated in the Soviet Union to become a fully-fledged oblast (region) of the Russian Socialist Federative Soviet Republic (RSFSR) by April 7th 1946. It was not until 1958, however, that the border to Poland was finally demarcated.

One may ask why this region was not ceded to

Lithuania as Stalin had suggested in his discussions with British Foreign Minister Anthony Eden in 1941. Stalin might have changed his mind as the Memelland including the important port of Memel (now Klaipeda) north of the Memel river (Russian: Neman) and the Vilnius Region had been incorporated in Lithuania during the war. Later, as Krickus tells us in his book, Nikita Khrushchev suggested that Lithuania take control of the Kaliningrad Region, but the Lithuanian Communist Party leader, Antanas Snieckus, refused the offer. He was not happy to add almost one million Russian-speakers into Lithuania and to create the same kind of problem that Estonia and Latvia faced with their big Russian-speaking minorities.

Königsberg was renamed Kaliningrad in July 1946, to honour the President of the USSR, M.I. Kalinin, who had then recently died, but otherwise had nothing to do with this region. Following this, all place names were altered and given Russian names that had nothing



Stalin, Roosevelt and Churchill during a break at the Yalta Conference in February 1945 – their second meeting during World War II.

to do with historical events in East Prussia, neither German, Prussian nor Lithuanian. The new names were to give the new population, mainly Russians, Ukrainians and Byelorussians, who replaced the deported Germans, the impression that they were settling on ancient Slavic soil.

The newly created Soviet-Russian region was closed to foreigners and remained so during the entire Soviet period when it essentially was one big garrison area with up to 200.000 soldiers of all services. The countess did manage to visit it in 1989, but in spite of the kindness of the local Russians, Moscow did not allow her to pass the border to Poland on her way home to Hamburg.

### Russia's Western Outpost

As a result of the reconciliatory Ost-Politik advocated by, among others, the influential publisher of "Die Zeit", the Federal Republic of Germany and the Soviet Union concluded the so-called Moscow Treaty in August 1970. In this treaty, the two parties took as their point of departure 'the real situation in Europe,' and declared that they had no territorial claims to make on anybody and would not present such claims in the future. Furthermore, they stated that all borders in Europe were inviolable then and in the future. In 1975 the Conference on Security and Co-operation in Europe in the Final Act confirmed the inviolability of all frontiers and the territorial integrity of each of the participating states. Finally, in the 2+4 Treaty of September 1990 – between the two Germanies and the occupation powers of France, the United Kingdom, the Soviet Union and the United States – the reunified Germany confirmed "the final character" of its borders, declared that it had no territorial claims on other states, and would not advance such claims in the future.

None of these documents explicitly mentioned the Kaliningrad Region, but in confirming the inviolability of the borders of postwar Europe they tacitly recognised it as being part of the Soviet Union. And Germany in fact renounced any claims to any territories east of the Oder-Neisse line.

During the Cold War, the status of the Kaliningrad Region did not pose a problem to the international community. It was situated well behind the iron curtain. Its border with Poland was certainly closed, but that was mainly a local problem, and the border with Lithuania was an internal administrative border. However, NATO looked at this highly militarised western outpost of the Soviet Union with some concern. It had

hosted the headquarters of the Soviet Baltic Fleet since 1956 and was the stronghold of the Baltic Military District that also included the Baltic republics.

With the dissolution of the Soviet Union in December 1991, the Kaliningrad Region re-emerged as an area of international concern when it turned into an exclave of Russia between Lithuania and Poland. In the way that East Prussia had been separated from Germany proper by the Polish Corridor in the inter-war period, the Kaliningrad Region was now separated from Russia proper by two independent countries and a distance of 400 km. This exclave status made it the only case of non-contiguous land territory in modern Russian history. Not only Western and Russian leaders were facing the heritage of Potsdam, so were the neighbouring countries and the main postwar organisations NATO and the EU.

Some western observers contended that with the 2+4 Treaty of 1990, Germany did not transfer its sovereignty over the Kaliningrad territory to the Soviet Union or to any other state. The U.S. government supported the view that Kaliningrad is under Russian administration, but Moscow does not enjoy de jure control of the territory. The countess even proposed that it be ruled by a condominium composed of Germany, Lithuania, Poland, Sweden, and Russia. Moscow



Photo: Scannix

Countess Marion Dönhoff was a vibrant link between the past and the present of East Prussia.

fiercely objected to any such suggestions.

The status of the region was not altered, and it was generally recognised by the international community. It remained an oblast in Russia, and according to the Russian constitution of 1993 it became one of the 89 subjects of the Russian Federation. As such it took part in the struggle between the regions to draw the attention of the federal authorities to their specific problems. The most urgent problem to Moscow and Kaliningrad were their lines of communication. The issue of transit of Russians, civilians and service personnel, and of Russian goods and military equipment through Lithuania has been provisionally solved and is still pending a final solution. As for many other problems, authorities and ordinary people in Kaliningrad at times feel themselves as far away from Moscow as the Kuril Islands in the Russian Far East.

### **Kaliningrad's Past Is Today's Challenge**

Generally speaking, the Kaliningrad Region is suffering from its military past, when the economy and production were concentrating on supplying the big garrison, and it relies heavily on import and transfers from Russia proper. While following the general transition from planned to market economy, it has had to undergo a huge conversion to civilian life. Attempting to obtain a better status and more privileges within the Russian Federation, the region has suggested it become an autonomous republic like Tatarstan. But Moscow has opposed any such attempts, fearing separatism and disintegration of Russia.

After all, the region remains an area of special concern to Moscow, especially in the perspective of NATO and EU enlargement. NATO already neighbours the region to the south (Poland), and in some years Lithuania might become a member of NATO. An en-

larged EU might comprise Poland as well as Lithuania. Kaliningrad faces the risk of becoming even more isolated than it is now. The EU with its Northern Dimension has already taken an interest in Kaliningrad in order to prevent the overspill of its soft security problems of crime, drugs, ecology, weapons contraband and AIDS to the neighbouring countries, but much has yet to be done. Also the Council of the Baltic Sea States, of which Russia is a member, pays much attention to the region.

A major obstacle to handling this ill-fated region, however, is the general lack of knowledge of its problems and problems of mutual understanding as it was during World War II. Thus, Krickus points to the 'pervasive ignorance' among EU officials and influential political élites in the member states about the Kaliningrad question. When Poland became a member of NATO, it was a widespread misunderstanding that NATO for the first time in its history bordered Russian territory. In fact, one NATO member had bordered Russia ever since 1949: Norway.

