



This paper was prepared by an international interdisciplinary experts group and summarises the findings of the two-year Stage 3 of the Project “Transforming the Kaliningrad Oblast into a Pilot Region in the EU-Russia Partnership” implemented by the EastWest Institute’s Centre for Border Co-operation with the financial support from the Swedish Government and the C.S. Mott Foundation.

First drafted in April 2004 this paper underwent two major revisions based on the conclusions of a series of events held within this project as well as numerous updates to reflect the latest Kaliningrad-related developments. Based on the ‘pilot region’ concept and relying heavily on findings and expert research reports prepared within the previous stages of this multi-annual project, it opens a series of four Policy Briefs which summarise project findings: “Kaliningrad in the Context of Establishing the EU-Russia Common Economic Space”, “Integrated Border Management on the Russian-EU Border: the Kaliningrad Pilot”, and “Kaliningrad Transit of Goods: in Need for a Strategic Approach to Problem-Solving”.

POLICY RECOMMENDATIONS: “SUPPORT TO TRANSFORMING KALININGRAD INTO A PILOT REGION OF EU-RUSSIA PARTNERSHIP”

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The paper makes a number of proposals for the implementation of the pilot region concept for Kaliningrad, under the umbrella of the Common Spaces and in the spirit of the Partnership and Co-operation Agreement. The suggested approach offers the prospect of improved EU-Russia relationships while providing a basis for the long-term sustainable development of Kaliningrad.

The pilot region concept is understood as follows:

Kaliningrad has a number of well-known problems and weaknesses, but it also has several strengths and therefore offers considerable opportunities, especially in the context of overall Russia-EU relations. Being a small territory, surrounded by EU member-states, it can become a testing ground for innovative approaches to Russia-EU co-operation and partnership. Approaches to problem-solving can be tested in the region for the benefit of all parties concerned, not least the region’s inhabitants, and can later, if appropriate, be extended to the whole of Russia.

I am honoured to present this Policy Brief prepared by a group of Russian and European experts. This paper was drafted based on the publication prepared by the 'Kiel ad-hoc group' of academic researchers and practitioners, which became the core of the Association of International Experts on the Development of the Kaliningrad Region established in 2002.

The text was developed further based on the conclusions of four round-tables held between 2003 and 2005. This text is the product of these in-depth, wide-ranging informal discussions that brought together leading policy-makers, experts, and officials from Russia and the European Union. It can be of value to all those who have a professional interest in EU-Russia relations in general and in the 'Kaliningrad dimension' in particular.

This Policy Brief lays out an impartial view on Kaliningrad-related problems prepared by a community of experts who have been working on various aspects of European integration as well as on the role and place of the 'Kaliningrad factor' in this complex process.

I would like to thank the following people and organisations for their support: *Sergey Yastrzhembsky*, Aide of the Russian Federation President and Special Presidential Envoy on Further Development of the Relations with the EU, and his staff; the leadership of the North-Western Federal District; Kaliningrad Regional Administration (Government) and Kaliningrad Regional Duma; European Commission and European Parliament officials; Russian and European experts who actively participated in the development of – and discussion surrounding – this paper.

My special thanks go to my colleagues from the EastWest Institute and its Centre for Border Co-operation (CBC) as well as to our partners: Kaliningrad Regional Economic Development Agency, Association of International Experts on the Development of the Kaliningrad Region, Schleswig-Holstein Institute for Peace Research (Germany), Swedish Institute of International Affairs, Centre for Eastern Studies (Poland), Institute of International Relations and Political Science (Lithuania), Institute of Economics of the Russian Academy of Sciences, Immanuel Kant State University of Russia, and many many others who contributed to this project. And, of course, I would like to especially acknowledge the financial support provided by the Swedish International Development Cooperation Agency (Sida) and C.S. Mott Foundation, which has made implementation of this project possible.

I am certain that the proposed policy recommendations will prove to be a good foundation for Kaliningrad's further dynamic development as well as for a fundamental change in the quality of EU-Russia relations as both sides work towards a genuine partnership.

A prominent researcher on European affairs told me that if there were no 'Kaliningrad phenomenon' it should have been invented to prove that real integration of the European Union and Russia is not only possible, but is also necessary for Europe to survive in this era of globalisation. I am convinced we will soon discover if this integration is possible.

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Since 2001, the EastWest Institute in co-operation with a strategic partner, the Kaliningrad Regional Economic Development Agency (KREDA), and also local partners has been working to ensure the sustainable development of the Kaliningrad Oblast within the context of European integration and the increasing isolation of the region both from its European neighbours and from mainland Russia. In line with its mission of bridging dividing lines, EWI views Kaliningrad as a pilot region and a testing ground for new approaches and mechanisms to facilitate EU-Russian co-operation based on partnership principles, and specifically to accelerate the establishment of the Common European Spaces.

EWI supported the establishment and capacity building of KREDA and the Association of International Experts on the Development of the Kaliningrad Region (AIKE); and has led initiatives to increase fiscal transparency and to draft anticorruption legislation for the Region. EWI established and maintains a network of international independent experts on a wide range of Kaliningrad-related issues (AIKE) to support research activities.

Based on expert findings garnered during its 2001-2005 activities in Kaliningrad (implemented with generous support from the Swedish Ministry of Foreign Affairs, Swedish International Development Co-operation Agency and the C.S. Mott Foundation), EWI's Centre for Border Co-operation prepared and published the following reports and Policy Briefs:

- *Kaliningrad Exclave: Prospects for Transformation into a Pilot Region* (2001)
- *Support to Transforming the Kaliningrad Oblast into a Pilot Region of Russia-EU Cooperation. Kaliningrad as a Pilot Region in Russian-EU Partnership* (2003)
- *EU Enlargement in the Baltic Sea Region: Including Kaliningrad in the Region's New Dynamism* (2003)
- Hanne-M. Birckenbach, Christian Wellmann (eds.) *The Kaliningrad Challenge. Options and Recommendations* (2003) – with expert and financial support from the EastWest Institute
- *The Kaliningrad Enclave in Europe: Swimming against the Tide. Diagnostics of the State and Potential of Economic Development* (2003)
- *International Conference Investments to the North-West of Russia: Kaliningrad Perspective* (2003)
- Policy Brief "Support to Transforming Kaliningrad into a Pilot Region of EU-Russian Partnership" (2005)
- Policy Brief "Kaliningrad in the Context of Establishing the EU-Russian Common Economic Space" (2005)
- Policy Brief "Integrated Border Management on the Russian-EU Border: the Kaliningrad Pilot" (2005)
- Policy Brief "Kaliningrad Transit of Goods: in Need for a Strategic Approach to Problem-Solving" (2005)



"In my opinion, we should... transform the Kaliningrad Oblast into a model for cooperation between Russia and an enlarging Europe. This is not only our goal. This is also a goal of the whole European Union".

