



POSSIBILITY OF KALININGRAD INTEGRATION INTO THE SINGLE EUROPEAN SPACE

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Introduction

Basic Regional Information

The Kaliningrad region is a small and unique part of Russia in the West, separated geographically from the rest of the country and destined after enlargement to be surrounded by the EU. It became part of Russia in 1945 when European borders were redefined at the Potsdam peace conference. Before the World War II town was known as Koenigsberg. The Teutonic Knights founded the main castle of Koenigsberg in 1255 when they spread eastwards during the 13th century on bank of the Pregel River. Since the beginning of its history, Koenigsberg actively participated in trade activities as a member of the Hanza Union. The University of Albertina was the main spiritual and cultural center of the city, which gave many impulses to the life in the city as well as to neighbors from the Baltic region. After the dissolution of the Soviet Union in 1991, Kaliningrad Region became isolated from Russia's mainland, and now borders Lithuania, Poland, and the Baltic Sea. It is also Russia's smallest region, with a territory of only 15.100 square kilometres and has a population of 955.200.

Planes, landing in the regional airport Khrabrovo, need to break intensely in order not to overshoot into foreign Lithuanian or Polish land. If pilots are not successful all passengers of the flight find themselves in the custody of these states for illegal border crossing. But seriously, from the centre of Kaliningrad it takes no more than one hour by car to reach the Lithuanian and Polish border. To the nearest point of the Polish border is only 70 kilometres, and to the Lithuanian border, it is only 35 kilometres.

But to get to the mother country, it is necessary as a minimum to cross the territories of two independent states (Lithuania and Latvia or Lithuania and Byelorussia) and to travel over 600-700 kilometres.

The region's capital is the city of Kaliningrad, formerly known as Konigsberg, the capital of eastern Prussia. It is one of the oldest cities in Russia with a history dating back to 1225. During soviet times, Kaliningrad Region served as headquarters for the Russian Navy, and thus was closed to foreigners. The closest Russian regional centre - Pskov is 800 kilometres, from Kaliningrad-Vilnius 350 kilometres; Kaliningrad-Riga 390 kilometres; Kaliningrad- Warsaw 400 kilometres; Kaliningrad-Berlin 600 kilometres; Kaliningrad-Stockholm 650 kilometres; Kaliningrad-Moscow 1,289 kilometres. Kaliningrad Region has a population of 947,000 and is one of the most densely populated areas of Russian Federation, with an average of 79 inhabitants per square mile. The region's urban population accounts for 77% of the total population. The largest cities in the region are Kaliningrad, Sovetsk, and Chernyakhovsk. The city of Kaliningrad has a population of 422,000. Ethnic composition in the region has been rather stable over the last ten years. Russians predominate (almost 80 percent), followed by Byelorussians (8 percent), Ukrainians (7.3 percent) and Lithuanians (1.9 percent). Kaliningrad Region has the world's largest amber deposit (90% of world's resources), shelf oil deposits, brown coal, peat, rock-salt deposits, building materials resources; mineral water springs, recreational resources, and enjoys favourable climatic conditions for growing of some sorts of beans, barley and wheat.

Kaliningrad puzzle

Whilst all the neighbouring countries in the Baltic region are facing radical changes and struggle to join the rest of Europe, the Kaliningrad region seems to stand apart from

this. And it is certainly not the will of the Kaliningrad people not to be together with other European countries. If it were up to the people Kaliningrad would be already following in the same direction, but it of course a judicial and political matter because the Kaliningrad region is not an independent state and it is a part of Russia.

Development in the Kaliningrad region is much slower than in Lithuania and Poland and the situation remains a big concern for Russia and its neighbours. Although, the situation is not so drastic when compared to other parts of Russia. The region occupies 11th place among 89 subjects of Russian Federations on different economic indicators. But for Kaliningrad it is now necessary to change its environment in order to compete with other EU countries. This is why it is important to think seriously about the issues. The lag in economic conditions is also having an adverse effect on the social, legal and democratic conditions of the region.

The uniquely isolated situation in the region is building an increasing dependence on the surrounding countries. However the distance between these countries and the Kaliningrad region is increasing and this isolation runs deep. With the joining to the European Union of Poland and the Baltic Countries, the Kaliningrad region will find itself surrounded by the European States, however Kaliningrad will be in the delicate position of being an enclave of Russia and an enclave of the EU, which could make the movement of persons and goods between the area and its neighbours and the rest of Russia much more difficult.

The nature of the extraterritorial situation of the region can be not only a source of a constant headache for the neighbours, but also gives it additional opportunities in comparison with the rest of Russia. Increasingly, as a result of various discussions between the Russian government and the European authorities, it becomes evident that the Kaliningrad region is an important crossroad between Russia and the European Union. But it is also obvious that Kaliningrad can neither be completely integrated nor separated from Europe, so a reasonable compromise needs to be found.

Possible solutions

In my Master's thesis I will try to describe [integration as the most possible scenario for Kaliningrad](#). It means that other previously existing scenarios such as *indifference or the isolation* of Kaliningrad will not be the subject of my Master's thesis and indeed is now not important enough to be considered.

This conclusion depends on the concept of a European Union that is willing to consider special arrangements for Kaliningrad, if the territory is granted more autonomy by Russia and the Russian government follows a policy of 'Kaliningrad as a pilot region for co-operation between Russia and the EU'. On a positive note a 'special agreement' between Russia and the EU on Kaliningrad, has arguably already been developed in the Russian government's *Medium-term Strategy for the Development of Relations between the Russian Federation and the European Union for the Years 2000–2010*. And more optimistically both sides in the *Agreement on transit between the Kaliningrad Region and the rest of Russia*, concluded at the EU-Russia Summit in November 2002 in Brussels, that not only can Russian citizens travelling to and from Kaliningrad with a special permit document transit through Lithuanian territory (Facilitated Transit Document, FTD), but also insisted on the European Union making the necessary

changes in the Shengen legislation.

[In the integration scenario](#) the EU recognises that Kaliningrad is, *de facto*, a member of the European family. With or without the active co-operation of Moscow (although hardly possible without) the EU actively cooperates with Kaliningrad in the construction and implementation of a Baltic regional development policy, within which Kaliningrad is treated as an equal partner. Whilst recognising that Kaliningrad cannot be treated in exactly the same way as the other states, compensating mechanisms will be developed that allows Kaliningrad fast catch up with its neighbouring states and to become an equal partner in the European family.

I guess here that the imminent EU enlargement and admission of the Baltic countries and Poland into the EU will serve primarily as a powerful catalyst and not as a source of stress in the development of the Kaliningrad region. All the Baltic Sea countries except Russia will become members of the European Union by 2004. Kaliningrad therefore cannot be left outside of these processes and agreements. This should be a wonderful opportunity. The fate of the people of Kaliningrad should be in their own hands and all initiatives directed towards the integration of the region into the system of pan-European relations that will make it possible for Kaliningrad to avoid the region's isolation.

The different status of Kaliningrad integration in my thesis will be presented as:

- German ownership and germanisation
- Associated membership with the EU
- Republic or especial region in the structure of the Russian Federation
- Independent State

Why it is important?

I was born in Kaliningrad and spent the most part of my life there. With my family, friends and colleagues, living there with 1 million others outside the main territory of the Russian Federation. I have friends and relatives in other countries and in other parts of Russia. How can we visit each other in the future? Each time we need to apply for visas and as well as that we need to go through the humiliating process of registration once there. We need to change trains three times travelling to and from Kaliningrad, because of the different standards of railways between the East and the West. Economic reasons also do not make it easy to travel because tickets to Europe cost the average couple a month's salary in the Russian Federation. But there is an alternative. Kaliningrad has the possibility of fast economic and legal integration into Europe. The raising of the standard of living for its inhabitants. Also the right to free movement within a new Europe without dividing lines. Which would be better? This is the objective of my Master's thesis to analyse ways of integration and to show the possible benefits from such integration.

What is new?

What is difference in my topic in comparison with others? First of all previous researchers did not take into account integration at all. On the early stage of Kaliningrad research was only researched scenarios of indifference or the isolation

(Pertti Joenniemi,'The Kaliningrad Puzzle'), then one group described recent Kaliningrad economic development (Natalia Smorodinskaia, Stanislav Zhukov, "The Kaliningrad Economic Vulnerability During Ten Years of Transition and the Coming EU Enlargement"). Other scholars studied the strategic military aspects of the problem Alexandr Sergunin "Transforming the 'Hard' Security Dimension in the Baltic Sea Region". Steven J Main described election of Governor Egorov in 2000 'Kaliningrad -- the role of the military in regional politics". Finally, some experts discussed the future of the region and suggested concrete recommendations and options "Kaliningrad in Focus, Policy recommendations in the perspective of problem-solving". Their research works however were built on the method of comparison an enclave with surrounding European countries, especially neighbouring and Russian main territory, focusing rather on Kaliningrad confrontation then integration into Europe. And many reasons why integration is not possible I have found in these research. In my Thesis I try to concentrat efforts, first of all on analysing Russian and EU policy on Kaliningrad, on the legal aspects of the different ways of integration, and then try to understand is it possible to catch up European countries for Kaliningrad in matters of the economic development, that region being so depressed is not a barrier for integration, that constraints on the mobility of persons could be resolved and offer new mechanisms in this complicated question. I would like to show further that integration could be not only normal joining to the EU, but also on the basis of such especial Agreements, that are possibly not worse than ordinary ones and have many benefits. In other aspects of my Thesis I'll try to describe possible regional status in the structure of Russian Federation, needs for its exclusiveness, especial relations with the Centre and disperse myths of separatism.

Sources

Total I have used 159 sources in my research which were taken from governmental publications and materials; published interviews with officials, politicians, and experts; statistical information, yearbooks, handbooks and reference books; periodicals; research literature: monographs, analytical papers, and articles; internet searches and my own experience of living in Kaliningrad beside that.

Although the most complicated part was to find Russian government and EU official policy documents toward Kaliningrad. This is why I widely used in my research not official policy documents and newspapers but Internet publications, where the politician proclaimed their relations toward Kaliningrad question. Their numerous initiatives after that did not find a real ground for personification. As an example I can mention Russian president Putin pilot region initiative and German Chancelor Gerhard Schreeder initiative of Association Agreement.

I. German ownership and germanisation

1. Preface

It would be the simplest way to resolve the Kaliningrad problem just to sell the region to Germany. Russia sold Alaska to America 136 years ago for seven million two hundred thousand dollars so why do not do this with Kaliningrad? The sales agreement was signed on March 30th, 1867 and then the document was then signed by the Russian Tsar Alexander II in May. In June the sides exchanged ratification certificates and the Russian flag was officially lowered in Alaska in November. In that time a new direction of Russian development appeared after the defeat in the Crimean War (1853-1856). As

Alexander Gorchakov, then Foreign Minister, said: “Russia concentrates”. The country turned its foreign political ambition down. Selling Alaska was inevitable within the framework of that political course. The Russian-American company returned no profit, so there was a need to save it. The company owed 725 thousand rubles to the Russian finance ministry by the year 1866. As the Russian government believed, they were supposed to pay major attention to the development of the Primorye region of the country (the Far East). Alaska was sold soon after that.

Today Russia after the collapse of the Soviet Union and the subsequent loss of its former republics finds itself in the same situation. The size of the external debt is 123,5 billion U.S. dollars and this year’s annual sum of debt payment consists of 16,2 billion U.S. dollars. The Russian government’s policy today is very pragmatic, less political, and more economically focused. And even in this new era of Russian Foreign policy territorial disputes been resolved not to the Russian benefit. The Russian government headed by Boris Yeltsin signed two border agreements between Russia and China and thanks to it Russia ceded a 17-kilometer stretch of land along the Tumen River to China just in December 1999.

The scenario of such selling could be in our time better than that the Soviet authority fulfilled 56 years ago, signing two decrees of the USSR's Council of Ministers, issued on 11th October 1947 and 15th February 1948 "On the resettlement of the Germans from Kaliningrad oblast', RSFSR, to the Soviet occupation zone of Germany." The Germans were allowed to take with them 300kg of personal belongings, as well as a 15-day supply of food. The last trainload (deported in everything but name), left the city on 21st October 1948. The deportation process saw over 102,000 Germans being made to quit the region by the end of 1948; the last 193 Germans, mainly highly qualified specialists, were forced to leave the area by the end of 1951.

A tolerant German government would possibly allow Russians to stay on Kaliningrad territory, introduce external government and compensation mechanisms for persons wanting to turn back to the main Russian territory and elaborate a policy for the resettlement of Russian Germans from Volga and Kazakhstan to this territory.

2. Sale for debts

Sometimes we hear such rumours from Moscow and the foreign newspapers actively support them. In January 2001 the London newspaper *The Daily Telegraph* announced that secret negotiations between Russia and Germany had taken place on the return of the region and the city to Germany.¹ Moscow was advised not to pay Berlin back its 22-billion-pound debt, and renounce its rights to Kaliningrad instead. German Chancellor Gerhard Schroeder and Russian President Vladimir Putin discussed a “deal” at a meeting in Sankt-Petersburg.

Any possible “sale” or “special rights” ideas of course were rejected by both sides as well as the Russian government and Duma spokespeople and the German Embassy in Russia.² But what was the major background of these talks? And is there a fear of germanisation or powerful German influence in Kaliningrad?

¹ Roger Boyes, “Germany Goes Back to Roots of Prussia”, *The Times*, 23 January 2001, www.timesonline.co.uk

² “German Ambassador Denies Negotiations with Putin on Kaliningrad”, ITAR-TASS, 23 January 2001; “Kaliningrad byl i Ustanetsya Rossiyskim”, *Krasnaya Zvezda*, 24 January 2001.

A Kaliningrad deputy of the Russian State Duma, Vitalii Lednik, sent a question to Igor’ Ivanov, Russian Foreign Minister, at the end of January about the rights of Germany in Kaliningrad, for the reduction of Russia’s debts. On the February 3, 2001 the Ministry of Foreign Affairs answered his question by

In its discussions Moscow has made it clear that its faltering economy means that it is in no position to repay all its debt to Berlin. Werner Muller, the German economic minister, and German Gref, the Russian minister of economic development and trade, previously met in Berlin on Dec. 12 to debate the details of a plan to exchange the Russian debt for German equity in Russian companies.

The two sides have agreed in principle to swap a large share of Russia's \$14 billion debt, The Times reported Dec. 13. One option they are considering is giving to Germany a significantly larger share in Gazprom, Russia's gigantic gas export monopoly. Germany's Ruhrgas now holds 4 percent.

Obtaining several billion dollars worth of stakes in Russian enterprises would make Germany a major shareholder in Russian industry, giving Berlin a stronger voice in Moscow. In addition, it would further tie Berlin's interests to the economic and political stability in Russia. Russia already supplies about 35 percent of Germany's gas needs.

Moscow and Berlin understand this fast-growing mutual cooperation will strengthen each country's potential and help advance both to the front stage of world geopolitics. This most recent deal is just one important move in this direction. Such moves have significantly accelerated since President Vladimir Putin came to power in Russia.³

3. Secession or business interests?

Any suggestion publicly that Germany may be attempting to reclaim "East Prussia" continues to be politically and diplomatically taboo, and is involved in a comprehensive reappraisal of the former German state that was disbanded by the Second World War victors in 1946. The national government of Germany disavows any claims on Kaliningrad. Furthermore, Kaliningrad's legal status as an "inseparable integral part of Russian territory" was settled by the German reunification treaty of September 1990, signed by the Soviet Union, United States, Britain, France, GDR, and FDR.⁴

But Russia is not opposed to the active participation of German companies and organisations in the development of Kaliningrad. For instance in September 2003 the Ministry of Railways of Russia suggested the inclusion of a question on the creation of the joint Russian-German enterprises on the sale of transport services in the agenda of the meeting of the two countries' leaders which was to take place in October, 2003 in Yekaterinburg.⁵

Taking into account the big interest of the German exporters delivering cargoes to Iran and the countries of the Near East, the delegation of the Ministry of Railways has invited to participate in the modernization and construction of a railway infrastructure of Caspian port Olja and the Baltic ports of the Ust Luga and Baltiysk (the Kaliningrad region) the German industrial and financial structures. The Ministry of Railways of the Russian Federation, with the consent of the German side, has spoken at 14-th session of the Russian-German working group on strategic questions in the field of economy and finance, which took place in July in Cherepovets. German and Russian railways officials will prepare drafts of the necessary documents in the near future. In particular,

reaffirming their earlier press releases: "Kaliningrad was not the subject of any such deal" (Kaskad, 6 Feb. 2001, A3).

³ Shifting Europe's Power Balance, Stratfor, one of the world's leading global intelligence firms. <http://www.stratfor.com>

⁴ Valentin Romanov, "Kaliningrad as Integral Part of Russia," International Affairs 6 (1995), pp. 43-44.

⁵ "MPS prigasilo k uchastiu v modernizatsii i stoitelstve zheleznodorozhnoy infrastruktury porta Baltiisk nemetskie promyshlennyye i finansovyye struktury", "Kaskad", Information Agency, Kaliningrad, 01 September 2003 <http://www2.kaskad-info.ru/new/info/finance/index.htm>

in the field of freight traffic, the question was about confirmation of the developed plan of measures on the reduction in the terms of cargoes delivery toward Germany - Russia. Of special interest to the German side was the offer of the Ministry of Railways of Russia on switching an export freight traffic from Germany (5 - 8 million tons in year) on the shortest overland route up to Iran and to the countries of Persian gulf region and Indian ocean with use of the international transport corridor Berlin – Warsaw – Minsk - Moscow in coordination with the other corridor - “the North - the South “.

In September 2003 representatives of the Russian department Gosstroy discussed with businessmen of Germany, USA and Kaliningrad building Associations the possibilities of the realisation of building industry investment projects in Kaliningrad.⁶

Besides that on the information of the Kaliningrad Department of German Economy Representation in the Russian Federation⁷ about 50 companies with sole German capital, joint ventures or companies with German involvement are working in Kaliningrad. In the Regional Administration over 275 such companies are registered. Germany ranks 3th after Switzerland and Lithuania in foreign trade and investment volumes.

The conditions for foreign investment in the Kaliningrad Region are better than elsewhere in Russia, said the German Ambassador to Russia Hans-Friedrich von Pletz on May 20, 2003 whilst visiting Kaliningrad.

Germany is a major exporter of goods in Kaliningrad region with shares of 10.6% and occupies 2nd place in region after Poland and import of German products is 25.45% taking first place in the region. The German presence in the Region is represented by small and medium sized businesses and covers a wide range of sectors. Most active are in the industries of the exporting of food stuffs and the importation of raw materials. The most significant Kaliningrad companies with German participation are “Baltkran”, a manufacturer of portal cranes and oil-producing equipment, which is one of the biggest exporters, “Baltik GmbH”, a construction company, “Prigge Trans”, road hauls, “Grammer AG”, sewing factory, “Palve”, an engineering company and “Schnieder Reisen Kaliningrad”, travel agency. Shipyard “Fassmerwerft” deals with order distribution for the production of vessels at the shipyard “Yantar”. On 22 October 1999 “BMW AG” opened a car production line at “Avtotor” plant. The production of cars and car parts, therefore, may become a priority area of Kaliningrad regional industry.

In December 1997 the Dresdner Bank signed a credit contract worth US\$ 30 million with the Regional Administration. The capital is to be invested in the development of the regional infrastructure.

Since 1994 the Chamber of Commerce in Hamburg has had its representation in the Kaliningrad Region, which has been the German Economy Representation in the Russian Federation, Kaliningrad Department since 1998 as well. Thus, it was included in the system of external chambers of commerce of the German Chambers of Commerce’ Association. Under the agreement with the Ministry of Foreign Affairs, the Representation is responsible for receiving visa documents from Russian citizens with a permanent address in the Kaliningrad Region.

In the Kaliningrad Region, the Federal Land of Schleswig-Holstein is represented by the Hanseatic Bureau. In addition, there is the German-Russian House, social and

⁶ “Predstaviteli Gosstroia, biznesa Germanii i SSHA i Kaliningradskie stroiteli obsudiat vozmozhnosti realizatsii investitsionnyh proektov v Kaliningrade”, “Kaskad”, Information Agency, Kaliningrad, 05.09.2003. <http://www2.kaskad-info.ru/new/info/finance/index.htm>

⁷ Kaliningrad Department of German Economy Representation in the Russian Federation www.hkhamb-ahk-kaliningrad.com

educational establishment as well as representative offices of different associations and religious organisations. Under various European and national programmes for assistance, companies including those from Germany elaborate concepts for the Regional Administration, particularly in the areas of infrastructure and environmental protection.

The most important step in Russian-German relations and Kaliningrad I could be (finally!)⁸ an agreement on the opening on the coast of Pregolia - a German consulate - which was achieved in the beginning of October 2003 during the negotiations in Yekaterinburg by Russian President Vladimir Putin and German Chancellor Gerhard Schroeder. During a dialogue with journalists Vladimir Putin noted that the appearance of the German diplomatic mission would allow Kaliningrad residents a considerably simplified procedure of visas application to Europe.⁹

But such a warm development in Russian-German relations became possible only in recent times, in many respects thanks to Putin's sympathy towards Germany. Previously territorial claims and worries of germanisation have been considerable stumbling blocks in such matters.

4. Germanization

For Germans Kaliningrad is still important from an emotional standpoint. German cash has been raised to reconstruct the ruined Königsberg cathedral and thousands of Germans make pilgrimages to the city each summer in an attempt to rediscover their lost roots.

The origins of the Kaliningrad issue lie in the decisions taken after World War II. Following the decision of the Potsdam Peace Conference (1945) a part of former East Prussia, including its capital Königsberg, was given to Russia. In 1946 the Kaliningrad region was formed as a part of the Russian Soviet Federative Socialist Republic.

When the region became an exclave, separated from the rest of Russia in 1991, some people in the neighbouring states started to question whether it could remain an integral part of Russia. German nationalists, especially former East Prussians, claimed the region should revert to Germany.

Some German politicians (and even some Russian leaders¹⁰ before the German unification) considered the enclave as a possible region for the creation of a condominium with Russia and Poland, subordinated to the EU or a German autonomous area in Russia in order to prevent further German emigration from Russia.¹¹ This has been resisted by the present inhabitants of the region, although they favour German assistance for the region and the development of a free economic zone.

Some extremist groups in Germany claim the return of Königsberg to the "Vaterland".¹² The Society of East Prussia, whose statutes adopted in 1999 proclaim that the organisation strives to comprise activists of several nationalities, including

⁸ For years, under one or other pretexts the Germans were not allowed to open any type of Diplomatic Representation in Kaliningrad.

⁹ Vladimir Kostomarov, „Ob etoy novosti vo vsu Shumeli rubaki“, Gazeta Kaskad, 11 October 2003, web site http://www2.kaskad-info.ru/new/gazeta/boss/b_07.htm

¹⁰ This idea was supported by the 1990 Convention of USSR Germans in Moscow and various German organisations in Russia.

¹¹ Erlends Calabuig, „Quand les Allemands retournent à Kaliningrad-Königsberg“ (When the Germans return to Kaliningrad-Königsberg). Le Monde Diplomatique, August 1991, <http://www.monde-diplomatique.fr>

¹² Freiheit (Freedom) Society, an association which emerged in the spring of 1993 as a radical voice for the interests of Russian Germans, decided to press for the formation (between 1995 and 1997) of a sovereign Baltic German republic under Russian jurisdiction in the Kaliningrad region. At the same time, the Society stated that should not be ruled out that this territory would eventually again be incorporated into Germany”.

ethnic Germans, aims at restoring the pre-Soviet traditions and, in the long run, achieving independence for the region. Several left-wing members of parliament publicly accused the organization of wanting “to bring East Prussia back home into the Reich” and “to annex it”.¹³ The East Prussia went to court against these politicians, but did not win the case. It was ruled that although the MPs used strong words for expression their opinions, their interpretation of the organisation’s documents, the statutes explicitly included, did not go beyond the limits drawn by free speech.¹⁴

Of course, the expelled Eastern Prussians point out they attempts to reach their aims only by peaceful means. In such a context they refer to the CSCE Final Act, which in its ten principles stipulates: The participating states “consider that frontiers can be changed, in accordance with international law, by peaceful means and by agreement.”¹⁵ The Society of East Prussia regards East Prussia to be only formally under foreign sovereignty.¹⁶ German place and street names are used when referring to the territory, and the Kaliningrad region’s border to Poland is refereed to as the “Polish-Russian line of demarcation” or even as the “inner East Prussian line of demarcation”.

Seemingly, the Society of East Prussia expects a change in the status of Kaliningrad to occur sooner or later. In his address to the 2000 national meeting of the Eastern Prussians, the speaker of the SEP, Wilhelm von Gottberg, pointed out that it will be impossible to preserve the present status of the “Königsberg region” permanently. He gave expression to his hope that someone will take a chance to change its status and that the opportunity will not be lost, as was the case when Gorbachev offered to sell Kaliningrad to Germany and the German government rejected the offer.¹⁷

In his later interview “The Königsberg region and its perspectives”¹⁸ he even mentioned a concrete purchase price estimated of 48 billion DM. Kohl and Genscher rejected the offer and the major Genscher reason was that he did not want to have “Königsberg as a gift”. Although he was quite restrained about issues of Königsberg status and spoke for more active German government involvement in regional assistance and the support of movement to the region of Russian Germans. From my point of view his information about selling Kaliningrad is rather disputable, because no other sources have declared the same. In general the relevance of the expellees’ organisation is often downplayed. They are put aside as being politically powerless and only representing some elderly folk, constantly shrinking in numbers “as nature takes its course”.¹⁹

Although Bonn does not officially support these proposals, these proposals make Moscow nervous because the issue is very sensitive to Russians.