May a better knowledge of the Kaliningrad Region and its related problems make it a battlefield of good will that does not create new dividing lines in Europe!

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## Business as Unusual

# Kaliningrad: Hong Kong on the Baltic Sea?

**By Dr. Stephan Stein**  
Head of the St. Petersburg  
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**ST. PETERSBURG** Kaliningrad could have been a Hong Kong on the Baltic Sea. That's how far the dreams of Russian and European businessmen went at the beginning of the 90's. But what is reality like? Even in comparison with Russia, Kaliningrad is a backward area with slow economic development. In comparison to its neighbours, the gap in economic development between Poland and Lithuania on the one hand and of Kaliningrad on the other, only grows larger. Apart from that, the gap between the economic development of the leading industrial countries and Russia also grows constantly. In spite of the increasing gross domestic product in Russia, a turning point in this process is not within view.

In 2000, the direct and indirect foreign investments in the Kaliningrad Region amounted to 17,1 million USD. Above all, these were indirect investments in the form of goods credits. The current relations show that foreign investment in the first nine months of 2001 amounted to 20 million USD, of which only 2 million USD are direct

investments. In 2001, German entrepreneurs invested approximately a little more than 2 million USD, Polish investors 3.36 million USD and Lithuania invested 104,000 USD. These facts could drive any marketing manager into depression. Topping the ranks as a foreign investor is easy: anyone who invests a more or less considerable amount can stand at the top immediately.

Since the beginning of the 90's, a law for the Kaliningrad Region called "Free Economic Zone Yantar (amber)" came into action, but in 1995 it was repealed. Since 1996, a law has been in force named "the Special Economic Zone Kaliningrad", approved by the Russian State Duma. This offers many advantages for a fast growing settlement of industries into the region, both from home and foreign countries. However, these advantages have not been used so far. The main reason for the failing investments is the instability at the time the law was implemented. It wasn't just that for years the Duma did not pass the corresponding regulations in order to carry out the law, but that in Moscow the discussion about whether or not this law should exist at all, started every year over and over again. In addition, there wasn't enough money to fulfil the government plans for the development of the special economic zone and for improving the infra-

structure. Up to 2001, the regional administration failed to make itself heard in Moscow and did not have the right staff to manage the special economic zone.

### **Some Success, but many Obstacles Remain**

The law about the special economic zone works. There are duty advantages for the import of goods into the Kaliningrad Region. Goods produced in Kaliningrad with an added value of 30% (in exceptional cases of 15%) can be imported to the territory of the CIS customs union free of customs duty. The automobile producers BMW and KIA make use of it. According to "Avtotor", the partner of the car manufacturers, the cars are about 20% cheaper than the imported ones on the Russian market. By the way, the high quality of cars assembled in Kaliningrad is praised everywhere. Other success stories can be told by refiners as well as needlework and furniture manufacturers and workshop owners. TV sets and refrigerators are being produced in Kaliningrad.

Nevertheless, the Kaliningrad Governor Egorov complained that the German investors are not coming. Why not? We would like to take a look at that question.

1. It is difficult to reach the Kaliningrad Region. Since October 2001, there have been no international flights, as SAS cancelled its unprofitable flights from Copenhagen. According to the latest information, Polish LOT, Danish Cimber and a Russian air carrier company want to take up flights again to Warsaw, Copenhagen or Germany as soon as May-June, 2002. Although this would improve the situation in general, it remains to be seen whether it will be comfortable and cheap to fly to Kaliningrad from some European capital and from

overseas.

The traffic on the borders, particularly from Poland to Kaliningrad, is a disaster. Sometimes one has to wait for up to 14 hours. This leads to criminality and corruption on both sides of the border. Besides, at the moment the customs clearance on the Polish side does not exactly reflect the ideal image of European external frontiers either. The Russian side should know that businessmen from the nearby countries, as well as from Germany, prefer to go by car. As long as there is no simple access to the Kaliningrad Region, many enterprises stay away. Accessibility is an essential characteristic feature in the choice of a production site.

2. Up to now Kaliningrad has not managed to exploit the advantages of its location at home and abroad in a credible way. The reason for this is the unprofessional approach of the regional administration. There was no money for location advertising and even if there was, it would be spent for eulogizing politicians. The administration was waiting for the "ideal" investor to come by itself and watched passively while journalists were damaging the region's image more and more. Location advertising on the contrary means one should attract the investor actively and get him in. For that, Kaliningrad needs an independent agency for the promotion of national and international investment headed by an international location-marketing specialist.
3. Politics and the economy are too closely connected in Russia in general, and the same goes for Kaliningrad. Some deputy governors have their personal economic interests; they have only become deputy gover-

nors because they helped some penniless gubernatorial candidate win the elections with the money from their enterprises. How are they supposed to serve the public welfare when they can expand their individual interests? How could the economic situation improve when the competition of their own marketing position and friends-businessmen is possibly hindered? Exactly this protectionist economic policy leads to a reduced rate of development in Russia and the regions. At least a non-Russian investor would not feel at home on such a territory. It also affects the social situation, as only a few new and better paid jobs are created.

What Kaliningrad needs is a plan for the placement of deliberate national and foreign direct investments, technically developed areas, transparent conditions for investment agreements between potential investors that are valid and favourable for all sides and an agency for the promotion of investment.

### **Some Ideas for how the EU Could Do a Better Job**

It is not enough just to say that foreign investors are welcome. It would be wrong to believe that companies invest money because they want to help the Kaliningrad Region politically. In the race for location advantages with other Russian regions, Kaliningrad, being separated from the mother country, can feel like a sportsman who must cover only 800 meters in a 1000 meter race, due to the Law on the Special Economic Zone. Nevertheless other regions, apart from Moscow and St. Petersburg, are one step ahead. One should learn from the experience of the Novgorod or Leningrad regions for example. A subjective factor, namely the attitude towards potential investors, contributed to successful achievements there.

But there are barriers to foreign investments in the Kaliningrad Region as well, and the reasons for that are to be looked for among politicians in the European capitals and in Bruxelles. Via technical assistance, millions of Euros were invested in projects to help Russia implement political and economic reforms. Many people refused to doubt the benefits of these projects in general (as we know the EU will bring about 40 million Euro in Kaliningrad Region in 2002 via TACIS programme) and many analyses and theses were written and disappeared in some desk drawer without even being read. It is well known in business life: one has an idea but cannot bring it into life because one cannot finance it. This makes the idea worthless for the person in question. A comment one could make on many TACIS documents is that they are well meant, but are unconnected to reality and because of a lack of money they cannot be implemented.

