

Kaliningrad: Challenges Between Russia and Europe

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I. Introduction

In 1990s, the Russian Baltic Sea exclave Kaliningrad, despite its unique geographical situation, remained an area of peripheral interest for both Moscow and Brussels. Its “double periphery” status, along with the objective disadvantages of exclave location – the shortest direct distance between the borders of Kaliningrad and the nearest Russian region, Pskov, is 368 km – and strong militarization of the area have multiplied the negative effects of economic and political transition. By the end of the decade, Kaliningrad had acquired an extremely negative image abroad of an economic “black hole” and a social disaster.

The need to manage the forthcoming enlargement of the European Union in the Baltic Sea region in a way that would prevent further deepening the socio-economic divide between future EU members and non-members living next to each other makes continuing past policies towards Kaliningrad counter-productive, if not impossible for both Russian federal authorities and the EU. It creates a strong interest in maintaining a dialogue on the issue. Thanks to particular efforts by the EU Swedish Presidency in the first half of 2001, the area found a firm place on EU-Russian agenda. Even earlier Kaliningrad had become one of the focal points of EU’s Northern Dimension, originally a Finnish initiative. In November 2002 in Copenhagen, a compromise solution was found for the problem of the transit of people between Kaliningrad and mainland Russia. A number of high quality analytical and fact-finding studies were conducted in recent years¹ which defined major problems and provided conceptual and practical recommendations about how these problems could be approached cooperatively.

Yet, increasing attention notwithstanding, there is too little ground to believe that Russia and the European Union will eventually be able to successfully rise to Kalinin-

1 Cichocky, Bartosz, Pelczinska-Nalesz, Katarzyna, Wilk, Andrzej. The Kaliningrad Oblast in the Context of EU Enlargement. In: CES Studies, no.2. Warsaw, 2001, pp. 53-64; Gromadzki, Grzegorz, Wilk, Andrzej. Overcoming Alienation: Kaliningrad as a Russian Enclave inside the EU. In: On the Future of Europe. Policy Papers. No. 1. Batory Foundation. 2001, pp. 7-14; Fairlie, Lyndell F. and Sergounin, Alexander. *Are Borders Barriers? EU Enlargement and the Russian Region of Kaliningrad*. The Finnish Institute of International Affairs and Institut fuer Europaeische Politik, Berlin, 2001; Oldberg, Ingmar. *Kaliningrad: Russian Exclave, European Enclave*. Stockholm, Swedish Research Defence Agency, 2001; Smorodinskaia, Natalia. *Kaliningrad Exclave: Prospects for Transformation into a Pilot Region*. Moscow, Institute of Economics, Russian Academy of Sciences and Kaliningrad Regional Development Agency, 2001. The Kiel international *ad hoc* group of experts on Kaliningrad. Kaliningrad in Focus. Policy recommendations in the perspective of problem-solving. SCHIFF Texte, Nr. 67/English, 2002.

grad's challenge. The views on both sides are still distant from each other; lack of progress on diverging priority issues gives birth to the vicious circle of frustration; and political decisions which would enable the sides to break the circle are not even on the horizon. Apparently, the respective interests of both sides in and towards Kaliningrad have not been defined, which strongly impedes the search for common interests and makes the emergence of common agenda on the operational level very difficult. This absence of explicitly-stated interests, of a strategic vision of Kaliningrad's future is probably the most important single reason to be concerned about the area's fate.

Contrary to the relatively slow motion of the Russia-EU truck, accession negotiations quickly progressed toward successful completion in November 2002. As a result, the most evident troublesome consequence of EU enlargement, visa regime vis-à-vis Lithuania and Poland, will affect the area's residents by July 2003, well before the measures to reduce the negative impact minimum can be taken.

This chapter seeks to concentrate on the weaknesses of Russia's and the EU's respective policies towards Kaliningrad and hard items of bilateral dialogue. It is assumed that a focused and clear-cut list of existing and potential problems will contribute to better understanding of the need to endorse the strategy of making Kaliningrad a pilot region for Russia-EU cooperation. The author is hopeful that the analysis will add new practical recommendations to the set of proposals put forward by other scholars.

II. Kaliningrad: What Went Wrong?

Kaliningrad is the western-most region of the Russian Federation, with a territory of 15.1 thousand square kilometres (0.1 percent of that of Russia) and a population of about 950 thousand people (0.6 percent of Russia's total). In 2000, the Gross Regional Product (GRP) in Kaliningrad reached 21.78 billion roubles (EUR 742.6 million), or less than RUR 23 thousand (EUR 785) per capita². Comparative studies show that per capita GRP in Kaliningrad is 25 percent below the Russian average, reaches only two thirds of the indicators of North Western Federal District and is considerably lower than that of neighbouring Lithuania and Poland (see Table).

Table 1. GRP/GDP in Kaliningrad, Russia, Poland and Lithuania in the 1990s, thousands of US dollars.³

	1990	1995	1998	1999	2000
Kaliningrad	10.2	4.7	4.05	4.05	4.4
NW Federal District	10.65	6.35	5.8	6.1	6.6
Russia	9.8	5.75	5.15	5.35	5.85
Lithuania	10.45	6.10	7.19	6.98	7.23
Poland	9.8	10.88	12.9	13.25	13.6

2 *Federalnaya Zselevaya Programma "Razvitie Kaliningradskoi Oblasti na Period do 2010 goda"* (Federal Programme "The Development of Kaliningrad Region until the Year 2010"). Available at www.gov.kaliningrad.ru/p2001/p2001.pdf.p.4. Available statistical data are often contradictory and hardly compatible. The same source estimates GRP per capita at 4400 US dollars. Additional research allows one to assume that this estimate is a result of calculations on the basis of purchase power parity in 1996 prices provided in a specialised study (Smorodinskaya: 46). This, however, is not stated in the document which along with many other mistakes or misquotes does not speak in favour of the competence of the Russian authors of the Federal Programme.