5. War legacy

Many Kaliningraders, especially old soldiers, who had fought the war, were especially afraid of German return because Germany is the strongest economy in Europe,

¹³ Christian Wellmann, “Recognising Borders:Coping with Historically Contested Territory.” Hanne-Margret Birckenbach/Christian Wellmann (eds.) The Kaliningrad Challenge. Options and Recommendations, LIT Verlag, Münster/Hamburg/Berlin/London, Sept. 2003

¹⁴ Landgericht Luneberg, “Decission N 5 O 225/00, pronounced 5 March 2001, www.nadelstiche-online.de

¹⁵ Conference for Security and Cooperation in Europe, Final Act, Helsinki, 1 August, 1975, web site www.osce.org/docs/english/1990-1999/summits/helfa75.html

¹⁶ Wilhelm Gottberg, „Ostpreußen – für friedlichen Wandel. Rede des Sprechers der Landsmannschaft Ostpreußen anlässlich des Deutschlandtreffens des Ostpreußens am 10 und 11 Juni 2000 in Leipzig.

¹⁷ Wilhelm Gottberg, „Ostpreußen – für friedlichen Wandel. Rede des Sprechers der Landsmannschaft Ostpreußen anlässlich des Deutschlandtreffens der Ostpreußen am 10 und 11 Juni 2000 in Leipzig.

¹⁸ Wilhelm Gottberg „Das Königsberger Gebiet und seine Perspektiven“ 23 October 2002, <http://www.ostpreussen-info.de/land/intgottberg.htm>

¹⁹ Richard Krickus, „The Kaliningrad question“, Lanham; Boulder; New York; Oxford: Rowman&Littlefield, 2001

developing into the regions most important trading partner, and because Germans were the most frequent and visible visitors (75000 in 1992). This fear helps to explain why Germany was not allowed to open a consulate in Kaliningrad and the regional Duma forbade the return to German place names in 1994.

Till today, German legacy is a matter of stormy discussions in Kaliningrad society. But it is not related to Germans themselves. According to the results of the research carried out by the Institute for Complex Social Research of the Russian Academy of Sciences over the last six years, 68-69% of Russians have held a positive attitude towards Germany and, taking into account the low level of interaction between the two countries and the general poverty of the Russian population, this figure is unlikely to change much. Interestingly, although Russian people over 60 are cooler in their attitude towards Germany, the general trend of positive feelings is followed.²⁰ The tension in German-Russian relations on Kaliningrad soil is a question of fascist ideology. Last year in Jasnaia Poliana, region settlement, constructed on German money, two streets have been named in the honour of rather doubtful persons. On indexes under the initiative of sponsors from Germany names Agnes Migel, the German poetess, member of Nazi party, was writing in 40th odes to a Hitler's regime and Ulrich von Hutten, whose name names a present grouping of Nazis in Germany, have appeared. It started a new discussion about the latent germanisation of the Kaliningrad region. The scandal was settled by local administration and the regional Duma, which forbade return German names of these persons to these streets. But it was not forbidden to name other streets by German names.

The same sharp opposition from the Russian veteran's side happened at the beginning of this year in Alexandra Nevskogo Street, in the centre of Kaliningrad, where with German money they started the building of a monument to those German soldiers who died in World War II. The German party, the Russian veterans and authorities worked together to form an agreement.²¹ On the architect's plan of the memorial complex it shows there will be established 10 monuments on which the names of 2000 victims of dead German soldiers will be inscribed. The decision has also been made to establish precisely the same monuments opposite with the names of dead Russian soldiers. The name of the cemetery has changed also. Now it is called "The International Cemetery to Victims of the Second World War ". The eight-meter Maltese cross under the offer of the Russian party will be replaced with another. The height of a new cross will make only 4, 5 meters. Granite plates which were kept up to now will be established again.

6. Economical dependence

Further gloomy threats of "germanisation" are also illusory. Their essence was reduced by the public to the following. Germans, as soon as the opportunity will be presented, will buy all the industrial enterprises and other property therefore not de jure, and de facto begin to operate the region. These ideas have no basis in fact. It was declared on several occasions by the Representative of the German Economy in Kaliningrad Doctor Stephan Stein - that industrial enterprises do not have any value for Germans because any normally thinking German does not starts to invest either in unprofitable enterprises, which are in the region of 42% in Kaliningrad, and or in morally and physically out-of-date equipment on which out-of-date production is produced.

²⁰ "Russians Continue to View Germans in Positive Light", Rosbalt, Information Agency, 06 December 2002, <http://www.rosbaltnews.com/2002/12/06/60628.html>

²¹ "Rasresheny spory vokrug stroutelstva v Kaliningrade kladbisha nemetskih soldat; Kaliningradskaja gosudarstvennaia teleradioveshatelnaia kompaniya," 11 July 2003.

Besides that the Kaliningrad region, by federal Russian legislation, is exempted from the sale of farmland to foreigners.²² Russian president Vladimir Putin completely supports such legislation. He declared that there is no economic need to sell farm land to foreigners.

Speaking at the 4th congress of the Chamber of Commerce and Industry in July 2002 President Putin noted that “it does not look as if there were too many people who want to buy land in Russia.” The president said that “he shares and understands the concern of those who urge not to be in too much of a hurry as far as the sale of farm land to foreigners goes.” “Discussions have shown that settling the question of the sale of agricultural land to foreigners requires a well-balanced and very cautious approach,” stressed the president. He noted at the same time that that issue could be taken up again as the land market and the necessary infra-structure develop.²³

Taking into account that most land in Kaliningrad is the property of the Russian Federation and farm land (262 hectare), the share of land possible for selling is quite humble. This land is destined mostly to be used for private houses and gardening.

7. Russian Germans and Kaliningrad

The inhabitants of the Kaliningrad region are also not opposed to the resettlement of Russian Germans to the Kaliningrad territory. Volga Germans, who had lost hope of regaining their autonomous republic, moved to the region from Central Asia. Some speculation existed in the beginning of 1990 related to Russian Germans and solutions to the Kaliningrad issue. Freiheit (Freedom) Society, an association which emerged in the spring of 1993 as a radical voice for the interests of Russian Germans, decided to press for the formation (between 1995 and 1997) of a sovereign Baltic German republic under Russian jurisdiction in the Kaliningrad region. But such organizations were not powerful and Russian authorities did not attach importance to this problem. Besides that in contrast with Moscow, the Kaliningrad authorities are not afraid of a possible influx of German-Russians from the territory of the former Soviet Union. According to some experts, there is sufficient room for 100,000 Germans in the Kaliningrad region. Regional authorities are willingly working with cultural German organisations. In the region two national autonomies of Russian Germans have registered. The background and promptness for the movement of Russian Germans to the Kaliningrad region and not to Germany create the xenophobic nationals in Germany, who did not want the Volga Germans to come to Germany, where they are entitled to citizenship by birthright.

But there are no real fears for the germanisation of the region by Russian Germans. In spite of many Volga Germans moving to the Kaliningrad territory, the region was populated mainly by Russians, who today make up 80% of the inhabitants. The overall population of the region is now 948.500. Second place with ten per cent of the population are Belorussians. According to the Head of the largest German cultural organization German-Russian House, Sergey Henke, the number of the German population on the territory of the Kaliningrad region in this year is quite humble, with only 6,000 or 0,7% of all population.²⁴ If we even add on different appraisals 17-18 thousand persons mixed with German nationality, the number of all these persons will

²² In late November 1998, the Kaliningrad Regional Duma passed a land bill stating that only Russian citizens can buy and sell land in the exclave. And then Russian State Duma in July 2002 adopted a federal law “On turnover the lands of agricultural destination”. P.3 of this law prohibits selling such land to foreign citizens, foreign companies, persons without citizenship, and companies with foreign participation more than 50 %.

²³ President of Russia on sale of farm land to foreigners, Gaseta Pravda, 19 July 2002 <http://english.pravda.ru/politics/2002/06/19/30673.html>

²⁴ „Nemetsko-Russkiy Dom v Kaliningrade,“ Deutsche Welle, 13 July 2002, http://www.dw-world.de/russian/0,3367,4457-184678-269828_A_576072,00.html

not exceed 2,5%. Germany, besides that has refrained from highlighting Kaliningrad in its official assistance to ethnic Germans in Russia, whose program is restricted to selected regions, and Kaliningrad is not one of them. Although programs of humanitarian aid to the Kaliningrad region from Germany continues and since 1992 the region has received 34 million German marks.²⁵ Only last year in 2002 the Ministry of Internal Relations FRG financed the German-Russian House to the tune of 712000 EUR.²⁶

Officially Berlin considers Kaliningrad to be an inseparable part of Russia and calls for the necessity to resist right radical ideas both in Germany, and in Russia. According to Russian officials the German side shows clear interest in the Kaliningrad area, the former Königsberg, and many political and other projects are referred to. On the other hand they understand that it is a sensitive theme for all and not only for Germany; therefore the Germans try not to participate directly in discussion on the future status of the Kaliningrad region.²⁷

Moscow's policy is to stimulate economic and cultural contacts and tourism between Kaliningrad and Germany, as well as with other countries of the Baltic Sea region, and at the same time to prevent a mass migration of Germans to the strategically important region. Moscow emphasizes the priority of its military and strategic interests in the region and denies any possibility of a change to Kaliningrad's current political status. At the same time, the federal government favours a more active participation of Kaliningrad in the cross-border and trans-regional cooperation, particularly in the EU's Northern Dimension.

II. Associated membership in the EU

1. Preface

Associated membership is a European idea and previously has been discussed on many occasions. The idea did not find reflection in any official document of the European Union because the opinion of the Russian Federation on this question was "warm silence". Association membership requires changing regional status and the sharing of power with Brussels and this is not in the current interests of Moscow. As Gleb Pavlovsky, a Kremlin propagandist said, "Russia will not agree to curtailed sovereignty in the Kaliningrad region as a matter of principle."²⁸

This idea of close EU participation in the Kaliningrad issue was presented in a strategy, entitled "The EU and Kaliningrad," in January 2001²⁹. The document itself, which is over twenty pages, is full of words like "cooperation," "collaboration," "intensification," and "development." Yet, as high-ranking officers of the European Committee admit informally, the goal is to turn Kaliningrad into "the European Hong

²⁵ „MVD Germanii o Kaliningrade“ „Strana Kaliningrad, N 13 (132) 27 March 2002; Finansirovanie na territorii Rossiyskoy Federatsyi za 2002 god; Ministry of Internal Relations FRG <http://www.bmi.bund.de/>, International Portal of Russian Germans, http://rusdeu.narod.ru/freunde/Germany/bmi_kalin.htm
Ministry of Internal Relations FRG <http://www.bmi.bund.de/>

²⁶ Finansirovanie na territorii Rossiyskoy Federatsyi za 2002 god, International portal of Russian Germans, http://rusdeu.narod.ru/freunde/Germany/bmi_kalin.htm

²⁷ Dmitry Rogozin, the Chairman of Committee of the State Duma On the International Affairs, about the status of the Kaliningrad region, From interview for NTV television program "Geroj Dnja" 10 April 2001

²⁸ Ian Traynor, "Baltic enclave squares up to fortress Europe", The Guardian, June 7, 2002

²⁹ "The EU and Kaliningrad" Communication from the Commission to the Council - COM(2001)26 final (Brussels, 17.01.2001) www.eur.eu

Kong.” While remaining formally a part of the Russian Federation, the region would have special international status enabling the European Union to feel “at home” in the region.

2. Eurovision

EU officials believe that all problems associated with Kaliningrad - transit, the region's comparative poverty, crime, and so forth - could be solved if it were to become an independent international entity. Europe would be able to assist Kaliningrad directly rather than via untrustworthy Moscow. Brussels is convinced that Russia will never do anything for the region on its own, and therefore the region's backwardness will constantly “threaten” its more civilised European neighbours.

Alexander Rahr, a chief expert on Russia at the influential German Council on Foreign Relations, agrees with this approach. “Brussels has enough money to get this region on its feet in several years. But the European Union will never do it through Moscow. The EU wants to put up money directly, strategically, developing Kaliningrad in harmony with the EU's own needs.” On the other hand, in Mr. Rahr's opinion, “nobody can guarantee that in five years the region will still be under Moscow. There are few people talking about it, but everyone is thinking it. The poverty-stricken region will want to join prosperous Europe. Therefore, in order to politically retain the region as a part of the Russian Federation, Moscow will have to be more creative.”³⁰

Sergey Shakhray, former Russian Deputy Prime Minister offers idea of Kaliningrad entering into the EU as Associated Participant. If idea could be practically accomplished that Russia would partly, by one especial region become an EU member. The EU supports this idea.

Why does this particular Russian territory look so attractive for the Europeans? Maybe when the new Baltic Countries and Poland are in the process of joining the European Union, the need to find Kaliningrad opportunities should be not so urgent? The European Union will already be receiving the new problems such as uncontrolled migration and an economic black hole. With such baggage, the Kaliningrad Region is scarcely awaited with open arms in Europe. Nevertheless experts say no area in Europe offers more promise in terms of potential political and economic integration. Speaking in Riga on Sept. 19, 2001, Michael Carter, the World Bank's country director for the Baltic states and Poland (and a former World Bank representative in Moscow), said: “Of all regions in the world [the Baltic] must be the region with the highest potential for growth and economic transformation in the coming decade.”³¹

During his audience in the Kremlin while at the opening talks between Russian President Vladimir Putin and the EU Commission, President Romano Prodi in his May 2002 visit to Moscow said that the European Union and Russia have entered into a strategic partnership but Russia still is not ready to be considered for EU membership. It is quite understandable if one considers the whole of Russia, where as well as the European Region exists an Asian region. The question is would Russia join Europe or Europe join Russia? On the other hand the individual “advanced” regions of the Russian Federation geopolitically close to the European Community such as Saint-Petersburg, Kaliningrad and Pscow could be admitted. Why therefore could some

³⁰ Olga Vlasova, “ The Hong Kong of Russia”, Journal Expert, N 23 (330) June 17, 2002 <http://eng.expert.ru/politics/23hongkong.htm>

³¹ John Edwin Mroz, “Kaliningrad Will Be Test For Russia-EU Integration”, The Sankt-Petersburg Times, N 707 September 25, 2001

Russian territories not be granted special status by the EU when they are linked to acceding EU member states by historical or political ties and when even in Russia they have special regimes?

The first European politician to float an associated idea was German Chancellor Gerhard Schroeder in January 7, 2001 during his meeting with the Russian President [Vladimir Putin](#) in Moscow. Chancellor Schroeder then offered the idea of an association agreement for Kaliningrad to the EU's current Swedish Presidency³². Next at a meeting in Hanover he suggested to the Swedish Prime Minister Goeran Persson that Sweden rather than Germany, should promote the initiative.

Sweden has already indicated that it wants to make Kaliningrad a priority during its presidency. Mr Persson was then reported to be giving the Schroeder initiative favourable consideration. The idea was further discussed at the next Russian-German summit in April and later at the EU-Russian summit in May. But later negotiations between Russia and EU countries concentrated on the painful visa regime and the idea of associated membership was abandoned for a time.

Representatives of Brussels also been quite active on this matter. The EU Commissioner for External Relations, Chris Patten, visited Moscow at the end of January 2001 to discuss the issue. Patten was reluctant to grant Kaliningrad the status of associated member of the European Union.³³ The EU is only worried, he said, "that Kaliningrad is developing only very slowly from a purely military ground into a region with civil structures." The Russian Baltic fleet is still stationed there; the crime level is very high; and environmental, drug and health problems abound.

To make things worse there were articles in a similar vein in such respected editions as the "Washington Times", "The Daily Telegraph", "Jyllands-Posten" and "Der Spiegel" about the destiny of the Kaliningrad region.³⁴

3. Kaliningrad worries

The European Union's plans arouse conflicting feelings amongst Kaliningrad residents. On the one hand, the prospect of being separated from "the mainland" looks quite alarming. On the other, becoming a part of Europe with all its advantages is very tempting. The European way will become more authentic when the young generation within time come to power, while the Federal Russian authorities continue to make decisions continuing the deterioration in the level of life of the region's population.

Certain important issues have encouraged Kaliningraders not only to be concerned, but also to reflect on the future. Among these issues the following are the most important:

- the region is geographically separated from the main Russian territory (depending on the chosen route) by Lithuania, Poland, Belarus and the Baltic sea;

³² „Kaliningrad v obmen na dilgi Rossii Berlinu“, Gazeta Utro, March 1, 2001, issue 41, <http://www.utro.ru>

³³ Mariele Schulze Berndt, „An island in an EU sea“, Der Tagesspiegel, 25 January 2001, <http://www.tagesspiegel.de/>

³⁴ Bill Gertz, "Russia Transfers Nuclear Arms to Baltics," Washington Times, 3 January 2001, p. 1.

Tony Paterson, "Germany in secret talks with Russia to take back Konigsberg", The Daily Telegraph, 21 January 2001

"The Russian Problem", Jyllands-Posten (JP) – Danish newspaper in a leading article called the Russian enclave Kaliningrad a "thieves' kitchen" and proposed that the EU should take over the enclave, July 30, 2002

- attention has been drawn to the region by numerous European and American politicians discussing the destiny of Kaliningrad;
- the revoking of the federal law “On the Special Economic Zone in Kaliningrad Region” by Moscow in 2001 by the proposed introduction of a new Federal Tax Code which caused a massive increase in prices for consumer goods - (some estimations put it as high as 25-30%);³⁵
- the conflict between the legislation of the new Federal Budget Code and the law on SEZ. The former postulated that any tax privileges can only be introduced by federal tax legislation, while it is unclear whether the SEZ Law is included in its remit;³⁶
- the decision of the State Customs Committee of the Russian Federation to disenfranchise the Kaliningrad region from the economic space of Russia, which threatened to destroy much industry, was cancelled only after a meeting with the Governor of the Region, V. G. Egorov, with the president of Russia. V. V. Putin;
- the pending entry of Lithuania and Poland into the European Union (EU) and NATO in 2004;
- the EU and Russian negotiations and agreements on the transit of people and goods between the Russian region of Kaliningrad and the rest of the Russian Federation;³⁷
- speculation in the local press by regional elites.

There have already been discussions about a possible future scenario with Kaliningrad: the transfer of the Kaliningrad region into the structure of Germany to Associated membership in the EU.

However any possible German participation in the destiny of the region is negatively perceived by not only a part of the population of the Kaliningrad region, but also by the Lithuanians who at once reflect on the Klaipeda region. Also with the Polish, who recollect the historical treatment of Gdansk-Danzig.

Whilst this on the one hand complicates the relationship between Germany and the Kaliningrad region, on the other it serves as a key factor in stabilising the geopolitical position of the Kaliningrad region.

Kaliningrad residents themselves are much more concerned here about Moscow's attitude toward exclave than threats of being close to the EU. Kaliningraders relate to the United Europe as a good neighbour. But what on the opposite has Moscow done to tie Kaliningrad to Russia, the most popular question in population conversations? They believe that in Yeltsin's time Moscow only deteriorated the situation in the region and shifted the problem on to locals' shoulders, which resulted in the current high-ticket

³⁵ „Zaiavlenie gruppy kompaniy, zanimaiuschihsia trgovley prodovolstvennymi i promyshlennymi tovarami na territorii Kaliningradskoy oblasti“, Kaliningradskaja Pravda, February 21, 2001

³⁶ Leonid Karabeshkin, “Clarifying the Status of the Kaliningrad Oblast' in the Context of Russian Federalism”, Hanne-Margret Birckenbach/Christian Wellmann (eds.), The Kaliningrad Challenge. Options and Recommendations, LIT Verlag, Münster/Hamburg/Berlin/London, Sept. 2003

³⁷ „Joint Statement of the European Union and the Russian Federation on transit between the Kaliningrad region and the rest of the Russian Federation”, 11 November 2002, <http://www.eur.ru/eng/neweur/summits/sum63.doc>

prices, the high cost of transporting goods, the most expensive gasoline in Russia, and excise duty on cars. And the worst aspect is that Moscow clearly doesn't see what should happen with Kaliningrad over the next ten years.

Such a situation provides a foundation for the infant separatist movement headed by Baltic Republican Party chairman Sergey Pasko, author of the idea of turning the province into a Baltic republic, which would formally be a part of Russia with dual citizenship, Russian and EU and high living standards. But this movement is not supported by more than 4 per cent of the Kaliningrad population. The most popular idea amongst Kaliningrad residents is a special status from Moscow, the status from one hand meaning close association with Europe but from the other, one that helps them to feel they are Russian citizens. Moscow only needs to admit it and decide how to express it.

4. Moscow policy

When the problem requires such a fast solution, the Russian government should intensively work under possible Agreements and Solutions. On practice this Association question case is far from resolution. Moscow did not espouse separate phrases like “a special status” and “pilot region”. Although in the Russian Federation the middle term strategy towards the European Union (2000-2010), adopted by the Russian Government two years ago, proclaimed for the Kaliningrad region to create the necessary external conditions for its functioning and development as an integral part of the Russian Federation; to pursue a conclusion, if appropriate, of a special agreement with the EU in safeguarding the interests of the Kaliningrad region 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. But what does it mean a “special agreement with the EU”? Is it an Association Agreement or not? It is not clear.

“The absence of a clearly defined policy from Moscow with respect to Kaliningrad has been evident throughout the past decade. This lack of central policy was one of the important causes behind the inability to turn Kaliningrad into a well prospering economic area. It should be expected that the policy of the Putin administration concerning enclave relations with the EU will correspond to the provision contained in the middle term Strategy for the Development of Relations of the Russian Federation toward the EU. The authors of that Strategy clearly underline the necessity to assure the full authority of Moscow over Kaliningrad, adding only that the District could, to such an extent as may be feasible, fulfil the role of a ghost “pilot region” in relations between Russia and the EU.”³⁸

Of course before converting Kaliningrad to part of the European Union there is a need to take into account all of the consequences for Russia as a whole. They have to be clearly understood before a decision can be made.

First of all, when the European Union gladly folds Kaliningrad into its arms, Russia possibly will lose even formal control over the region eventually. It would be quite complicated to reverse the process even if Russia became once again a superpower with high economic and military potential.

³⁸ “Overcoming Alienation: Kaliningrad as a Russian Enclave inside the European Union, On the future of Europe”, Batory Foundation policy papers, January 2001, Warsaw.

Second is the possible threat of ethnic Germans moving to Kaliningrad from “mainland” Russia. Various German organizations, such as the Society of East Prussia, German Koenigsburg Action, and German People's Union are gradually slipping into the region's life. For example, they support ethnic Germans moving to Kaliningrad from “mainland” Russia.

Third is the matter of territory, which Russia will be able to abandon to the West. We already have such disputable territories, as the Kuril Islands, the land along the Tumen River and Chechnya. But any Kaliningrad separation could be a precedent in terms of scale, living population and break up of a country. In addition to long-term consequences could be the loss of a state property, major naval base and year-round port, military, political, and economic influence on Europe.

Fourth, as a country from the club of “great powers” Russia could lose respect as an equal EU partner. Then in the future relations between Moscow and Brussels may be dominated more by a language of ultimata than a language of agreement and compromises.

Border territories between Finland and Russia, Estonia and Russia are already waiting for redevison. The Vyborg region is not worse than Kaliningrad. Finland, including the Vyborg region had become independent after the February Revolution, 1917 when Lenin signed the recognition of Finland's independence. From 1918 to 1940 the city was part of Finland and held the name Viipuri, but it was ceded back to the Soviet Union in 1940 after the Russo-Finnish War. The city was occupied by Finnish and German forces from 1941 to 1944, after which it was permanently ceded to the Soviet Union.

The various Finnish post-war political leaderships during the Soviet period discussed unofficially the possibility of the return of the ceded areas with the Soviet leaders although without any permanent success. However since the disintegration of the Soviet Union the question was brought back on the agenda at least in the Finnish public discussion. If the Baltic countries could regain their independence and Germany was unified, what could prevent a restitution of the ceded Vyborg to Finland? Finland has even more moral rights to the return of parts of the country which had after all been taken by force rather than Germany to Kaliningrad. Russians, on the contrary, in this case, received rights on Kaliningrad by international law when the World War II was over and victors - the USSR, the USA, and Great Britain - agreed on the liquidation of East Prussia at the Potsdam Conference. Participants of the Conference in that time agreed on transfer to the Soviet Union of the City of Königsberg and the adjacent area. Then what about Finland? Does Finland have rights to Vyborg? Maybe it is only a matter of time after Kaliningrad...

The US, a big player from the other side of the ocean, observes impatiently the Russian Baltic policy. Whether Moscow will be independent in its decisions or work under European influence? In both cases America also has its own interests in the region. Poland for instance has opened recently negotiations on the stationing of American troops on their territories. „Polish officials say they are ready to host American military bases, and that further negotiations with Washington are expected shortly. Possibly these topics will be among the hot ones discussed by Polish President Aleksander Kwasniewski and President Bush in Washington later this month.“³⁹ The Kaliningrad region thus becomes an important point of the Russian-American-European foreign policy triangle.

³⁹ Stefan Bos “Poland, Romania Start Negotiations on US Military Bases”, 10 January 2004, <http://www.voanews.com/>

5. Ukrainian hope

While negotiations on Kaliningrad are taking place between Moscow and Brussels other former USSR republics and the Baltic Countries are currently striving to join the EU. The Ukraine at the Ukraine-European Union Summit in Yalta, 7 October 2003 reiterated its long-term strategic goal to be fully integrated into the EU.⁴⁰ A strategic goal of the Ukraine is to change bilateral co-operation with the EU from the form of partnership to an association relationship, the Ukrainian deputy minister for Foreign Affairs Oleksandr Chalyi said, according to the Ukrainian newspaper Pravda.⁴¹ Although the result of the summit was not too optimistic for the Ukraine, the European Commission only defined Ukrainian possible membership prospective and called for effectively tackling the real substance of reform needs and improving bilateral co-operation.