After more than 10 years of running national and European programmes a question may arise: What did it do for Russia? Would it not have been better to use TACIS-money for more specific projects, for example focusing on the improvement of the infrastructure and industry? Could the tax money have been invested with more lasting effect in a fund for the financing of deliberate and controlled investments of small and medium European businesses?

The crucial reason for the small amount of German investments is that they are not financed by banks. The big companies invest because they bring their own financing. Small and medium businesses have the right to ask if there is a programme for supporting investment. These programmes are practically nonexistent. At the same time it is easy to imagine such a programme if the Kaliningrad authorities would give an appropriate industrial area to develop and to finance an incubator for the

aimed and controlled settlement of small and medium European businesses – a “European Industry Park”. This would also leave room for cooperation with Russian businesses.

” **Specific targeted programmes are needed to improve the social conditions by economic stimulation**

Another idea is to create a Kaliningrad credit reinsurance fund for increased investment risks in Russia. For a small and contained area like Kaliningrad this is quite a realistic idea. European banks could finance the investments of small and medium businesses which have been checked or important infrastructure investment via Russian partner banks. In case of loss the reinsurance fund would partly refund. As a result, the long-term credits which are so rarely received nowadays and are indispensable for the improvement of infrastructure, would become realistic.

**Both Sides Need to Act to Ensure Success**

In the representation office of the Hamburg Chamber of Commerce and of the German Business Association in the Russian Federation, we meet with many businessmen from nearly all over the world, informing them about opportunities for successful investment in Kaliningrad. Some could be helped but most of them withdrew because they did not like the general economic set-

ting or did not want to put their parent company at risk in Kaliningrad. The demand and the necessity of shifting production to Kaliningrad, partly or totally, exist in order to receive either cost benefits for the markets outside Russia or to conquer the Russian market from the inside.

If we Europeans want Kaliningrad not to stay behind in the process of the dynamic economic development in the Baltic Sea area and to gain from the enlargement of the European Union, specific targeted programmes are needed to improve the social conditions by economic stimulation. If we do not want threatening scenarios of the role of Kaliningrad in the EU-backyard to become true, Bruxelles and the European states must create the general conditions that could help the Russian exclave to develop economically. In the first place this implies making settlement in the Kaliningrad Region for small and medium businesses more attractive.

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## Future Trade Scenarios

# A New European Order

By **Ramūnas Vilpišauskas**

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**VILNIUS** The forthcoming enlargement of the European Union raises a number of important issues for the neighborly relations between the countries of the Baltic Sea Region. One of the most debated ones is the issue of the impact of the EU enlargement on the economy of the Kaliningrad Region of the Russian Federation and its economic relations with the outside world.

The main challenges in this context could be described as follows. The EU is one of the most deeply integrated regional areas in the world. On the one hand, it is characterized by the “four freedoms” – free movement of goods, services, people and capital – to which the candidate countries will subscribe upon accession (with transition periods applied in some areas such as free movement of labour). On the other hand, the EU also applies uniform external barriers to the outside world in the form of import duties (as a customs union), product quality standards and also Schengen rules. Therefore, accession of the Central and Eastern European countries, which will have to align their rules governing external relations with the ones applied by the EU, is going to have a direct impact on neighbouring countries and regions.

This article deals mainly with one set of functional issues – the trade policy

regime – and focuses in particular on the impact of Lithuania’s membership of the EU on the Kaliningrad Region. First, trade is one of the main factors in economic development and growth of any country and region, in particular small ones such as Kaliningrad, with a population of about one million. Second, external trade policy has been one of the most integrated at the EU level. Moreover, the EU is an important actor in international trade, and its trade regime, including products such as electricity and gas, with the Russian Federation will have a significant role for the economic development of all countries involved. Third, the focus on trade does not imply that other issues are less important. There will be significant (and probably more visible) changes in the visa regime. This will result in additional requirements for the Kaliningrad residents, who currently do not need visas for transit through or short term visits to Lithuania. These changes will also require the special attention of the parties involved in order to turn those challenges into opportunities (certain measures have already been suggested by the EU). The logic which is applied here in thinking about trade could also be used for dealing with other issues, such as visa, transit, environment and others.

### How EU Expansion Will Affect Kaliningrad’s Trade

The Kaliningrad Region of the Russian Federation is in a rather unique situation in the context of EU enlargement.

As an enclave region of another country – the Russian Federation – and potentially surrounded by the EU, the Kaliningrad Region may represent a unique case in the history of the EU and its enlargements.

While there have been cases in the history of the EU when some foreign territories were given (usually temporarily) special status in terms of their trade relations with the EU, there is one major factor that differentiates these cases from the Kaliningrad Region. When certain territories have been granted special trading regime status by the EU, they have, as a rule, been linked to acceding EU member states by historical or political ties. This special status has, therefore, been aimed at preserving existing trade regimes. For example, this could be said about the overseas Commonwealth territories that were granted association with the EU after the accession of Great Britain. The same applies to the Faeroe islands, which was granted a free trade regime, or Greenland, which was granted association status with the EU due to their links with Denmark. However, in the case of future EU enlargement, there seems to be no precedent which could form the basis for a special trade regime between the EU and the Kaliningrad Region (KR), particularly as it is not linked by such a trade regime to any acceding neighbour countries, and is itself part of Russia.

The accession of Lithuania into the EU will imply the adoption of the EU Common Commercial Policy, including the alignment of customs tariffs, commercial protection policies and other measures. This, in turn, will imply changes in rules regulating Kaliningrad's trade with neighbouring countries and, consequently, changes in transaction costs. Due to geographical and proximity factors, Lithuania and Poland can be considered to be natural trading partners of the KR. Therefore,

trade regime changes related to EU accession deserve the attention of all interested parties.