Vladimir Putin, the President of the Russian Federation, in a speech given at Kaliningrad State University (Kaliningrad, June 2003).

"It is in our shared interest to promote a prosperous and open Kaliningrad region on the Baltic Sea. We are ready to work with you, perhaps in a joint working group, to work on a joint strategy to develop the region. The EU can bring considerable resources into play."

Romano Prodi's statement at the EU-Russian summit (Moscow, May 2004) opened a new stage of EU-Russian cooperation in Kaliningrad aiming the region's sustainable development.



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EXECUTIVE SUMMARY

This paper proposes a number of ways through which to implement the pilot region concept for Kaliningrad, under the umbrella of the Common Spaces and in the spirit of the Partnership and Co-operation Agreement. The proposed approach offers the prospect of strengthening EU-Russia relationships while providing the basis for the long-term sustainable development of Kaliningrad.

The pilot region concept is understood as follows:

Kaliningrad has a number of well-known problems and weaknesses, but it also has several strengths and therefore presents considerable opportunities, especially in the context of overall Russia-EU relations. Being a small territory, surrounded by EU Member States, it can become a testing ground for innovative approaches to Russia-EU co-operation and partnership. Problem-solving approaches can be tested in the region for the benefit of all parties concerned, not least the region's inhabitants, and can later, if appropriate, be extended to the whole of Russia.

Our proposal comprises the following:

1. Adopting a Joint Russia-EU Declaration on the importance of the pilot region

This declaration should state the parties' commitment to the pilot region concept. Based on the joint declaration, we propose that Russia and the EU agree to a joint Kaliningrad Pilot Partnership Programme (KPPP).

Fulltime specialists under senior political leadership should draft a 'business plan' or a 'road map' outlining different actions.

2. Making Kaliningrad a Business-Friendly Region

The economic future of Kaliningrad depends on attracting investment. Some specific proposed measures include:

- *Administrative 'enhancing programme'* should be launched to develop a more open-minded, efficient, friendly and

more helpful bureaucracy.

- *Selected elements of the *acquis communautaire* should be adopted.* In those areas where Russia agreed to introduce such changes it would be reasonable to expect EU assistance.

- *'Centre for Competitiveness'*, should be established to provide hands-on support to local firms in order to transform them into 'winners', to ultimately increase GDP, and to create a positive image of Kaliningrad.

- *Restrictions for foreign investors should be lifted*, which calls for unilateral action on the Russian side going beyond the WTO deal.

Other proposed liberalisation measures include:

- "Rostelecom" monopoly on international calls should be abolished and EU companies should be allowed to compete freely in Kaliningrad.

- Kaliningrad energy market should be liberalised and physical infrastructure should be established to include Kaliningrad in the Baltic energy market.

- Public procurement: EU companies should be allowed to participate in Russian state tenders.

- *Kaliningrad should be promoted as a business location* by promotional offices in key markets, primarily Brussels as part of the Russian Mission to the European Communities. The Regional Economic Development Agency in Kaliningrad should promote Kaliningrad as a business centre, both domestically and internationally. It should also play the one-stop-shop role.

3. Improving Access to the EU Internal Market for Kaliningrad Companies

Kaliningrad is in need of measures to counteract the negative impacts of EU enlargement. The transformation of Kaliningrad's economy from import substitution to export orientation should be promoted by:

- *A free trade zone.* The concept might take the form of either a general Kalinin-

grad Free Trade Zone (FTZ) or of several smaller FT zones implemented in Kaliningrad with specific rules and goals.

- *Norms and Standards Centre* for information, training and certification, and as a programme of technical assistance, aiding regional enterprises to comply with the requirements of free trade with the EU.

- *Export loans and export promotion* to facilitate exports, through export guarantees and loans.

- *The Baltic Dimension of EU Neighbourhood Policy* would aim to create a single Baltic market.

4. Establishing a Visitor-Friendly Visa Regime between the EU and Russia in Kaliningrad

Kaliningrad needs to ease the cross-border movement of people. Relaxing the rules of visa regimes with respect to Kaliningrad, even done unilaterally, is much needed.

- *Schengen rules should be dealt with flexibility.* Consular fees should be reduced.

- *Visa-free visit of EU citizens* should be introduced for Kaliningrad to become a prime location for EU-Russian conferences, for tourism industry to benefit, and for Kaliningrad to be promoted as a location for FDI.

- The EU should offer an equivalent concession in return (e.g. *automatic entry to the Schengen area* for registered residents of Kaliningrad).

- *Facilitation of business-related long-term stay in the Oblast* should be considered.

- Relevant Russian authorities should give all possible support to the establishment of fully operational *foreign consulates in Kaliningrad.*

5. Improved Border Management and Border-Crossing Transport Infrastructure

- *By developing high-standard transport routes;*

- *Through the physical integration*

and upgrading of road and rail networks;

- *By integrated border management, for which*

- The Russian Customs Code should be updated.

- A special regime for transit freight should be developed. EU companies should not be required to pay additional charges for moving freight through the Kaliningrad Oblast.

- Electronic processing of customs documents should be increased.

- Customs procedures should be simplified.

- An integrated data transmission system should be introduced.

- Russian and EU customs and transit rules should be harmonised.

6. Supporting Consolidation of Values and Civil Society Development

- Authorities should support the *strengthening civil society* in Kaliningrad:

- by lowering administrative and fiscal barriers for establishing and running non-governmental organisations,

- by providing access to information, and

- by co-operating actively and constructively with NGOs.

- *A House of Europe* (Russian-European House) should be established.

- *Establishing the Common Space of Research and Education, including Cultural Aspects* will enhance the capacity of Kaliningrad's intellectual elite to deal with Russian and non-Russian cultural influence. In view of these developments, Kaliningrad should be developed into a showcase for Russia as part of Europe.

- *A centre of excellence for Russia-in-Europe Studies* should be founded at Immanuel Kant State University of Russia in Kaliningrad.

- *Immanuel Kant State University of Russia in Kaliningrad* should be made eligible to participate in the *ERASMUS MUNDUS* programme.

- Kaliningrad provides a perfect

place for *international youth meetings* and training and exchange programmes.

- *The region's capital* should be re-named, perhaps after its most famous son: 'Kantgrad'.

- *A Centre for training Russian and foreign translators* should be established.

7. Financing

Initial investment will generate returns in a longer-term perspective and may even be outweighed. The bulk of the work is to be funded by private investment.

- The establishment of a *Kaliningrad Development Fund (KDF)* – once rejected by the EU – should be re-considered. As the situation has changed, the idea of KDF becomes more feasible.