3 Sources: Model Razivitiya: 7; Smorodinskaya: 46-47.

The economic turmoil of the 1990s affected Kaliningrad much more negatively than Russia in general. Industrial output in the region in 2000 constituted only 40 percent of its 1990 level (0.3 percent of Russia's industry) while the Russian average was 54 percent⁴. The fishing industry, which in the time of the USSR produced about one third of the region's industrial output was among branches most severely hit by the crisis. By 2000 its share has fallen to less than 10 percent of industrial output, while catches decreased by a third⁵. Extraction of amber, on which the region has a near monopoly with 90 percent of world reserves, shrank in 1995-2000 from 800 to 443 tons⁶, of which a large share was smuggled out of the area. Agriculture was in very poor shape⁷. Transportation infrastructure was used at less than 30 percent of its capacity⁸ with the main reasons for low usage being expensive transit through the territories of foreign states, underdevelopment of the port infrastructure, inadequate sea channel width and port depth, and finally, military presence in several potentially attractive locations. The crisis in the state sector, which is still rather strong in the area, is obvious. As of 2000, 30 percent of the enterprises where state had a share or control, were loss-making, including the area's only air company "Kaliningradavia" and Kaliningrad Railways⁹.

In discussing the factors that contributed to economic decay of the area, along with objective reasons such as lack of territorial contiguity and disintegration of post-Soviet economic ties, it is important to pay attention to those that, in principle, can be overcome by means of consistent policy. First, there is the disadvantageous tariff policy of neighbouring states and also, to a lesser extent, of Moscow. According to estimates by Kaliningrad Governor Egorov, the area's annual losses from high transit tariffs amount to 22 million dollars¹⁰. Second, inadequate Russian legislation failed to create the necessary legal stability in Kaliningrad's economy. Contrary to existing impressions, the Law on the Special Economic Zone (SEZ) in Kaliningrad region, adopted in 1996 and replacing the Free Economic Zone "Amber", established by presidential decree in 1991, could not be and was not directly enforced. It contradicted other pieces of legislation and, therefore, only four of its 28 articles were enforced, only one in full¹¹. Worst of all, preferential trade regimes, while softening hardships in the population by slowing down price increases and creating employment, simultaneously did not create incentives for structural reforms and investment. Despite its special status, Kaliningrad accumulated, for example, one seventh as much foreign investment as Novgorod and did not figure among the top twenty most investment-attractive regions of Russia¹². Imports, which prevailed over exports in the trade balance (by 3.75 times in 1998, 3 times in post-crisis 1999, when import substitution was very strong Russia-wide, and nearly 2 times in 2000)¹³ rendered a heavy depressing effect on the real sector of the economy. Third, the peripheral status of Kaliningrad in Russia's hierarchy of priorities lead to a situation in

4 Federalnaya Programma..., p. 5

5 *Model Razvitiya Kaliningradskoi Oblasti Rossii do 2010 goda* (The Model for Development of Russia's Kaliningrad Region until 2010). Kaliningrad, Committee for Economic Development and Trade of the Administration of Kaliningrad Region, 2001., p. 9

6 Ryabushev, 2001a, p.11

7 Federalnaya Programma..., p. 6

8 Model Razvitiya..., p. 9

9 Model Razvitiya..., p. 12

10 Egorov, 2001a

11 Model Razvitiya..., 17

12 Smorodinskaya, 10-13; Oldberg, 33-34

13 Federalnaya Programma..., p. 7

which numerous declaratory measures lacked proper financial back-up. For example, whereas the Federal Programme for Development of the SEZ earmarked allocation of more than 3 billion roubles (EUR 102 million) from the state budget to promote development in 1998-2000, the amount of money transferred was only 91 million roubles (EUR 3.1 million), and two thirds of this was actually raised in the area by auctioning import quotas¹⁴.

The budgetary situation of the area is characterised by the Federal Accounting Chamber Chairman Sergei Stepashin as *de facto* bankruptcy¹⁵. As of 1 January 2001, the amount of state debt of Kaliningrad reached 1.6572 billion roubles (EUR 56.5 million). While the income of the regional budget in 2000 was about 1.3 billion roubles (EUR 44.4 million), issued budget guarantees amounted to 1.34 billion (EUR 45.7 million) to which unpaid interest for credit from 1999 and 2000 should be added. The main current creditors are the federal budget and Dresdner Bank AG¹⁶. Particularly worrisome and potentially socially destabilizing is the energy debt of the region. As of August 2001, Kaliningrad owed 466 million (EUR 15.9 million) roubles to energy producers. Of this indebtedness, 90 percent was accumulated by federal and municipal consumers, among which the Baltic Fleet, owing 106 million roubles (EUR 3.61 million), was also counted¹⁷. At the same time, Kaliningrad authorities claim donor status for the territory, stating that in 2000 the area paid about 2.5 billion roubles (EUR 85 million) in federal taxes while receiving only 418 million roubles (EUR 14.3 million) of assistance back¹⁸.

All of these factors affected the social situation in Kaliningrad extremely negatively. Official unemployment rate is relatively low at 1.4 percent in 2000, which is considerably less than the 5.1 percent in the peak 1995, but if calculated according to the norms of World Labour Organization, it reaches 16 percent or 75,600 people. Average monthly wages in Kaliningrad are only \$55.4 compared to \$64.3 in Russia on average, \$280.8 in Lithuania and \$429.9 in Poland. The mortality rate is exceeding the fertility rate (by 7.3 per mill in 2000, 6.8 in 1999, 5.3 in 1998) which in recent years has not been compensated by immigration. In the region where there is an epidemic of HIV and a threatening situation with tuberculosis, the number of medical doctors per 10,000 people decreased from 37.7 in 1992 to 34 (57th position in Russia); Kaliningrad ranks 69th and 45th, respectively, in the number of nurses and hospital beds¹⁹.