It should be noted that exports from Lithuania to Kaliningrad are unlikely to be affected, given that Russia applies the Most Favorite Nation (MFN) treatment to goods originating in Lithuania as well as to goods originating in the EU. Therefore, no changes in import regulations are likely to arise from EU enlargement. However, exports from the Kaliningrad Region to Lithuania will be directly affected by Lithuania's accession into the EU, as the Lithuanian foreign trade regime will be replaced entirely by the one applied by the EU. The scope of this change will depend on two factors – the quantity of trade flowing from the KR to Lithuania, and the differences between the current trade regime applied by Lithuania and the one applied by the EU. For example, how different are the import duties applied by Lithuania and the EU to the goods originating from the KR, and can an increase or decrease in import tariffs be expected.

Foreign trade plays an important role for the small and open economies of both Lithuania and the Kaliningrad Region. However, the relative weight of each other's foreign trade turnover is different. Lithuania is among the main trade partners of the KR, while the KR plays only a minor role in Lithuania's foreign trade turnover. In 1997, Lithuania was the second largest market for exports from the KR, with a share of 9.4 percent, although this figure has declined slightly in recent years. In 1999 it equaled 5 percent, and a similar percentage in 2001. At the same time, the share of imports from the Kaliningrad Region to Lithuania constituted less than 1 percent of Lithuania's import, although the whole of the Russian Federation is an important trade partner for Lithuania, accounting for 11 percent of the country's exports and 25


**Lithuania's main imports from the Kaliningrad Region and conventional import tariff rates, 1999**

| CN group, code and title  | Million Liters | % from total imports from the KR | Lithuania's conventional import duty, % | EU conventional import duty, % |
|---|----------------|----------------------------------|---|--------------------------------|
| Total   | 39.847         | 100                              | -                                       | -                              |
| I chapter, 030250<br>Cod, excluding livers and roes                                   | 1.218          | 3.06                             | Free                                    | 12                             |
| II chapter, 100200<br>Rye   | 1.579          | 3.96                             | 50                                      | 93 euro/t                      |
| V chapter, 270119<br>Other coal   | 1.635          | 4.10                             | Free                                    | Free                           |
| VI chapter, 310551<br>Other fertilizers containing nitrates and phosphates            | 0.423          | 1.06                             | Free                                    | 6.5                            |
| VIII chapter, 410121<br>Other hides and skins: whole                                  | 0.486          | 1.22                             | Free                                    | Free                           |
| IX chapter, 440320<br>Coniferous wood   | 0.603          | 1.51                             | Free                                    | Free                           |
| IX chapter, 440391<br>Other: of oak   | 0.601          | 1.51                             | Free                                    | Free                           |
| IX chapter, 440710<br>Coniferous  | 1.362          | 3.42                             | Free                                    | Free                           |
| IX chapter, 440791<br>Other: of oak   | 0.432          | 1.08                             | Free                                    | Free                           |
| X chapter, 470421<br>Chemical wood pulp: coniferous                                   | 3.008          | 7.55                             | Free                                    | Free                           |
| X chapter, 480100<br>Newsprint  | 0.531          | 1.33                             | Free                                    | 1.5                            |
| X chapter, 481830<br>Tablecloths and serviettes                                       | 1.058          | 2.66                             | Free                                    | 4.8                            |
| XV chapter, 721012<br>Flat-rolled products of iron of a thickness of less than 0.5 mm | 1.118          | 2.81                             | Free                                    | 2                              |
| XVI chapter, 841430<br>Compressors used in refrigerating equipment of different power | 0.832          | 2.09                             | 0/10                                    | 0/2.2                          |
| XVI chapter, 843149<br>Other parts of machinery                                       | 0.460          | 1.16                             | Free                                    | Free                           |
| XVI chapter, 847720<br>Extruders  | 2.201          | 5.52                             | Free                                    | 1.7                            |
| XVI chapter, 850211<br>Electric generating sets of different outputs                  | 1.152          | 2.89                             | Free                                    | 0/2.7                          |
| XVI chapter, 854411<br>Winding wire   | 0.595          | 1.49                             | Free                                    | 3.7                            |
| XVII chapter, 870190<br>Other tractors  | 0.503          | 1.26                             | Free                                    | 0/7                            |
| XVII chapter, 880330<br>Other parts of aeroplanes and helicopters                     | 3.112          | 7.81                             | Free                                    | 0/2.7                          |

**Table 1**

Sources: Lithuanian Customs Department, Ministry of Economy, Commission Regulation (EC) No. 2204/1999

percent of its imports in 2001.

The trade volumes of Lithuania with both Russia and the KR have recently recovered after a significant decline in 1998-1999. However, the share of the Kaliningrad Region in Lithuania's imports is relatively small. So changes related to EU membership will affect a very small share of Lithuania's imports. However, trade relations between Lithuania and the Kaliningrad Region are characterised by significant asymmetries in trade shares. Lithuania's membership of the EU might affect a relatively higher share of the Kaliningrad's exports to Lithuania, which has been, together with Poland, among the main export markets of the region.

Second, imports from the KR to Lithuania are much more diversified than Lithuania's imports from The Russian Federation. The latter is dominated by mineral products, namely crude oil and natural gas, while imports from Kaliningrad are more diversified and include timber and its derivatives, paper, metals, wheat, food stuff, fish, etc (see Table 1). Thus, the impact of EU membership on import customs duties will be more diversified. Although imports of most natural resources and unprocessed products (including coal, wood or skins) are not taxed by the EU, the general level of protection on products imported from the Kaliningrad Region is likely to increase. The highest increases are likely in cases of imported agricultural and food products.

The impact of non-tariff barriers such as product quality standards might also be most significant in the cases of some foods, fish, and some other product groups. The EU is also an active user of antidumping duties against Russia's enterprises, and so this barrier to trade is likely to remain a significant factor for exporters working in the Kaliningrad Region as well.

To summarise, there is a possibility of a slight increase in protection in

Lithuania's imports from the Kaliningrad Region after joining the EU. However, due to relatively small volumes of trade this increase will not produce significantly negative effects and its impact will depend on concrete product groups in the unlikely imposition of high imports duties. It should be acknowledged that the impact will be relatively more important to the Kaliningrad Region than to Lithuania, due to the former's higher share of trade with the latter.

### **Extending the Benefits of EU Enlargement to the Kaliningrad Region**

Although no significant negative impact on trade between the Kaliningrad Region and Lithuania emerges from the static analysis, joint Russian-EU initiatives aimed at reducing barriers to mutual trade might bring dynamic economic benefits to all parties involved. The main questions that have to be dealt with in this respect are: (1) how much flexibility is granted to the Kaliningrad Region, i.e. whether Russian central authorities will further support the idea of a "pilot region", with EU trade relations with the Kaliningrad being different from their relations with the remaining Russian territory, and (2) how innovative are EU policies towards the KR going to be.