6. Association membership history

But why should such a way of integration not be possible also for Kaliningrad, as it is geopolitically situated in the centre of Europe? What is associated membership with the EU? What advantages and disadvantages would the associated membership give the Kaliningrad region?

I will try to explain it further. The idea of associated membership is far from being new.⁴²

It can be found in the Treaty establishing the European Community, which was concluded in 1957⁴³, and also in the Treaty on the European Union concluded in 1992.⁴⁴ The matter is that there are precedents where the influence of some European countries stretched beyond those boundaries, which mark their home territories and sovereignty, in many cases reaching beyond Europe itself. For example, Greenland belonging to Denmark or the overseas territories of French Polynesia whose inhabitants is citizens of their corresponding mother countries. Therefore the introduction into the EU of such countries facilitated first of all assistance to the economic and social development of such territories and an establishment of close economic ties between them and the European Union. The association in this case was the tool which promoted the development and prosperity of the inhabitants of such countries and territories towards those economic, social and cultural goals to which they aspired.

The roots of such attachment lay in the colonial past of such territories. As a result of significant historical developments they have acquired independent sovereignty in various degrees, but have maintained very close communications with their mother

⁴⁰ “EU-Ukraine Summit - Joint Statement”, European Commission’s web site

http://europa.eu.int/comm/external_relations/ukraine/intro/js_071003.htm

⁴¹ Marcin Frydrych “Ukraine in bid for EU association“, 27 August 2003, www.euobserver.com is an independent website published by EUobserver.com ASBL in cooperation with the Group for a Europe of Democracies and Diversities in the European Parliament http://www.euobserver.com/index.phtml?extreferer_click=http%3A%2F%2Fwww.eurojour%2F&aid=12437

“Ukraina prosit ES pro asotsiovane tchlenstvo”, Ukrainian newspaper Pravda, 26 August 2003

<http://www2.pravda.com.ua/archive/2003/august/26/news/3.shtml>

⁴² Vladlen Martynov, “Novye kontury zapadnoy Evropy”, Institut mirovoy ekonomiki i mezhdunarodnykh otnosheniy, Izdatelstvo Mysl’, 1992

⁴³ Text of Treaty establishing the European Community, part four (1957) European Commission’s web site <http://europa.eu.int/abc/obj/treaties/en/entoc05.htm>

⁴⁴ Text of Treaty on the European Union (1992) European Commission’s web site

countries, which, according to requirements of the EU, could lead to negative political consequences. Such consequences could not be compensated for by the possible advantages arising as a result of membership in the EU. It is also evident that the presence of such territories increases the value of the EU and expands its direct influence beyond the limits of the European continent.

Each of the states having overseas territories at the time of joining the EU, besides their own joining to the Treaty on European Union (sometimes with clauses) specifically developed the Agreement on association for the overseas countries and territories. This list was then added to the general Treaty on European Union. In this agreement the state-participant stipulated what positions of the basic Agreement will be applied to such territories. Then according to the procedures of the EU, this agreement went for discussion, and after numerous consultations of the European Council and the European parliament, a decision was made by an overwhelming majority of its members, to validate the Agreement after ratification by all member states of the EU.

7. Association nowadays

Today the situation has changed as new candidate countries already do not have numerous former colonies or dependant territories, but more and more countries want to be in some way associated with the EU. It is important to note that the status of associated membership of the EU does not guarantee full membership to the European Community.

In relations with the external world the EU has 5 types of Association Agreement from which only two provide a prospect of membership.

- The first type - so-called “Europe Agreement” - the European agreements based on Article 310 (formerly Article 238) of the European Union Treaty signed earlier by the countries of Visegrad Four (Poland, Hungary, Czech Republic, and Slovakia) plus Romania and Bulgaria. This type of Agreement is aimed at preparation of the countries for membership.
- The second type of Association has appeared more recently. These are “Agreements on Association and Stabilization” which are now concluding with the countries of the Balkan Peninsula. It has already been signed by Croatia, and negotiations with Serbia, Macedonia, Albania, Bosnia and Herzegovina proceed. This type also provides full integration into the European Community.

Other three types of Association Agreements with the European Community do not give the right of high-grade membership in it.

- The first type of “the second sort agreements” has been concluded by the EU with the developed countries of Europe, which for whatever reasons have not joined the European Community. These are the countries included in so-called EEA - European Economic Area⁴⁵ - Norway, Liechtenstein Iceland. The association with these states provides the maximal economic integration, but excludes their joining of EU.

⁴⁵ The Agreement creating the European Economic Area was negotiated between the European Community and seven member countries of the EFTA and signed in May 1992. Subsequently one of these (Switzerland) decided after a referendum not to participate, and three others joined the Union. The EEA Agreement entered into force on 1 January 1994. European Commission’s web site http://europa.eu.int/comm/external_relations/eea/index.htm

- The second type of Association Agreements related to the so-called Euro-Mediterranean Partnership⁴⁶ launched in November 1995 at Barcelona by the EU and 12 Mediterranean Partners. The Euro-Mediterranean Partnership - also known as the “Barcelona Process” - is implemented along two complementary tracks: the regional dimension, which consists of Euro-Mediterranean programmes, networks and activities (Euro-Mediterranean Partnership); and the bilateral dimension which takes the dual form of Association Agreements (see below) and of EU support to economic reform processes.

Association Agreements already concluded, are in chronological order, with Tunisia, Israel, Morocco, the PLO on behalf of the Palestinian Authority, Jordan, and Egypt, Lebanon and Algeria. The European Union started to negotiate an Association Agreement with Syria in May 1998. The Association Agreement will replace the Co-operation Agreement signed in 1977. Although Syria is far from agreed democratic standards. The USA has included her in „an axis of evil”. These states also have no prospects to become members of the EU.

- Finally the European Community has Association Agreements with the countries of Latin America - Mexico, Argentina and Chile. The major feature of these agreements is the maximal liberalisation of economic attitudes without the right of high-grade membership.

8. A special case of Switzerland

It is interesting to look at the special case of Switzerland alongside all these major EU Association Agreements. Swiss relations with the European Union are quite specific and possibly could be compared to the Kaliningrad experience. It represents another type of Association with the EU, but is very close to the European Economic Area Countries Agreement.

The European Union is the most important partner of Switzerland - politically, culturally and economically and EU/Switzerland relations have always been good, long term and founded on common fundamental values such as democracy, regard for human rights and a constitutional state. Switzerland is surrounded by EU countries and has with them cultural, language and economic similarities. The EU is by far most important trading partner of Switzerland: three-fifths of our exports are sent to EU countries, while four-fifths of our imports come from there. Switzerland also has close contractual ties with the European Union, no other third country has as many agreements with the EU in place as Switzerland.

The first such Agreement was concluded in 1956, when Switzerland became a member of the European Coal and Steel Community and further followed the Free Trade Agreement (for industrial products) in 1972.

Then most of the European Countries in consequent years negotiated and concluded in 1985 the Single European Act and effectively created a single market with the four freedoms (freedom of movement of persons, goods, services and capital) that resulted from this. Switzerland together with Austria, Denmark, Norway Portugal, Sweden, the United Kingdom, Iceland, Finland and Liechtenstein, since 4 January 1960 was member of other European clubs, established in opposition to the European Community – the European Free Trade Association (EFTA). Nevertheless, such advantages forced

⁴⁶ “The Euro - Mediterranean Partnership”, European Commission’s web site
http://europa.eu.int/comm/external_relations/euromed/index.htm

Switzerland and the other EFTA countries to reconsider their especial position and strive to join Agreement on European Economic Area (EEA) based on the same four freedoms. On 2 May 1992, Switzerland signed the EEA Agreement. A few days later, on 20 May 1992, the Swiss Government applied for accession to the EC.

Full membership of the European structures was the only serious option for the Swiss Government, but not for the people. In 1992, in a referendum they rejected Switzerland's possibility of becoming a member of the European Economic Area. As a consequence, the Swiss Government decided to suspend negotiations for EC accession until further notice, but its application remains open. Denmark, the United Kingdom, Portugal, Austria, Finland and Sweden have withdrawn at different stages from the EFTA Convention as a result of their membership to the European Union. Now the only EFTA states besides Switzerland are Iceland, Liechtenstein and Norway.

Despite the above, the Swiss administration has not abandoned its policy of long term Swiss integration into the EU. To this end, it has established an Integration Office under the Department of Foreign and Economic Affairs.

The Swiss administration nevertheless has not abandoned its integration aims and relations with the EU were eventually to be given a new lease of life by the decision to seek sector-by-sector bilateral agreements. Negotiations for agreements in seven sectors began in 1994 and were signed with the EU in 1999. These were approved by a large majority of the Swiss electorate in the referendum of May 2000. The agreements came into force on 1 June 2002 after its ratification in all EU Member States. The Swiss agreement with the EU concluded in the following areas: free movement of persons; air transport; the carriage of goods and passengers by rail and road; trade in agricultural products; mutual recognition in relation to conformity assessment; certain aspects of government procurement; and scientific and technological cooperation.

Parties sympathetic to the EU in 2001 launched an initiative of the immediate opening of negotiations on EU membership with the name „Yes to Europe!“ But the initiative was contradictory to the distribution of political authority as laid down in the Swiss Federal Constitution. The Swiss Parliament first rejected the „Yes to Europe“ initiative with a large majority and then Swiss people as the results of March 2001 „Yes to Europe referendum“ opposed this initiative.

In the last two years new negotiations have been under way between Switzerland and the European Union on a further ten issues: services, pensions, processed agricultural products, environment, statistics, media and education, professional training, youth. The EU besides that also wants action to combat fraud and withholding tax on interest payments to be considered, while Switzerland is interested in improved cooperation on internal security and asylum policy (participation in the Schengen and Dublin system). Possibly the negotiations will be concluded this year, provided that the right balance can be struck in the overall package.

Why is Switzerland so opposed to European integration when the country has so much in common with it? Maybe for the country it is simply better to join the EU instead of following the bumpy path of bilateral agreements? The reason is that there is still no consensus in Switzerland society on the question of EU membership. Switzerland is a rather conservative and independent country. Conservatism first of all applies to Switzerland's policy in Europe. Twelve years ago the Swiss people voted “no” to entry into the European Economic Area, because many saw this as a first step

towards EU membership and that it would deprive them of some of their freedoms that could instead go to the EU authorities. Three years ago a referendum aimed at speeding up the process towards EU membership was likewise roundly rejected. Since any further moves would clearly lack political support within the country, EU membership is not on the Swiss agenda at the present time.

There are many reasons for Switzerland's skepticism. Many people see EU membership as posing a threat to Swiss federalism and direct democracy. A full membership would also have a major impact on their monetary and exchange rate policy. Indeed, if Switzerland joined the EU, it would have to abandon its independent monetary policy and its own currency. This would deprive them of an essential component of their flexibility in setting economic policy. Switzerland could no longer pursue an interest rate policy geared to the needs of the Swiss economy. Membership would also spell the end of the interest rate advantage with respect to the euro area, which still stands at one and a half to two percentage points. This would entail the loss for the Swiss economy of an important competitive advantage.

If there are grounds for hoping that an enlarged EU will lead to greater stability and prosperity on the European continent, it is also conceivable that a larger market will open new opportunities for Switzerland. Once the bilateral agreements have been extended to cover the new member countries, Swiss economic relations with the enlarged EU will be regulated by the same network of bilateral treaties, as is the case with the current EU. The Swiss economy will thus enjoy easier access to a greatly expanded market totaling 450 million people.

However, EU enlargement also represents a challenge for Switzerland. A larger Union needs to work out its joint position in lengthy internal consultation and decision-making procedures. It could thus become increasingly difficult for the Swiss to defend their own interests. Enlargement is therefore very likely to influence the Swiss relationship with the EU.

In the Kaliningrad situation such type of agreement could be also possible. There are many more advantages than with normal membership, which would lead to a loss of federalism and direct democracy. Moscow would never agree to give a part of their political power to the EU. Full membership also could mean new borders with the territory of Russia and difficulties with people and economic relations. Kaliningrad would lose its free economic zone, which is attractive for the majority of enterprises working and investing under these conditions with the introduction of a European single monetary and economical policy. Kaliningrad instead of being primarily an exporting region would turn into an importing one. Numerous companies would leave the region. The question is it better to have a strong Rouble or a strong Euro and how could the Russian region exist with a different currency from the Russian Federation? Agriculture would also be destroyed. The existing agricultural enterprises could not sustain competition for agricultural production with the European farmers whose production is supported by the corresponding EU institutions. Fast harmonization of Russian legislation would be required together with regional government, economic policy, trading standards and rules. This argument is only a brief glance at the differences between normal membership and an association one. However this is why I am adherent of Swiss integration way. Although I admit that in comparison with Switzerland, the Kaliningrad issue is much more complicated. Nevertheless, Swiss Association advantages are preferable given the alternatives. To realise it is necessary to look at different types of European Agreement.

9. Association advantages

I want to compare two types of the second sort agreements: EEA Agreement and Association Agreements related to the so-called Euro-Mediterranean Partnership, because Kaliningrad integration could possibly follow these scenarios.

EEA Agreement provisions include:

The free movement of goods (agricultural and fishery products; cooperation in customs related matters and trade facilitation; other rules relating to the free movement of goods; coal and steel products); free movement of persons, services and capital (workers and self employed persons; right of establishment, services; capital; economic and monetary policy; cooperation; transport); competition and other common rules (rules applicable to undertaking; state aid; other common rules); horizontal provisions relevant to the four freedoms (social policy; consumer protection; environment; statistics; company law); cooperation outside the four freedoms; institutional provisions (the structure of the association; the decision-making procedure; homogeneity, surveillance procedure and settlement of disputes; safeguard measures); financial mechanism; general and final provisions.

Euro-Mediterranean Partnership Association Agreements have a little difference, vary from state to state and I have chosen the most detailed provisions of the Agreement with Israel, which include:

Political dialogue; free movement of goods (basic principles; industrial products; agricultural products; common provisions); right of establishment and supply of services; capital movements, payments, public procurement, competition and intellectual property (capital movements and payments; public procurement; competition; intellectual; industrial and commercial property); scientific and technological cooperation; economic cooperation; cooperation on audiovisual and cultural matters, information and communication; social matters; institutional, general and final provisions.

The main objective of these Agreements focuses in the same areas: these being Economic and Financial, Cultural, Social and Human Partnership. In the Euro-Mediterranean Partnership there was also added the chapter of Political and Security Partnership. But the EEA Agreement foresees a more beneficial economic integration for the included parties and contains the provision of free movement for individuals that are a strong requirement for Kaliningrad.

10. Membership criteria

Nevertheless as with the associated membership territories the considered hypothetical case of the Kaliningrad region would need also to correspond to a lot of the requirements of the EU. It would not just be about the issue of sovereign rights. For the Russian government many requirements of an Association Agreement could be unacceptable. The so-called “Copenhagen Criteria” that apply to the associated countries in central and Eastern Europe that want to become members of the European Union.

As stated in Copenhagen in 1993, membership requires that the candidate country has

achieved:

stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities;
the existence of a functioning market economy as well as the capacity to cope with competitive pressure and market forces within the Union;
the ability to take on the obligations of membership including adherence to the aims of political, economic and monetary union.

has created:

the conditions for its integration through the adjustment of its administrative structures, so that European Community legislation transposed into national legislations implemented effectively through appropriate administrative and judicial structures.

The Luxembourg European Council (December 1997) also underlined that “as a prerequisite for enlargement of the Union, the operation of the institutions must be strengthened and improved in keeping with the institutional provisions of the Amsterdam Treaty”.⁴⁷

11. Kaliningrad possible solutions

More beneficial for the Kaliningrad integration scenarios and the EU Association Agreement from my point of view should be the case of EEA or Swiss Agreements. Nevertheless it is important to understand that even the conclusion of the Associated Membership does not automatically lead Kaliningrad to Europe, but enables it to choose something acceptable for both sides in the way of possible regional integration.

Russia is neither a member of the EU, nor currently a candidate for membership. The last Partnership and Cooperation Agreement (PCA)⁴⁸ between the Russian Federation and the EU was signed in June 1994 in Corfu by the Heads of State or Government of the Member States of the EU, the President of the European Commission and the President of the Russian Federation and it came into force on 1 December 1997. “Agreement on the integration of Russia into the EU did not provide any firm steps; apart from the Partnership and Cooperation Agreement and other documents of the European Union Common Strategy on Russia, 1999. The Program of Technical Assistance TACIS does not take into consideration the unique situation of Kaliningrad as an enclave inside of EU.”⁴⁹ Therefore if we want to realize the Associated Membership of the Kaliningrad region with the EU it would be necessary to create a legal basis in the first instance.

For this purpose from the side of the European Union it would be necessary to make changes to the European Union Treaty so that it would become possible for this territory, whose motherland is not a country that is a member of the EU, to be an associate. And from the Russian side it would be a requirement to at least prepare a draft of Association Agreement or for the adoption of a Constitutional Law for the Kaliningrad region.

⁴⁷ “Luxembourg European Council Materials”, European Commission’s web site, <http://europa.eu.int/council/off/conclu/dec97.htm>

⁴⁸ “Partnership and Cooperation Agreement (PCA)”, European Commission’s web site, http://europa.eu.int/comm/external_relations/russia/pca_legal/index.htm

⁴⁹ Natalia Smorodinskaia “Svoy sredi chuzhih, chuzhoj sredi svoih. Situatsia s Kaliningradskoy oblast’ u trebuet novogo politicheskogo myshlenia ot Rossii i Evropy” Kaliningradskaia Pravda, 4 April 2002

There are no especial documents that stress the necessity for Russia and the EU to elaborate such a legal basis for integration. However it is not a problem for Russia to use existing legislative procedure to conclude an Association Agreement. The Constitution has established that “both the conventional principles and norms of international law and the international agreements of Russian Federation are a component of its legal system. If the international agreement of Russian Federation establishes other rules, than are stipulated by the law, the rules of the international agreement are applied part.4, item 15”. The international agreements of the Russian Federation touching on questions about the Kaliningrad region concluded according to the Federal law “On the international agreements of the Russian Federation” on agreement with bodies of the government of the Kaliningrad region. The international agreements of the Russian Federation relating to the Kaliningrad region should contain the positions confirming the existing status of the Kaliningrad region as an integral part of the Russian Federation. Russia already successfully applied European norms that were ratified in March 30, 1998 in The European Convention on the Protection of Human Rights and Basic Freedoms, which fixed the rights of Russian citizens on the use of the European rules of law and their application to the European Court of Human Rights. Such a format could be improved and other Russian legislation effecting Kaliningrad also. It would not be necessary to worry about the existing status of the Kaliningrad region. The Kaliningrad region would be considered to belong to both the Russian Federation, and the EU as an integral part of the Russian Federation, which should develop within its frameworks. It was stressed in numerous joint documents and statements of the EU leaders. Expressing this EU position the ambassador of Sweden S. Hirdman directly declared during a TV program devoted to discussion of the problems of the Kaliningrad region: “the European Union considers that the Kaliningrad region is present Russian territory. Nothing else”⁵⁰

The European Union legal criteria are also changeable. An Agreement on transit between the Kaliningrad Region and the rest of Russia, concluded at the EU-Russia Summit in November 2002 in Brussels deviated from the requirements of the Treaty of Amsterdam⁵¹ for all applicant countries to adopt the Schengen *acquis* with a common visa policy and it insisted on the European Union making the necessary changes to the Schengen legislation. Taking into consideration the special case of Kaliningrad such changes could be made in future as a result of an Association Agreement.

12. Integration scenario

If the region will be following the European integration, what it should expect in the future? Some serious complications for the Kaliningrad region lie, first of all in the fact that the social and economic development of the region considerably lag behind not only the West-European countries, but also its nearest neighbours, Lithuania and Poland, where reform is much more advanced. Besides that any membership in the EU, including association, requires free movement of goods and services within its boundaries, and common rules of competition, protective measures, environmental standards, and agricultural policy, there are no customs duties and tariff restrictions. I will try to analyse all this issues, what it brings to region.

⁵⁰ Teleprogram “Freedom of speech” on NTV from 31 may 2002, the Internet address, <http://svobodasova.ru>

⁵¹ “Treaty of Amsterdam” European Commission’s web site” <http://europa.eu.int/abc/obj/amst/en/>

13. Economic Issues

Experience has shown that the decline of industry in the Kaliningrad region is not caused by a stream of goods from European manufacturing. It is more likely caused by the absence of a stable and intelligent industrial and investment policy, both on a regional and national Russian level. The authorities have a seemingly pathological desire to collect as much money as possible from taxes, and constant requisitions. An example of this was the introduction by former governor Gorbenko of a so-called “regional protective mark”, under a demagogical pretext of care about health, which was really about guaranteeing a certain level of income, which has not been revoked even after a decision to do so, was made. All places excessive burdens on the businesses in the region.

The ability of local manufacturers to produce and sell their goods in the markets of Europe is in question. The reasons are as follows:

- the connection to the high price of production when selling to the European markets;
- the necessity for the highest quality standards, which are unattainable given the existing skill levels and qualifications of employees of these organisations, and the poor quality of management ;
- the unsuitable condition of the equipment;
- the existence of various kinds of non-tariff restrictions.

For the Kaliningrad region to succeed in the European market it will take a large scale structural reorganisation of its economy. The necessity of such changes is not connected in any way to the legal form of interaction of Kaliningrad with the EU. Whilst the Region may or may not be somehow legally integrated into the EU, the performance of its industry and services need to improve to a level that enable it to survive and develop as a region. In the opinion of many experts of structural reforms it is necessary to develop such industries as tourism, communications, assembly manufacturers, financial services, foreign trade, and environmental manufacturing.⁵²

Within the framework of the developed strategy of the Kaliningrad region⁵³ elaborated by the Administration of the Kaliningrad region, the future of Kaliningrad looks promising. As it has been presented by Vitaliy Zhdanov, the chairman of the committee of economic development and trade of the administration of Kaliningrad region, Kaliningrad is a “contact territory” of Russia on which numerous and versatile contacts of business, industrial-technological, cultural and educational character are carried out. This is promoted by the world famous historical heritage of the territory, the simplified visa regime for the tourists arriving for the term of not more than three days, the advanced transport network, the Russian jurisdiction of the region, and an opportunity for the export from the region of manufactured goods and services to the extensive market of Russia and the countries of Russian Customs Union. However at present he emphasizes that we have not only pluses but also minuses for the development of this “contact direction“: queues on the borders, the plainness of the region’s territory and the

⁵² Vitaliy Zhdanov, the chairman of the committee of economic development and trade of the administration of Kaliningrad region, „Kaliningradskaia oblast’ v 21 veke“, Kaliningradskaia pravda, 12 March 2001

⁵³ Strategy of Social and Economic Development of Kaliningrad Oblast up to the year 2010, www.kaliningrad.it/eng/doc/development_strategy.doc

city of Kaliningrad, the bad aviation and sea connections with Europe, the underdeveloped positive image of the region, and the backwardness of an infrastructure for “contact activity”. Within the framework of the given direction the least that needs to happen is: the creation of a positive image and a corresponding openness of territory; the further simplification of a visa regime, the development of a tourist and recreational infrastructure and the leisure industry.

For Kaliningrad citizens such “contact territory” could give numerous benefits if from now until the year 2005 central government made significant inputs of this order into the region. If this happens the Kaliningrad region could become in the first instance a place for holding international conferences, meetings, and political consultations. Prototypes - Davos, Lugano. But firstly, according to Vitaliy Zhdanov’s opinion, at least, 3-4 modern conferences-centres are required, together with advanced leisure infrastructure and entertainments, convenient aviation and sea connections with the European countries, and a positive marketed image and brand for the area. Secondly Kaliningrad needs a place of learning for Russian and foreign students (from the countries of the former CIS), and a transfer of modern educational technologies. Thirdly Kaliningrad could become a meeting place for businessmen from Russia, Europe and other countries. A prototype - Poznan. A well-known and permanent exhibition centre is necessary for this purpose, with many small hotels of various standards. Also a facilitated visa regime is a necessity, and an advanced banking network. Fourthly it is needed to set up a place of transfer of technologies and knowledge to facilitate business meetings between businessmen and production workers from both Russia and the West. Prototypes - Frankfurt, Malmo.

The principles of such regional development are incorporated in the Federal Target Program.⁵⁴ This program is seen as a key element of the new strategy to improve the regional economy. The guiding principle of the new program is the concentration of resources on the priority areas to compensate for the region’s isolation from mainland Russia. It is supposed in particular to make changes to the current legislation due to the specification of the area’s status (changes of functioning in the free economic zone within the Kaliningrad area). The stable operation of the energy complex of the region is a top priority for the federal program. Ambitious plans include the building of a new power station, the reconstruction of an old one, the construction of an underground gas storage facility, the installation of a new gas pipeline from Russia to the city of Kaliningrad, as well as reconstruction of the old pipeline. The total estimated cost of these energy projects amounts to approximately \$800 million to \$1 billion.

The federal program also plans an upgrade of the major roads and railroads of the region, stimulating increasing transit volumes. The improvement of the communications and telecommunications infrastructure is also on the list of the programme’s priorities. The most important projects include the installation of the fibre-optic cable from St. Petersburg, the construction of a radio and television transmission station and development of telephone communication facilities.