- The investment should be used for *loans to small businesses and institutional development, as well as for major infrastructural projects* – such as the reconstruction of the airport and railways, the reconstruction of the Elblag-Kaliningrad highway, the development of telecommunications facilities, etc. The European Investment Bank (EIB) with an extended mandate, as suggested by the EU proposal on Common Spaces, could also provide funding.

- The priorities should be defined in accordance with the principal objective to adapt Kaliningrad's economy to the demands of European markets, to create conditions for a successful exploration of opportunities arising from the region's location and presumed competitive advantages.

These proposals are not exhaustive, but they are important, relevant and, above all, practical.

1. INTRODUCTION

In addition to the economic and political controversies (which both parties regard as ‘temporary difficulties’), EU-Russia relations have to respond to the new challenge of **surviving in the globalised environment**.

With China looming as an emerging super power and the **rivalry** between Russia and the EU (which continues despite numerous declarations of **partnership**), the two parties are running a high risk of becoming regional (rather than global) actors.

Due to unprecedented historical, geographical, economic, cultural and social ties and inter-dependence, the EU and Russia are the most **natural** co-operation partners. However, unsettled divergences in **values** impede integration as they are of a fundamental nature.

In this light, Kaliningrad can be seen as both a provocative and indicative case. The region’s complicated history shows that the “Kaliningrad challenge” has repeatedly provided opportunities to re-consider the casual nature of EU-Russia relations, to seek new ethics by creating new values from the conflict of interests and perceptions, to test this new ideology and ultimately to propose it to policy-makers both in Russia and the EU.

For too long Kaliningrad¹ has been seen as a problem region, by both parties. Enlargement of the EU on 1st May 2004 and the statements made by Russian and EU leaders at the 13th EU-Russia Summit in Moscow on 21st May 2004 opened the way for a new approach to the issue. This approach, based on a pilot-region concept for Kaliningrad in the sphere of EU-Russia co-operation – formally part of Russia’s foreign policy towards the EU – offers the prospect of strengthening EU-Russia relationships in the context of the Russia-EU Common Spaces, while providing the basis for the long-term development of Kaliningrad.

After the enlargement of the EU in May

2004 we no longer have to speculate about what might happen to Kaliningrad in the future. We have seen the effect of enlargement in several areas, for instance the impact on the new Member States (MS) beginning the process of adopting the Schengen regime and the new transit regulations.

Enlargement also brought an unprecedented opportunity for the strengthening of Russia-EU relations through the development of Kaliningrad as a **pilot region** for mutual co-operation. The accession of states such as Lithuania and Poland, both states in favour of close relations with Russia in general and Kaliningrad in particular (Poland proposed the establishment of an ‘EU Eastern Dimension’ policy), means that Brussels is now receiving input to the evolution of its policy towards Kaliningrad from countries that are more familiar with it.

After the disputes between the EU and Russia in the period leading up to enlargement, EU-Russia relations have seen some progress towards an official partnership, although this has been hampered by crises. With regard to Kaliningrad, the progress is best illustrated by the remarks of Romano Prodi – at the time President of the European Commission – who stated during the 13th Russia-EU summit in Moscow on 21st May 2004:

“It is in our shared interest to promote a prosperous and open Kaliningrad region on the Baltic Sea. We are ready to work with you, perhaps in a joint working group, to work on a joint strategy to develop the region. The EU can bring considerable resources into play.»

This is a positive response to Russia’s own position, as reflected in its 1999 Medium-Term Strategy Towards the EU, which defined Kaliningrad as a possible pilot region for future Russia-EU co-operation. Furthermore, the road maps signed for the Four Common Spaces identified a number of important practical areas within which co-

¹ In this paper “Kaliningrad” refers to the entire Kaliningrad Oblast of the Russian Federation.

operation between the parties can be developed taking into account the Kaliningrad factor.

In the recent past, although Kaliningrad has featured prominently on the Russia-EU agenda, it has typically been because of single-issue crises, firstly as a result of the Lithuanian transit visa “problem” of 2002-2003 and secondly (politically resolved but requiring more technical attention from both sides), regarding the transit of goods through Lithuania between Kaliningrad and the Russian mainland.

The encouraging aspect of both these issues is that they demonstrated that **where there is the political will of all relevant parties, solutions can be, and are found.** The opportunity now exists to move the agenda forward, away from immediate crisis-resolution activities and towards the important long-term, structural issues that concern Kaliningrad across a wide range of areas.

The establishment of the Interdepartmental Working Group on the Development of the Kaliningrad Oblast under the Russian Federation Presidential Administration in October 2004 – the Advisory Expert Council under this Group created to provide expert support for its activities – and the on-going negotiations for the establishment of an EU-Russia Joint Group on Kaliningrad are promising steps towards both Russia and the EU adopting a strategic approach towards Kaliningrad’s development. This paper makes a number of concrete proposals for developing and implementing a pilot region concept, which could be incorporated into the agenda of these groups.

2. WHAT DOES THE PILOT REGION CONCEPT MEAN AND HOW DOES IT RELATE TO THE COMMON SPACES?

In this paper, the pilot region concept is understood as follows:

Kaliningrad has a number of well-known problems and weaknesses, but it also has several strengths and therefore presents considerable opportunities, especially in the context of overall Russia-EU relations. Being a small territory, surrounded by EU Member States, it can become a testing ground for innovative approaches to Russia-EU co-operation and partnership. Problem-solving approaches can be tested in the region for the benefit of all parties concerned, not least the region's inhabitants, and can later, if appropriate, be extended to either the whole of Russia and/or of the Russia-EU co-operation area or to specific parts of Russia (e.g. other Russian regions bordering the EU).

As concerns the future of the Kaliningrad Oblast, the responsibility in the state-political, judicial sense of the word lies, of course, with the Russian Federation. Therefore, the Russian authorities must clearly define the parameters of the course they want Kaliningrad to take. Without such basic input on the part of the Russian high-level policy-makers any co-operation lacks its fundament. However, it is one of the peculiarities of the Kaliningrad case, that what happens and can happen with respect to it, is to an unusually strong degree impacted by developments not subject to Russian jurisdiction and decision-making, but under the control of Kaliningrad's direct neighbours and the EU. Issues with a spill-over effect on Kaliningrad include the Schengen policies, Single Market regulations for imports to the EU, development of infrastructure in Kaliningrad's vicinity (roads, railways, energy, telecommunications) or customs procedures, to give only a few examples. Whether Russia likes it or not, it can not deal with all the issues involved in the Kaliningrad case on her own, and is to some degree bound to EU policies. Likewise the EU:

whether it likes it or not, it should recognise that its actions often have an unintended impact on Kaliningrad and for that reason it too is to some degree also responsible (ethically) for what happens in Kaliningrad. Although the region is not within the EU's jurisdiction and the EU is not in a position to act independently regarding Kaliningrad, it nevertheless has some moral obligations regarding the Oblast. Problem-solving with respect to some dimensions of Oblast's situation is only possible through a **co-operative effort by the EU and Russia**, with the latter taking the initiative and the lead. This insight constitutes the fundamental logic for the planning and implementing of the pilot region project as a concept for Kaliningrad's future.