Russia has given a detailed description of its position on the issue of Kaliningrad in the Medium-term Strategy for Development of Relations between the Russian Federation and the EU (2000-2010). First, this strategy acknowledged that relations between Russia and the EU during the period under review will be based on a Partnership and Cooperation Agreement without Russia's accession to or association with the EU as an officially stated objective. It also repeats the aim of the parties to create a Russia-EU free trade zone, subject to adequate condi-

tions. Second, the Strategy devotes considerable attention to “securing Russian interests in an expanded EU”, and to the interests of Kaliningrad in particular.

Concerning the questions pertaining to trade regimes, the Strategy aims “to pursue a line to the conclusion, if appropriate, of a special agreement with the EU in safeguarding the interests of the KR as an entity of the Russian Federation in the process of the EU expansion, as well as to its transformation into a Russian pilot region within the framework of the Euro-Russian cooperation in the 21st century”.

Importantly, it also addresses the issue of legal approximation aiming “to pursue a line to its approximation and harmonization with the EU legislation” in the fields of standards and certification. Thus, the position of Russia concerning the status of the KR has been somewhat unclear. While it has been promoting the idea of a rather vague concept of the “pilot region”, it has repeatedly stated that relations between Russia and the EU have to be developed in the framework of the Partnership and Cooperation Agreement (PCA). Recently, the ideas of the Common European Economic Area and Single Economic Space have been actively discussed by Russian and EU representatives within the framework of the PCA.

Differently from Russia, the EU has been treating the Kaliningrad Region issue as a part of its external policy towards Russia. The Partnership and Cooperation Agreement between the EU and the Russian Federation, which was signed in 1994 and came into force in December 1997, has set the aim of promoting trade and investment and harmonious economic relations between the parties. In the area of trade, this agreement – in addition to stabilizing the legal basis for mutual relations – has set the aim of creating the neces-

sary conditions for the future establishment of a free trade area substantially covering all trade in goods between them. In addition to outlining cooperation in a number of areas, the Agreement states the aim of reducing the differences which exist in the fields of metrology, standardization and certification, and the harmonization and simplification of customs procedures, as well as starting negotiating mutual recognition agreements.

The PCA does not address the issue of the Kaliningrad Region specifically. The logic of the agreement seems to suggest that the trade regime between the EU and the region is seen as an outcome of the agreement between the EU and the Russian Federation. The specificity of the region was not acknowledged and no intentions for specific policies were foreseen. This approach was further reinforced by the Communication on the Kaliningrad Region presented by the European Commission more than a year ago. The objectives of the PCA were restated by the EU in the Common Strategy of the European Union on Russia, announced by the European Council in June 1999. The Strategy explicitly linked the establishment of the free trade zone between the EU and Russia with the latter’s membership of the World Trade Organization. The adherence to the rule of law and democratic governance by Russian authorities also seem to be a necessary condition for the establishment of the free trade area between the parties.

### **Working for a New European Order**

Thus, the policy solutions are dependent on two main factors: (1) how much flexibility is granted to the Kaliningrad Region, i.e. whether Russian central authorities will further support the idea of a “pilot region” with EU trade relations with Kaliningrad being different from its relation with the remaining

## Scenarios of maximizing the benefits of integration in the area of trade



Picture 1

Russian territory; and (2) how innovative EU policies towards Kaliningrad are going to be. Depending on different combinations of these characteristics of EU and Russia's policies, four scenarios for setting up the trade regime between the EU and the Kaliningrad Region after the EU enlargement are being discussed.

**Northern Dimension.** This scenario is the closest to the current one, and therefore the status quo. It implies using the existing frameworks of cooperation between the EU and the Russian Federation and focusing on the regional cooperation projects, which are currently being developed. It singles out Kaliningrad in implementing projects in cooperation with other EU regions. Differently from projects in infrastructure, this scenario does not bring direct additional benefits in the field of trade, which is not included in the list of issues dealt with by the Northern Dimension initiative. However, this framework might be used to facilitate the exchanges between the border regions that might be relatively more affected by the introduction of the EU common customs tariffs.

**New Initiatives between the EU and**

**Russia.** Contrary to the Northern Dimension scenario, this initiative implies the most innovation and new policy initiatives in terms of relations between the EU and Russia. Such initiatives as the Single Economic Area, which was discussed in 2001-2002 by the EU and Russia, now seem more feasible than a couple of years ago, when Russian authorities stated that Russia did not intend to become associated with or in any other way linked to the EU until at least 2010.

**Partnership and Cooperation Agreement.** This option implies the use of currently existing frameworks by the EU, and approaching the issue of trade regime with the Kaliningrad Region by liberalising trade relations with the Russian Federation. As was mentioned before, the possibility of the free trade area between the EU and Russia is foreseen in the PCA. It is closely linked to the accession of Russia into the WTO, which has been progressing relatively fast and with increasing EU support. However, in addition to the free trade area, issues related to non-tariff barriers need to be addressed in the framework of the PCA, and this is a challenging task for both parties.

**Kaliningrad as a pilot region.** This option implies an innovative policy on the part of the EU and the giving of more content by the Russian central authorities to the still vague idea of the pilot region. As has been argued, the Kaliningrad Region surrounded by the EU customs union will be the first such case in the EU's history, so new solutions could be used to avoid negative trade effects in relation to Kaliningrad. However, apart from procedural improvements in the case of issuing visas, the EU has so far indicated that it does not intend to grant any specific status to the region. Therefore, at least in the field of trade, the second or third scenarios, which are complementary to a large extent, seem more likely in the future. It should also be noted that full implementation of the PCA would bring the largest economic benefits to all parties involved, and would create an economic area of trade and economic growth.

In conclusion, the dynamic benefits of EU enlargement in the area of trade could be extended to the Kaliningrad Region by choosing an appropriate trade regime. Several scenarios are possible, depending on the degree of innovation on the part of the EU and the degree of autonomy granted to the Region by the Russian Federation. These scenarios range from maintaining the status quo to the eventual association, or some form of closer integration, between the EU and Russia. The most beneficial one in terms of economic effects is the full implementation of the PCA and the creation of some kind of

economic area between the EU and Russia. This scenario seems more feasible now, when the general rapprochement between the West and Russia is taking place after the events of September 11.