Although it is not clearly understandable how lively this program could be. Proposed financial resources for this program were not allocated. According to the Federal Target Program, federal financing should have totalled 14050,56 billion roubles, where Federal Government will only give 3416,7 billion roubles. Other finance recourses government planning to get from the tax credit of the region 3431,5 billion roubles and the region

⁵⁴ „O Federal’noy tselevoy programme razvitiya Kaliningradskoy oblasti na period do 2010 goda, s izmeneniyani ot 6 iunia 2002 goda,” postanovlenie pravitel’sva RF ot 7 Dekabria 2001 goda N 866 Site government of Russian Federation, <http://www.programs-gov.ru/ext/135/content.htm>

budget 673,6 billion roubles, Russian investors companies 3201,26 billion roubles and foreign companies 3327,5 billion roubles. The financial ideology of the Program is that all hopes are assigned to foreign investments and the means received as a result of the effective work of the mechanism of the Program. However such a scheme will work only if certain legal and economic conditions in the interest of the foreign and Russian capital in enterprise activity in the territory of the Kaliningrad region are created. Besides that the program doesn't establish a comprehensive framework for foreign investment, nor does it stipulate any guarantees or privileges. Generally the inflow of foreign capital to any country, and also the efficiency of capital investments are defined by the advantages and attractiveness of an investment climate to the country. According to the deputy minister of economic development and trade Arcadiy Dvorkovich, Russia, from an investment point of view in February, 2003 took only seventh place out of a group of ten of the worlds countries.⁵⁵

The Kremlin administration admits these great difficulties in financing. The lack of budgetary and private funds for Kaliningrad is obvious. In year 2002 the government could only find 800 million roubles from the federal budget and 258 million roubles from the region when the total volume of financing in that year was 9 billion roubles in spite of the resolution of the State Russian Duma from 13 December 2001, "On state policy toward Kaliningrad region" p.2 recommending the government to prioritise the financing of the Federal Target Program.⁵⁶

The Federal Target Program of social and economic development of the Kaliningrad region is realised with a delay for 4-5 months. It was declared by the Chairman of the Russian Federation Government, Michael Kasyanov, at press conference 22 October 2002, before a meeting on the issue of FTP realisation.⁵⁷ The reason according to Kasyanov – lies in the underfinancing of some of the projects of FTP, which has both budgetary and investment components. As regards the federal budget money, that he promised, the position will be improved towards the end of the year. The problem, as he said, lies in the attraction of private investments.

In October at the meeting of the representatives of business circles of potential investors the purpose was to invite them to participate in the realisation of these projects. Obviously the Russian government sees foreign investment as a crucial element of the region's long-term economic growth.

The Administration of the Kaliningrad region from their side tries to invite investors to the region. As the press-service of the Administration states, among the most important achieved results Michael Tsikel has named the inclusion of the Polish investors in the realisation of 31 projects of the Federal Target Program of regional development until 2010. It announced first of all a tender for reconstructing the old power station given to the Russian and foreign contractors of the Russian Joint Stock Company "United Energy System of Russia". Other active components in the Russian-

⁵⁵ Vitaliy Lednik,, "Otkroetsia li vtoroe okno v Evropu ?", Rossiyskaia Federatsia segodnia, official journal of Russian state parliament, N 15, 2003, http://russia-today.ru/2003/no_15/15_Duma_2.htm

⁵⁶ „O gosudarstvennoy politike v otnoshenii Kaliningradskoy oblasti“, resolution of State Russian Duma from 13 December 2001, <http://www.gov.kaliningrad.ru/ofederal.php3>

⁵⁷ "Programma razvitiia Kaliningradskoy oblasti realizuetsia s zaderzkoy na 5 mesiatsev", Rosbalt, News Agency, 22 October 2002, <http://www.rosbalt.ru/2002/10/22/main/politics/70662.html>

⁵⁸ "Polskie investory budut uchastvovat' v 31 proekte Federal'noy tselevooy programmy razvitiia Kaliningradskoy oblasti", Gaseta Investitsii v Rossii, 20 July 2002 <http://www.investmentrussia.ru/rus/news/invnewsarch.asp>

⁵⁶ Natalia Smorodinskaya, Stanislav Zhukov, "The Kaliningrad Economic Vulnerability During Ten Years of Transition and the Coming EU Enlargement", 2003, East West Institute www.iewe-tfcp.ru

Polish joint venture – the joint construction of the international road highway Kaliningrad - Elblong. The start-up of the highway is planned in 2004.⁵⁸

Meanwhile in spite of whether the Federal Target Program will be successful or not, Kaliningrad has quite stable prospects for development and for catching up to the middle European level. In the second half of the 1990s, when the transformational recession on post USSR space gradually came to the end in region, from 1997 there appeared the first signs of an upward trend. This upturn was interrupted by a systemic financial crisis in 1998, but since 1999, encouraged by a more favorable world economic situation and relatively low domestic energy prices, the Russian, including Kaliningrad's economy has emerged from recession step by step and entered a phase of economic recovery.

According to expert calculations⁵⁹ in the first three years of this revival (1999-2001) Kaliningrad's economy grew at an average annual rate of 9.7% and 15.5% for local industry. Both of these figures are higher than the corresponding indicators for Russia as a whole (6.2% and 8.3% respectively), and for the North-Western Federal District (6.9% and 10.5%). Furthermore, Kaliningrad's rapid economic recovery was accompanied by an impressive increase in fixed capital investment: 39,6% in 2000 and 37,1% in 2001, compared to a Russian average of 17% and 8,7%.⁶⁰ If we have a look at the economic development of the Kaliningrad region, that in year 2002 it occupies 11th place out of 89 subjects of the Russian Federation.⁶¹ Here it showed the level of social – economic development in all Russian regions. It analysed such indicators as GDP per person, investment volume, volume of foreign trade, financial provision, unemployment, share of population with income below living level, volume of commodity circulation, density of roads, institutions provision, how many doctors and hospitals per 10 000 inhabitants and so on. This situation suggests that Kaliningrad's economy has entered a phase of boom and rehabilitation, that the SEZ (Special Economic Zone) mechanism has started working properly, and that the local business cycle has begun working separately from the all-Russia cycle.⁶²

It is a fact that economic growth will be matter of discussion in the course of the EU-Russian Dialogue on Kaliningrad and will serve as a positive factor in any Kaliningrad Association Agreement. Although it will be not easy for the region to reach the middle European economic development level and it would take a long time for the Kaliningrad Region to achieve convergence with the EU member-states in per capita GRP/GDP. Compared with the surrounding Baltic countries, Kaliningrad has low incomes in USD. Even corrected by the highest estimation of the shadow economy, the nominal per capita GRP in Kaliningrad is about two thirds of that in Lithuania and Latvia, and one half of that in Poland. In 2002, Kalininrad's per capita GDP amounted to 1394 USD.⁶³

⁶⁰ Arthur Usanov, Kaliningradskaia Oblast v pervom polugodii 2002 goda. Analiticheskiy obzor sotsial'no-ekonomicheskogo razvitiya. (The Kaliningrad Region in the First Half of 2002. Analytical Review of Social and Economic Development), Kaliningrad Regional Development Agency, October 2002 www.kaliningrad-rda.org

⁶¹ „Kompleksnaia otzhenka urovnia sotsialno-ekonomicheskogo razvitiya sub`ektov Rossiyskoy Federatsii v v 2000 i 2002 godakh, Ministry of Economic development and trade of Russian Federation web site http://www.economy.gov.ru/merit/socec_sub_2000-02.html

⁶² Ivan Samson, TACIS 2002 “Economic Survey: The Kaliningrad Economy – at the Edge of EU Enlargement. Promoting Trade and Investment in Kaliningrad Oblast”, Consortium IMC Consulting Ltd, UK; Université Pierre Mendès France, Grenoble, March 2002

⁶³ „Kompleksnaia otzhenka urovnia sotsialno-ekonomicheskogo razvitiya sub`ektov Rossiyskoy Federatsii v v 2000 i 2002 godakh, middle rate of USD I have used as 31,35 rouble per dollar (Central Bank of Russian Federation data). Ministry of Economic development and trade of Russian Federation web site http://www.economy.gov.ru/merit/socec_sub_2000-02.html

Although in the last three years, Kaliningrad has showed very positive trends in its economy (GDP in 1999 was 605 USD and increased for 2 year more than 50%), these efforts are not enough to catch up with the developed European countries. The size of the gap between them and Kaliningrad is 4-4,5 times. Even when using other than state methods of calculation, using relative purchase power between parties, the Kaliningrad GDP per capita could be 6900 USD, when in Lithuania the same indicators are at 8200 USD.⁶⁴

Further computation showed that by 2015, at a GRP annual growth rate of 4%, the Kaliningrad development level would reach just 57% of a similar indicator in the least developed of the EU countries, Portugal, if the per capita GRP remained at the 1999 level (option I) or, which is more likely, a mere 45% with the EU countries' annual average growth rate of 1.5% (option II). That means that with the same annual average growth rate of 4%, Kaliningrad would catch up with Portugal only in 2029-2035; with Sweden, in 2038-2044; with Germany, in 2039-2045; and with Denmark, in 2042-2048. Moreover, the protracted periods (32 years to catch up with Portugal, 41 years with Sweden, 42 years with Germany and 45 years with Denmark), estimated on the basis of 1.5% average annual economic growth rate in the EU countries, seems more realistic. If Kaliningrad's economic growth rate is higher, say, at 5% a year, even then it will need no less than 25 years (2028) to reach the level of Portugal and no less than 35 years (2038) to approach that of Denmark.

Against this background, Russia, with the annual growth rate of 4%, can catch up with Portugal in 20 years (by 2022) and with Germany in 30 years (by 2032); with the same growth rate Poland will require 16 and 25 years, respectively, and Lithuania will take no less than two decades and three decades respectively.

Other things being equal, economic growth in the new Baltic states, where basic domestic prices have already been adjusted to match world prices, is likely to be accompanied by a certain increase in the national currency value. Therefore Poland and Lithuania might close their development gap with the EU countries within a shorter period than the above estimates.⁶⁵ At the same time this is an unlikely prospect for Russia and its individual regions, including the Kaliningrad Region, due to the currently great deviation of domestic prices from world standards.

14. Free movement of goods

Those local enterprises that have worked for a long time in export will benefit from free movement of goods. Export goods are basically the raw materials or products which have undergone a minimal degree of processing. The TIR (road) and COTIF (rail) conventions already allow for the transit of goods with relatively little bureaucracy. The parties to the Associated Agreement may also adopt simplified procedures for transit by rail, for example by accepting existing Russian documentation. The EU/Russia Partnership and Cooperation Agreement to which the candidate countries will accede after enlargement already ensures the free movement of goods

⁶⁴ Natalia Smorodinskaya, "Analysing the Kaliningrad Situation : The Economic Growth Dimension." Hanne-Margret Birckenbach/Christian Wellmann (eds.), *The Kaliningrad Challenge. Options and Recommendations*, LIT Verlag, Münster/Hamburg/Berlin/London, Sept. 2003

⁶⁵ The general idea is that the PPP-based GDP reflects a country's development level more accurately than the same indicator based on the official exchange rate. However estimates based on the PPP, being quite suitable for comparing developed countries, are far from the best method of development level forecasts for post-Soviet transition economies. For more detail see: Stanislav Zhukov, Oksana Reznikova, *Central Asia in Socio-Economic Structures of the Present-Day World*, Moscow, 2001.

between Russia and Kaliningrad across the Community without customs duties or any other transit duties other than charges for transport and administration.⁶⁶

15. Agriculture

The agriculture of the region is no different having been destroyed as a result of seventy years “attention” from the communist party and the Soviet government. To this day influential political forces create obstacles in the way of the development of agricultural production, destroying the legislative registration of landed property. The existing agricultural enterprises cannot sustain competition for agricultural production with the European farmers whose production is supported by the corresponding EU institutions.

Farmers also have diversified support both at a national and European level. Most of the Euro 80 billion annual budget is paid out through subsidies. This astonishing amount is normally matched by other subsidies from national or regional governments, which makes the sums even bigger. This system of management and support helps to provide for the highest productivity, which is totally incomparable to productivity in Russia. The European markets are overflowing with agricultural produce so there are by necessity internal restrictions in the EU, but there are also grants which are paid to farmers for the restriction of manufacture.

The practice of dumping, that is exporting at prices far below the production costs, will be seriously damaging the domestic markets in the Kaliningrad region. Therefore our regional agricultural enterprises support quotas at the import of production on the territory of the Kaliningrad region. Such quotas establish entrance barriers and raise prices. Russia now strives to join the World Trade Organisation (WTO). It means that after such accession any trade restrictions will be cancelled and it could be actually disastrous for Kaliningrad. It's obvious that tariffs on many types of agricultural products will be eliminated and this will mean that the attractiveness of the special economic zone will become minimal. Before then, the Kaliningrad district will have to find new markets and new ways of working.⁶⁷ Local farmers in this case will need to apply to international organisations such as “Oxfam” which struggle against agricultural subsidies.⁶⁸ Local agricultural manufacturers exist without investments, or production developments. While there will be as yet no changes or improvements from the Russian government, and no effective ownership, agricultural productivity therefore will not be enhanced.

16. The Environment

The condition and preservation of the environment is so valued in Europe, that in Poland they are considered as an obstacle for the introduction into EC.⁶⁹ Europeans today, worry about the preservation of the ecology, not only in their home countries, but about Europe as a whole, including Russia. Kaliningrad is already receiving considerable assistance from the EU in terms of ecological projects and Association

⁶⁶ “Kaliningrad : Commission proposes set of measures to ease transit after enlargement Brussels”, 18 September 2002 European Commission's web site

http://europa.eu.int/comm/external_relations/north_dim/news/ip02_1331.htm

⁶⁷ Aleksei Ignatiev, a Russian, is deputy director of the East-West Institute's Cross-Border Cooperation Program, interview to Radio Free Europe, 31 January 2002

<http://www.rferl.org/nca/features/2002/01/31012002092040.asp>

⁶⁸ Oxfam web site, www.oxfam.org

⁶⁹ „Kamen` pretknovenia. Ekologicheskie problemy – serieznoe prepiatstvie dlia Polshi na puti v EC,” Magazine “Europe” N 2, February 2001 www.eur.ru

benefits will be even more efficient. The most important issue for Kaliningrad is the credit from the European Bank of Reconstruction and Development to improve our system of water supply.⁷⁰ The credit is already allocated and has started transferring to the accounts of the municipal enterprise “Vodocanal”. In addition to this the regions are operating two projects TACIS: a water environmental monitoring and management project (€2 million) dealing with water quality on the borders with Lithuania and Poland and a waste management project in Kaliningrad’s coastal zone (€3 million) designed to alleviate the impact of waste generation on both public health and the environment. Actively working the Environmental Centre for Administration and Technology (ECAT - Kaliningrad).⁷¹ The project was co-financed by the EU LIFE programme with app. 1,2 Mio. DKK. Budget 1,6 Mio. DKK.

Our nearest neighbours Sweden and Denmark actively participate in nature protection activities across the Baltic. They further plan to help us in the protection of the environment on a European scale. In the frameworks of “Northern Dimension” concerning the improvements of ecological conditions in a river basin Neman are starting a number of projects with Lithuania. The Swedish Rescue Services Agency, with SIDA financing and EMERCOM of Russia are carrying out a project “Training in fighting oil and chemical spills in Kaliningrad region”. At the moment a total of 7 such projects are underway in Kaliningrad.

However at the same time the inclusion in the Association Agreement of an item on environmental issues will allow the European organisations and experts to monitor the condition of the environment in a region, including regions of pollution made from the territory. It cannot be happy with many influential forces. Firstly, the military who on the one hand reasonably say that the results of such monitoring are easy to use with a view to military investigation, and on the other hand confidentially hide all mistakes and incidents, including those which threaten the lives of people, behind the issue of “confidentiality”. Secondly, big producing companies of the region are not corresponding to the norms of European ecological standards⁷² which is especially dangerous for the environment raw material extraction companies.⁷³ However it is time to refuse to live in a cesspit and to understand that any improvement of the ecological situation means real improvement for our lives and we stand only to gain from this.

17. European Institutions

The participation of representatives from the Kaliningrad region in European institutions, such as the European Parliament, the European Council, the European

⁷⁰ Project “Kaliningrad Water and Environmental Rehabilitation Services” description, site European Bank of Reconstruction and Development

<http://www.ebrd.com/opper/procure/opps/goods/general/030407ax.htm>

⁷¹ “ECAT – Kaliningrad”, the North Denmark EU-office website

http://www.eu-norrdanmark.dk/en/references/list_of_projects/ecat_kaliningrad_.htm

⁷² “As a result of cellulose chloride bleaching which carries out pulp-and-paper enterprise “Cepuss”, in the river Pregolia, and then to Baltic Sea get substances from “a dirty dozen” of proof organic combinations - diocesans, and diocesans like substances related to the list of the most dangerous toxic combinations. Dump of chlorine organic combinations of Joint-Stock Company “Zepus” is comparable with 30 % of all drains pulp-and-paper industry of the Baltic Sea Region, and drains from this enterprise in 2-3 times is higher then all Swedish pulp-and-paper industry”, Ecodefence group champagne materials against pulp-and-paper enterprise “Cepuss”, August 2001, web site Ecodefence group,

http://www.ecodefense.ru/index.php4?lang=rus&div=15&sub=15_1

⁷³ “Project of oil extraction in Baltic Sea D6 deposit by the Russian company “LUKOIL” can cause step-by-step destruction of national park Curonian spit, that is in the list of World Heritage of UNESCO”, Ecodefence group champagne materials against “LUKOIL” oil company, web site Ecodefence group

http://www.ecodefense.ru/index.php4?lang=eng&div=11&sub=11_7_1

Commission and the European Court, will certainly have huge advantages for our region. In some of these institutions, such as the European Parliament, for example, it would be possible to assert most advantageously the interests of Kaliningrad. For example, the freedom of movement for its inhabitants. Thus it probably follows that except for the possible resistance of members of the EU such membership will not be welcomed by Moscow. For once any arbitrary act of the Moscow or St.-Petersburg officials concerning Kaliningrad (for example, the above mentioned decision of the State Customs Committee) became known to the European community, it could cause pressure to be brought upon Moscow on from the EU institutions. Thus the region would have a powerful lever of influence on central policy making. Regarding the relationship between the regions and the central administration, and given the amplification of centralisation, that can be clearly seen with recent trends, it is obvious, that the Kremlin will not be reconciled to such an increase in power for the regional role and will resolutely object to representation of the Kaliningrad region in the European Institutions, because such representation would mean for Moscow the necessity of the restriction of its sovereignty concerning the region. Besides counteraction would be possible at the level of the regional authorities. The heterogeneity and weak structures of the political institutes could lead to those representatives in the European institutes becoming the alternative centres of influence, and it is a possibility that the representatives of the current power structure well understand.

18. Regional and central administration

The bureaucratic system in case of association with the EU will need to correspond to European requirements. It is evident that the qualifications and business values of the majority of Russian officials do not correspond to such requirements. Besides it will be necessary to lead a radical reduction of administrative barriers and restrictions that will lead to the reduction in quantities of officials and the scope of their powers regarding regulation and control.

It should cause fierce resistance to the transition to the European standards of management on the part of the Russian officials. The centres of such rebellion will be not only from Moscow but also from Saint Petersburg, which is the centre of the Northwestern Federal District which will not want to lose its control over its competitor which would belittle its status as the “Northern Capital”.

At a regional level where the association with the EU will require rigid requirements for its officials and will establish norms for their behaviour, it will essentially limit opportunities for the typical arbitrariness and corruption of the Russian officials.

19. Liberalisation conditions offer services

Though it would be a tempting prospect to use the western services, even with the removal of any obstacles for the Kaliningrad organisations, there still remain problems. First of all with the national legislative base of Russia regulating the granting of such services. Services in the sphere of business, for example, mention all aspects of economic activities and mutual relations with the state and its municipal bodies. Therefore the obstacle lies within the need for the harmonisation of the Russian legislation and its reduction and law following practice with the norms of the European countries. There are also differences in the incomes of inhabitants and the profitability of the majority of firms in Kaliningrad to the European benchmarks and those of Poland and Lithuania also. On the other hand any possible Agreement of Association covering

the free movement of persons, capitals, transport, economic, social, financial and tax policies even if it does not present insurmountable obstacles, may cause issues for EU member countries about amending their standards in all of these areas.

20. Freedom of movement for Individuals

It would be especially important for the citizens of the region to have freedom of movement. This issue not only affects the population of Kaliningrad (almost a million), but also affect their friends, relatives and business associates who live in the rest of Russia and also need to travel between the two parts of Russia. The situation is radically different from one side for the associated membership of territories and the countries directly connected to members of EU, and from the other from such countries that lie outside Europe for example the countries in the Euro-Mediterranean Partnership. Kaliningrad does not have borders with the Russian Federation, but is surrounded by Poland and Lithuania. Besides that the region is part of the Russian Federation.

The unique exception from the sovereign rights of Russia over Kaliningrad is in the basis of the Agreement of 11 November 2002 between the EU and Russia.⁷⁴ The Agreement specifies that Russians who are not on the black lists of undesirable persons can be given, sold at law cost, either a return train trip between Kaliningrad and mainland Russia or multiple entry permits for other land transport such as cars. People who will be crossing Lithuania by land will still have to fill out paperwork that will no longer have the name visa, but which will still meet the standard of information required for admission to the Schengen area. Train tickets would not be sold until Lithuanian authorities verified that the person purchasing the ticket is not on the black list. The EU introduced legislation and established since 1 July 2003 a Facilitated Transit Document and Facilitated Rail Travel Document. The Facilitated Rail Travel Document is valid only for a one trip journey from and to Kaliningrad from the Russian territory and will be issued on the border. While buying your ticket at the Booking Office at the railway station you simply need to point out your name, date of birth and passport data. The FTD will be issued free. The FTD could be issued ordinarily for 3 years for travelling on any type of transport. The cost of the document will be 5 EUROS and it will be issued by Lithuanian consulates in Kaliningrad.

Russian and Lithuanian sources lend credence to the interpretation of the November 2002 agreement. On the Russian side, Rogozin, the presidential special representative for the Kaliningrad Region, said the simplified transit document “is not a visa. A visa represents permission to enter a country”, the document “is a notification of entry”.⁷⁵ He believes that the new transit system is a compromise on the part of both countries. Besides this all these changes in European legislation will be incorporated into the Schengen Agreement. Some Lithuanians seem to recognize the problem the agreement has created. In an article critical of its own government, one Lithuanian paper said, “if Lithuanian government had really represented the interests of our state, it would have opposed the uncontrollable transit through Lithuania”.⁷⁶ Reaction to the November 2002 agreement between the populations of the region is quite mixed. In Kaliningrad, the local weekly TV program “Infomix”, broadcast by the “Kaskad” station, gave the results of small opinion poll by phone. Approximately 500 people gave the following

⁷⁴ „Joint Statement of the European Union and the Russian Federation on transit between the Kaliningrad region and the rest of the Russian Federation”, 11 November 2002, <http://www.eur.ru/eng/neweur/summits/sum63.doc>

⁷⁵ Nikolai Komin, “Dmitry Rogozin: A Topical Interview”, *Parlamentskaia Gazeta*, 6 December 2002

⁷⁶ “Lithuanian Newspaper Say it is too early to celebrate EU entry”, *Lietuvas Aidas*, BBC Monitoring International Report, 18 December 2002

three reactions to the November 2002 agreement: completely satisfied, 40%; completely dissatisfied, just fewer than 40%; partially satisfied, the remaining 20%.

I support these remaining 20% because in spite of the agreement it is hard to expect any positive result in resolving a complex international issue, and the simplified transit document is just another type of visa and it applies only to Lithuania. The matter of Polish transit was not included in the discussion.

The Russian government tried to carry out complicated multilateral negotiations with Poland and the EU but Poland rejected any possibilities of a visa free regime.

“Visa problems between Russia and Poland are not unsolvable,” said Russian Prime Minister Mikhail Kasyanov. In an interview with the Polish public television station TVP1 in February 2003 he stated that “Russia will attempt to simplify the visa regime.”⁷⁷

In the last round of such negotiations in May 2003 the Russian party offered to begin a new visa regime, not from 1 July, because it is the peak of the tourist season, but from a few months later, and also offered a draft of an Agreement for a simplified visas regime, which implied visas with the duration of one year, free and without invitation. Similar conditions could be also applied for Polish citizens.

The Polish Foreign Ministry said in a statement that Poland can not be used as a transit corridor for the residents of Russia's Baltic enclave of Kaliningrad. The statement was issued in response to a new proposal unveiled a day earlier by the European Commission (EC), the executive body of the European Union (EU). Under the proposal, after Lithuania's entry into the EU, Russian citizens would be able to travel between Kaliningrad and the rest of Russia through Lithuania on a non-international-standard passport or a simplified transit document without needing a fully fledged visa. The EC hoped that this practice would also apply to other candidate countries. However the Polish Foreign Ministry said in the statement that Poland would not adopt the practice proposed by the EC.

In September 18, 2003 Poland and Russia signed a new Agreement on transit between Russia and Poland.⁷⁸

The introduction of visas “is not our decision”, commented Russian Deputy Foreign Minister Sergei Razov, adding that Moscow had been satisfied with the previous accord that permitted visa-free travel between the two countries. “But history follows its course, Poland is joining the EU and we have accepted this solution with understanding,” he added.⁷⁹

A visa regime between Russia and Poland was introduced on October 1, 2003. The agreement granted numerous privileges to travellers seeking a visa. Children below 16, elderly people aged 70 and older, students, post-graduates, teachers and people engaged in trade-and-economic cooperation would be getting free visas. For the citizens of the Russian Federation constantly living in the Kaliningrad area, visas of the Republic of

⁷⁷ “Russian PM: Visa Problems between Russia and Poland Not Unsolvable”, Gazeta Pravda, 21 February 2003

⁷⁸ “The agreement between the Government of the Russian Federation and the Government of Republic Poland about conditions of trips of citizens of the Russian Federation and citizens of Republic Poland”, <http://www.gov.kaliningrad.ru/rintro.php3>

⁷⁹ “Poland and Russia sign visa agreement ahead of EU enlargement”, Agency France-Press, 18 September 2003

Poland are given out free-of-charge, including multiple, within one year and without representation of an invitation.