Social amortization was facilitated in two major ways: less importantly, the military presence, which created jobs and added to the market demand of the population, and, more importantly, various sorts of “informal activity“, including cross-border trade and smuggling. A Russian economist estimated that the share of the “shadow economy” may reach as much as 60 percent of GRP, while in the rest of Russia this indicator varies from 25 to 50 percent²⁰. Other proofs of the importance of cross-border trade can be found in indirect evidence such as the large number of small enterprises, 9,800 as of January 2000, which is behind only Moscow and Saint Petersburg. Of them, 60 percent are trade organizations²¹. The revenue of small enterprises in 1999 exceeded 9 billion roubles (EUR 307 million) which was comparable to that of large and medium enter-

14 Model Razvitiya..., p. 20

15 Kadik, p. 2

16 Model Razvitiya..., p. 13.

17 Zhukov, 2001b..., p. 4

18 Model Razvitiya..., p. 12

19 Federalnaya Programma..., pp. 8-10; Kuznetsova, p. 2

20 Smorodinskaya, pp. 13-14

21 Federalnaya Programma..., p. 9

prises (15.7 billion roubles or EUR 535 million). Finally, enormously intensive activity on the border is taking place. The average annual number of border crossings in Kaliningrad is 8.5 million people and 3 million vehicles (4 and 2 million respectively in the Russian-Polish sector) which gives the region the third position, in absolute terms, among Russian Federal Border Service regional departments²². According to some local data, an average Kaliningrad resident goes out of the region 14 times more frequently than an average Russian²³.

To sum up, it is obvious that in the 1990s Kaliningrad demonstrated worse development indicators than Russia in general. The problems common to all Russia have been aggravated in the area to a stronger degree, and remedying them would require more time and effort. At the same time, on the grass-roots level the area, despite its initial militarization, proved to be much more internationally exposed and dependent, which created a prerequisite for integrating Kaliningrad into the system of regional and larger EU-Russian cooperation, if there is readiness on both sides to work consistently to implement this idea.

III. Negative Impact of EU Enlargement on Kaliningrad

The hypothetical positive impacts of the EU enlargement of Kaliningrad are well-known. It is assumed that Polish and Lithuanian EU membership will lead to extension of Russia's most-favoured nation status to these two countries, which should have a beneficial effect for Kaliningrad exports due to its proximity to new EU markets. Also, duty-free transit to Russia will be guaranteed²⁴. This view can be easily challenged on the ground that most of Kaliningrad's would-be exports to EU are uncompetitive for reasons of quality, not price, that unfit standards may be prohibitive for exports at all, and that the major transit problem is tariffs and not customs duties. In this regard, it remains to be seen whether positive impacts will follow the enlargement at all.

The logic of negative impact is, unfortunately, much more sound and realistic. It is also well-known to experts, but worth repeating to decision-makers. The expected effects are threefold:

First, a today's liberal visa regime (30-day visa-free entry to Lithuania with the possibility to enter on domestic ID, special voucher system for entry to Poland) will be eventually replaced by the Schengen regime. Introducing new visa and customs regulations will make the informal sector shrink. The level of official unemployment may jump from its current level of 1-1.5 percent to 15-20 percent. Decrease of the population's real income will quickly affect the legal economy by shrinking demand which, in turn, will result in falling incomes for the retail trade, bankruptcies of small enterprises, decreasing GRP and lowering income for the regional budget²⁵. The decrease in minor smuggling will result in a significant drop in the production of alcohol and cigarettes, which in turn will mean a fall in budget revenues from excise duties. The region will become more dependent on federal subsidies. Apart from economic consequences, a significant humanitarian problem will be created, since the residents of the area will be re-

22 Model Razvitiya..., p. 50

23 Quoted in Fairlie, p. 74

24 Commission..., p. 3

25 Smorodinskaya, p. 19

quired a to obtain transit visa to visit their own country by land and, furthermore, find themselves in the absurd situation of needing a Schengen visa when travelling to a non-Schengen country, in order to be able to go to Vilnius to submit an application. Experts consider this likelihood a human rights problem, as it contradicts the Universal Declaration of Human Rights of 1948 guaranteeing everyone the right to leave any country, including his own, and to return to his own country,²⁶ which in cases of denied visas will not be possible.

The second sort of problem is connected to possible changes in infrastructure which may take place after, or in the process of, enlargement and may cause the situation to deteriorate. One realistic concern is now defined in Russian sources as “a threat of transport isolation”²⁷, i.e., detachment of Kaliningrad from new transportation routes inside the space of the EU. From all points of view it will be logical to organise intra-EU shipment of goods within the territory of the Union to avoid custom procedures and other formalities, whereas trade with Russia will be more attractive to conduct through ports in the Baltic states or Saint Petersburg to avoid double customs clearance and gain access to more developed transport infrastructure. The same logic will hold for Russia. In 2002, cancellation of the only international air connection Kaliningrad²⁸ used to have, SAS service to Copenhagen – although this happened outside of the enlargement context – is quite symbolic nevertheless, as it demonstrated the lack of interest of the European business community in Kaliningrad’s possibilities. Unwilling to fly directly, business people are even less likely to try to reach the area via Moscow, or enter it by land, which would imply hours of waiting in the bottlenecks on the border.

Another challenge lies in the energy sphere. Currently 80 percent of energy consumed in Kaliningrad transits through neighbouring states by means of a complicated mechanism of substitution. When Lithuania switches to European standards, this receipt of energy will become impossible. An option to buy electricity from neighbours is for Kaliningrad unaffordable, as long as much higher tariffs mean extra costs of 35 billion roubles (EUR 119 million) per year compared to present energy bills²⁹. In principle, this is a technical problem, but because of its dimensions rises to the level of political decisions on an economic security matter.

Third, EU assistance policy is and will continue to contribute to a growing gap in levels of socio-economic development. The annual aggregated amount of PHARE, SAFARD and ISPA assistance programs to Poland and Lithuania is expected to reach EUR 880-950 million and EUR 115-135 million respectively before the enlargement, and after accession Poland will receive EUR 2.9 billion in the first year to EUR 8.5 billion in the fifth³⁰. It suffices to compare this resources with EUR 15 million which Kaliningrad received in 1994-2000 under the TACIS programme to see clear asymmetries, which are logical and easy to explain but nevertheless hard to justify from the point of view of the rhetoric concerning long-term interests of all parties involved.