The main challenge for the EU is to find a balance between respect for the existing *acquis* and special amendments to some of the rules needed to avoid the isolation of the Kaliningrad Region and extending the benefits of integration in Europe. In such a way the main EC/EU aims of "ensuring economic and social progress", and "preserving and strengthening peace and liberty" by "ending the division of the European continent" would be best achieved. As stated by Romano Prodi, President of the European Commission: „All of us – the European Union, the applicant countries, and our neighbours in the wider Europe – must work together towards a common destiny: a wider European area offering peace, stability and prosperity to all. A new European order”.

**Dr. Ramūnas Vilpišauskas** is Associate Professor at the Institute of International Relations and Political Sciences, Vilnius University. He is also a Policy Analyst in the field of European integration and international trade at the Lithuanian Free Market Institute, the leading private think tank in Lithuania. Mr. Vilpišauskas is the author of numerous books and articles and has been associated with organisations such as the OECD, the World Bank and the Soros Foundation.

## New Alliances

# Poland Stands Ready to Forge a New Relationship with Kaliningrad

By **Tomasz Paszewski**

Project Manager,

Centre for International Relations in Warsaw

**WARSAW** Europe's special interest in the Kaliningrad Region in recent years stems from the fact that the Region has been undergoing a number of simultaneous developments. Of these, the European Union's eastward enlargement is the most important one. This will dramatically change the political and institutional situation in the Baltic Sea Region, making Kaliningrad a Russian enclave inside the EU. Two other developments play an important role, too:

1. A new phase of relations between European Union and Russia, and
2. The implementation of "The Northern Dimension Initiative" which was started during the Swedish EU presidency, and which, until then, had mainly existed in theory.

These three processes form an international framework, in which Kaliningrad needs to be considered. However, internal factors will be the most important for the future of this specific region of Russia. They are defined by Moscow's policy towards the region, and the changes taking place in Kaliningrad. In reality, it will depend on the Russian federal authorities whether Kaliningrad will become a source of economic and social benefit in an EU environment.

Relations between Poland and the Kaliningrad Region clearly depend on the above-mentioned processes. Nevertheless, they also depend on the climate

of political relations between Warsaw and Moscow. The relations also have their regional dynamics connected mainly with the cooperation between regional authorities and recently with the Polish government's actions aimed at the promotion of Polish economical interests in the Region. Regardless of a certain autonomy regarding Poland's relations with Kaliningrad, they need to be considered in the context of the solutions, which will be reached collectively by Bruxelles and Moscow, because it is on this level the general framework of co-existence and cooperation between the enlarged EU and the Kaliningrad Region will be created.

### Relations between Russia and the EU

So far, the most important issue in the dialogue between Russia and the EU regarding the Kaliningrad Region is the issue of trans-border traffic of people as well as the question of transit passing by Russian nationals to and from the Kaliningrad Region across territories of future EU member states: Poland, Lithuania and Latvia. This is the most contentious issue. Russia strongly opposes that the transfer of persons on land between the region and the rest of the Russian Federation should be subject to EU visa restrictions. Moscow also awaits the introduction of particular solutions for the citizens of the Kaliningrad Region, which would make it easy for them to enter the territories of their neighbouring countries.

The problem of visa restrictions has, to a considerable extent, dominated the whole discussion between European

Union and Russia concerning Kaliningrad. On one hand Moscow's position can be considered as reasonable, even though for the EU, for practical reasons, it is unacceptable. But on the other hand, the visa problem will push a number of other issues – in which the cooperation between Russia and the EU would be very desirable – into the background.

While the introduction by Poland and Lithuania of border restrictions consistent with EU requirements creates certain problems in travelling between Kaliningrad and other parts of Russia, the results of the restrictions and their impact on the personal cross-border contacts is not necessarily negative. Even though one can expect a major drop in border crossings, the drop, at least with regard to Poland, will mainly concern a relatively small group of people on both sides of the border. This group engages in non-registered trade, primarily in alcohol and cigarettes, and has a significant share in border crossings.

The new regulations do not need to be a serious obstacle for the development of normal cross-border cooperation if the solutions provided for in the EC Communication of January 17th, 2001 "EU and Kaliningrad" will be introduced. It primarily concerns the possibilities of getting cheap, long-term, and multiple entry visas as well as such issues as border infrastructure development and border clearance improvement at the checkpoints. It is important that both parties make these efforts simultaneously.

### **The Right Incentives Could Lead to Important Reforms**

In the long term, the intensity of contacts between Kaliningrad and the surrounding EU will primarily depend on the development of the situation within the region itself, on which EU may, however, have some influence. Within

the EU countries, it has often been pointed out (i.e. Marius Vahl of CEPS from Bruxelles) that the financial resources, which EU proposes to assign to help Kaliningrad, are insufficient. The availability of financial aid from the EU budget, as well as from EU member states (i.e. Sweden decided to assign 120 million SKR to construction of a new waste water treatment plant in Kaliningrad), along with loans from international financial institutions, could make it considerably easier to solve many of the problems afflicting the region. Yet, the possible extended financial support from the EU, directly or through such institutions as for example the European Investment Bank, should be treated as an element of a broader strategy of EU towards Kaliningrad.

Considering the issue of financial support for the Kaliningrad Region it should be stressed that the region's development will most of all depend on introducing a number of changes in the region itself, and not on the extent of aid which will find its way to Kaliningrad from abroad. Therefore, the most important objective of foreign aid should be to create incentives to carry out necessary reforms at home and the aid criteria should be worked out with this in mind.

EU aid could become an important instrument stimulating adaptation to European standards in such fields as the economy, environmental protection, and public administration. In practice, the condition of giving bigger financial support should be – apart from undertaking necessary economic reforms – the introduction of clear administrative and tender procedures as well as limiting widespread corruption and unclear connections between the region's government and local business. If Kaliningrad's administration is to become a partner of the EU, the local government elections should be fully

democratic and the basic democratic standards in Kaliningrad, such as freedom of the press, must be secured, regardless of the situation in this respect in other parts of Russia.

Educational and social issues are very important, but often underestimated. Some of the universities in Kaliningrad have a high level of education and offer valuable potential for the region in the longer term, even more valuable than the oil resources and the world's richest amber deposits.

It is also a very positive factor that the region's residents have a growing awareness of the EU's importance for the region. Despite the fear of the introduction of new visa regulations, Kaliningraders, especially young people, are largely showing pro-European attitudes.