Kaliningrad Transit Agreements concluded by Russia with Poland and Lithuania here from my point of view could not be considered as a part of the Association Agreement, because Association Agreements as a rule provide simplification of procedures and countries' integration. In the case of Kaliningrad it has not taken place. The population of the region before the signing of these Agreements visited the neighbouring countries without any visas or so called visas on the basis of a foreign or civil passport.⁸⁰

At present to be on the territory of the EU the inhabitant of Kaliningrad requires a visa. The visa can be received in Moscow or Saint Petersburg. In the territory of the region there are no diplomatic representatives of the countries who are members of the EU. A positive sign is that we now have the consulate of Sweden and a representation of the German economy which helps to bring Europe closer. On the other hand after the joining of Poland and Lithuania into the EU it will be most improbable that consulates of the Lithuanian Republic and Poland will provide visas to all the inhabitants of Kaliningrad who want one without long queues and the tiresome checking of documents.

But the most dangerous impact for Kaliningraders lies with Moscow's further visa position. Moscow are trying to negotiate with the European Union for a free visa regime for the whole of Russia, and are not taking into account what needs to be the primary interest of the Kaliningrad inhabitants. At last year's summit between Russia and the EU, the party agreed upon the development of a plan according to which Russia and the European Community could begin joint development to the removal of the visa barrier in a regime of a stage-by-stage cancellation of formalities. There is an arrangement for a delegation to Brussels where with representatives of European Commission the first round of negotiations about the simplification of a visa regime will take place.⁸¹ Furthermore the Representative of the European Commission in Russia, Richard Right, in July 2003, said on air at the radio station "Echo of Moscow" that the European Community is ready to begin the discussion on the question of transition to a visa-free regime between Russia and the countries of EU.⁸² Silvio Berlusconi met with Vladimir Putin and agreed on changing the visa regime between Russia and EU. In the meeting statement, published by the heads of two countries, it is stated that: "Russia and Italy support the stage-by-stage transition to a mutual visa-free regime for the journeys of citizens of the Russian Federation and the states of the European Union". Berlusconi after negotiations said "I am strongly committed to the greatest possible integration of Russia in Europe and believe the result should be the participation of the Russian Federation in the European Union. This end needn't, however, be achieved with clock in hand but slowly, a step at a time." Berlusconi said Italy planned to show its "immediate support" to Russia by easing procedures for the release of visas. "The aim should be the abolition of visas between the EU and Russia," the premier said.⁸³ In October 22, 2003

⁸⁰ "Rossiya-Litva. Vremennoe soglasenie mezhdru Pravitel'stvom Rossiiskoi Federatsii i Pravitel'stvom Litovskoi Respubliki o vzaimnykh poezdках grazhdan." In: Diplomaticheskii vestnik no. 4, Apr. 1995, 19-23.

"Soglasenie mezhdru Pravitel'stvom Rossiiskoi Federatsii i Pravitel'stvom Respubliki Polsha o bezvizovykh poezdках grazhdan" 1979, Ministry of Foreign Affairs of Russia
http://www.ln.mid.ru/brp_4.nsf/0/5fcae4f4ceec1d7743256db100364325?OpenDocument

⁸¹ „Interview direktora konsul'skoy sluzhby MID Rossii V.V. Koteneva finskoy telekompanii MTV-3 po problematike perehoda k bezvisovomu rezhimu mezhdru Rossiei i Evrosousom 25 Sentiabria 2003 goda, web site Ministry of Foreign Affairs of Russia www.mid.ru

⁸² "EC gotov k obsuzhdeniu bezvisovogo regima", radio station "Echo of Moscow", 3 July 2003, <http://www.echo.msk.ru/interview/3.html>

⁸³ Berlusconi-Putin meeting, aim is to draw Russia closer to EU, Italian Presidency of the Council of European Union web site http://www.ueitalia2003.it/EN/Notizie/Notizia_08291945155.htm

Moscow officially presented to the public, elaborated by specialists of Institute of European Law, a document called “The road map” on the rapprochement between the EU and Russia in the political, international plan, in the struggle against criminality, the cooperation of courts, customs, and boundary services.⁸⁴ Other EU officials, like the Head of the Eurocommission Romano Prodi considers that the visa regime between Russia and the European Community can be cancelled within five years.⁸⁵ The Russian president Vladimir Putin has the same terms till 2007.

It is laudable to care about the needs of all Russians and to negotiate for them a good future, but can Kaliningrad residents wait for such long time for a visa free regime? What could federal government therefore do to meet their needs? Looking at today’s situation it could do quite a lot. Instead of free visas it has offered the suggestion of a high-speed non stop train, for travel through the territory of Lithuania, where it is not a requirement for Russians to have visas. Probably it will be started up some years ahead. “Although too early to speak about the exact terms of this event” said the prime minister of the Russian Federation Michael Kasyanov, on 22 October 2003 in Moscow.⁸⁶ Dmitry Rogozin, the presidential special representative for the Kaliningrad Region and chairman of the international committee of the State Duma was more optimistic, he spoke about the results of a meeting in October 27, 2003 with the member of the European Commission responsible for expansion of EU Gunter Ferhojgen that up to the end of 2004 the political decision on the start of a high-speed visa-free train to Kaliningrad can be accepted. “Mister Ferhojgen has confirmed that the project connected to the Kaliningrad high-speed train is developing well and to the end of the year mister Ferhojgen is going to personally visit Kaliningrad” – said Rogozin. In his turn, the European Commissioner has noted that the scheme offered in Kaliningrad “functions normally and now it is possible to go to the following stage, - to the start of a high-speed railway connection”. He added that concrete steps in this area have already been made, and the feasibility report on this project in particular is signed.⁸⁷

Furthermore “the life improvement of Kaliningrad residents” is an issue set to be discussed by leaders of Russia and the European Community, in a summit in Rome on November 6 in order “to continue the intensive working of a special expert group to search for ways of mutual simplification of the procedures for the issuing of visas and Kaliningrad problem in general”. Experts also should “coordinate conditions for the transition in the long term to a visa-free regime for Russian and European citizens journeys”, said the Deputy Head of the Russian Federation President Administration Sergey Prihod’ko.⁸⁸ Bureaucrats from the Ministry of Foreign Affairs of Russia do not care to simplify the entrance regime to Kaliningrad for either locals or foreigners. The local mass-media reported a statement from the speaker of the Kaliningrad Regional Duma, Vladimir Nikitin, where he highly criticised the Ministry of Foreign Affairs of Russia calling them a “conservative department”, for refusing to accept the practical idea of the Kaliningrad Regional Duma about visa-free entrance to the territory of the

⁸⁴ Marina Gvozdievskaja, „Europe-Russia, to free visas on road map, BBC, 22 October 2003.

http://news.bbc.co.uk/1/hi/russian/russia/newsid_3205000/3205313.stm

⁸⁵ EU could cancel visas for Russian within 5 years, BBC, 17 July 2003,

http://news.bbc.co.uk/1/hi/russian/news/newsid_3073000/3073475.stm

⁸⁶ Vladimir Akimov „Na rol’ investora priglashaetsia Evrosouz“ Kaliningradskaia pravda 22 October, 2003

⁸⁷ Victoria Prihod’ko “Do kontza 2004 goda mozhet byt’ priniato politicheskoe reshenie o zapuske bezvisovogo skorostnogo poezda v Kaliningrad,“ 27 October, 2003, The Russian Information Agency-Novosti (RIA-Novosti) web site, http://nw.rian.ru/news.html?nws_id=197355

⁸⁸ Rossia i EC na sammite v Rime poruchaut ekspertam iskat’ puti vsaimnogo uproshenia protseduru vydachi vis, 4 November, 2003, “Information Agency Kaskad”
http://www2.kaskad-info.ru/new/info/visit/01_10/v_04_01.htm

region for citizens of the European Community, and for the countries of Lithuania and Poland.⁸⁹

21. Working

The EU position on co-ordination of employment is laid down in the Employment Title of the Amsterdam Treaty and it is an important part of the Community acquis.⁹⁰ It means that other country' candidates for accession and in our case the Kaliningrad region before any Association Agreement, should define employment policies that prepare them for membership of the Union and progressively adjust the institutions and policies to the European Employment Strategy, to allow the full implementation of the Employment Title of the Treaty as at accession.

While Russia is not an accession country the Partnership and Cooperation Agreement (PCA)⁹¹ gives Russian citizens a legal opportunity to work in the territory of the EU only in Russian or joint ventures, or in the Russian international organisations of which they are a member. However there are not many of these international organizations and requirements are often very high. Besides that such posts frequently mean diplomatic status.

If the person matches the requirements of the international organisation then most likely it provides for highly paid and interesting work. In case of technicians, we need to understand that such workers should correspond to requirements and will be entering into the culture of the host country which will not be easy.

Working in joint ventures in the territory of the EU as follows from Partnership and Cooperation Agreement between EU and Russia or in a private company is possible only on condition that such workers are "Key personnel" and become workers of the given division by way of an intra-firm relocation. It is an opportunity to involve the maximum administrative personnel, beginning work in a branch or representation of the European company in the territory of Russia, and then transferring them to the European branch or headquarters of the company. It is visible that in this way the EU has taken the opportunity to attract qualified administrative personnel, which is causing brain drain.

There is still an Agreement concluded by the government of the Russian Federation with Germany⁹² about attracting employees which relies on unqualified personnel knowing German. Other legal opportunities for work for our citizens in Europe are not available. (With one exception for seafarers, that could work on ships under a flag of convenience). The Russian Federation strives to conclude such agreements with other EU countries, but it does not bring real achievements.

Citizens of other countries which are situated outside of Europe have more possibilities than Kaliningraders to work in the EU, and the economic situation in numbers of such countries (that in opinion of EU officials fosters an illegal migration)

⁸⁹ "MID otvechaet", Kaliningradskaja Pravda newspaper, 4 November 2003, <http://www.kaliningradka.ru/newshow.php?newsid=4294>

⁹⁰ Amsterdam Treaty, European Commission's web site <http://europa.eu.int/abc/obj/amst/en/>

⁹¹ Partnership and Cooperation Agreement (PCA), European Commission's web site http://europa.eu.int/comm/external_relations/russia/pca_legal/index.htm

⁹² "On employment of the persons working on hiring with the purpose of increase their professional and language knowledge" (2000 persons in a year), the intergovernmental Cooperation Agreement between Russia and Germany in the field of employment – from 17 May 1993.

are much worse. For instance citizens of so-called 53 Commonwealth Countries under “The Asylum and Immigration Act” have legal rights to work in Britain.⁹³

Could Kaliningrad residents have the same rights? Yes, if this opportunity to work in EEU countries will be stipulated by the corresponding position of the Association Agreement.

Securing the specified positions in the Agreement will bring a number of advantages. First of all, for inhabitants of the Kaliningrad region the right to free (without visas or with the simplified order of their reception) movement inside of EU, change of residence and legal residency within the territories of the members of the EU, the reception of a residence permit will be guaranteed; the right to participate in elections to the institutions of local government in the place of residence (in any of the countries of the EU); the right to address in the European parliament and to the Ombudsman (to the representative on human rights); the right of participation in the companies of any pattern of ownership registered in the territory of the EU; the right to work. Analysing the opportunity of the last, I come to a conclusion, that it will be difficult for the Russian government to assert its inclusion in the Association Agreement.

Even now amongst the members of the EU there is no common opinion on this issue. Germany, for example, suggests the establishment of a transition period for seven years for new members after which they would be included in the general market for employment,⁹⁴ whilst Sweden and Great Britain⁹⁵ insist on equal rights for all countries of members of the EU irrespective of whether they are new or old. But even with a laid back approach to the labour market not many can take advantage of the opportunities given to them. Now in Kaliningrad many organisations cannot find workers of the required qualifications. Advantages, of course include procuring seamen who can go on ships not only under Russian and “convenient” flags, where many requirements are not observed, and will encounter likely situations with unsuccessful payments. Many cases where a vessel changed ownership are known, where the crew remained without wages.

The right of protection in the countries which are members of EU from the diplomatic or consular authorities of any countries of EU apply equally to all citizens.⁹⁶ Practically it means that when abroad where there are no Russian consulates Kaliningraders could apply for protection to the consulates of other EU countries. For our regional borders are within half an hour by car and it can be quite sensitive. Russian consulates are far away from border territories and Russia is not a member of the EU! Could Kaliningrad residents look forward to such assistance or will this also be a serious obstacle to the conclusion of the universal Association Agreement?

Thus summing up the opportunities for work for inhabitants of Kaliningrad in Europe, at best (with Association of the region or with membership of Russia in the EU), only those with the requisite standards of knowledge, qualifications and experience stand a chance of work. As it currently stands only those who are seamen, administrative personnel with high qualifications, experts in the field of information technologies, and people ready to work in dirty, underpaid work which is undemanding with the

⁹³ “The Asylum and Immigration Act”, 1996, Section 8, Her Majesty's Stationery Office web site <http://www.hmso.gov.uk/acts/acts1996/1996049.htm>

⁹⁴ Ahto Lobjakas “Germany: Foreign Minister Says Labor Restrictions Won't Harm EU Expansion,” Radio Free Europe, 6 February 2001, Berlin. <http://www.rferl.org/nca/features/2001/02/06022001114526.asp>

⁹⁵ Ahto Lobjakas “EU: Sweden Sets Ambitious Enlargement Plans” Radio Free Europe, Brussels, 10 January 2001, <http://www.rferl.org/nca/features/2001/01/10012001110021.asp>

⁹⁶ Treaty establishing the European Community, part two, citizenship of the Union, article 8c (1957) European Commission's web site <http://europa.eu.int/abc/obj/treaties/en/entoc05.htm>

knowledge of language find the work. It is possible, that given the technical help of the EU and the effort of regional authorities we will be able to raise a little the qualifications and skills of workers, however it is necessary to recognise that only a new Kaliningrad generation could enter with any real hope into Europe.

22. Freedom of capital movement

The freedom of capital movement will hardly find support from the EU in the current situation given the widely known recent Russian financial scandals with the Bank of New York and the “Borodin case”. Serious financiers are concerned about money-laundering in region. After the notorious credit of “Dresdner bank” to the administrations of the Kaliningrad region at the time of the governorship of Mr. Gorbenko the opportunity for serious cooperation with this region is doubtful. In that time in 1997 the Kaliningrad regional administration sanctioned a USD 30 million foreign loan through the Regional Development Fund. However, only USD 10 million was received. Using an agency belonging to the Kaliningrad-based commercial bank Baltika, the administration re-equipped the Baltptitseprom battery farm, which has since changed hands several times. Since summer 2000 an investigation has been underway into the Dresdner Bank loan, which was taken out illegally. Over this period interest has increased the region's debt (the loan was taken out with a guarantee from the regional budget) to over USD 17 million.

Further MDM Financial Group has bought out the Kaliningrad Region's debts from Dresdner bank and after they were not successful in taking steps to obtain this sum from its debtor debts were sold to the Cypriot company Duke Investments.⁹⁷ Lawyers representing the company have begun preparing documents after the deadline for repayment in February 12, 2003 has finished and the regional Administration refused to negotiate for the credit return. In the end of October the company brought a claim to the London Court of International Arbitration for the total sum of 22,3 million dollars.

Against these actions the governor of the Kaliningrad region Egorov “moved a knight” and appointed Mikhail Karetniy the former head of the Regional Development Fund of the Kaliningrad region, facing the sources of the credit, to disentangle the “dog’s breakfast” made after his leaving from the Regional Development Fund. For the last years Mikhail Karetniy was under criminal investigations related to this credit and lived in Israel. Now officially all charges against him are removed and the governor invited him into his team. For Mikhail Karetniy it is already the 5th coming to power. Representatives of Duke Investments were glad that eventually in the Kaliningrad region people who want to negotiate under the credit of Dresdner Bank have been found.⁹⁸

They agreed on compromises and are waiting for an offer from the Administration of the Kaliningrad region. Previously the investigation made by the Head of the Regional Development Fund, Dmitry Popov, and committees of the regional Duma, did not bring the results of the capital sources. Time shows whether other investigators will or will not find financial recourses of the region after the next “successful compromise” concluded by Mikhail Karetniy. And could the region be looking forward on other European credits?

⁹⁷ “MDM financial group sells Kaliningrad Region's debt to Cypriot company”, Gazeta Pravda, 10 March 2003.

⁹⁸ Valeriy Grigoriev, “Duk soglasen na peregovory s Karetnum”, Gazeta Kaliningradskaia Pravda, 30 October 2003.

Certainly a lot of the businessmen who are working with foreign partners on a regular basis receive payment from the western banks, but it is the exception rather than the rule. The wide practice of the delivery of credits to Russian citizens and their enterprises from the European financial institutions is improbable. The risks are too great. How do you find the debtor? In what corner of the immense CIS? The legislation of Russia allows the debtor to resist attempts on behalf of the creditor to recoup debts through legal proceedings.

23. Investments

Investments are extremely necessary for the Kaliningrad region. It is a problem not only for Kaliningrad, but also for all of Russia. For the Russian investors the region is unattractive even with opportunities which were given with the law on a free economic zone. In a rating of investment potential among 89 Russian regions the Kaliningrad region attains only 35nd place,⁹⁹ and experts also noted in year 2002 an increase in risk for investors at a simultaneous reduction of potential.¹⁰⁰ For foreign investors, added to the risks of Russian investments are imposed country and currency risks. A consequence of this evolution, its level in 2000 represents only 30% of its 1991's level. This Russian weakness in investment, typical of an economy based on rent and speculation, is also present in Kaliningrad. Given the absence of guarantees for investors and insurers of foreign investments, both on a federal and regional level, all these factors practically exclude investments at a significant level. In this context hopes of one and gloomy threats of "germanization" of others were not justified. The opportunity to get property on figureheads has been there for a long time but foreigners are not clamouring to give themselves a headache. They are not going to live in Kaliningrad. Of course they may come to have a holiday. But it is not about investment but about tourism. There is a category of Germans who like to be nostalgic for their native places of East Prussia, but they are small in number. It is painful for these people to look at how their houses have turned from beauty to dereliction.

24. Technical assistance

What Europeans can give essentially to the Kaliningrad region is technical assistance. All this is within the framework of a policy already agreed by the EU. Such assistance is carried out under such programs as TACIS.¹⁰¹ Nevertheless, the volume of assistance is not considerable with neighbouring Poland and Lithuania. Kaliningrad receive only 3,3 million Euro in year, when Poland and Lithuania have 10 times more. Financial assistance received via the similar ISPA and SAPARD infrastructural programs by Poland, for example, up to EUR 1 billion annually until its entry into the EU, while Lithuania will receive around EUR 130 million.¹⁰²

Viktor Romanovsky, the head of the Kaliningrad regional administration's Department for International Affairs, sharply criticised the TACIS programme at the international conference on border cooperation which was held in Kaliningrad in October 2002.¹⁰³ Firstly, he said that even the figure brought up by the EU representatives that was spent

⁹⁹ "Kaliningrad region comparative concurrent deficiencies on the background of European surroundings", Centre for Analyses Poles of Grow and FEZ Russian Academy of Science, 2002

¹⁰⁰ "Investitziionny reiting Rossiyskih regionov 2001-2002," journal Expert, N45 (352), 2 December 2002, <http://www.expert.ru/expert/ratings/regions/reg2002/reg1.htm>

¹⁰¹ "TACIS on going projects in Kaliningrad", total 14, site Kaliningrad regional TACIS support office <http://www.tacis-lso-rf.org/Kaliningrad/projectf.asp>

¹⁰² "Kaliningrad region comparative concurrent deficiencies on the background of European surroundings", Centre for Analyses Poles of Grow and FEZ Russian Academy of Science, 2002

¹⁰³ "Poland and Lithuania Grow Fat on EU Aid Cake while Kaliningrad Makes Do with Crumbs", News Agency "Rosbalt", 20 October 2002, <http://www.rosbaltnews.com/2003/02/22/60423.html>

by the EU in the Kaliningrad Region over the last ten years was not EUR 40 million, but EUR 30 million, as EUR 10 million are being held in reserve. Secondly, he pointed out that 90% of this sum has not even been seen by Kaliningrad's residents, as the money has been spent on paying Western experts, equipping their offices, buying organisational technology and so forth. Hardly a cent has gone towards developing the region's infrastructure.

Besides EU assistance there are a number of national and regional programmes, for example with Sweden and Denmark. From these the region gains much. During the process of providing the technical help joint approaches are developed to ensure further growth in co-operation. Through working together the experts receive experience. The number of experts familiar with the European standards of activity grows in the region from project to project. Probably one of opportunities of the region is the expansion of such cooperation. But what is more important is that an Association Agreement could allow the region to use such programmes of technical Assistance as PHARE, ISPA, SAPARD, INTERREG and increase the scale of assistance in order to quickly shorten the lag in development between Accession Countries and Kaliningrad. Nowadays most borders projects get financing from different EU programs (for instance TACIS and PHARE) which causes a lack of projects coordination. A TACIS office has been set up in Kaliningrad recently, however, the funds under this programme are centrally distributed in Moscow for all of Russia and do not take into consideration local priorities.

Development of a railway, automobile and air infrastructure of our enclave in the coming years will depend, in particular, on carrying out rates of Euroregion "Baltic", "Baltic gateway" and "Sebtranslink" programs with the realisation of that connected formation of steady transport systems in the countries of the Baltic Sea Region. Cumulative budgets of projects are estimated in some billions euros. Financing is provided by the European Community.

The idea of discussions with leaders of the European Union regarding the question on the formation of the program of steady development of the Kaliningrad region and the establishment of a Special European Fund was put forward by Solomon Ginzburg, one of the leaders of the regional organisation of the Union of Right Forces in the spring of 2002. It is necessary to note, that the regional public have already been seriously worried for a long time about the question of the inequality of the starting position of Kaliningrad firms and their competitors in the next states.¹⁰⁴ If this were found to be true then the region could be compensated for the economic transition to European standards. In Kaliningrad policy papers from a group of Kaliningrad experts support such an idea and offer to establish such a fund in the first instance by the Northern Dimension group of states. Over a period of five to six years some 40 million Euros annually should be mobilized, mainly for financing the improvement of infrastructure and measures enabling new business development opportunities to materialise.¹⁰⁵ Now in the European Union such work on the organisation of a fund for the social and economic development of the Kaliningrad region has already conducted. "Europe is interested in the improvement of the material well-being of the region", stated to the correspondent of "Kaliningradskaia pravda" the press-secretary of the EU Commissioner on Foreign Policy Diego de Oheda. He also has noted that for this purpose there is a plan to unify resources of three programs TACIS, PHARE and INTERREG. "First of all, it is necessary to correct a situation in the public health services and the ecological conditions in the region. It is especially important to strengthen the struggle against organized crime", - Mr. Oheda added. He emphasised also that after the expansion in May 2004 of the European Community the Kaliningrad

¹⁰⁴ Journal "Region" of Regional Strategy Found, December 2002, <http://www.fondrs.ru/mag.shtml>

¹⁰⁵ "Kaliningrad in Focus, Policy recommendations in the perspective of problem-solving, The Schleswig-Holstein Institute for Peace Research publication, October 2002, <http://www.schiff.uni-kiel.de>

region appears to be actually situated inside of the EU: “And we should pay attention to the problems of the region”.¹⁰⁶

25. Transport

The issue of transport has problems. Does our transport correspond to the European requirements? It does not presently, but the big group of the international auto carriers in many respects correspond. They are incorporated under the aegis ASMAP, Association International Automobile Carriers, and using TIR convention follows international norms and rules. Kaliningrad railways use in some cases the COTIF convention to operate on international lines. It is a necessity. Formation concerning a modern motor-vehicle pool occurred thanks to an opportunity of duty-free purchase for the enterprises of residents special to the economic zone. However the State Customs Committee has forbidden the operation of such automobiles in the territory of Russia without the meeting of customs payments. Thus there was a paradoxical situation. Auto carriers from Kaliningrad could move freely across Europe, but could not drive to Russia. On the other hand that transport which can go to Russia cannot leave the limits of the region easily; these out-of-date and simply old machines do not correspond to many requirements of ecology and safety.

Matters are even worse with other types of transport. So in the Kaliningrad Airgroup only three planes in the fleet still have flying recourse which will inevitably come to an end. To tell the truth, bankruptcy procedures continue there for not the first year for the whole enterprise. But it will not purchase new planes. In the near future the Kaliningrad region will be without planes. And if in motor transport there is normal competition, the railway will be a monopoly. Explaining the growth of tariffs through high costs, they do not find the time to analyze their structure. The volume of transportation falls, and staffing does not vary. There is no Baltic railway with a Kaliningrad branch, and all officials from Riga have gone to Kaliningrad to supervise the Kaliningrad railway. From our pocket we try to pay the costs of inefficient management, and fanned staff of management and the cost of military transportations. The mobile structure decays and the day when the automobile industry will share the fate of the aviation industry is not far away.

The problem of obligatory insurance for civil liability is closely connected to transport. Until now federal law has been recently adopted as a result of stormy discussions. The law requires serious amendments. Such insurance in the civilised world enforces the updating of transportation and the observances of safety laws. It is possible that in the case of our region and its position it is necessary to pass a local law regulating this problem. It will be to replace gradually in the most simple and painless way our mobile park or even to show to the Europeans that we aspire to this. It is quite possible that they meet some concessions and indulgences regarding the conformity of the transport crossing their territory to their standards provided that from our party firm readiness is clearly demonstrated, to certain terms, to achieve conformity of standards. It not a cheap way but benefits from it can be considerable. Assistance in such situation will be rendered by European structural funds under a concluded Association Agreement. In this case the admission of our autocarriers onto the intra-European markets of transport services and the application to the Kaliningrad autocarriers of the same tariffs and conditions, as for own transport, and the reduction of the various monies raised from vehicles at the crossing of borders is possible.