The question naturally arises of whether and why the EU should at all be concerned about these emerging problems in a country which is not even an applicant for membership. There are at least two factors which have to be taken into account. The first is a bit controversial. It is believed that termination of ties of subregional cooperation, which

26 Fairlie, p. 38

27 Federalnaya Programma..., p. 13

28 Later this flight was replaced by a connection via Warsaw.

29 Model Razvitiya..., p. 19

30 Model Razvitiya..., p. 21

have been in place for more than a decade, will also negatively affect neighbouring areas of future members, will require raising assistance to them and may even have destabilizing effects for the whole EU³¹. It is worth remembering that in 1998, when Warsaw tried to restrict visits from Kaliningrad by demanding visas from Russians and Belorussians, the reduction of shuttle trade evoked strong protest inside Poland. In Lithuania, the inevitability of negative consequences of strict visa regime is realised in full and, therefore, a number of politicians and business leaders have spoken against imposing visas on Kaliningraders³². On the other hand, according to available data, in 2000 trade with Kaliningrad amounted only to 0.3 percent of Polish trade exchange, and 2 percent of that of Lithuania, which should not be difficult to compensate after EU enlargement³³. The second reason is worth more attention. This is the risk of stimulating soft security risks rather than diminishing them. One part of now law-abiding people will be effectively cut off, but the other will have to rely on criminal channels to enter the Schengen zone and do business. Border corruption and illegal migration will grow, and smuggling may continue as long as there is a huge difference in prices on excised goods on one hand and living standards on the other.

IV. Moscow's Response

In taking decisions upon its policy towards Kaliningrad, Moscow for a long time faced two dilemmas: first, whether the area should develop predominantly as Russia's military outpost or as a gateway to Europe; and second, whether it is economic prosperity or dependence on subsidies that will ensure the development of Kaliningrad as an integral and inalienable part of Russia.

The former dilemma seems to have by now been solved in favour of demilitarisation. Even despite likely NATO enlargement in the Baltic region, the strength of troops deployed was to be reduced by 2003 by 8,600 men³⁴ from the level of 25,000 in the Baltic Fleet, 8,000 Border Guards and 1,000 Interior Troops³⁵. In November 1999, Russia, without much specification at the time, proposed to turn Kaliningrad into the "pilot" region of cooperation in its strategy of development of relations with the EU³⁶.

As for the latter dilemma, clarity is still absent. Theoretically, secessionist feelings may grow stronger both if the region is considerably better off or worse off than the mainland. In practice, however, this risk has not materialized³⁷. In practical terms, the discrepancy between the logical imperative of compensating Kaliningrad for its exclave location and the need to prevent its turning into a smuggling corridor was particularly

31 Joenniemi et al., p. 45

32 Oldberg, pp. 40, 42

33 Cichocky et al. p.57.

34 Egorov, 2001a

35 Model Razvitiya..., p. 14

36 Strategia..., p. 26

37 The idea of independence is not influential. According to various polls, no more than 5-6 percent of the population are in favour of independence. Oldberg, p. 70. Furthermore, most probably, these people, when answering pollsters, rather mean autonomy, as some other data suggest. Membership in the Baltic Republican party, which struggles to establish a "Baltic Republic" as a part of Russia, is alleged to be 529 people (Ryabushev, 2001b, p. 4) while Russian legislation requires from a federal political party a membership of 10,000 people and branches at least in a half of the Federation subjects.

visible in the sphere of customs. On the one hand, transit to Russia is subject to standard customs clearance (which actually makes Kaliningrad a very disadvantageous port of entry compared to Saint Petersburg), on the other hand attempts to eliminate Kaliningrad exemptions from customs duties and taxes usually fail, as happened in January 2001, for example. A compromise formula of quotas, which is currently in force, is aimed at gradually lowering the amounts of duty-free imports, particularly in agriculture products, by 2005.

Before 2000, Moscow's policy towards Kaliningrad developed in the general context of a "peripheral" paradigm³⁸. Following the election of Vladimir Putin, the situation has changed and the area attracted a lot of attention from the centre. After Putin's own visit to Baltiysk, the headquarters of the Baltic Fleet, in July 2000, there was no shortage of high-level delegations, activity which cannot be matched by any other subject of Russian Federation. Just in March-October 2001 the region was visited by Minister of Foreign Affairs Igor Ivanov, Minister for Economic Development and Trade German Gref, Minister for Taxes and Duties Grigorii Bukaev, Minister for Transportation Sergei Frank, Minister for Labour and Social Development Sergei Kalashnikov, First Deputy Minister of Finance Alexei Ulyukaev, Russia's Human Rights Commissioner Oleg Mironov, Deputy Speaker of the Duma Vladimir Lukin, Moscow Mayor Yuri Luzhkov and an enormous number of other high officials. In July, Kaliningrad was discussed at a meeting of the Russian Security Council. In November, the region hosted the session of the Collegium of the Federal Security Service (FSB) which, in addition to FSB chief Nikolai Patrushev, was attended by the heads of the Foreign Intelligence Service (Levedev), the Federal Border Service (Totskii), the Federal Tax Police Service (Fradkov), the Customs Committee (Vanin) and the Presidential Representative in the North-Western District (Cherkesov), and was held behind closed doors. In December, the State Duma urged the president to complete elaboration of the concept of federal policy towards Kaliningrad.