Kaliningrad is indubitably a special case – not to be compared with other Russian regions – and presents a unique challenge to EU-Russia relations. Consequently, Kaliningrad needs some measures to be taken which could be subsumed under the slogan «Unique solutions for a unique region». However, this uniqueness does not contradict the pilot region concept, if the latter is understood to be firstly a concrete opportunity for developing, qualifying and improving the dynamics of an EU-Russia relationship for the sake of the Kaliningrad Oblast, and is restricted to a selection of issues, which have to be identified accordingly. Its potential as a testing field for the applicability or non-applicability to Russia at large – or some specific Russian regions – of new procedures and norms should be considered as a secondary objective.

In addition, the pilot region concept does not contradict the establishment of the four Common Spaces. On the contrary, the former is well suited to support at least three of the latter – in particular the Common Economic Space (CES), but also the Common Space of Freedom, Security and Jus-

tice, and the Common Space of Research and Education, including Cultural Aspects. The Common Space of External Security may be the exception, however, not because it conflicts with the pilot region concept but simply because of a lack of relevant intersections. Due to its specifics and the urgency of solving its problems, Kaliningrad needs special and immediate attention. As a result of its geographic position, history, small size and its current status as a special economic zone, Kaliningrad provides a unique chance to advance work on building the common spaces and test some of their elements. Thus, the pilot region concept is an initiative that can contribute to getting the common spaces into practice. Simultaneously the long-term project of establishing common spaces provides the pilot region project guidelines for developing in coherence with the overall EU-Russia partnership. The Common Spaces should provide the umbrella for the pilot region concept implementation, and the concept reciprocates by unfolding this umbrella further.

To ask for Kaliningrad as a pilot region means no more and no less than asking for the role and place of the so-called “Kaliningrad factor” in the establishment of the EU-Russia Common Spaces.

3. MAKING THE PILOT REGION A REALITY

Several important documents on the pilot region have been prepared recently. The systematic pilot region approach to the development of Kaliningrad was first presented in Nataly Smorodinskaya's paper *Kaliningrad Exclave: Prospects for Transformation into a Pilot Region*, published in 2001. The first document to provide a comprehensive and in-depth set of proposals for the future of Kaliningrad as a pilot region for EU-Russia relations was prepared at the invitation of the Schleswig-Holstein Institute for Peace Research (SHIP) by the 'Kiel international ad hoc group of experts on Kaliningrad'² (*Kaliningrad in Focus: Policy Recommendations in the Perspective of Problem-Solving*) and published in October 2002 (henceforth referred to as 'Kiel'³). In May 2003 two more expert reports were published: *EU Enlargement in the Baltic Sea Region: Including Kaliningrad in the Region's New Dynamism*, prepared by Jakub Swiecicki of the Swedish Institute of International Affairs (henceforth referred to as 'Swiecicki') and *Kaliningrad Region as a Pilot Region in Russian-EU Partnership*, written by a group of Russian experts led by Artur Usanov, at the time CEO at the Kaliningrad Regional Development Agency, (henceforth referred to as 'Usanov').

Between them, they contain a comprehensive analysis and basis for an agreed action program on turning the pilot region concept into a successful reality⁴. This document takes some of the key proposals and, where appropriate, updates them to take account of developments since they were written.

3.1 FOUR BASIC PRINCIPLES

All efforts to make the pilot region a reality should seriously take into account the following guiding principles:

Comprehensive and integrated treatment of the Kaliningrad issue

Kaliningrad needs a comprehensive and integrated approach, which in turn requires an appropriate institutional framework (see Kaliningrad Pilot Partnership Program below).

Both the analysis of the Kaliningrad issue and the practical experience of dealing with the issue in the Russia-EU relationships over the recent years clearly indicate that it is an issue far too complex to be successfully addressed in a patchwork manner. The case-by-case approach used in the past has not brought about sustained problem-solving (not even the transit issue has yet been settled fully). Although the manifold economic, social, infrastructural, political, cultural, environmental and identity-related issues the region has faced are essentially distinct from each other, many of them are nevertheless interwoven. The partly strong, partly less strict criss-cross dependencies have to be taken into account in order to prevent unintended negative side-effects and to avoid problem-solving in one field generating new problems in a different area. The pilot region concept allows for such an integrated and problem-focused approach. Tracking a comprehensive and integrated approach also allows for breaking a highly complex issue, such as the Kaliningrad case, down into its component parts. One may address the easier and more immediate parts first without the more difficult and/or longer-term problems being in danger of remaining unsolved indefinitely. Instead, the comprehensive and integrated approach provides assurances that – whilst solving the easier problems – groundwork is being done in preparation for taking the more difficult steps. However, this requires a continuing (semi-permanent) institutional structure for Kaliningrad – not just a temporary working group, set of conferences, etc.

² There were earlier (and later) papers prepared on specific aspects of the pilot region, especially the economy, but this was the first one to look at all relevant issues.

³ These proposals were further elaborated and published as a book in 2003.

⁴ It is important to stress that the key word here is "basis". These documents do not provide all the answers (although they do propose a number of them). But this basis is a good start to build upon.

‘De-linking’ Kaliningrad from disputed Russia-EU issues

Both sides, Russia and the EU, should “de-link” Kaliningrad from other more sensitive or even disputed issues in the relationship (e.g. Chechnya for the EU, the treatment of Russian minorities in Latvia and Estonia for Russia). The actors should keep in mind the lessons learnt during the Cold War: treating relations as indivisible ends up in general confrontation, while allowing improvement of relations («détente») in selected areas gives some leeway for achieving breakthroughs in other, more distressing, matters of mutual concern. Kaliningrad is too important and too pressing a concern to be treated as a bargaining counter in other disputes or complex negotiations. Consequently, if, or when, further urgent single-issue crises arise, they should not be treated in isolation or exploited for narrow political advantage.