¹⁰⁶ “Europa nam pomozhet?”, Kaliningradskaia Pravda, 6 November 2003, <http://www.kaliningradka.ru/lenta.php#2bf7e9e8f3f3bce1ac5212f22414aa57>

26. Harmonizing Legislation and the Rapprochement of requirements with Europe

The first concern is with the civil and taxation laws, and the regulation of enterprise activity. Law enforcement practice has great value. I shall return to a previous example - to the order of the State Customs Committee. It has not been registered in the Ministry of Justice; therefore the court has refused to accept the application for this order to appeal. Though it was applied, the local Office of Public Prosecutor is not competent to appeal against the decision of government officials of a federal level, and the federal body does not see the necessity. It is obvious that monies were raised illegally, but not only have they not been punished, but have they have not condemned its action at all.

The legislation has many internal contradictions, the majority of laws being accepted during Soviet times, and those that were accepted in the days of Yeltsin reflect the requirements or the certain political group or the concrete political moment. If we compare Kaliningrad to its neighbours the legislation in Poland is already at 80% in terms of correspondence with the European equivalent. In Lithuania this parameter is about 50% and with the tendency to growth. In Russia such conformity lies approximately at 10% of legislation. Probably the region can make it within its area of control, and in some cases the joint responsibility of both federation and region, but in any case it is possible only with the consent of the federal authorities. The optimum is the option in which such powers and features of the position of the region would be stipulated in the Association Agreement between the EU and Russia which, after ratification would get the force of the law is represented, and its execution would be supervised by both Russian and the European officials. In this case no changes in Moscow would lead to a sharp change of the status of region.

27. Social, economic and financial policies

Concerning the social, economic and financial policies, they are on the one hand closely connected by image to the policy of the federal centre in these regions, and on the other hand by the national riches where the Policy defines ways of redistributing the national riches and influences their creation. For Russia with its huge external debt, the absence of the normal banking system, dying public health services, hardened social system and provision of pensions, and the main issue of horrifying poverty in the population, to execute the European requirements in this region will be impossible. Europeans, certainly, do not want to have a poor region inside of the union; however they might want to include us in their hearts. They are probably ready to make reasonable investments in the development of the region and its social development, but are we ready to accept such help? Where are the guarantees that such investments will be effective? Such guarantees could become laws and the procedures corresponding to the European ones. But it is a question for the future.

III. Republic or especial region in the structure of the Russian Federation

1. Preface

A unique position for Kaliningrad inside the unified European space, to which Russia itself does not belong, would make the region a place for EU-Russian cooperation in the

21st century. Kaliningrad would become a “gateway” or “crossroads” between Russia and the EU.¹⁰⁷ This issue has been discussed in studies by west European researchers since the mid-1990s, and has noticeably been picked up by Kaliningrad’s regional elites in the past few years also.

The final idea to turn Kaliningrad into a pilot region, an official initiative of Russia, was offered in her Strategy for Developing Relations with EU till 2010. Kaliningrad would be granted a “special status” as acknowledged by Russian president Vladimir Putin at the EU-Russia summit in Helsinki. However this concept has not been included in a single official document, has not been elaborated further and needless to say, has not been put into action. In the Russian government’s Mid-term Strategy for the Development of Relations between the Russian Federation and the European Union for the Years 2000 – 2010 presented in this summit the phrase only appeared in form of “given the special geographic and economic situation of the Kaliningrad Region, to create the necessary external conditions for its functioning and developing as an integral part of the Russian Federation...”¹⁰⁸

Other Russian officials have called for the especial region status. Russian Deputy Foreign Minister Ivan Ivanov visited Brussels in July 2000 and raised several concerns that his country has over the EU’s proposed enlargement in Central and Eastern Europe. The delegation also raised the issue of Kaliningrad, a Russian enclave wedged between two EU aspirant countries: Lithuania and Poland. Russia said “the area should be given special treatment after enlargement, including visa-free movement for Russian citizens through the EU territory between Kaliningrad and Russia proper”. He said Kaliningrad should receive additional EU aid in order to avoid the emergence of a “socio-economic gap” between the enclave and its neighbours.¹⁰⁹

Furthermore, after president Putin’s visit to the Kaliningrad region in July 2000, when he stated that “Russia does not need pilot regions, but equal regions”, the pilot region concept became a taboo as regards Kaliningrad for high-level Russian officials.¹¹⁰ Though the statement was later retracted by the Kremlin, which complained that the question had not been officially submitted prior to the visit, it reflects a central split within Russian foreign policy between the desire for integration with Europe and the rest of the international community on the one hand, and the wish for territorial integrity and the threat of regional secession on the other.

Now Russian officials prefer not to call the region “pilot”, but point towards the especial one. In his interview with Kaliningradskaya Pravda the Russian Foreign Minister, Igor’ Ivanov, on 7 March 2001 declared, “If you are considering whether Kaliningrad can become a laboratory for preparing a new form of co-operation [between Russia and the EU] – then we (The Ministry of Foreign Affairs, the Russian Federation)

¹⁰⁸ “The Russian Federation Middle Term Strategy Toward The European Union (2000-2010),” The Delegation of the European Commission in Moscow web site, <http://www.eur.ru>

¹⁰⁹ Ahto Lobjakas, EU: Russia Calls For Clear Strategy On Enlargement, 8 August 2000, Radio Free Europe, <http://www.rferl.org/nca/features/2000/08/F.RU.000807124408.html>

¹¹⁰ Alexey Ignatiev, “Defining an Administration for a Pilot Region Kaliningrad”, Hanne-Margret Birckenbach/ Christian Wellmann (eds.) The Kaliningrad Challenge. Options and Recommendations, LIT Verlag, Münster/ Hamburg/Berlin/London, Sept. 2003, <http://www.schiff.uni-kiel.de>

¹¹¹ An interview with Russian foreign minister, Igor’ Ivanov. Kaliningradskaya Pravda, 7 March 2001

¹¹² Ahto Lobjakas, EU: Russia Calls For Clear Strategy On Enlargement, 8 August 2000, Radio Free Europe, <http://www.rferl.org/nca/features/2000/08/F.RU.000807124408.html>

say “yes”. ... We are prepared to support all forms of co-operation, which are directed towards solving actual problems, which face the Kaliningrad oblast. But I want again to underline, actual and not ‘invented’, as these, unfortunately, frequently arise.”¹¹¹

This lack of policy coherency is not alien to the EU either. The European Commissioner for External Affairs, Chris Patten, chants the chorus of ever-closer EU-Russia relations moving toward a common European space. But requests by Russia to found a special committee for Kaliningrad are seen as a subversive move to influence and undermine EU enlargement to the Baltic States. Marius Vahl, a Russian expert at the Brussels-based Centre for European Policy Studies, says the EU's claim to have a strategic partnership with Russia is neither strategic nor a partnership: “There is a certain lack of confidence [on the part of] the EU in their dealings with Russia. They [the EU] don't really try very hard when there seem to be openings -- the Northern Dimension pilot region [scheme] is one thing. I mean, you don't get the impression that they've actually tried to push to see how far they could go with Russia.” Vahl says the EU, however, is still ill-prepared to grapple with the most sensitive issues of regional security.¹¹² The EU, in turn, is only expecting that “guidelines” will be formulated by Russia and says it cannot determine the destiny of a foreign country. The creation of a “single economic area” between the EU and Russia could indeed start in the Kaliningrad Region, thereby giving the “pilot region” project a practical expression. Some politicians of the Region claim that if resolute steps are not taken immediately in that direction, anti-centralist views may become more pronounced in the Region. The Region's Administration suggests that federal authorities should take a clearer position as regards the Region's relations with neighbouring countries and the EU.¹¹³

In order to develop the “especial status of region”, a series of legislative steps have been taken by the Russian State Duma. They include the Federal Targeted Program for the Development of the Kaliningrad Region until 2010 (December 2001)¹¹⁴ and the Federal Law on the Special Economic Zone (SEZ) in the Kaliningrad Region (November 1995).¹¹⁵ This legal framework establishes the special rights and privileges of the exclave and provides a basis for the protection of investment and entrepreneurial activity. In addition, the Administration of the Kaliningrad region elaborated a Strategy of Social and Economic Development of the Kaliningrad Oblast up to the year 2010 in November 2001.¹¹⁶ Also related to the region, there have been numerous governmental hearings, meetings, seminars, visits and preparations conducted by a wide range of Russian ministries on Kaliningrad's development.

But what should the “numerous transformations” be? Only an economically favourable status with the attendant privileges of the Special Economic Zone (SEZ) legislation; the rising of the status of the Kaliningrad region to the status of a republic in the structure of the Russian Federation and the conclusion of a new Agreement on delineating the matters of control and powers between the bodies of the state authority of the Russian Federation and the bodies of the state authority of the Kaliningrad

¹¹³ Sigita Burbiene, Parliamentary Assembly Council of Europe, Committee on Economic Affairs and Development Report, “Ensuring a prosperous future for the Kaliningrad Region: the need for European solidarity” 15 July, 2002

¹¹⁴ „O Federal' noy tselevooy programme razvitiya Kaliningradskoy oblasti na period do 2010 goda, s izmeneniyani ot 6 iunia 2002 goda, Postanovlenie pravitel'stva RF ot 7 Dekabria 2001 goda N 866 Site government of Russian Federation, <http://www.programs-gov.ru/ext/135/content.htm>

¹¹⁵ “Law On the Special Economic Zone in the Kaliningrad Region” from January 5, 1996, <http://www.gov.kaliningrad.ru/omainlaw.php3?lid=3>

¹¹⁶ Strategy of Social and Economic Development of Kaliningrad Oblast up to the year 2010, 12 November 2001r, www.kaliningrad.it/eng/doc/development_strategy.doc

Region; regional fast development plans such as Federal Target Program for the Development of the Kaliningrad Region up to 2010 elaborated by the Russian Government?

2. Economic Zone

Some analysts and politicians in the region have likened Kaliningrad's potential dynamism to that of Hong Kong. The roots of such possible development lie in September 1991 when the Kaliningrad region was the only region in Russia, which was granted the status of the Free Economic Zone "Yantar" and has thus benefited from the right to conduct free trade with the rest of the world. The KO has been paying neither custom duties nor VAT and excises.

3. Free Economic Zone and reasons for its cancellation

The Free Economic Zone in Kaliningrad was established officially as a free-trade zone under the advocacy of Yuri Matochkin, the representative of Kaliningrad in the Supreme Soviet of the USSR. In the Soviet era, the most important industries were connected with ocean fishing (third in size in the Soviet Union after Murmansk and Vladivostok), offshore oil resources, and amber reserves (the largest in the world).¹¹⁷ When Kaliningrad was cut off from mainland Russia in 1991, it was removed from delivery routes of raw materials and finished products, as well as its main export market. New transport and customs fees raised prices in the region. To compensate for these disadvantages, Kaliningrad was established as a free economic zone. Russian politicians also hoped to make profitable use of the region's cold-water port; proximity to increasingly prosperous neighbours; and the multilingual, competent labour resources from the military and industrial sectors. The FEZ achieved a modest amount of foreign investment: \$10 million in 1994 and \$27 million in 1995. The South Korean car manufacturer KIA Motors launched the conversion of the Yantar military shipyard into an automobile plant in 1997, and AGA, a Swedish medical and industrial chemical firm, took a large stake in a major Kaliningrad acetylene and oxygen plant in July 1993. In March 1995, however, the zone's customs exemptions were eliminated.

Different commentators attribute the FEZ cancellation to different reasons. It is unclear which factor, or combination of factors, drove the policy change. Some commentators believe that the FEZ cancellation was due to an accidental presidential decree from the Yeltsin staff. Others cite conflict between the Russian administration and the International Monetary Fund, whereby IMF guidelines required the Kremlin to cut expenses such as revenue losses due to the customs exemptions of the FEZ. Still others point to opponents of the FEZ in Moscow, who criticized the smuggling and tax dodging produced by the FEZ.¹¹⁸ Moscow-based economic barons in some cases were opposed to the FEZ. BMW car dealers in Moscow, for instance, sought to eliminate Kaliningrad's free-trade zone status: thanks to customs concessions the BMWs manufactured in Kaliningrad were less expensive than those on sale in Moscow, thus enabling Kaliningrad dealers to undercut Moscow prices. St. Petersburg lobbyists also exerted influence in the Duma to cancel the FEZ, as the zone drained business from St. Petersburg's port. Political concerns also dictated the FEZ's demise: some politicians in Moscow feared that the zone encouraged separatism in Kaliningrad.

¹¹⁷ Ingmar Oldberg, "Russia's Baltic Regions Between Moscow and the West: The Roots of Regionalism," Södertörns högskola, November 2001, p. 6.

www.sh.se/statsvetenskap/larare/dokument/olaf_wp/oldwp14.pdf

¹¹⁸ Richard J. Krickus, "The Kaliningrad Question", New York: Rowan & Littlefield, 2002

4. New Special Economic Zone

The Russian State Duma re-established Kaliningrad as a special economic zone (SEZ) in 1996. A power division treaty was drawn up in order to compensate the region for its exclave position, and to elaborate and finance federal priority programs on socioeconomic development. Under the SEZ legislations, products imported to Kaliningrad from abroad, and products manufactured in the zone and then exported or sent to mainland Russia, were exempt from customs and other fees. Products were considered produced in the zone if their value increased by 30% (15% for electronic products) through further treatment. Goods, transported through Kaliningrad to or from Russia, were exempt from value added tax. Investors could take their profits and capital back home without trouble. The regional Administration was also allowed to introduce customs quotas in order to protect local producers. Consequently, imports increased more than in any other region of western Russia, representing in absolute terms 10% of the total in 1990 and 60% of the freight to the Baltic area in 1997.¹¹⁹

5. The Success of SEZ

The major success, although not sustained over the course of time, was the increased foreign investment and trade with the Kaliningrad region. Already as of January 1997, per capita investment in Kaliningrad was 50 percent higher than in the rest of Russia; foreign trade turnover was more than \$800 million annually. The Kaliningrad oblast is third in the number of private automobiles per capita in Russia. European and Asian companies are active in Kaliningrad, in fields as diverse as motor vehicle manufacturing, telecommunications, and chemicals. “In 1999, the application of SEZ mechanisms resulted in production and export to the mainland of Russia of goods to a total amount of \$ 270 million i.e. more than 70 per cent of the total value of industrial production in the region (ca. 11 milliard Roubles), in 2000, this index has reached \$ 430 million, i.e. 80 per cent of the total value of industrial production in the region (14.8 milliard Roubles). More than 1570 joint ventures, branch enterprises and representative offices of foreign companies have been registered in the region. Investors from more than 50 countries have taken part in the establishment of companies. For the period from 1993 till 2000, the total amount of accumulated foreign investments had reached \$ 62 million, of which the direct investment component amounted to 65 per cent. During 2000 the Oblast's economy received \$ 19.1 million of foreign investments. Their growth had made 104.8 per cent of the investments received in 1999”.¹²⁰

6. The Problems of the SEZ

However, the analysis shows that from a long-term perspective the benefits of the SEZ regime have not been used to the fullest extent.

The duty free import of goods precipitated the decline in industrial and agricultural production (the increase in industrial production began only after the crisis of 1998 and continues to be consistent with all-Russian trends). The size of foreign as well as Russian investments in the region remains extremely low, the size of FDI continuously decreasing in the second half of the 1990s. Low-level prices have not compensated the population for the decline in the real sector of the economy, which resulted in the

¹¹⁹ Ingmar Oldberg, “Russia's Baltic Regions Between Moscow and the West: The Roots of Regionalism,” Södertörns högskola, November 2001, p. 6.

www.sh.se/statsvetenskap/larare/dokument/olaf_wp/oldwp14.pdf

¹²⁰ Ivan Samson, TACIS 2002 “Economic Survey: The Kaliningrad Economy – at the Edge of EU Enlargement. Promoting Trade and Investment in Kaliningrad Oblast”, Consortium IMC Consulting Ltd, UK; Université Pierre Mendès France, Grenoble, March 2002

decrease in a number of indices of income of the population. A slight growth of those indices began only after the crisis. The foreign trade turnover of the region has been growing only due to imports, not exports. Due to the problems related to transport of the goods across the territory of Lithuania and Belarus the Kaliningrad region – the only one in the country having ice-free ports – has not become a Russia's “window to Europe”. In general, the Kaliningrad region is 1.5 times behind Russia in the size of the per-capita gross product, the investments in fixed assets are half and the standard of living is 1.4 times lower than in Russia (in 2000 the per-capita gross regional product of the region was \$4,400, which made 75 per cent of the all-Russia level and 65 per cent of the average level in the Baltic States; at the same time, this index was twice as low as in Poland and 5-8 times lower than in other developed European countries). Even if these official figures should be compensated by informal economic activities that may double the real regional GRP, low investments, and high imports and high informal activities are far from the expectations from the SEZ.

Business with many Western states was also hampered by practical problems such as language differences and visa requirements. Except the states noted above, foreigners needed visas to go to Kaliningrad, and Kaliningraders had to apply for visas at the embassies in Moscow (or Vilnius or Warsaw). Finally there were legal problems which Kaliningrad shared with most other Russian regions. According to the law instituting the special economic zone, foreigners could not purchase land, only lease it; the lease period was not defined, and Russia did not adopt a law allowing private ownership of land. Western businessmen also complained about lacking investment guarantees, red tape and – not least – rampant crime.¹²¹ In view of all these problems, Kaliningrad was superseded by the Baltic countries and Poland, which became more attractive to foreign investors, since they provided more stable and favourable conditions and started to show real growth.¹²² Therefore, the core problem of the region is the business environment and the lack of investment funds, required for implementation of the social and economic policies on the territory of the Kaliningrad region (the estimated annual demand for investments is \$ 300 million). The most important way to find the funds needed should be the promotion of domestic and foreign investments in the region and the creation of relevant conditions.

7. SEZ is it enough for Region?

While the surrounding Baltic Countries in next year will join the EU, whereby the Russian exclave will become an enclave inside that Union, the existence of the Kaliningrad Special Economic Zone was criticised in a report commissioned by the European Union.

It has been clearly stated “the Special Economic Zone (SEZ) has been created mainly in order to offer companies based in Kaliningrad advantages through tariff and tax exemptions for their imports and for locally produced goods, exported to other countries and to the Russian mainland. The idea of promoting economic activity and investment through a Special Economic Zone may have trade distorting effects through subsidies

¹²¹ Ingmar Oldberg, Kaliningrad between Moscow and Brussels Paper for conference on Russia's Regions in the New International Security Environment, Centre for Security and Conflict Research, ETH Zurich, 6-7 July 2001, <http://www.fsk.ethz.ch/documents/WorkingPapers/wp17.pdf>

¹²² “On the principal directions of the socio-economic development”, Government of the Russian Federation, 22 March Press release, No. 363 Moscow, 2001
Gennady Fyodorov, “The Social and Economic Development of Kaliningrad.” Kaliningrad: The European Amber Region. Suffolk, Great Britain: The Ipswich Book Company, 1998

incompatible with the PCA (Partnership and Co-operative Agreement) and WTO rules”¹²³

Some Russian politicians such as the Vice-Chairman and the Head of Staff of the Accounting Chamber of the Russian Federation, former Russian Deputy Prime Minister Sergey Shakhray has complained that in the present time the Law on the Special Economic Zone in the Kaliningrad Region practically does not work, because in it initially there were a number of methodological mistakes”.¹²⁴ Firstly, the idea of a high-grade development opportunity of SEZ within the borders of the entire Russian Federation was originally defective. Experience of other countries shows that the presence of a convenient geographical location and a source of raw materials does not make the territory attractive to investors - the advanced transport, information, bank and other infrastructure is also necessary; i.e. in order for the special zone to begin to make a profit, it is necessary to equip it to a high standard, which demands an initial investment to the tune of a hundred thousand dollars per each square meter of territory. Desirable economic effect could be achieved by creating limited zones of free trade activity near ports and main roads in the region with various customs regimes and different tasks.

Secondly, the decision on unification of the SEZ and regional control bodies in a uniform administration was initially incorrect: by not limiting the administrative structures what has happened has been an actual merger of budgets of the zone and region, and the basic distinction between the strategic tasks of economic management and public authority resulted in an inefficiency of administrative decisions, not a transparency of financial schemes and voluntarism in an expenditure of budgetary funds. While the Russian way of life means that privileges tend to be abused and money from the federal budget will be taken and redistributed to individual businessmen and officials. As a result the region today looks like an original “black hole” in the developed economic space of the Baltic Region, whose states now make the most active efforts to reach the necessary conditions for joining the European Union. The preservation of such a situation creates additional threats to the national security interests of Russia in the Baltic Region.

SEZs are also not popular at the WTO, who Russia is hoping to join in the near future, stated Journal Expert. Although supporters in Russia argue that these zones don't conflict with WTO rules, as they are theoretically open to entrepreneurs from any country, even China after joining the WTO was forced to announce the end of tax privileges for foreign companies operating in five special economic areas.¹²⁵

Another regional expert, Natalia Smorodinskaya, argues that the SEZ regime constitutes serious divergences from regular market rules.¹²⁶ She says that artificially lowered energy prices give foreign investors a signal that market-oriented reforms in Russia are still incomplete, and therefore, that inflationary pressure is accumulating throughout the country, as well as in its regions. Individual preferences in the field of railway cargo fares create preconditions for unfair competition. Exclusive foreign trade privileges, while being unavailable to economic agents in the rest of Russia, give local

¹²³ The EU and Kaliningrad, Communication from the European Commission to the Council, Brussels, 17 January, 2001, http://europa.eu.int/comm/external_relations/north_dim/doc/com2001_0026en01.pdf

¹²⁴ Sergey Shakhray “Globalizatsia i problemy Kaliningradskoy oblasti”, Kaliningradskaya Pravda, 16 February 2002

¹²⁵ Maxim Rubchenko, Ekaterina Shokhina, and Sergey Shoshkin “Incubators for Change or Black Holes”, Journal Expert, N28 (335) 22 July, 2002, <http://eng.expert.ru/economics/28incub-t1.htm>

¹²⁶ Natalia Smorodinskaya “Analyzing the Kaliningrad Situation: The Economic Growth Dimension”, Hanne-Margret Birckenbach/Christian Wellmann (eds.) The Kaliningrad Challenge. Options and Recommendations, LIT Verlag, Münster/Hamburg/Berlin/London, Sept. 2003

enterprises monopolistic advantages and involve them in rent-oriented practices from the outset.

But it is obvious that the region from the one hand will be more actively involved in processes of the global economic integration in the Baltic Region, and the uniqueness of this territory from the other hand is obvious (political, geographical, historical, economic, etc.) which will promote the development of the regional consciousness of the population, and the formation of precise representations about regional interests which cannot coincide completely with national interests. Hence, there is a necessity of a special state policy which would allow the providing of guarantees of the national interests of Russia in the Baltic in objective conditions of the European and Baltic integration.

Sergey Shakhray advised the government of the Russian Federation “to force the liberalisation of the regional economy; to in principal dismantle the bureaucracy and encourage an entrepreneurial environment, to secure legal conditions for the creation of an attractive investment climate, and to develop the infrastructure; to comprehend new international tendencies, and to search for non-standard political and legal decisions. It could be the integration of the Kaliningrad region into the European Union as an Associated Participant on the basis of international Agreements or such type of “pilot” participation of the region in the processes of economic integration in Europe.”¹²⁷ He offers at the same time as measures on secure guaranties of the holding and strengthening of Russian sovereignty over Kaliningrad exclave, measures on strengthening the “political vertical”. In this context, it is possible to discuss the suggestions to turn Kaliningrad into the Eight Federal Districts, appointing a regional governor and some others. What could ensue is a rising status of the Head of the Special Economic Zone to the rank of federal minister. Because of the strengthening of the fight against crime and corruption in the Kaliningrad region, the heads of the “power ministries” of the region also could be subordinated strictly to Federal Government. From a juridical point of view a subject of the Russian federation should be fixed in a special federal law on the status of the Kaliningrad region. The possibility of adopting such a law founded in the Constitution of the Russian Federation. Taking into account the expected joining of Poland and Lithuania to the EU the preparation of such a legal project should already be close. Thus, combined measures on the liberalisation of the economy of the Kaliningrad region, including in it the nets of horizontal cooperation within the Baltic Region, with measures on strengthening “political vertical”, could give a clue to resolving the numerous problems of this Russian region.

8. Russian initiatives

Significant changes will be brought to the Federal Law on the Special Economic Zone (SEZ) in the Kaliningrad Region. Speaking at the end of September 2003 in Moscow’s “Club of regional journalism” the Deputy Minister of Economic Development and Trade of the Russian Federation, Arkadiy Dvorkovich, said that destiny of Law is difficult. There are hot debates in government. Fiscal departments specified that acceptance of such a law concerning the Kaliningrad region will lead to the creation in the territory of an offshore region through which money will be laundered. However it is already obvious that the most western regions of the country for a long time were laundered from the reputation of a black hole. So, at best, the situation of the Law on

¹²⁷ Sergey Shakhray “Globalizatsia i problemy Kaliningradskoy oblasti”, Kaliningradskaia Pravda, 16 February 2002

¹²⁸ Vadim Smirnov, „Dvorkovich tiazhelo vzdykhaet“, Kaliningradskaia Pravda, 24 September 2003, <http://www.kaliningradka.ru/newshow.php?newsid=3750>

the Special Economic Zone will be brought to the State Duma no earlier than October. But it is not yet known if members of parliament will have time to adopt it before the December elections". He also has noted that after the special law for the Kaliningrad region is adopted; the development of the "frame" statutory law about SEZ in Russia will begin. It is necessary to be guided by it to an administration of any other subject of the Russian Federation, deciding to create for itself a special economic zone.¹²⁸

The next initiative of the Federal Government is the creation of a "special economic commission" under the supervision of presidential assistant Igor Shuvalov, who is engaged in the Kaliningrad development problem. The Commission now has achieved the first goals of its work in elaborating a program of "Complex development of the Kaliningrad region".¹²⁹ Six strategic directions - priorities for the nearest four years are determined, expected to become a basis for the further strengthening of the gross national product. From the huge assortment of problems offered at the first meeting of the numerous and wide ranging commission, it was possible for Shuvalov to produce a compressed list of the most necessary programmes. This is the creation of a market of accessible habitation by the development of a hypothetic crediting and modernization of a system of secondary and higher education, the improvement of a system of public health services, and the reforming of the military organisation regarding supply, ensuring habitation, health protection and education of military men. And the most fascinating is a complex development of the Kaliningrad region. In particular, as experts have made known, there is "the transformation of Kaliningrad into a zone of free economic trade".¹³⁰ According to some sources, regarding the last suggestion, Moscow plans to appoint a special manager to Kaliningrad. The most likely candidate for this post is the Minister of Economic Development and Trade, Herman Gref.