The policy is conducted in two directions. The first targets ensuring the bureaucratic recentralization of ties between Moscow and Kaliningrad. The first step in this drive was the election, favoured by Moscow, of Vladimir Egorov, the former Commander of the Baltic Fleet, to replace the former governor Gorbenko who allegedly had criminal connections and was not ready to obey everything coming from Moscow. But a more symbolic revelation of this trend was the appointment of Andrei Stepanov as special Deputy Presidential Representative in the North-Western District for Kaliningrad. It has become an obligatory element of rhetoric to emphasise the need to deal with Moscow whenever a Kaliningrad-related issue is concerned³⁹. This approach, which is in line with Putin's concept of "transmission belts" as the system of governance and may, indeed, be approved with regard to Kaliningrad tactically, in the longer term provides grounds for scepticism. Inside Kaliningrad, it creates overlapping competing bureaucracies with a tendency to further multiply, as was evidenced in the proposal to create a special administration of the SEZ which, as long as the territory of the zone comprises the whole region, would only establish a third structure with unclear competence. (Mostly due to resistance from the governor, the idea did not materialise.) Internationally, it fuels the

38 For details, see Sergounin, pp. 163-168, Oldberg, pp. 26-28)

39 Minister Ivanov, speaking in Kaliningrad, urged preventing attempts to deal with Kaliningrad by-passing the federal centre. He called it inadmissible that the destruction of "Russian vertical of power" would be a result of foreign ties of the region. Ivanov, p. 73.

scepticism that the region will not be granted a degree of flexibility necessary to deal with the enlarging EU.

The second direction is more promising, as it focuses on the area's real social and economic problems. In March 2001, the Russian government adopted a Concept of Federal Socio-Economic Policy towards Kaliningrad aimed at creating conditions for the area's sustainable development. Noteworthy, removing obstacles for cooperation with EU and the Baltic states was mentioned among the goals of Russian policy. In October, the cabinet adopted the Federal Programme of Kaliningrad Development through the year 2010, which was finally signed by the Prime Minister Kasyanov on December 7. It is forecast that per capita GRP in Kaliningrad will raise 2.4 times to reach \$7,200 on the basis of purchasing power parity, while the revenue of all budgets will grow 2.7 times. The Programme is based on the assumption of allocating 93 billion roubles (EUR 3 billion) over nine years to fulfil 60 investment projects and 93 non-commercial programmes.

While praising the Programme for its willingness to address the needs of the region in a systemic way, it is nevertheless possible from the very outset to criticise it for lack of realism. It is highly likely that it will not accumulate the money it counts on. The federal budget is expected to bear directly less than 14 percent of all expenditures and the regional budget 4.7 percent, while the rest is attributed to participants' own resources (20 percent), foreign and domestic credits (22 percent), and other sources (39.3 percent) to which finances of federal bodies and big companies like Gazprom or United Energy Systems belong. Taking into account Gazprom's well-known unwillingness to participate in building a new pipeline to Kaliningrad to supply gas to the projected heat and electricity station (where the Russian gas monopoly would have to sell gas at \$18 per thousand cubic meters compared to \$100-120 on the world market), it is clear that serious problems were overlooked. The station (TETs-2 in Russian), with a planned power of 450 mVt may well become the first symbol of unrealistic planning. Initially, according to the Programme, it was to become operational in 2003, but later the date was postponed to 2005. At the moment of writing (April 2003) no information was available about negotiations regarding the construction of the gas pipeline through Lithuania. Another line of criticism about the Programme may be turned particularly against the conservation of preferential treatment of Kaliningrad within Russia, which does not foster economic modernization, and against the fact that even if successful, the Programme will not improve relative indicators of Kaliningrad, even compared to the rest of Russia, i.e., that there will be no breakthrough⁴⁰.

V. Kaliningrad's Response

The emerging region's own conceptual view of the ways to improve the situation seems to be more consistent than the federal one. Comprehensive analysis of this approach is possible by the appearance, in November 2001, of a document published under the aegis of the Committee for Economic Development and Trade of the Administration of the Kaliningrad Region entitled "The Model for Development of Russia's Kaliningrad Region through 2010" which largely corresponds with the Federal Programme but contains important nuances that can be easily discerned.

40 Smorodinskaya, pp. 24, 16-17

First of all, the authors believe that the uncertainty of federal policy is a negative factor for regional development. They urge the government to adopt necessary legislation that would facilitate liberal reforms in the area, and to transfer the major part of legal powers that confine economic activity to regional level⁴¹. Regional interests as not necessarily identical to federal are indicated. That opens a tri-actor perspective and the need to harmonise interests among Moscow, Kaliningrad and the EU⁴², which is absent in the Moscow view. To a certain extent, the regional approach seems to be more open for cooperation with European Union and neighbouring countries, but it is also rather realistic not to expect an interest from foreign actors to build export-oriented enterprises in Kaliningrad, but to use it as an entry to Russian market⁴³.

At the same time, in the document there is a clear interest in strengthening the degree of autonomy, in maintaining and developing the regime of the SEZ, in securing federal financing and preferential treatment of the area⁴⁴. This approach is strongly present in the practical line of actions taken by the regional authorities in relations with Moscow. Governor Egorov was active in reaching a suspension of January 2001 decision to introduce the all-Russian customs regime in area; he also opposed the idea of introduction of a special administration for the SEZ and governmental plans to stop the extraction of amber in order to stabilise prices. It remains to be seen whether Kaliningrad authorities will be able to successfully lobby their views in Moscow.

VI. Neighbours' Response

Logically, the position of Kaliningrad's only two neighbours, Poland and Lithuania, should be considered as an important factor of its development.

In Poland, two differing approaches to Kaliningrad can be discerned. One is more attentive towards the needs of the area. It sees the essential significance of the freedom of movement for Kaliningrad's future, although admits at the same time that facilitating measures in this regard should not impede Polish EU accession. This approach clearly prioritises sub-regional cooperation in general and interaction between Kaliningrad and bordering Polish administrative units Warmia-Mazury and Pomerania in particular. With regard to the EU, it urges Brussels to deal with the area through local actors, as this would lower Moscow's apprehensions about Kaliningrad's becoming a subject of international relations⁴⁵.

The second approach supports introduction of the restrictive visa regime without delay, as it focuses on positive effects for Poland at large, which are limitation of illegal imports, prevention of harm to fiscal interests of the country, facilitation of large-business interaction by eliminating jams on the border, and acceleration of Poland's full accession to EU⁴⁶. For this school, effects on Kaliningrad are certainly not a priority.