Acknowledging each other’s concerns

In general, previous concerns expressed about Kaliningrad have reflected different priorities on the part of Russia and the EU. The EU has concentrated on ‘soft security’ issues – cross-border crime (narcotics/drug trafficking, contraband/smuggling, illegal migration), environment, health, etc. Russia, whilst also recognising these issues, tends to see them within a broader framework. This includes concerns over the integrity of the Russian Federation and, in particular, Russian sovereignty over Kaliningrad. Its geographic detachment from the Russian mainland and exposure to foreign influences is perceived as posing the risk of its alienation from Russia and supporting secessionist tendencies. For Russia this situation is further complicated by matters of hard security, such as NATO’s eastwards enlargement, the unresolved issue of the admission of the Baltic States to the revised CFE treaty, pending its coming into force, and the position of Russia’s Baltic Fleet. Against this background the Russian

federal authorities are hesitant to grant the Kaliningrad Oblast more autonomy with which to develop its international business relations.

Thus, approaches to Kaliningrad in the past have been asymmetric, which has complicated and confused matters. For the future, both Russia and the EU should accept the legitimacy of each others’ major concerns (hard security, sovereignty/integrity for Russia; soft security for the EU), rather than opposing or ignoring the other side’s position and trying to ensure compliance with their own. This involves acknowledging the different world-view, agenda, values, and administrative practices and capacities of the other, rather than assuming a superior position (at its most extreme, paternalism on the EU’s side, confrontation on Russia’s). Put in short, the parties should display more empathy towards each other – accept each others’ differences as being legitimate and understandable without necessarily agreeing with them.

Adopting a ‘win-win’ approach

The spirit adopted should be the one of a win-win approach, rather than of a zero sum game. Both parties will need to clearly define their interests, to co-ordinate their steps, to make concessions, and to enter compromise. However, when dealt with in the framework of a comprehensive and integrated approach (see above) the differing priorities and agendas (see above) have the advantage of making it easier to achieve an outcome which in the long and short-term has more gains than losses for both parties and, not least Kaliningrad itself.

Both Russia and the EU will benefit from such an approach in addition to problem-solving as concerns Kaliningrad and the improvement of the EU-Russia relationship as follows:

- Russia will have an outstanding chance to learn from the pilot region experience lessons of importance for the overall modernisation of the Russian economy, especially in the context of an increasingly

globalised economy, within which Russia plays an important role – one that will be further strengthened after accession to the WTO.

- The EU will have an outstanding chance to live up to its own standards by making a substantial contribution to what the founding fathers of the EU called the peace project of pan-European integration. This basic concept, of which the EU is but one sub-project (although the most prominent), is fundamentally a long-term process for ensuring peace and stability within a continent that has been ravaged by war and strife for centuries. An essential component of this peace project is to develop and maintain mutually beneficial, stable and prosperous relations with neighbouring states. After the recent wave of enlargement, the challenges facing the EU in this regard are complex and unprecedented. Successful co-operation with Russia over the Kaliningrad pilot region will, therefore, also provide important lessons for the future relationship of the EU with its neighbours.

3.2 SEVEN SETS OF PRACTICAL PROPOSALS

To make the pilot region a reality, we recommend following the line set forth by the set of practical proposals, all of them compatible with and supportive of the establishment of the envisaged Common Spaces between Russia and the EU:

3.2.1 Adopting a Joint Declaration and a Pilot Partnership Programme

A common complaint by the EU is that Russian reactions to proposals typically focus on creating new structures and mechanisms, rather than on the issues themselves. Without commenting on whether such observations are valid or not, we do not see how the Kaliningrad pilot region concept can be developed without there being some kind of formal structure and process. Without this, the risk exists that Kaliningrad's special role will be lost as a result of treat-

ing Kaliningrad as simply another part of the spectrum of other Russia-EU issues (the four common spaces, the visa-free negotiations, the nine PCA subcommittees, the Energy Dialogue, the Northern Dimension, etc.). Thus, although we recognise that the primary consideration has to be the process of developing the pilot region concept in substance, we deem it necessary to give the process some structure of its own.

Russia-EU declaration on the importance of the pilot region

In section 2 we proposed a working definition of the pilot region. In section 3.1 we have sketched the basic principles along which the EU and the Russian Federation, in our opinion should co-operate over Kaliningrad, and we have pointed out that despite differing points of departure, priorities and possibilities both the EU and Russia can gain considerably from such co-operation. With reference to this we now propose that on the invitation of the Russian Federation both parties formally adopt a joint declaration along these or similar lines. The declaration should state the parties' commitment to the pilot region concept and its implementation and their awareness of its importance. Furthermore, the declaration should outline how the parties understand the concept and why it is regarded beneficial to all those who are involved. This declaration can be made as a protocol to the new EU-Russia Agreement to replace the current Partnership and Co-operation Agreement expiring in 2007. It should be noted that this idea is being actively discussed by the Russian expert community.

Kaliningrad Pilot Partnership Programme

Based on the joint declaration, we propose that Russia and the EU agree to participate in a joint Kaliningrad Pilot Partnership Programme (KPPP).

It should be noted that both parties have taken some steps towards gradual institutionalisation to make progress with re-

spect to Kaliningrad. On the Russian side, in October 2004 the Interdepartmental Working Group on the Development of the Kaliningrad Region was formally established. The Working Group – chaired by Ambassador Yastrzhembsky, Aide to the President and Special Presidential Envoy on Further Development of EU-Russia Relations, has brought together representatives of the Kaliningrad regional authorities, along with Russian federal ministries and other agencies responsible for Kaliningrad-related developments. It is also supported by Expert Advisory Council. The Working Group has been quite active and has brought new perspectives to addressing Kaliningrad-related issues.

On the EU side, at the 13th EU-Russia summit in May 2004 President Prodi suggested setting up a joint working group to develop Kaliningrad (see above).

Russia proposed to the EU that a working group be established, similar to that established for the Energy Dialogue or to the High-Level Group that developed the Common Economic Space concept. This proposal was on the agenda of the 14th EU-Russia Summit held in The Hague in November 2004. EU-Russia negotiations on the format and mandate of the joint body, which would address Kaliningrad-related issues, are now underway. While Russia would like the group to have a high-level status to ensure effective decision-making, the EU would like to continue negotiations at a more technical level within the Subcommittee on Regional and Cross-Border Cooperation. At this stage (November 2005) the EU and Russia agreed that if all the Kaliningrad-related issues Russia would put on the agenda could not be resolved within the existing co-operation structures, the EU would be ready to consider establishing a new negotiating and co-operation format for Kaliningrad.

We propose that this group should seek to identify and clarify the issues of common interest in Kaliningrad, and that it should propose a “business plan” or a

“road map” outlining different actions (to be taken jointly and/or separately) as well as planning, monitoring, and financing these actions. In addition, a comprehensive Russia-EU agreement on Kaliningrad should be drafted, which would cover many issues discussed earlier, particularly a free trade zone in Kaliningrad. Whatever the outcome of the initial discussion on the mandate, agenda, and working procedures of this group might be, it is advisable that the leading individual participants would have high political authority (similar to the High-Level Group on the Common Economic Space, which at its time was led by Deputy Prime Minister Khristenko and Commissioner Patten).