Hence, the EU could do more in these two mutually interdependent fields, not least because the real integration of Kaliningrad with the rest of the Baltic Sea Region requires something that can be called "integration in the sphere of mentality". The people of the region simply should embrace the basic values, which today's Europe is based upon, especially those that constitute the basis of a civil society.

### **No Shortage of Challenges**

As for the situation in the Kaliningrad Region itself, it is difficult to make a clear-cut evaluation. Admiral Vladimir Yegorov's taking over as governor has stirred up some hopes both in the region itself and abroad. Yegorov had a good reputation as the commander of Baltic fleet and is even now enjoying a reputation as a good governor. The same cannot be said about some of the people who surround him and who helped him win the elections. Flagrant corruption and murky connections between business and the region's government and some local Duma (parliament) members still exert a signifi-

cant influence on the situation in Kaliningrad.

At the end of last year, Russia's government adopted a "Federal Program of Purpose for Development of the Kaliningrad Region until year 2010". It is intended to help overcome a number of the most important problems in Kaliningrad especially with regard to energy supply and the development of transportation infrastructure. A part of the budget is set aside to be used on the improvement of the environment.

Realisation of this program would without doubt improve the economic and social situation in the region. However, one can have certain doubts whether it will be possible in practice to collect about 3 billion USD for the realisation of projects included in the program. The majority of financial resources have to come from the reserves of individual Ministries, big state-controlled companies (i.e. Gazprom, RAO ES), and foreign and commercial loans. Meanwhile, the possibilities of getting new loans by the region are very limited because of its high indebtedness, investments in the energy sector are at present unprofitable for such companies as Gazprom due to the very low prices on energy raw materials, among them on natural gas, on the Russian market. Besides that the transfer of money by individual ministries will depend on many different, including strictly political, factors.

Yet, these difficulties don't discourage the Polish government, which places much of its faith in the policies adopted by the federal government program. At the start of this year, intensive efforts have been undertaken in order to stimulate Polish companies' participation in some projects contained in the program. The enthusiasm for the program cooled down a bit though by the Russian Trade Minister, German Gref, who stated that investors offering

not only their services, but also crediting opportunity necessary to finance them, would get preferential treatment.

The visa problem, which clearly has divided the EU and Russia, is neither a problem for Polish-Russian relations nor for the country's relations with Kaliningrad. The Russian counterpart is aware that Poland after entering the EU will have to fulfil certain requirements. The Polish government responded to the EU's announcement in March 2001, and has taken the same standpoint as the Commission, namely that *acquis communautaire* regarding the borders should as a whole be applied on the border between Poland and Kaliningrad Region, and the citizens of the region should be treated just like other Russian Federation citizens. At the same time, one should use all solutions provided for in the *acquis*, so that no unnecessary barriers are created for the cross-border traffic by the citizens of Kaliningrad.

#### **Polish-Kaliningrad Border under a New Regime**

The key to ensuring free cross-border traffic are inexpensive, including multiple entry visas which should be issued efficiently. As for now, Polish visas for Russian nationals cost 5 USD for a single entry visa and 14 USD for a multiple entry visa. The fees are much lower than fees charged by EU member states – they amount to 30-50 Euro. This also applies to Russian visas, which cost ten times more than Polish visas. In Poland's view, fees for Polish and Russian visas should be the same. At the same time there is a fear regarding Russian capability of efficient issuance of visas for Polish nationals after the introduction of the visa obligation. Therefore, Poland hopes to find a positive solution to this problem during talks with the Russian counterpart. As for Poland, the capacity of its Consulate in Kaliningrad with regard to visa

issuance has been increased over the past years. The Consulate cooperates with the Lithuanian Consulate and is also ready to cooperate and share its experience with consular posts of present EU member states.

The most probable effect of the introduction of the new trans-border restrictions will be definite limitation of the traffic of petty dealers, both on the Polish and the Russian side, who make a very large part of border crossings. Other types of the trans-border traffic would not necessarily suffer, but it will depend on efforts made by both the Polish and the Russian side.

Business relations between the Kaliningrad Region and Poland have been successfully developing. In the years 1994 – 2000 the mutual trade turnover has grown from 64 to almost 300 million USD. Now around 412 Polish companies are registered in the region, which makes up 32% of all foreign companies registered in the region.

In Poland's view, the opening of the Pilava Strait by Russia also making it possible for ships of other countries to sail in Vistula Bay, will be beneficial for both parties in the form of infrastructure, trade, and tourist development. Negotiations regarding this issue have been going on for several years now.

## News from Baltic Development Forum

# From St. Petersburg to Copenhagen: Announcing the 4th Annual Baltic Development Summit, October 13th - 15th 2002

by **Ole Frijs-Madsen**  
Director of  
Baltic Development Forum



Dear reader,

From time to time we are asked about the geographical scope and the mission of Baltic Development Forum. Let me take this opportunity to clarify.

The Baltic Development Forum's (BDF) main area of focus includes all the countries around the Baltic Sea Rim - **Denmark, Finland, Sweden, Norway, the Baltic countries, Russia, Poland and Germany**. Our organisation also follows developments in the European Union closely, as well as in **other countries and areas bordering the Baltic Sea Region**.

Our mission is to strengthen growth, development and stability in the Baltic Sea Region as a whole through our extensive high-level network. The basis is already there to create one of the most prosperous and dynamic regions in the world. The Baltic Development Forum has become the region's main networking organisation to promote this agenda.

2002 has already been a busy year in BDF. We presently have around 35

members from all over the Baltic Sea Region. We would, however, like to welcome more members from Poland, Russia, and the Baltic countries.

Our Advisory Board plays an active role as ambassadors and regional consultants for the Baltic Development Forum, and the Board has already met twice this year. This adds to the regional nature of the Forum.

During 2002 we have hosted a number of events for our members and other specially invited participants. Among the major activities undertaken was a conference on a possible Baltic Sea Economic Space with Russia, an evening-lecture with the Mayor and Prime Minister of Hamburg, and a gathering of Russian and Baltic participants in the Danish Atlantic Treaty Organisation's Conference on NATO enlargement.

The Baltic Development Forum has also launched two new initiatives. The publication you are presently reading, *Baltic Sea Agenda*, was first issued this year. Through analytical input from the region, it underpins our common agenda towards a region where no country or region lags far behind. Furthermore we will shortly launch a new regional academic network, *Baltic Sea Research Network*, which will pool the academic resources from some of the leading political/economic research centres in

and around the Baltic Sea Region.