The Lithuanian approach is more homogenous. Vilnius would obviously like to preserve the positive effects that the ties with Kaliningrad have rendered on the overall

41 Model Razvitiya..., pp. 84, 40

42 Model Razvitiya..., p. 33

43 Model Razvitiya..., p. 33

44 Model Razvitiya..., pp. 18, 20

45 Gromadzki, Grzegorz, Wilk, Andrzej, pp. 11-12.

46 Cichotsky et al., p. 57.

Russian-Lithuanian relationship. Lithuania itself pursued, and urged the EU to pursue, a flexible policy on the issue of people transit, provided its right to apply national procedures of transit control would be ensured. Also, Lithuania demonstrates interest in discussing the issue of railway tariffs with Russia⁴⁷.

However, this description of approaches is mostly of retrospective academic interest. In practice, the ability of Warsaw and Vilnius to conduct an autonomous policy towards the area is more limited the closer the date of enlargement comes. The trilateral ministerial summit in Kaliningrad in March 2002 confirmed once again that no deviation from standard EU rules should be expected in the positions of Lithuania and Poland and that decision-making would lie in Brussels. As of July 2003, both countries are expected to introduce visas also for residents of Kaliningrad. After the accession, some lobbying in the EU corridors with regard to funds available for cross-border cooperation will, probably, take place, but how effective it will be remains to be seen.

VII. Brussels' Response

The EU policy towards Kaliningrad is very much a "moving target", since it is evolving quickly. Before 2000, it was hardly possible to speak about any policy apart from the rhetoric, and the Union, in fact, was refusing to recognise responsibility for the problems that would emerge or be aggravated in the region as a by-product of enlargement. As a typical statement, one can quote EU Commissioner for enlargement Guenter Verheugen, who said as late as January 2000 that Kaliningrad should have a chance to benefit from enlargement but Russian concerns should not be allowed to influence talks with candidate countries⁴⁸. Negligible amounts of assistance – slightly more than EUR 1 per resident annually in 1990s – that simply could not form a base for any policy, serve as a good illustration to the point.

Since that time, the situation has changed much for the better. Kaliningrad as such, along with environmental issues and the fight against international crime – issues quite relevant for the area in their own right – were made central issues in the Northern Dimension Action Plan, adopted at the Feira (Portugal) EU Summit in May 2000. In January 2001, the Commission issued a special Communication that was a response to Russia's expressed concerns and that, among other things, was supposed to launch a discussion inside the EU and prepare a position to be negotiated with Russia later⁴⁹. Intensive studies were conducted which helped to realise that the initial assumption of a predominantly beneficial impact of enlargement on Kaliningrad was ungrounded. In December 2000 through July 2001, the Kaliningrad administration received more than 100 international delegations⁵⁰, the major part of them coming from EU or applicant countries. Finally, in October 2001 at the EU-Russia Summit in Brussels it was agreed to set up a special working group that would deal with Kaliningrad's most urgent problems emanating from the enlargement.

Yet the practical policy of the EU was and to a large extent is inadequate or insufficient to approach the problem in depth. First, the conceptual view, according to which

47 Joenniemi et al., pp. 46-47, 49.

48 Verheugen

49 For details on EU actions and specific measures of individual EU countries, see Oldberg, pp. 37-39

50 Model Razvitiya..., p. 26

Kaliningrad, as an integral part of Russia, should be treated equally with the rest of the country and should not be granted any special status in terms of visa or customs regime, is impeccable from the point of view of formal logic, but fails to address the fact that the region has a unique location. Such an approach could serve as the best possible excuse to justify a policy of neglect, particularly, if strengthened by the valid argument that EU cannot be more interested in the region than Russia itself, which refuses to grant the region the necessary degree of flexibility, and which takes a difficult-to-explain passive stand on many concrete initiatives of its partners. To repeat, taking this Russian position into account, it can be a legitimate approach. However, even the possibility of blaming Russia retrospectively will be of little help if problems have been aggravated and started to negatively affect new members of the Union.

Second, as was already mentioned, the funds are dramatically insufficient. For bureaucratic reasons, the EU does not combine resources from its different programmes (PHARE, TACIS, INTERREG), as Russia proposes, and spend them on specific projects of border cooperation between Russia and candidate countries. Since the goal is to prevent widening of the socio-economic gap on these borders, the ban on using INTERREG here at least the way it is done on Russian-Finnish and other borders between members and non-members looks irrational. Of course, the Union has to ensure that the money it will be ready to spend will not be wasted or stolen, and that more active involvement will not lead to “parasitic” intentions of simply exploiting the EU and getting more assistance without providing anything in return. However, at the moment, when Moscow plans to allocate real money for Kaliningrad, it appears possible to negotiate schemes of financing projects that could fix the obligations of both sides.

Third, the EU seems to be missing the chance to use for its Kaliningrad policy a potential of the Northern Dimension, which can be much more flexible a tool, compared to the Union’s traditional inventory. The initiative still does not have a programme budget of its own; its future after the momentum of the Finnish and Swedish presidencies is not secure; and after all, it is more and more focusing on energy dialogue with Russia, which does not concern Kaliningrad. Putting together, under the ND umbrella, the projects which would have been implemented anyway, does not give the initiative any added value and makes it a likely “thing of the past” in the post-enlargement phase, which is counter-productive from the perspective of building a partnership with Russia.

Finally, the EU did not encourage subregional dialogue on the issue of Kaliningrad even as it deprived candidate countries of flexibility. On the visa issue, the Commission clearly stated that the Lithuanian policy of simplified regime was not in line with the common visa policy and would need to be revised before accession⁵¹. The slow start of the Northern Dimension did not allow implementation of the Russian-Lithuanian Nida initiative (March 2000) which largely dealt with Kaliningrad and which, if successful, could be a very important precedent of cooperation between Russia and a Baltic state. Again, as long as for historical, economic and now enlargement-related reasons Poland and Lithuania find it easier to cooperate with each other than with Russian Kaliningrad, the lack of efforts to foster subregional cooperation is regrettable.