However, the main emphasis of the KPPP would not be on structure and process – though this must be dealt with at the start – but on agreeing the road map for the future, which is why it is suggested that this should be called a **programme** rather than a committee or something similar.

To repeat the main argument here, without a continuous, dedicated process carried out by fulltime specialists under senior political leadership, the pilot region concept will remain on paper.

3.2.2 Making Kaliningrad a Business-Friendly Region

There is enormous potential for prosperity and welfare in the Baltic Sea Region. Kaliningrad’s full participation in this development depends on the establishment of healthy framework conditions for domestic and foreign business, entrepreneurship and innovation. The economic future of Kaliningrad (and therefore its overall future, since without a successful economy nothing else can be achieved) depends on attracting investment, from businesses in Kaliningrad, from elsewhere in Russia, and from abroad. First and foremost, this implies Kaliningrad’s becoming really ‘business-friendly’ and attractive to investors. The bulk of measures to facilitate this can be taken unilaterally by the Russian author-

ities. They must however be aided with assistance from the EU and from its Member States on a bilateral basis and this should focus on upgrading the local business environment. The KPPP could provide the framework for designing, agreeing upon, co-ordinating, and supervising a range of joint measures. Some specific examples are proposed in the next sections, while more examples are offered in the proposals below.

Administrative “enhancing programme”

Within Russia some regions have done better at developing their local economies than others. Many reasons account for these differences, but one of them is the capacity of the regional administration to implement reforms at local level which make their region more business-friendly than others. At the least, Kaliningrad should follow the example of the leading regions. However, it can and should go further. Kaliningrad has particular advantages for businesses, whether Russian or foreign, which trade with the EU, given its location and the greater degree of awareness of the EU in Kaliningrad than in most other Russian regions. Thus, it is a more natural location to pioneer specific measures to make it more attractive for Russia-EU business links than elsewhere in Russia. These measures should provide the experience and knowledge required for other parts of Russia (especially, the other regions now bordering the EU, though not confined to them) to develop their own business environments.

Against this background it appears crucial in addition to the measures undertaken to simplify administrative procedures (related to the establishment and operations of commercial entities – i.e. registration of firms, allocation land lots, etc.), to increase their transparency to design and implement an “enhancing programme”. This would allow the regional authorities to become more open-minded, efficient, and part of a more helpful bureaucracy that is receptive

to European economic development practice. Such a support programme (covering training, introducing new competencies, setting goals, etc.) could and should become a core element of the KPPP.

Adoption of selected elements of the *acquis communautaire*

The EU has called on Russia to adopt much of its *acquis communautaire* (which is over 80,000 pages in length) on several occasions. This is unrealistic and, as several Russian experts have pointed out, much of it would be irrelevant or even harmful to Russian interests. Nonetheless, it is evident that adopting some aspects of the *acquis communautaire* would reduce barriers to trade and investment. Within the context of the KPPP, those elements of the *acquis communautaire* that would improve the business climate should be adopted within Kaliningrad (subject to their not contravening federal legislation or national interests). In those areas where Russia agreed to introduce such changes it would be reasonable to expect EU assistance (technical and financial) similar to that given to the new Member States of the EU during the accession process.

“Centre for Competitiveness”

It is proposed that a Centre for Competitiveness in Kaliningrad be established, which would act as a training and dissemination centre. This would bring hands-on support to firms located in the Kaliningrad Oblast and would also engage in a “Competitiveness Programme” to enable them to become more competitive, more open to innovation, and more aggressive commercially, whilst simultaneously meeting the standards of corporate social responsibility. The Centre would operate under the supervision of both, the Russian federal government and an appropriate EU institution and co-operate with relevant institutions of higher education in business management. The initiative would ultimately aim:

- to transform a majority of local

firms into ‘winners’;

- to help the creation of new firms;
- to support the development of a knowledge-based economy with the support of different knowledge institutions (including helping them to reach high international standards);
- to ultimately increase GDP; and
- to create a positive image of Kaliningrad.

Lifting restrictions on foreign investors

The current quotas for the participation of foreign capital in banking and insurance companies in Russian territories amount to 25% and 12%, respectively. Under the EU-Russia WTO deal, Russia committed itself to raising its quotas. However, the quotas will remain in principle. Our proposal calls for the unilateral action on the Russian side of going beyond the WTO deal and lifting fully limitations on foreign capital in financial services in Kaliningrad (banking sector, insurance, pension funds, etc.). However, this measure alone might not be enough to bring foreign financial companies to the region – the Kaliningrad market is too small for any foreign bank to open a separate legal entity. Therefore, we also propose to allow foreign banks and insurance companies to operate in Kaliningrad through their branches without creating a Russian legal entity. Such measure might bring some significant benefits for local companies by lowering costs and improving access to finance for SMEs, and also attract FDI. On the other hand, impact on the Russian banking system will be immaterial but still could be very useful for benchmarking and stimulating competitiveness of Russian banks.

Other proposed liberalisation measures include:

- In the telecommunications sector: abolishing the monopoly of “Rostelecom” on international calls and allowing EU companies to compete freely in Kaliningrad.
- In the energy sector: the liberalisa-

tion of the Kaliningrad energy market and establishing the physical and institutional infrastructure to include Kaliningrad in the Baltic energy market.

- Public procurement: allowing EU companies to participate in Russian state tenders.

Promoting Kaliningrad as a business location

Once substantial changes towards improving Kaliningrad’s business-friendliness are underway, a mechanism needs to be established to promote Kaliningrad as having advantages for international business relations. This could include setting up a promotional office (or several) in key markets, initially Brussels, where it would be part of the structure involved in the KPPP. It is proposed that this Brussels representation should be located within the Mission of the Russian Federation to the European Communities, thereby ensuring that federal as well as regional interests are promoted. (This representation would also be concerned with overall EU/EC matters concerning Kaliningrad, not just promotion of the region as a business centre).

In Kaliningrad itself the Regional Economic Development Agency, which represents the interests of both federal and regional stakeholders, should be given the responsibility of promoting Kaliningrad as a business centre, both domestically and abroad. It should also fulfil the one-stop-shop role that is taken for granted by international investors (MNCs, etc.) when assessing potential new locations.