However there is a long awaited document, by both the political classes and the general population of the Kaliningrad Region, called the Federal Target Programme for the Development of the Kaliningrad Region. At a government meeting on 22 March 2001 a new "Federal Target Programme of Economic and Social Development of the Kaliningrad Region for the Period Till 2010" was discussed. Its challenging objective is to create conditions for the sustainable and social development of Kaliningrad on the basis of an expansion of the export-oriented industries and the attainment of living standards for the population comparable to those of neighbouring states, all through the improvement of the SEZ. In the first stage (2002-05), the most pressing social and economic problems will be dealt with and an effective vehicle for the functioning of the SEZ will be created. In the second stage (2006-10), investments and social measures will be strengthened in order to accomplish the objective of the programme. The focus will be on the development of the transport and infrastructure sector, the operation of an energy complex, the improvement of a telecommunications infrastructure, the development of a tourist and recreational complex, the solving of ecological problems and the improvement of the social sector.¹³¹ How all this should be done has not been

¹²⁹ „Raboचाia gruppya pri presidente RF osoboe vnimanie udeliaet strategicheskomu rasvitiu Kaliningradskoy oblasti v usloviyah rasshirenia Eurosousa“, Information Agency Kaskad, 3 October, 2003 http://www2.kaskad-info.ru/new/info/finance/01_10/f_03_02.htm

¹³⁰ „Komissia pod rukovodstvom presidentskogo pomoshnika I. Shuvalova opredelila shest' strategicheskikh napravleniy – prioritetov na blizhaishie chetyre goda“, Information Agency „Kaskad“, 30 September 2003 <http://www2.kaskad-info.ru/new/info/finance/index.htm>

¹³¹ „On the Draft Federal Target Program of Economic and Social Development of the Kaliningrad Region for the Period till 2010“, Ministry of Foreign Affairs Daily News Bulletin, 8 October 2001, <http://www.mid.ru>

spelt out. In fact, the programme does not take account of the real obstacles to growth (e.g. the absence of essential legislation and ineffective management).

Besides that allocations from the federal budget will be crucial for the implementation of the Programme, which is seen by many politicians in the Kaliningrad Region as the expression of the Russian President's view of the Kaliningrad Region as an integral and inseparable part of Russia. The treasury authorities should in principle ensure the monitoring of the implementation of the Programme.

The federal policy in respect of the Kaliningrad Region endeavours to consolidate the status of the Region as a federal subject, boost its links with other parts of Russia, secure the competitive advantages of the enclave in Europe, transform its economic structure into one oriented toward exports, and upgrade the standard of living in the Region to those of its neighbours. The Programme also aims to achieve a rise in GDP (by 2.4 times) and employment (with up to 15 thousand jobs to be created by 2010).

The program is seen as a key element of the new strategy to improve the regional economy. The guiding principle of the new program is the concentration of resources on the priority areas to compensate for the region's isolation from mainland Russia. It is supposed in particular to make changes to the current legislation due to the specification of the area's status (changes of functioning in the free economic zone within the Kaliningrad area). The stable operation of the energy complex of the region is a top priority for the federal program. Ambitious plans include the building of a new power station, the reconstruction of an old one, the construction of an underground gas storage facility, the installation of a new gas pipeline from Russia to the city of Kaliningrad, as well as reconstruction of the old pipeline. The total estimated cost of these energy projects amounts to approximately \$800 million to \$1 billion.

The federal program also plans an upgrade of the major roads and railroads of the region, stimulating increasing transit volumes. The improvement of the communications and telecommunications infrastructure is also on the list of the programme's priorities. The most important projects include the installation of the fibre-optic cable from St. Petersburg, the construction of a radio and television transmission station and development of telephone communication facilities.

9. Issue of Region Status

Within Russia there are different opinions for the future of Kaliningrad. The political party Union of Right Forces considers making it a Russian Hong Kong by giving it maximum economic and administrative freedom. The Kaliningrad administration wants to maintain the SEZ, while the Foreign and Defence Policy Council suggests changing the status of the oblast by making it a federal land under Moscow's control and with an appointed governor. The Ministry of Foreign Affairs argues that visa and transit problems should first be solved, in order to increase the chances of a better future for Kaliningrad.¹³² The Analytical Board of the Federal Duma is of the opinion that a number of legislative and administrative regulations should be introduced to improve the current situation.

On 26 July 2001 Putin convened a special Security Council meeting on Kaliningrad (for the first time ever). The President addressed the low level of investment (50 per cent of the national average), the low standard of living and the high crime rate, and

¹³² "Certain Aspects of Ensuring the Security of Kaliningrad Region", Ministry of Foreign Affairs Daily News Bulletin, 25 May 2001, <http://www.mid.ru>.

again mentioned that Kaliningrad could serve as a model for Russian- European relations. He also stated that the responsibility for solving Kaliningrad's problems rested exclusively with Russia. He criticised the lack of coordination among ministries and departments, the low effectiveness of their work, and wondered whether the SEZ had been effective for the exclave. The key issues for Putin are "to establish effective interaction at all levels and to create a reliable legal and administrative situation in the oblast. The Kremlin had considered three options for Kaliningrad: (1) the introduction of direct presidential rule, (2) the transformation of the oblast into an eighth Federal District and (3) a strengthening of the position of the regional governor. The Security Council proposed a fourth option: the creation of a parallel administration with its headquarters in Moscow."¹³³ All these suggestions point to a greater role for the centre, to the detriment of further democratisation.

There is widespread dissatisfaction within Kaliningrad over the unclear attitude taken by Moscow. The essential reason for the economic difficulties, as the population of the region see it, is mainly because Moscow wants to anticipate any possible separatist tendencies in the region and thus introduces more rigid controls. That is why it is not ready to raise the status of the region and to transfer to it more powers of decision-making.¹³⁴

The population in Kaliningrad and Russia as a whole also want to see Kaliningrad as a special Russian region between Russia and the EU. The table below shows the results of research conducted by the Kaliningrad Sociological Centre between the 7–10 May 2001 concerning Kaliningrad population and Fund "Public opinion" on 13 July and 23 November, 2002 concerning all of the Russian population.¹³⁵

First figures show the Russian population and the second the Kaliningrad one. More often respondents speak, that, in their opinion, the region should finally remain within the structure of Russia and will have the same status, as well as other regions (29/18 %). The fifth part of those questioned (21/61 %) believe that the Kaliningrad region should remain within the Russian territory, but that its status should differ from the status of the other regions. This opinion is especially disseminated between people with a higher education, youth, inhabitants of megacities and the population of the North-West Federal District. In the Kaliningrad region figures show the high popularity of such an approach. In the opinion of 19/8 % of Russians, the Kaliningrad region will be registered in the structure of our country, but will live in reality under its own laws. During the last months, when in the mass-media various forecasts concerning the possible consequences of such an establishment of new rules of travel were widely discussed, the people taking such a position actually increased. However the proportion of respondents who want the Kaliningrad region to leave Russia has remained constant, - such an outcome is expected with only 8 % of those questioned. A significant part of respondents (23/13 %) is at a loss regarding any forecasts for this region.

¹³³ "Russia will Introduce "Mild" Presidential Rule in Kaliningrad, National News Service Strana.ru, <http://www.therussianissues.com/print/996228706.html>.

"Russian President Putin's Remarks at the Russian Security Council Meeting on 26 July 2001", Ministry of Foreign Affairs Daily News Bulletin, <http://www.mid.ru>.

¹³⁴ Elfie Siegl, „Koenigsberg und die Osterweiterung" Frankfurter Allgemeine Zeitung, 28 February 2002

¹³⁵ Fund "Public opinion". The All-Russia interrogations, city and rural population. On July, 13 and on November, 23, 2002, 1500 respondents, http://bd.fom.ru/cat/societas/regions/Kaliningrad_reg

10. Republic within the Structure of the Russian Federation

Analysing the legal possibility for the changing status of the Kaliningrad region we come to a conclusion, that the optimum vector for development is the transformation of Kaliningrad region to a republic within the structure of the Russian Federation.

Today's Russian Constitution approved in a nationwide referendum in 1993, formally gives all 89 subjects of the Russian Federation equal rights. It is quite understandable that republics, for instance, want to have more rights than some small territories. In practice such subjects of Federations strive to receive their power due to the certain formal contractual Treaties on the Delimitation of Power; the informal dependence of the federal budgetary policy lobbying and the personal status of some of the regional leading establishments. Following the direction of federal policy which was formulated in 1991 by President Boris Yeltsin when the president stated that „every Subject of the Federation will try to assume as much sovereignty as it can“ several Federal subjects such as non-Russian republic Tatarstan and Sakha-Yakhtia received more rights than other Federal subjects. It is important to mention that they acquired some attributes of sovereignty and lowered contributions to the federal budget. Putin's reforms have contributed towards the development of more centralised and uniform legislation, based more solidly on constitutional principles rather than ad-hoc contractual arrangements, but has not yet eliminated the inequalities that exist between the Federal subjects. The well-known discussion regarding the possibility of changing the status of the Kaliningrad region to that of a Republic within the Russian Federation could only be implemented through “informal manoeuvres”, such as the establishment of a “contact” between Kaliningrad region and The Federal Centre.

Vladimir Shumeyko, the former speaker of the Federation Council who is currently head of the Reforms-New Course movement, proposed making Kaliningrad an autonomous Russian Baltic Republic already in 1998 in order to strengthen Russia's western border. Shumeyko, who represented the oblast in the national legislature's upper house from 1993 to 1995, did not define what benefits Kaliningrad would obtain from being deemed a republic, however, he noted that it would be worth changing the constitution to achieve the goal.¹³⁶ Also in support of such development is the Vice-Chairman of the Parliamentary Assembly of the Council of Europe (PACE), the Governor of the Novgorod Region, Michael Prusak, who spoke in April 2001 after the negotiating mission of the European commission and Special Committee of EU on Kaliningrad in Moscow where Russia was offered to replace the regional status of region to republican.¹³⁷

The benefits of republican status were discussed by some researchers. Dr. Matthias Hartwig from the Max-Planck-Institute of Foreign Public Law and Public International Law, Heidelberg, advocated such an idea and in his publication tried to shape the limits of the special economic regime in the Kaliningrad region and how far it would be possible to come close to the regime of the EU, whilst not conflicting with current constitutional regulations.¹³⁸ One of the most respected Russian experts in regionalism, Alexey Salmin, President of the Russian Public Politics Centre, refers to the division of power between the Russian Federal Centre and the regions, with regard to international affairs, and has stated that this is one of most sophisticated and unclear divisions in

¹³⁶ Izvestiya 17 July 1998 <http://www.izvestia.ru/>

¹³⁷ „Stanet li oblast' respublikoy?“, gazeta „Delovaia zhizn'“, 15 May 2001, <http://www.enet.ru/~baltia/bl010515.html>

¹³⁸ „Die EG-Erweiterung und die Kaliningradskaja oblast“. In: Kontinuität und Neubeginn: Staat und Recht in Europa zu Beginn des 21. Jahrhunderts, Festschrift für Georg Brunner zum 65. Geburtstag. (Hrsg.) M. Hofmann, H. Küpper. Verlag Nomos, Baden-Baden 2001, 245-262.

Russian centre-region relations.¹³⁹ The Constitution 1993 does not clarify this issue. Article 71 stipulates that only federal bodies are responsible for foreign policy, international relations, international treaties, matters of war and peace, and the foreign-economic relations of the Russian Federation. At the same time, Article 72 raises a number of questions, as it states that the federal and regional authorities should coordinate the foreign-economic links of subjects of the Federation. A different understanding of the terms, “international and foreign-economics links of the subjects of the Russian Federation” and the participation of the subjects of the Federation in the “implementation of the international treaties of the Russian Federation” ensures ambiguity and confusion in this regard. In practice, this issue was, as a rule, defined by the Treaties on the Delineation of Power between the Federal Centre and the regions. The texts of these documents vary: some subjects received the right to conduct direct relations with foreign states, while others have had to go through ministries and agencies.¹⁴⁰

Salmin argues that in the field of international relations, the Federal Centre began to re-centralise as early as 1996. For example, the Presidential Decree “On the Coordinating Role of the Russian Ministry of Foreign Affairs to Pursue a single Foreign Political Line for the Russian Federation”, indicated that the Federal Centre would no longer allow subjects to conduct their own external activities, without reference to the Federal authorities. In 1999, the Federal Law “On coordination of the International and Foreign-Economic Relations of the Subjects of the Russian Federation” was adopted. The most important provision of these documents signed by the subjects as enjoying the status of international treaties.¹⁴¹

The Treaty on the Delineation of Power between the Russian Federation and the Kaliningrad region was concluded on 12 January 1996.¹⁴² The given Treaty as it was specified in its preamble, was created with the aim of taking into account the unique geographical situation of the Kaliningrad Region and its significance for the national interests of the Russian Federation, aspiring to establish conditions for the stable socio-economic development of the Kaliningrad Region, the expansion of foreign economic activity and the strengthening of the economic links thereof with the other subjects of the Russian Federation.

The law consisted of 8 articles, in which were written in stone the powers of the federal authorities in such subjects as matters under joint control of goods and passenger transit by all means of transport into/out of the Kaliningrad Region; the restructuring of the Kaliningrad Region economy, the setting-up of an international transport junction, a trade centre and a finance centre on the territory of the Kaliningrad Region; the operation of the special economic zone in the Kaliningrad Region, the Administration thereof and operation of the customs free zones; matters of the customs tariff policy of

¹³⁹ Alexey Salmin, “Rossiyskaya federatsia i federatsia v Rossii”, *Mirovaia economica i mezhdunarodnye otnoshenia* N 2, 2000 p.40-60

¹⁴⁰ Alexey Salmin, “Rossiyskaya federatsia I federatsia v Rossii”, *Mirovaia economica i mezhdunarodnye otnoshenia* N 2, 2000 p.51

¹⁴¹ Alexey Salmin, “Rossiyskaya federatsia I federatsia v Rossii”, *Mirovaia economica i mezhdunarodnye otnoshenia* N 2, 2000 p.51

¹⁴² Treaty on delimitating the matters of control and powers between the bodies of state authority of the Russian Federation and the bodies of state authority of the Kaliningrad Region
<http://www.gov.kaliningrad.ru/omainlaw.php3?lid=2>

the Russian Federation on the territory of the Kaliningrad Region and those of the interbudget relations.

Regarding the bodies of state authority in the Kaliningrad Region it stated that they: participate in the preparation of draft federal laws and other regulatory legal enactments on matters of control of the present Agreement; handle, in accordance with the federal legislation and this Agreement, matters of migration to the territory of the Kaliningrad Region, and render assistance to migrants to the territory of the Kaliningrad Region, who were heretofore citizens of the Union of Soviet Socialist Republics and currently reside or stay on the territory of Lithuania, Latvia or Estonia; participate in the establishment of the Special Economic Zone in the Kaliningrad Region, provide for the operation of the Administration thereof and carry out certain functions of the Special Economic Zone Administration in accordance with the federal legislation; participate in the development and realization of the federal purpose-oriented programmes; conclude, within the competence thereof, agreements with subjects of the Russian Federation, as well as with administrative-territorial units, ministries and departments of the Russian Federation and of foreign states; adopt, on the basis of federal statutes, the laws of the Kaliningrad Region and other regulatory legal enactments on matters under joint control of the present Agreement; finance priority projects for the socioeconomic development of the Kaliningrad Region on the basis of regional purpose-oriented programmes approved pursuant to the established procedure.

It is visible from this Treaty that the Kaliningrad Region never had the rights to conduct foreign policy, participate in international relations with foreign states and conclude international treaties. Until 1999 Kaliningrad had a possibility to conclude Agreements with subjects of territorial units, ministries and departments of foreign states. But 31 May 2002 Russian Federation and Kaliningrad region concluded an Agreement on Cessation Action of Treaty on the Delineation of Power between the Russian Federation and Kaliningrad region. In the Agreement it was pointed out that the aims of the previous Treaty are “reached”, in connection with it the Treaty therefore ceases its action. In reality it means that now when such a Treaty does not exist, all the power is therefore concentrated in the hands of the federal authorities. Kaliningrad is deprived of any real instruments of independence and development. “The denounced Treaty on the Delineation of Power from 12.12.1996, did not provide any special rights for the Kaliningrad region, but nevertheless could serve as a launching pad for new negotiations with the Federal Centre, and expand opportunities for our region. Now such platforms and opportunities are not present. For the region it is a loss, - considers the oldest member of parliament of the regional Duma Jury Matochkin”¹⁴³.

Such an Agreement was signed by the deputies of the Regional Duma after the official offer from the Kremlin Administration in April 2002. The signing of the treaty was suggested as voluntary as part of the campaign for strengthening Russian unification and finishing with separatism. Although Igor Rudnikov, deputy of Regional Duma, sees this step from an opposing viewpoint. “Our members of parliament, he said, have cut off (de jure) the Kaliningrad region from Russia (and de facto we and so already for a long time that... from it are cut off). They destroyed the only Treaty that connected us with Russia.”¹⁴⁴ The optimistic point of view is also held by Sergey Pasko (the leader of the Baltic Republican Party and a supporter of the establishment of a Baltic Republic): in a legal sense - the given Treaties on the Delineation of Power, signed in the beginning 90 between the Federal Centre and subjects of Federation, were the

¹⁴³ Oleg Berezovskiy, „Proshay nemytaia Rossia? Kingradskaia oblast` vyshla (de-jure) is sostava RF, Gazeta Novye Kolesa, 2002, <http://www.rudnikov.com/default.php3?newsid=146>

¹⁴⁴ Oleg Berezovskiy, „Proshay nemytaia Rossia? Kingradskaia oblast` vyshla (de-jure) is sostava RF, Gazeta Novye Kolesa, 2002, <http://www.rudnikov.com/default.php3?newsid=146>

basis of the Russian Federation. A conclusion: there is no Treaty - there is no Federation.

For me the problem of the new Treaty is connected with republican status and the legal possibilities of such a Treaty. The legal nature of the given Treaty, as well as other similar Treaties, is estimated by scientists differently. The Russian scientists (for example, actually the author of the given model S.Shakhray) consider them as bilateral intrafederal Agreements. German scientists see in them the features for both international legal, and the interstate Agreement and their combination do not allow for an unequivocal answer to the question on their nature.¹⁴⁵ If the Treaty has the nature of the International Agreement, the region has the right to conduct international activity and the new Treaty could mean more power for Kaliningrad.

Kaliningrad as a republic could have for instance the possibility of the protection of human rights and freedoms, questions of citizenship; issues of the possession, use and management of the land, mineral resources, water and other natural resources; delimitation of state property; establishment, justice from our point of view, taxation and levies; organisation of the system of bodies of state power and local self-government; establishment of introduction minimum scale of wage payment, which considerably exceeds the federal level; coordination of the international and external economic relations with foreign states.

A powerful Republican Bank could be established that to a significant degree promotes development and would be beneficial for the region's people, not as a Saving Bank of the Russian Federation. A republic could be the subject of international law. To some extent Kaliningrad could be liberated from all Russian problems, became more independent and free. As a result, in time, it would mean a significant rise in welfare and living standards. At the moment it is deprived of this and other possibilities, and dwells in a regional status. An attempt at regional development, and hope for so-called "economical methods", demonstrated the inconsistency and devastation of "pure economics". The status of the region in today's regime of Special Economic Zone will be invariably foster the collapse and destruction of the Kaliningrad territory. The expanded manufacturing, economic development and prosperity, as specialists say, are impossible without powerful political and state-legal ensuring.¹⁴⁶

Nowadays, there is, as in Soviet times, a skew towards the federal centre that having usurped powers was not able to carry them out and adequately react to a great variety of processes originating in Russia. This is why a way out of the deadlock can be envisaged in the establishment of a Republic instead of a Kaliningrad region. There could be at least two ways to do this. Firstly, by way of negotiations between the regional Administration and the Duma with the Kremlin and the adoption of a Constitutional Law that provides for more autonomy for the regional authorities with the right to conduct foreign-economic and trade relations, but which calls for more responsibility from the Federal Centre in regional matters. Alexander Songal for instance proposes such a position.¹⁴⁷ Secondly, a constitutional way of reforming based

¹⁴⁵ Robert Schmidt „Das Kaliningrader Gebiet (Sonderwirtschaftszone Jantar): Kompetenzabgrenzungsvertrag einerseits und Foederalgesetz "Ueber die Sonderwirtschaftszone Jantar" anderseits – Ein harmonisches Nebeneinander?, Osteuropa Recht, 2001

¹⁴⁶ German Burnaev, „Preobrazuem Kaliningradskuiu oblast“, Kaliningrad regional newspaper "Novyi Nabludatel", 1 August 1998, <http://www.enet.ru/win/digitalKenig/news/nn/index.html>

¹⁴⁷ Alexander Songal, „Developing an Institutional Fundament fort the EU and Russia to Jointly Deal with the Future of the Kaliningrad Oblast“, Hanne-Margret Birckenbach/Christian Wellmann (eds.) The Kaliningrad Challenge. Options and Recommendations, LIT Verlag, Münster/Hamburg/Berlin/London, Sept. 2003

on the will of the electorate, to discuss the republican way by means of a regional referendum. The creation of 22 republics in the structure of Russian Federation, signing a new Treaty on the Delineation of Power between the Russian Federation and Kaliningrad region with extended power of Republic. Which route is preferable to Kaliningrad citizens? I prefer the second one, because I doubt the wish of Moscow to change a Constitution for only one of the subjects of the Russian Federation.

IV. Independent State

1. Preface

It is obvious that in time Kaliningrad will become more and more separated from Russia and the exclave's isolation will be psychological as well as geographical. "Sandwiched between Lithuania and Poland - both scheduled to join the European Union in 2004 - Kaliningrad is neither Western nor truly Russian. When the residents face the prospect of life following EU expansion, some are suggesting that regional separatism in the exclave may be on the rise."¹⁴⁸ The Kaliningrad region has lived for more than a decade as a Russian exclave, cut off from the mainland by Poland and Lithuania. For now, after the transit Agreement of 11 November 2002, between the EU and Russia, local residents still need to receive Facilitated Transit Documents in order to visit the Russian mainland ¹⁴⁹ and the trip means a 24-hour train ride via Lithuania and Belarus to Moscow. It is a dilemma that has some Kaliningrad residents questioning their ties to Russia.

2. European identity of Kaliningrad

Grzegorz Gromadzki, an analyst with Poland's Stefan Batory Foundation¹⁵⁰, says that life in the exclave is already different from life in Russia proper, and that Kaliningraders have long sought a separate identity for themselves: "It is a more European identity. They feel more European than, for example, people from Kazan` or Voronezh, because they live near Sweden and Denmark and Germany and the EU candidate countries. It is interesting to note that 50 percent or even more of Kaliningrad's young people have visited Poland, Lithuania, or even some of the EU member states but have never been to Moscow or other parts of Russia."

Marius Vahl, a political research fellow with the Centre for European Policy Studies in Brussels¹⁵¹, says although many Kaliningraders are looking West, regional separatism has not yet become a true political issue in the exclave: "Many Kaliningraders, especially perhaps young people, seem to be more orientated towards the West than to Russia and Moscow. So I guess over time - talking in terms of decades - [separatism] may become an issue, but as of now it is not really high on the agenda."

¹⁴⁸ Valentinas Mite, "Russia: Is Kaliningrad Looking For A New Identity?", Radio Free Europe, 10 September 2002, <http://www.rferl.org/nca/features/2002/09/10092002160441.asp>

¹⁴⁹ Joint Statement of the European Union and the Russian Federation on transit between the Kaliningrad region and the rest of the Russian Federation", 11 November 2002, <http://www.eur.ru/eng/neweur/summits/sum63.doc>

¹⁵⁰ Grzegorz Gromadzki, Poland's Stefan Batory Foundation <http://www.batory.org.pl/english/about/staff.htm>

¹⁵¹ Marius Vahl, Centre for European Policy Studies in Brussels <http://www.ceps.be/Team.php#Egenhofer>

3. Sources of separatism

The mood in Kaliningrad for independence is absolutely of a different nature than other separatist movements of non-Russian nationalities. The Chechen or Tatar separatism can be seen as the “norm” everywhere where there are minorities living in a small space due to historical reasons. Kaliningrad is something absolutely different. “There is no ethnic issue and no subethnic separatism resulting from fidelity to people or ethnic groups. Because of the absence of such fidelity, - the phenomenon is very rare, and probably does not exist outside of the Russian Federation”, writes Dmitriy Furman from “Novaia Gazeta”.¹⁵² It is completely clear that every time the aspiration to leave Russia is connected with material stimulus. It is something akin to emigration in richer countries together with territory and all neighbours. It is less complicated and it is less terrible. However Russians are nevertheless not the most “materialistic” nation in the world, and the motivations of Russian aspirations to be separated from Russia although less mercenary are also more complex. It is not just about poverty, but about a feeling of powerlessness and hopelessness. It is a feeling that society is independent from you, hostile to you and in the main is not seeking to correct the situation.