At the same time we have had discussions with our partners from within and outside the region. These include business executives, leading politi-

Baltic Development Forum's **Honorary Board** consists of European top politicians and other key players who were instrumental in shaping the Baltic Sea Region we see today.

**Bo Berggren**, Chairman of The Stora Kopparberget Foundation, Sweden

**Hans-Dietrich Genscher**, Former Minister for Foreign Affairs, Germany

**Jón Baldvin Hannibalsson**, Former Minister for Foreign Affairs, H.E. of Embassy of Iceland, USA

**Lennart Meri**, Former President, Estonia

**Kazimiera Prunskiene**, MP, Former Prime Minister, Lithuania

**Klaus Schwab**, President of World Economic Forum, Switzerland

**Krzysztof Skubiszewski**, Former Minister for Foreign Affairs, Poland

Baltic Development Forum's **Advisory Board** consists of some of the most visionary players in our Region today. They are:

- **Hans Dalborg**, Chairman Nordea, Sweden
- **Yuri Deryabin**, Director of the Institute of Europe Russia
- **Grete Faremo**, Executive Vice-President of Storebrand, Norway
- **Jaakko Itoniemi**, Millennium Prize Ambassador, Finland
- **Wolf-Rüdiger Janzen**, President of Baltic Sea Chambers of Commerce Association, Germany
- **Andrius Kubilius**, MP and former Prime Minister, Lithuania
- **Viktors Kulbergs**, President of the Latvian Chamber of Commerce and Industry, Latvia
- **Toomas Luman**, President of the Estonian Chamber of Commerce and Industry, Estonia
- **Andrzej Olechowski**, Chairman of the Central Europe Trust Fund, Poland
- **Eero Rantala**, Managing Director of Pro Baltica Forum, Germany.
- **Thorvald Stoltenberg**, President of Norwegian Red Cross, Norway.

cians, research centres and other key players. Among them is the World Economic Forum (WEF). Chairman of our Board, former Danish Minister for Foreign Affairs, Mr. Uffe Ellemann-

**Members of Baltic Development Forum**

- Accenture (Denmark)
- Carlsberg Breweries (Denmark)
- CGNU (United Kingdom)
- Codan (Denmark)
- Concordia Bus (Norway)
- Copenhagen Capacity (Denmark)
- Danisco (Denmark)
- Danske Bank (Denmark)
- Deutsche Bank (Germany)
- DNO ASA (Norway)
- DONG (Denmark)
- Elsam (Denmark)
- Energi E2 (Denmark)
- Fortum Oil & Gas (Finland)
- Harboe's Bryggeri (Denmark)
- Hedeselskabet (Denmark)
- Helsinki Stock Exchange (Finland)
- Københavns Havn (Denmark)
- Københavns Kommune (Denmark)
- Latvenergo (Latvia)
- LB Kiel (Germany)
- Medicon Valley Academy (Denmark)
- Nordea (Sweden)
- Nordic Investment Bank (Finland)
- Nykredit (Denmark)
- Odense Staalskibsværft (Denmark)
- SEB Baltic and Poland (Latvia)
- Sikora and Associates (Latvia)
- SIVA (Norway)
- Statoil ASA (Norway)
- UAB "Wavin Baltic" (Lithuania)
- V & S Vin & Sprit (Sweden)
- Wärtsilä Oyj Abp (Finland)
- Ørestadsselskabet (Denmark)

Jensen paid a visit earlier this year to WEF's founder and president, Mr. Klaus Schwab in Geneva. Building on our successful cooperation, BDF plans to host a session on Russia at WEF's European Summit in Salzburg in September 2002.

Mr. Uffe Ellemann-Jensen also participated as guest of honour in the 10th anniversary of the Council of Baltic Sea States, which took place in Svetlogorsk

(Kaliningrad), Russia.

Yet our main event in 2002 is still to come. **The 4th Annual Baltic Development Forum this year takes place in Copenhagen (October 13th-15th).** This venue was chosen in light of the Danish Presidency of the European Union during the second part of 2002. The Summit follows last year's huge success at the BDF Summit in St. Petersburg.



*Networking lunch with ambassadors and advisory board members of Baltic Development Forum during Members' Conference*



*Vice President Igor Jurgens, Russian Union of Industrialists and Entrepreneurs at Baltic Development Forum Members' Conference in Copenhagen, January 2002*

At the Copenhagen Summit 450 specially invited participants, moderators and speakers will exchange views and business cards during the 2½ day Summit. Networking and new visions for this high growth region will be at the forefront. The Summit will be opened by the acting President of the European Council and includes high-level speakers and moderators from all parts of the Baltic Sea Region and the EU.

The theme for the 4th Annual Summit is: **“EU Enlargement and Beyond: Connecting the Baltic Sea Region”**.

As always the Summit will have a political/economic segment as well as a specific business segment. This year’s political/economic segment looks at the question of **EU enlargement and how to get the Baltic Sea Region, including Russia, better connected after enlargement**. We wholeheartedly support EU enlargement, but we have to think further if we want long-term growth and stability in the Baltic Sea Region and Europe as a whole.

Russia and the Kaliningrad issue will be among the topics in the round table discussions.

The Summit’s two specific business themes will focus on **biotechnology** and **transport infrastructure in the Baltic Sea Region**.

Biotechnology has already become a major industry in the Öresund Region (Southern Sweden/Eastern Denmark) and the potential for the whole of the Baltic Sea Region is huge. How do we stimulate this development in the future? How to create brain circulation without brain drain? The discussion will include debates on the creation of the appropriate framework conditions for research and business following professor Michael Porter’s presentation on Economic Clusters at last year’s Summit.

An effective transport infrastructure is key to a dynamic growth area in the Baltic Sea Region. Does the region have

the transport infrastructure it deserves? Are current policies targeting the appropriate transport sectors in the Baltic Sea Region? How to ensure the best gateways to the new growth centres in the Baltic Sea Region? These will be among the questions at the Summit where we aim to identify current obstacles and set up visions and concrete targets to improve the transport infrastructure.

We look forward to a fruitful Summit in Copenhagen and hope to see you there!

**Personal invitations to the participants in the Copenhagen Summit will be sent out shortly. Please notify our Secretariat if you have not received a pre-invitation announcing the Summit earlier this year.**

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