51 Fairlie, p. 11

VIII. Pitfalls of the Russia-EU Dialogue

It was agreed and several times confirmed by Russia and the EU that they would continue the dialogue aimed at promoting the development of the Kaliningrad region. At the outset Russia would like to conclude a special agreement with the EU on Kaliningrad which would guarantee the following:

- freedom of sea, air and land transit to and from Kaliningrad for all goods and passengers, including pipelines, electricity transportation lines, telecommunication channels; the EU should confirm Russia-Lithuanian agreements on military transit;
- visa-free travel of Kaliningrad residents to Poland and Lithuania as well as their transit to Russia through these two countries and Latvia by cars, buses and trains along agreed routes; reciprocally, Russia was ready to establish a preferential regime for the visits to the region by citizens from Schengen countries (furthermore, from 1 February, 2002, Russia has also introduced in Kaliningrad an experimental regime allowing receipt of 72-hour visas directly at the border);
- securing the interests of Russian fisheries after enlargement and the merger of Polish and Lithuanian fishing quotas with those of the EU;
- guaranteeing reliable energy supply to Kaliningrad;
- access of Kaliningrad to existing EU programmes of technical assistance, credits and grants of the Northern Dimension;
- preserving in force all contracts reached between economic actors from the region and their partners in candidate countries after enlargement⁵².

It can be added that the region's approach towards negotiations with the EU largely coincides with the federal one. It puts more emphasis on the "assistance" bloc, demanding assistance in spheres of environment, standardisation and certification, energy, transportation infrastructure, telecommunications, access to funds of the European Investment Bank and inclusion of Kaliningrad in Baltic Sea programmes of regional development⁵³. For some time regional bodies, the local Duma for example, promoted an idea of strict examination of passports instead of visas in the context of the idea of a "Baltic Schengen"⁵⁴, but since the latter was finally dropped by the federal authorities by early 2001, regional bodies also seem to have lost interest in it. Thus far, only a set of concerns related to the movement of people was seriously approached and agreed upon. Already in the early stages of negotiations Russia dropped demands for Kaliningraders' visa-free entry to Poland and Lithuania – which can be explained by its unwillingness to internationally legalize two different categories of Russian citizenship – and concentrated on visa-free transit to and from the area. The final compromise was reached at the Russia-EU summit in Brussels in November 2002. It introduced Lithuanian control over transit from January 2003, compensated the travelers by means of facilitated travel documents for car and railway transit and continued acceptance of Russian domestic identification documents until the end of 2004⁵⁵.

The transit agreement, however, with all due respect paid to this rather successful story, does not necessarily constitute an example to be followed in other fields. The

52 Ivanov, pp. 72-73; Pozitsiya

53 Model Razvitiya..., p. 85

54 Oldberg, p. 45

55 For detailed analysis of transit agreement see Moshes..., pp. 265-268. Respectively, add to the list of literature. Moshes, Arkadij. Pilotregion oder doppelte Peripherie. *Osteuropa*, 2-3, 2003).

length of this study does not allow detailed consideration of whether and to what extent the demands listed are realistic. Some of them look legitimate and, it is hoped, will be taken seriously by the EU, while others can in principle be rejected as incompatible with the *acquis*. What is important to emphasise in this paper are the fundamental problems that negotiations will be facing or be influenced by.

First of all, there is the institutional discrepancy. Russia is not going to apply for membership in the foreseeable future and, probably, forever and, therefore cannot count on access to funds which were created with only one goal: to facilitate the enlargement and the adoption of new members. The discussion of the idea of special status inside the EU will, in this context, always meet the apprehensions that one deviation from the rules will only encourage “the outsider” to demand more and more every time, and that anything special given to Kaliningrad will undermine the general credibility of EU policy.

Second, the hierarchies of priorities of the two sides with regard to Kaliningrad differ in principle. The EU is essentially interested in harmonisation of its internal post-enlargement economic space, which logically results in relative de-prioritisation of Kaliningrad, with all financial implications ensuing. In economic terms, Kaliningrad is of very little interest for EU actors, since its internal market is small, its role as a transit corridor to Russia is limited legally and logistically, while attempts to use the area as a production outpost inside Russia have been failing thus far and are no longer taken as promising on any considerable scale. For these reasons, the EU sees Kaliningrad mostly in soft security terms and focuses on issues such as environmental (including nuclear) safety, epidemic diseases and crime, that are rather in line with the concept of “Fortress Europe” than “Pilot Region”. The negative image of the area, which is wide-spread in Europe, gives such an approach public support. Russia’s concept is totally different; it concentrates on problems of socio-economic development. To compare, the Federal Programme foresees spending on environmental protection only 3.5 percent of funds whereas the field of energy security will receive 47 percent of the money⁵⁶. In absolute terms, Russian expenditure on environmental protection is planned to reach some \$100 million over 9 years, whereas only one grant from the EBRD to clean the sewage water system “Vodokanal” in Kaliningrad city is \$57 million⁵⁷. It is highly probable that divergence of priorities may become a major stumbling block for EU and Russia, leading to mutual frustration and strengthening a drive to unilateralism in Russian policy, which, in turn, will lessen the openness of the area.

Third, a solution to the visa problems is hindered by the absence of a readmission agreement. Russia has visa-free travel regimes with all the CIS states except Georgia, and for this reason is quite sensitive to discussions of the issue. However, signing in May 2003 in connection with the transit compromise in the readmission agreement with Lithuania, and the start of negotiations with the whole European Union indicate that eventually the impact of the problem will decrease – particularly in the context of talks about a regime for visa-free Russia-EU travel, which have also begun.

Fourth, the dialogue is asymmetrical. Russia has very little leverage to apply if Brussels decides not to take Moscow’s remaining concerns into account. Of course, potential problems will hit residents of neighboring areas of Lithuania and Poland as well, but for future EU citizens many more compensatory mechanisms to reorient their business and travel will be available, than vice versa. Too much dependence on the good

56 Federalnaya Programma, p. 20

57 Savenko, p. 10

will of one of the two negotiating parties is a factor that rather adds scepticism to the analysis.