3.2.3 Improving Access to the EU Internal Market for Kaliningrad Companies (Russia-EU FTZ)

The European Commission has repeatedly pointed at overall favourable prospects for Kaliningrad’s economy in the course of EU enlargement. In contrast to the EU’s assessments, we argue that the impact of the enlargement on the region’s economy will

at best be mixed and probably negative on balance. The Commission underestimates various negative impacts of the enlargement on the Kaliningrad exclave and overestimates the positive impact of lowering import tariffs by the new members⁵. Instead, the EU should admit that Kaliningrad is in need of measures which counteract negative aspects of the enlargement and create appropriate conditions for enabling the economic development of the region to continue and to do so rapidly. With the enlargement, Russia's WTO accession, the approaching transformation of the SEZ regime and, finally, the potential establishment of the EU-Russian CES, many of Kaliningrad's enterprises face a situation where they will indeed have no choice other than to try to expand their exports. However, with the EU being the natural export market for Kaliningrad, the transformation of Kaliningrad's economy from import substitution to export orientation stumbles over immense difficulties concerning market entry. Measures have to be taken to overcome these difficulties.

Free trade zone

Well aware of the reservations held regarding the concept (for different reasons) in the EU and Russia, we nevertheless propose to grant Kaliningrad a special trade regime. Free trade access to the European markets would create the much needed conditions for a change of specialisation, switching from a less desirable import substitution to export-oriented manufacturing.

The concept may take the form of either a general Russia-EU Free Trade Zone (FTZ) in Kaliningrad or of several smaller FT zones implemented in the region with specific rules and goals. For instance, an innovative proposal could be to implement technology-based firms in such FTZs (with special tax relief, grants, loans, etc.), to train local personnel, and thus enable the pro-

duction of competitive goods. Such a development would also be in the interest of fighting against relocations to China or other low-cost countries. It is obvious that only through an agreement between Russia and the EU can such zones be implemented. The EuropeAid programme could be involved in raising the profile of the workforce, and of the necessary new laws, etc., while Russia could offer the legal framework and the implementation of the competent FDI Agency.

A strategy of establishing a free trade regime for Kaliningrad would also create incentives for Russian companies to set up production lines in Kaliningrad to gain access to the European market. Regarding the feasibility of this plan we can assert that the current export structure and small size of the Kaliningrad economy mean that improved access of local companies to the EU market will not lead to any significant effect on neighbouring countries and the EU as a whole.

Positive implications of the FTZ in Kaliningrad are not confined to Kaliningrad's economy itself. It may bring added value to EU-Russian economic and institutional co-operation as it could pave the way to a comprehensive EU-Russia Free Trade Area, and serve as a testing ground for relevant mechanisms on the rules of origin, technical requirements, standards, and certification procedures, etc. in the context of establishing the CES. The core concept of a Kaliningrad FTZ would be that the EU opens its markets for Kaliningrad's goods with certain qualifications (adequate controls on the rules of origin, etc.), whereas Russia keeps the Kaliningrad market as open as it is now (the only change needed is removal of import quotas). The legal implementation of the Kaliningrad FTZ would take the form of a bilateral EU-Russian agreement in the framework of the KPPP. It may be solely devoted to a FTZ or be more

⁵ *Vinokurov E.* (2004) Kaliningrad Region: Between the EU Enlargement and Russia's Integration into the World Economy. CEPS Working Document No.201.

complex and handle other issues relevant to Kaliningrad.

The establishment of a FTZ in Kaliningrad as an isolated project may be regarded unlikely due to a lack of political will as well as technical and legislative obstacles. However, the situation looks politically and technically more feasible, if perceived and operated against a wider background:

The Partnership and Co-operation Agreement (PCA) between Russia and the EU proposed the creation of a Free Trade Area (FTA) between the two parties at an unspecified future date. In the EU's Common Strategy towards Russia this was (unilaterally) modified to defer the FTA until after Russia joined the WTO. Now that Russia and the EU have agreed on all outstanding issues between them regarding WTO membership, the time is right to reconsider this matter. Russia still has to complete negotiations with other important members of the WTO before all its accession conditions are finalised but, as regards the EU, they are completed. Thus, there is no logical barrier to proceeding with the FTA concept.

Nonetheless, it is recognised that WTO membership is a formal prerequisite before a FTA can be established between Russia and the EU. Thus, the proposal is to pilot a fully fledged FTA by first agreeing on a FTZ with respect to Kaliningrad. The inevitable implementation difficulties (rules of origin, controlling illegal trade flows from elsewhere in Russia as well as NIS states, etc.) will not be easy to deal with, but it makes a lot of sense to try out the concept in Kaliningrad. Any problems that are encountered will be small and manageable, while the lessons learned will make the eventual introduction of a FTA for all of Russia much smoother.

The EU has stated in the past that it does not and cannot enter into such agreements with territories that are not sovereign states, but this is precisely the kind of issue where Kaliningrad, as a possible pilot region, permits and encourages new thinking

and approaches. After all, Kaliningrad is already a Special Economic Zone (SEZ), offering many of the advantages of a FTZ to foreign exporters, nearly all of whom are in the enlarged EU. Without politicising the matter by demanding reciprocity, it seems perfectly reasonable to request the EU to treat Kaliningrad as a special case – in much the same way that Russia does. Furthermore, such an approach fits in with the EU's own stated policies as set out in the Wider Europe initiative, which calls for non-EU states bordering the enlarged EU to have access to the Single Market. It would also provide valuable lessons for the implementation of the Common Economic Space.

Introducing a FTZ in Kaliningrad perfectly illustrates the pilot region approach to Russia-EU co-operation.

Norms and Standards Centre

We are well aware that the EU, of course, may be worried about trade preferences, if granted to the Oblast, being misused and to bring about trade deflection. In particular, adherence to the rules of origin would be of crucial importance for the EU. This EU concern is a legitimate one and measures should be taken to meet EU rules and requirements on eligible imports, although such safeguards will bring about added costs and bureaucracy. It should also be kept in mind that Kaliningrad is a detached region with customs controls being exercised at its borders. With some upgrading of current customs procedures, this normally disadvantageous fact becomes an advantage in that it facilitates establishing effective controls for rules of origin. Furthermore, the KPPP, if understood appropriately, would allow the EU to participate in the management and observance of rules and procedures. Finally, we propose the establishment of an Information, Training and Certification Centre for EU Norms and Standards as a core element of a programme of technical assistance. This would allow regional enterprises to reorient their production patterns in changing conditions and to

be able to comply with any requirements imposed on their production, thereby rendering them eligible for a free trade regime with the EU.

The EU has already made some effort to disseminate information on its activities, norms and programmes in the region. There is a TACIS support office and information centres on EU legislation. However, services are still quite limited and not fully up to the task. The proposed Centre would provide for considerable improvement, particularly with regards to training, and at the same time would ensure compliance with EU requirements (thanks to its certification laboratory) thereby easing access to the EU markets in terms of sanitary and phytosanitary control, quality standards, conformity assessment etc. For the latter purpose, the Centre (laboratory) should be established with direct involvement of the relevant EU authorities.