The feeling of powerlessness and hopelessness after the fall of the Soviet authority was amplified in Kaliningrad, for it became clear, that the issue was not a regime, not communism, and was in fact something deeper – something that lies in irresponsibility to people regardless of ideology - in our national organism. Certainly, it is possible to look to such separatism with irony. In fact it is abundantly clear, that Kaliningraders will never struggle for their independence from Russia as the Chechens for freedom of the Chechen Republic struggle. But it is a symptom of deep national malaise that increases the fragility of the Russian organism. For the sovereignty of the Kaliningrad region nobody will struggle, but given a situation of any big crisis it could be that in the Russian state will be found fewer defenders as in the days of the USSR. The growths of such feelings, naturally, do not help with centralisation. It can only hasten its demise. A series of real democratic transformations (starting from the elections to the Supreme authority) will give Russian people the beginnings of a belief that their country really belongs to them. But if these transformations are too late, our “fragility” may reach such a critical mass, that even this medicine will not help any more.

Vitaliy Zhdanov, the chairman of the committee of economic development and trade of the administration of the Kaliningrad region sees the roots of separatism in another way. He thinks that competitors from other regions of Russia unfairly accuse Kaliningrad inhabitants of separatism, because they want to deprive the enclave of all customs privileges.¹⁵³ Actually, thanks to the federal centre for last year the economic situation here has essentially improved. The Kaliningrad separatism is a myth, as well as other myths about the region: “a black hole”, “germanization of territory”. “All these myths are a means of conducting unfair competitive struggle between regions of Russia. Undoubtedly we have aspirations to remove bureaucracy. We are frequently abroad; we have business ties with partners in the EU. We have adherence to democratic principles, which are more brightly expressed than in other regions of Russia. And consequently many are irritated with our independence of an arbitrariness of federal bureaucracy. The Policy of the Centre towards the Kaliningrad region for last decade was following. First of all it was declared, that Kaliningrad is a territory of Russia, its

¹⁵² Dmitriy Furman, “Begstvo ot rodnih osin”, “Novaia Gazeta” 10 May 2001

¹⁵³ Vladimir Zhukov, “Kaliningradskiy separatizm eto mif”, “Kommersant”, 18 March 2002, <http://www.uvtb.ru/scripts/servinfo.dll?GetObj&OID=1086251&OT=3&POID=105317&encoding=windows-1251>

economic and defensive advanced post. In conditions of deficiency of the budget there was no other opportunity to compensate the transport costs of the territory, except for how to create a compensation mechanism based on a regime of "Free Customs Zone". Here import production without taxation by the customs duties was brought in. It has allowed a home market and to make a partial re-structuring of the economy. New branches of industry have appeared which were not here before. For example, the furniture industry, motor industry, the enterprises on processing food raw material have appeared. At the same time earlier traditional branches – the fishing industry, and the enterprises of the military production complex – went into decline."¹⁵⁴

This corresponds with the political control of the Moscow situation in the region. The Ministry of Foreign Affairs of Russia always held the process of expansion of the EU under control. But the problem of the Kaliningrad region in the context of the EU expansion, toughening of visa rules, and also conditions of transit began to be discussed actively only from 1999. However there have already been precedents for the elimination of such restrictions. For example, there was the train in Western Berlin, which allowed citizens of Germany to come to Western Berlin freely. The train has vanished in the regime of "the closed carriage". What is more conflicting in the relations between the Federal Centre and local authorities is the very small and fragile economy. Fragility basically is useful. It is useful to the Federal Centre, which at once receives alerts about information on innovations, which they have offered. In the "big Russia" the result of an innovation becomes clear in the best way in a year. For us even the smallest changes in the legislation are shown two weeks later. Therefore it is necessary to make fast decisions. It is important that reaction times are fast. Although we have had some consequences from accepting the new Customs Code without taking into account the interests of the Kaliningrad region.

There are two aspects of the problem: customs as the both fiscal instruments and the institute of control over the consignment of goods. If we look at the control over freight traffic here the technology is fulfilled. From the fiscal point of view the Federal Centre states that the Kaliningrad enterprises are in an exclusive position and do not put money into the budget. But the reduction of the customs legislation in the Kaliningrad region to the all-Russian standards will lead to the destruction of manufacturing in the region. However it is an issue not only for customs legislation. Measures about indemnification are necessary for Kaliningrad inhabitants concerning the status of the region. In particular, it is necessary to expand self-government. And also desirable that measures on re-structuring the economy and especially federal decisions on the region occur faster. In this case the problem is complex enough for fast decisions. "I consider," said Mr. Zhdanov "that from the moment of Vladimir Putin's introduction into a presidential post the attention to the Kaliningrad region has considerably increased. It is especially appreciable in the sphere of transport and power. And the work of the Herman Gref ministry in general is difficult to overestimate. If we compare the Kaliningrad situation to the similar one in the Baltic States at the end of the 80s – and the beginning of the 90s - there was a clear policy from the Federal Centre. In 1989 it was clear as how the situation regarding the self-determination of three Baltic republics would develop. We however do not have any social, national and political base for the separation of region from rest of Russia."

Independence ideas are more popular amongst the younger generation of Kaliningrad residents. It is not surprising. The survey results shows that 15% of Kaliningraders that were born on the territory of Kaliningrad region have never been to Russia, although they have visited foreign countries many times. Amongst young people in the age

¹⁵⁴ Vladimir Zhukov, "Kaliningradskiy separatizm eto mif", "Kommersant", 18 March 2002

group of 18-24 this percentage is even more – 20%. And it is an especially acute problem for children and young people before the age of 18. They do not see the Russian culture as one to emulate and are more devoted to western culture and architecture.¹⁵⁵

But the growing antipathy of many young people in Kaliningrad is causing some anxiety in Moscow. As many in Kaliningrad seek to restore the country's German heritage - with some residents even campaigning to restore the name Koenigsberg and many Western foundations pouring aid money into the region - the officials say the Kremlin is worried that Kaliningrad will find its ties to Russia less and less desirable.

4. Separatism movement and reality

Some political parties are already trying to capitalise on this sentiment. According to Sergey Pasko, Head of Baltic Republican Party, founded 10 years ago, they demand independence from Russia, although the state administration is considering proceedings against it on the grounds of High Treason. The party programme of the BRP envisages that Kaliningrad should attain the status of a state by means of a referendum of its inhabitants. By treaty with the Russian Federation, this should transfer to themselves the property of the territory and plenipotentiary legislative powers. Sergey Pasko says the region is “simply in a different geopolitical situation” and requires “different approaches.”

He says that while he does not advocate final secession from Russia, he does believe the exclave should receive special rights - such as a looser association with Russia and visa-free travel to the EU. He says it is important to push for these changes ahead of the Union's 2004 expansion: “With these circumstances in mind, we are saying that it would be better for our society to be an associative member of the Russian Federation or a subject where the residents have different rights than other Russian citizens.”¹⁵⁶

While Pasko claims that more than a third of Kaliningrad residents support his party's platform, other officials dispute that Kaliningraders are seeking to distance themselves from Moscow. Aleksandr Koretskiy heads the information committee of the Kaliningrad regional administration. He calls Pasko's ideas “funny” and says the Baltic Republican Party has few followers at best. Contrary to Pasko's claims, Koretskiy says, patriotism is on the rise in Kaliningrad, where many residents are angered by the EU's insistence on imposing a visa regime for future travel to Russia through what will be Union territory. “The fact that the region has been torn from Russia means that what is likely to happen now is an increased feeling of affinity for Russia and a feeling of Russian patriotism - pride that we are Russians and residents of Russia.”

Koretskiy says the Russian language, culture, and traditions all strongly prevail in the region. “Our young people are Russian. They consider themselves Russian,” he says, adding, “They are simply taking advantage of the opportunity to travel abroad - to Lithuania, to Poland, to Germany - in the same way that young people in the United States and Europe like to travel.”

Governor of the Kaliningrad Region, Vladimir Yegorov flatly refuted the statements of alleged separatist trends among the region's population. These statements are

¹⁵⁵ “Kaliningradskaia problema: Factor obshestvennogo mnenia”, Kaliningradskaia Pravda, 11 December 2002

¹⁵⁶ “Continent Europa, Kaliningradskie miphy i realnost’”, 22 July 2002, gazeta “Delovaia Zhizn”
<http://www.enet.ru/~baltia/>

“provocative”, he said. It is “an invented idea about the Kaliningrad region inhabitants”, ascribing them non-existing opinions, the governor said, when speaking at a press conference in the media centre of the Izvestia newspaper on 23 July 2002.¹⁵⁷

He knows “the people who use the term “separatism”, Yegorov said. They are no more than 250 people, comprising a so-called Republican Party, which cannot be called a party according to the new law, he said. “I am sure that most of Kaliningrad residents regard the word “separatism” as abusive or do not know it’s meaning,” the governor declared. “The Kaliningrad region is part of Russia and will remain such forever,” he stressed, excluding the possibility of the region's joining the EU separately from Russia.

5. Who win, who lose?

For the Baltic Republican Party today is definitely not the best of times. Following the adoption of the Federal Law “On Political Parties” in June 2001 and “On Fighting Extremism” in the summer 2002, the Kaliningrad regional Prosecutors’ office starting an investigation into the activities of the BRP, and in November 2002, the activities of the BRP were temporarily suspended for 6 month by the decision of Board of the Ministry of Justice of the Russian Federation. In total there were stated four faults of the party: intervention in the activity of bodies of the government, attempt at violent change of a political system and territorial integrity, extremism and illegal use of the term “party”. On November 14 in the Kaliningrad Regional Court a case was heard. The court did not acknowledge three out of the four prosecution charges, and only left the illegal use of the term “party”. The BRP appealed on 30 January 2002 against it to the Supreme Court of the Russian Federation, but the court upheld the decision. In April 2003, the Ministry of Justice of the Russian Federation in Kaliningrad and Kaliningrad regional Prosecutors’ office started a new case on the liquidation of the Baltic Republican Party for repeatedly breaching the law. The BRP lost the court battle and ceased their activity. Now they are appealing to the European Court on Human Rights and are waiting for a decision. On October 13 the head of the BRP had a telephone conversation with the adviser of the European Court on Human Rights in Strasbourg, E. Zakovriashina, concerning the complaint of the party on the violation of their rights in Russia. The adviser has confirmed that they are processing the case, and the first session of court will take place up to the end of the current year.¹⁵⁸ And it is a point of optimism for “today’s illegal party”.

As regards Kaliningrad residents, they from time to time learn with surprise from articles in foreign and even Russian newspapers about their separatist tendencies and their desire to move away from Russia and drift towards the West.

“The problem of separatism is not currently an issue for us,” Sergey Tsyplenkov, the director of the Kaliningrad Sociological Centre, says. “Only 4 per cent of Kaliningrad residents are in favour of the region seceding from Russia. In the past 10 years this figure has remained the same and only once rose to 20 per cent - in 1992 during the nationwide ‘parade of sovereignties’.” It is another matter that a considerable number of the region's residents consider their geopolitical circumstances to be special and that this

¹⁵⁷ “Kaliningrad Region Governor Vladimir Yegorov refuted statements on separatist trends among region's population,” Gazeta Pravda, 24 July, 2002,

http://english.pravda.ru/region/2002/07/24/33105_.html

¹⁵⁸ “Delovaia zhizn”, newspaper of Baltic Republican Party, <http://www.enet.ru/~baltia/>

should be taken into account. However, a desire to have more concessions and rights can certainly not be described as separatism.¹⁵⁹

“Here are the results of the most recent poll: Some 28 per cent of respondents are of the view that the “region will remain part of Russia with the same status as other Russian regions” (incidentally, in comparison with last summer, this figure has increased). Some 39 per cent of Kaliningrad residents supported the view that the “region will remain part of Russia but its status will differ from that of other Russian regions”. Seventeen per cent thought it desirable that the region “be counted as part of Russia but lives according to its own laws”, that is, has more rights and concessions of various kinds. And 4 per cent of respondents would like the region to secede from Russia and become fully autonomous while a further 4 per cent want it to become part of another country. The remaining respondents were “don't know””.¹⁶⁰

The Regional policy elite more supports “especial region path” and breaching a wall dividing Russia from Europe than separatist tendencies. Solomon Ginzburg, Kaliningrad Regional Duma deputy in his thoughts on these questions in an interview for news agency Rosbalt said that in 2002 Kaliningrad firmly established itself on the political map. However, it is necessary to go further, to take the next steps. Our European future should be recognised both by the political elite and society as a whole. Sensible people can be united on the pragmatic basis of returning to Europe and raising the standard of living. The results of 2003's parliamentary elections will make clear which direction the region and Russia are headed in - towards genuine European-style freedom, or Asian-style managed democracy.

As far as Kaliningrad is concerned, the federal bureaucracy must rid itself of the illusion that Kaliningrad's residents are its servants, ready to jump up at a whistle and do its bidding. The community can be consolidated and given direction by developing the region in a pilot regime, ensuring a decent standard of living, and promoting an ideology of healthy regional egoism. This will also serve to oppose negative phenomena such as separatism. The political will of our leaders will play an important role in solving these problems.¹⁶¹

V. Conclusion

Kaliningrad is a Russian city, and it means that Russia is highly responsible for its further development. On the other hand the region is situated in the centre of today's EU enlargement, which will determine its European destiny.

In my Masters Thesis I have in the main focused on the current activities designed to integrate Kaliningrad into Europe as well as some probable scenarios. Unfortunately neither Russia nor the European Union has a clear Kaliningrad policy and the region is nowadays seen more in the light of an “apple of discord” than “reasonable cooperation”. Many politicians and economists have long spoken in favour of a bigger involvement of the federal agencies and the European Union in the problems of the Kaliningrad Region in order to counter the political, economic, international and separatist problems it is facing. Kaliningrad is now considered to be not only a simple bridge, but also an

¹⁵⁹ “Poll shows most people in Kaliningrad want to remain bound to Russia”, Rossiyskaya Gazeta, in Russian

¹⁶⁰ “Poll shows most people in Kaliningrad want to remain bound to Russia”, Rossiyskaya Gazeta, in Russian,

13 February 2003 <http://www.cdi.org/russia/johnson/7062-12.cfm>

¹⁶¹ „Kaliningrad – Russia in Europe?“, News Agency „Rosbalt“, 8 January, 2003
<http://www.rosbaltnews.com/2003/02/22/60931.html>

original experimental platform for Russia in the XXI century, a so-called contact territory of the country in Central and Eastern Europe.

Researchers, however cannot influence the politics, they only can give advice. And I harbour doubts that we can be heard. I also have reservations that the population of Kaliningrad can be heard in the Kremlin. In spite of all of the published policy papers toward Kaliningrad the Russian government is barely adhering to 10% of it. The EU besides its assistance program offers nothing further. There are numerous acute questions remaining. How successfully will be relations between Moscow, its detached region and Brussels? Can the Russian Federation create for the region a new Marshall Plan or will the region be pure and totally independent from Moscow? How will the Kaliningrad regional elite be involved in the region's development? Is it possible for the EU to be more flexible in terms of the Shengen Criteria? Finally, do Russia and the EU want to govern Kaliningrad together?

What was the most important part of my research? When I realised that wide cooperation between the EU and Russia did not begin and end with the signing of the transit Agreement of 11 November 2002 between the EU and Russia. In future there will be no more exclusion from the sovereign rights of Russia over its control of the Kaliningrad region. "It is too early to have a conversation about the International Agreement on the Kaliningrad region" - said Dmitry Rogozin, the presidential special representative for the Kaliningrad Region on November 4, 2003 for the newspaper "Kaliningradskaja Pravda". His point of view he describes as equal Constitutional rights for the population of all Russian regions and if Kaliningraders get some special rights, free visas for instance, other Russian citizens will require the same. As a Doctor of Philosophy he obviously should know that international agreements have higher juridical power than norms of Constitution and the Kaliningrad regional inhabitants could receive their privileges not on the basis of the Constitution but on the basis of International Agreement.

Moscow are trying to negotiate with the European Union for a free visa regime for the whole of Russia, and are not taking into account what needs to be the primary interest for the Kaliningrad inhabitants. It will take a decade and for the region, instead of free visas, it has been offered the suggestion of a high-speed non-stop train, for travel through the territory of Lithuania, where it is not a requirement for Russians to have visas.

There will be no political compromises with EU and more power given to the Regional Authorities. Although 61% of the region's population want to have the Kaliningrad region with especial, different status from other Russian regions, the Treaty on the Delineation of Power between the Russian Federation and the Kaliningrad region was cancelled and now the region has even less rights than previously. It is improbable that after negotiations between the regional Administration and the Duma with the Kremlin a new Treaty will be adopted with increased power given to the Kaliningrad region. Quite the contrary, steps will be taken to strengthen the role of the centre and to eradicate any separatism in the future - only such measures which will be to the detriment of further democratisation: (1) the introduction of direct presidential rule, (2) the transformation of the oblast into an eighth Federal District and (3) a strengthening of the position of the regional governor.

But at the same time the region is offered new economic development strategy such as the special economic zone (SEZ), the Federal Targeted Programme and the Programme of Complex Development of the Kaliningrad region. The federal policy in respect of

the Kaliningrad Region endeavours to consolidate the status of the Region as a federal subject, boost its links with other parts of Russia, secure the competitive advantages of the enclave in Europe, transform its economic structure into one oriented toward exports, and upgrade the standard of living in the Region to those of its neighbours. The idea implies an especial regime for production, investment in key infrastructure objects, and construction of a thermal power plant in order to secure energetic independence, improvement of the environmental situation and development of a social field. Thus Kaliningrad in the view of the federal authorities could be developed as a peculiar “tax harbour”, on the territory of Total Europe Economic Space; an investment region not only for Europe, but for Russia, especially for the capitals which earlier have been taken out from Russia to the West; a place for numerous and versatile contacts of business, industrial-technological, cultural, tourist and educational centre.

There is no threat of germanisation or of selling Kaliningrad. The national government of Germany does not have any claims to Kaliningrad. Moscow and Berlin continue to strengthen their fast-growing mutual cooperation. Germany obtained several billion dollars worth of stakes in Russian enterprises that made Germany a major shareholder in Russian industry. German exporters, delivering cargoes to Iran and the countries of the Near East, has been invited to participate in the modernization and construction of the railway infrastructure port of Baltiysk (the Kaliningrad region). Also in September 2003 representatives of the Russian department Gosstroy discussed with businessmen of Germany, USA and Kaliningrad building Associations the possibilities of the realisation of building industry investment projects in Kaliningrad. About 50 companies with sole German capital, joint-ventures or companies with German involvement are now working in Kaliningrad. In the Regional Administration over 275 such companies are registered. Germany ranks 3th after Switzerland and Lithuania in foreign trade and investment volumes in Kaliningrad. Germans do not buy the industrial enterprises and other property in order not de jure, and de facto begin to operate the region. There are no economic reasons to invest in unprofitable enterprises and Russian legislation prohibits the sale of land to foreigners. During the October 2003 negotiations in Yekaterinburg by Russian President Vladimir Putin and German Chancellor Gerhard Schroeder they agreed to open the German diplomatic mission that will allow Kaliningrad residents a considerably simplified procedure for visa applications to Europe.

The rumours about regional separatism and fighting for independence are highly overestimated. In the region there is only one political movement, the Baltic Republican Party, which demands independence from Russia, but they have few followers at best, amounting to no more than 250 people. According to the results of the most recent poll, only 4 per cent of Kaliningrad residents are in favour of the region seceding from Russia. The activities of the BRP were temporarily suspended by a decision of the Board of the Ministry of Justice of the Russian Federation during the appeal case in the Kaliningrad Regional and Supreme Court of the Russian Federation. Now they are appealing to the European Court on Human Rights and are waiting for a decision. Even if the party were allowed to carry out its activity, it is hardly possible for them to hold a separation referendum. But maybe they will just wait for another 30 years, when the younger generation come to power.

The European Union does not have a specific policy towards Kaliningrad. The idea of an Association Agreement for Kaliningrad with the EU, which was offered by German Chancellor Gerhard Schroeder in January 7, 2001 during his meeting with Russian President Vladimir Putin in Moscow, has been abandoned to date. EU officials

with great pleasure discuss a free visas regime between the EU and Russia without any dates and terms. They definitely will be not holding their posts and be responsible for getting rid of visas when the time comes. The most that Europeans essentially give to the Kaliningrad region is technical assistance, mostly within the framework of the TACIS program. For the last decade Kaliningrad has received EUR 30 million, and 90% of this sum has not even been seen by Kaliningrad's residents, as the money has been spent on paying Western experts, equipping their offices, buying organisational technology and so forth. Hardly a cent has gone towards developing the region's infrastructure. Such assistance is not a big deal. The European Union, for instance, for the same period helped Moldova, a country with the same size and conditions with EUR 70 million. It has given ten times more assistance to neighbouring Poland and Lithuania. The EU is only expecting that "guidelines" for Kaliningrad development will be formulated by Russia and it cannot determine the destiny of a foreign country. The creation of a "single economic area" between the EU and Russia could indeed start in the Kaliningrad Region, thereby giving the "pilot region" project a practical expression. Some politicians of the Region claim that if resolute steps are not taken immediately in that direction, anti-centralist views may become more pronounced in the Region. The Region's Administration suggests that the federal authorities should take a clearer position as regards the Region's relations with neighbouring countries and the EU.

My vision of Kaliningrad integration is to find some level of compromise in the spheres of influence in the region between Russia and the EU. The creation of joint institutional structures related to Kaliningrad. And the base for such Russian - EU dialog should be the conclusion of an Association Agreement. I am quite opposed to some experts' idea of bringing amendments to the Partnership and Cooperation Agreement with respect to the Kaliningrad region, which would give the new structures and mechanisms a binding quality. The PCA Agreement, not elaborated especially for Kaliningrad, is the lowest type of EU Agreement without the aim of integration. If such amendments will be made it will be a PCA for Kaliningrad with some exceptions for Russia. Concerning the Association Agreement I recommend to conclude the type of Associated Agreement which existed between the EU and Switzerland as the highest level of Agreement not leading to final joining with the EU.

Before concluding an Association Agreement I advise Russian Authorities to not preserve the current status of the Kaliningrad region and follow a policy of centralisation. The EU enlargement will create a new environment for the development of the region and the application of only specific economic strategies towards Kaliningrad could have some negative consequences for the region and for Russia, including a possible threat to Russian sovereignty over the Kaliningrad region. In today's situation, when the Kaliningrad region with each year that passes depends less and less on Russia, turning into a notorious "free city", with the wish of population to live under European standards, it would be impossible for Moscow to hold Kaliningrad within the structure of Russia without integration possibilities even by military methods. The future status of the region should correspond to the interests first of all of the people in Kaliningrad, then the Russian Federation and finally the EU, as well as their common interests in the EU-Russian relationship.

The Russian Authorities should give more power to regional government in matters of regional economic and trade policies. Such a path in my point of view should be based on giving the Kaliningrad region the status of a Republic in the structure of the Russian Federation by means of a regional referendum. Next should be the signing of a new

Treaty on the Delineation of Power between the Russian Federation and the Kaliningrad region with extended powers of Republic. I do not support the adoption of a Constitutional Law on Kaliningrad, because I doubt the wish of Moscow to change a Constitution for only one of the subjects of the Russian Federation. And as government officials say, where will be the guarantees that other subjects of the Russian Federation will not want to have the same especial rights? In any case the laws of the Russian Federation are frequently changing. The Treaty on the Delineation of Power was cancelled, and other similar laws could have the same destiny. Instead of worrying about the alienation of the Kaliningrad region from Russia, Moscow would do better to create possibilities for the raising of living standards, strengthening the common informational space, supporting civil society, fostering transfrontier cooperation in the Baltic Sea Region and with the mainland Russia, as well as supporting the cultural, economic and historical development of the region.

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Born in 1969 in Kaliningrad, Russia.

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Sergey Naumkin followed both his father and grandfather into the profession of naval officer. He graduated the oldest Russian Higher Naval Engineering College situated in the Admiralty in Saint-Petersburg and joined the Russian Naval Forces as a full career warfare officer. He served on board an aircraft carrier deployed in the Mediterranean, Black, Barents Seas and Atlantic Ocean.

Since leaving the Navy after dissolving of the Soviet Union he graduated the Juridical Faculty of the International Institute in Business, Management and Law and has been for fourteen years a lawyer with various juridical firms in Kaliningrad (Russia) and then in U.K.

In 1998 he participated in first Programme on Training Managers and Executives for the Enterprises of National Economy of the Russian Federation, studied law and marketing at Kaliningrad International Business School and was trained in one of the leading Swedish law firm in Stockholm afterwards.

Pursuing his interest in development of especial European regions, as a 2003-2004 DAAD Fellow at the Baltic Sea School Berlin of Humboldt University, Mr. Naumkin received a Master of Art degree in Baltic Sea Region Studies.

He has managed a private legal practice since 1994. Mr. Naumkin participated in numerous complex consulting and civil litigation matters, including human rights, labour law, company's law, contract, commercial, real estate, maritime, and insurance cases, investment consulting in Russia and the Baltic Sea States.

He also has worked extensively with various NGOs, based in Kaliningrad on projects dealing with international co-operation and networking in the subject areas of civil society, legal systems, security, economy, international relations, and especially the integration of Kaliningrad ('as it sits in the middle of the 'New Europe'), and the Baltic States into the European Union.

His main interests with his current research are Kaliningrad & EU Relations, and Security and Peacekeeping in the Baltic Sea Region.

Mr Naumkin considers himself more European than a citizen of the Russian Federation and desires more active participation from the European Union in the resolving of the Kaliningrad region's problems. Languages include Russian, English and Swedish. He has an English wife and is living in the picturesque Cheshire village of Bollington, more commonly known as 'Happy Valley'.