Finally, there is a number of important accompanying problems, some of them quite contentious in their own right. Naturally, it is the issue of NATO eastward expansion to include the Baltic states that may once again draw attention towards the military significance of the exclave at the expense of the “pilot region”. Already now, the forthcoming enlargement is a factor in renegotiating the agreement on military transit which affects Kaliningrad. Problematic relationships between Russia and Baltic states find their way in targeting development strategies for Kaliningrad at reorienting transportation flows currently going through these states and “overcoming negative implications of protectionist policy” of theirs⁵⁸. It is hard to say, in which ways these tasks can be harmonised with EU enlargement goals.

IX. Conclusion. Taking the Pilot Region Seriously

On the expert level, the concept of the “pilot region” is now rather well-developed. The strategy would pursue two goals: first, to make Kaliningrad a test site for implementing innovative technologies and modern European economic standards which would be later offered to the mainland, and second, to elaborate new mechanisms of Russia-EU interaction. Joining forces within this project would most probably result in an economic breakthrough for the region and its adaptation to existence in conditions of European encirclement. It would raise the general compatibility of Russia with EU standards, add to mutual understanding between the two and promote regional and subregional cooperation. Security in the Baltic Sea region will be enhanced without remilitarisation. The amount of subsidies required will be gradually diminished⁵⁹. Failure of the project will hinder the prospects for long-standing partnership between Russia and the EU, EU enlargement may become a destabilizing factor in relations between Moscow and the region, and a costly border policy will be required.

To make the “pilot region” a reality, the following recommendations seem appropriate to make:

- The highest level of political legitimacy should be given to the concept of the pilot region. The EU and Russia should conclude a special political treaty on cooperation in Kaliningrad, ratified in accordance with national procedures of all states to make the commitment a part of respective national legislation. An executive protocol to the Partnership and Cooperation agreement is insufficient and a higher order of legitimacy is appropriate. The treaty should once again confirm the status of Kaliningrad as part of Russia, to deal with fears of those on the Russian side who worry about the area’s gradual secession. At the same time, and more importantly, the treaty should codify the special status of the region. This provision will not be a complete novelty, since *de facto* Kaliningrad is a unique region even legally and procedurally (Special Economic Zone, special visa treatment by neighbours until 2003), but only an agreement to replace the present system with a new, more developed regime. Recognition of special status would create a legal base to deal with visa-free transit issues, particularly, omitting the readmission issue. Details of the

58 Federalnaya Programma, pp. 18, 20

59 Smorodinskaya, pp. 30-34, 40

new visa regime and mutual obligations in the sphere of economic cooperation should be also spelled out in the document. It appears that the momentum for making this step is there. The new members will not be able to meet all Copenhagen criteria immediately upon entry and will receive transition periods in different spheres. Therefore, making one more deviation from the rules in a row of others will not look totally heretical, but rather part of a package.

1. The visa regime is not the most important single problem, compared to the overall challenge of economic breakthrough, yet it is important if the goal is to overcome perceptions of growing isolation. After it became clear that the new members of the Union will not be fully integrated into Schengen for several years, the window of opportunity for facilitating the introduction of a visa regime for Kaliningrad has grown wider, as long as national regimes can be applied more flexibly. It makes sense to analyze and discuss the possibility of introduction of a preferential visa regime (long-term multiple-entry visas for free or with minimal costs) for those residing in the area for a minimum of 3 years at the moment of introduction, if precautions are taken against false IDs, travel documents of area residents are properly marked and border authorities are equipped with reliable computer systems. In the case of corresponding interest in Poland and Lithuania, a similar visa status could be negotiated for their border residents as well. Opening new border crossings and modernisation of those existing is not too costly, but is urgently needed to facilitate travel. Consular services in Kaliningrad must be improved and enlarged, and a mechanism should be created which would allow Kaliningraders to apply for non-Schengen visas on the spot.
2. Economic development of the area will depend first of all on a proper strategy of infrastructure and technological modernisation. This strategy should be elaborated jointly and financed on a share or parity basis. Independent estimates assess investment needs in this field as EUR 650 million within 6 years⁶⁰, which is relatively little money compared to resources that will be available to Poland and Lithuania, but much more than Kaliningrad can hope to receive under TACIS.
3. Coordination of regional policies is an important task. Russia still mostly lacks this type of policy at all, whereas EU expertise is not applied here because it sees as Kaliningrad a part of foreign policy, rather than regional policy. Possibly, Russia and the EU could agree to set up a joint regional development fund which could even be administered by an independent bank. The availability of Russian financial instruments does create here a window of opportunity, which can produce a synergetic effect.
4. The EU should encourage bi- and trilateral Lithuanian-Polish-Russian projects as long as some of them can be implemented without EU money or financed with credit instruments already available to applicant countries. In this connection, the idea to combine funds from different assistance programmes deserves a more positive attitude. The same recommendation is applied to the sphere of environmental security.
5. The EU initiative on the Northern Dimension should be used more actively. Its own actions (“value-added”) should be coordinated with activities of CBSS and form “coalitions of the willing” from member and applicant countries, and build upon an actually existing constituency. Otherwise, there is a risk that the initiative will be left without its own distinguishable agenda and become history.

60 Smorodinskaya, p. 23

6. The EU policy on Kaliningrad should become more pro-active and more flexible. Although final responsibility for would-be negative consequences for the area lies with Moscow, this is far from obvious to many Russian decision-makers. A rigid stand on the side of the EU will only help these people to find an excuse for their own inflexibility, put forward unrealistic claims and in the end blame the EU for the failure of their own policy. The whole dialogue will resemble a ping-pong game. Instead, the EU could come up with a position that would combine readiness to make exceptions on some points with pressure towards Moscow to have it realise the need for compromise as well.

In conclusion, it's worth repeating that it makes little sense to discuss and even implement individual projects when strategic goals differ. Therefore, EU and Russia should first of all agree on a new ideology, on the ideology of joint and not reciprocal actions. This seems to be the only way to successful cooperation.

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