Export loans and export promotion

There are also other ways of facilitating exports and assisting Kaliningrad's businesses. These include:

- Export guarantees. Financial means and management can be provided jointly by the European Union and Russia with the aim of facilitating regional exports.
- Export loans for Kaliningrad's producers.

Both may eventually be handled within the framework of a Kaliningrad Development Fund (see below).

The Baltic Dimension of EU Neighbourhood Policy

Integration processes require development of horizontal partnerships between territories and businesses, including those beyond national borders. Towards this end it seems expedient to develop the Baltic Dimension of the European Neighbourhood Policy, comprising the Russian regions of Kaliningrad, Leningrad and Pskov as well as St. Petersburg City. This format of

co-operation would allow the establishment of a single Baltic market, which initially could also comprise the Baltic States and Poland with the prospect of expanding to encompass the Scandinavian countries and Germany. This approach would strengthen the competitiveness of the entire Baltic Sea Region as a potential leader and locomotive in the new enlarged Europe.

3.2.4 Establishing a Visitor-Friendly Visa Regime between the EU and Russia in Kaliningrad

Russia has called for the establishment of a visa-free regime with the EU. The EU has accepted that this is a potential development, and that it can be discussed, without entering into any firm commitment yet over whether or when such a regime could be introduced. It does correspond with the EU's stated intention (see Wider Europe) that, as far as possible, citizens of non-EU neighbouring states should share in the 'Freedom' of movement of persons enjoyed within the EU itself. Despite some progress towards easing EU-Russia visa regime, an unlimited EU-Russia visa-free regime is a long-term perspective while Kaliningrad, due to its specific nature, is in need of the short-term easing of cross-border movement of people. Thus, it is recommended that both parties relax some aspects of their respective visa regimes with respect to Kaliningrad. Much could be done unilaterally, and all would be in anticipation of the more fundamental issue of abolishing visa requirements between the EU and Russia as a whole and thus pilot important aspects of the Common Space of Freedom, Security, and Justice.

Flexibility in handling the Schengen acqui

During 2003 the Council of Europe (CoE) Committee of Ministers expressed its view that the Schengen Agreement ignores certain provisions of the 1957 Agreement

on Regulations Governing the Movement of Persons between Member States of the CoE. Russia, without being confrontational, should take up this issue and support the CoE seeking further clarification of the Agreement from the EU and also emphasise the need to possibly redraft or amend the Schengen Convention by presenting its Kaliningrad case to the Council.

Even the existing Schengen Convention allows for considerable bilateral flexibility as Article 5.2 states that an alien who does not fulfil the conditions for being issued a Schengen visa must be refused entry into the territories of the Contracting Parties «unless a Contracting Party considers it necessary to derogate from that principle on humanitarian grounds, on grounds of national interest or because of international obligations.» In such cases the Contracting Party concerned may very well issue a national visa, restricted only to its territory. This should be the background, along with the solution adopted for Lithuania, against which negotiations should be entered into with Latvia with a view to improving the rail connection between Kaliningrad and St. Petersburg.

Furthermore, the Concluding Declaration to the Schengen Agreement with its reference to the then approaching, but not yet fixed, unification of the two German States indicates that the Contracting Parties were well aware of the fact that reality is constantly in flux and that circumstances might arise in the future which made adapting the Agreement necessary. Of course, Kaliningrad's circumstances were different, simply because 16 years ago the present situation could not have been foreseen. However, it is clear from the provisions of the Concluding Declaration that the principle and precedent exist for negotiating new arrangements within Schengen. The Facilitated Transit Documents are such an innovation; however, more can be done if there is the desire to do it.

Last not least, consular fees for visas required to visit EU Member States should be decreased.

Visa-free visit of EU citizens to Kaliningrad (with or without reciprocity)

A step that Russia could take unilaterally (and that was suggested by the Kaliningrad Regional Duma) would be to abolish visas for citizens of the EU visiting only Kaliningrad (though not the rest of Russia) for a maximum stay for, e.g., 30 days. As long as these travellers have valid international travel documents they should be admitted on arrival. The EU should be asked to offer an equivalent concession in return (e.g. automatic entry to the Schengen area for registered residents of Kaliningrad), but this should not be a necessary condition. Simplified visiting procedures can be expanded to cover private yachts calling at Kaliningrad ports, as well as flights of private light aircrafts. Introducing a unilateral visa-free regime with the EU would be of immense impact on Kaliningrad development. Among the many benefits (not least to the border communities) it would immediately establish the firm foundation for Kaliningrad to become a prime location for Russian-EU conferences, an extremely economically valuable industry. This would provide the necessary impetus to “kick-start” Kaliningrad's primitive international tourism industry and, in turn, help to promote Kaliningrad as a location for FDI and EU-Russian joint ventures. Similarly, it would also become the most attractive location for meetings between Russian and EU business partners, as it would be the only convenient place where everybody could go without anyone needing a visa. As the favoured location for business meetings, this would be an important aspect of Kaliningrad's business-friendly environment (see above).

Given the current level of passport and visa controls for people leaving the Kaliningrad Oblast for mainland Russia, such an asymmetrical visa regime could be implemented in the short term without major technical difficulties.

In this context, it should be mentioned that the new version of the Law on Special

Economic Zone in the Kaliningrad Oblast envisages an eased visa regime (issuing visas at the border crossings) for foreign visitors involved in investment projects. This is the first practical step towards this objective, though much more can be done, including issuing visas and even work permits (if needed) at the border crossings to other categories of foreign citizens visiting Kaliningrad (e.g. tourists, youths).

Facilitation of business-related long-term presence in the Oblast

With the general visa-free regime for 30 days as the basis, the following measures are suggested to facilitate business activities and investment in Kaliningrad. First, a facilitated regime for acquiring a Russian (multiple and long-term) business visa may be introduced for EU citizens. Second, the requirements for a work permit for foreign workers in Kaliningrad should be eased, particularly for executives and technical specialists. Third, the quota for foreign workers should be increased for Kaliningrad. It would be beneficial regarding this last point to transfer the relevant decision-making powers to the regional level and also to make it faster and more transparent.

Foreign consulates in Kaliningrad

The existence of consulates facilitates business contacts and movement of people. Consequently, and in line with the principal political agreement already reached in November 2002 all relevant authorities should do their utmost to speed up the establishment of fully operational foreign consulates in Kaliningrad.

Summing up, every effort should be made by all parties to decrease visa barriers and to facilitate cross-border exchanges between Kaliningrad and the EU. However, the unilateral abolition by Russia of visas for EU visitors to Kaliningrad is of overriding importance and does not require international legislative change. This is a very important area in which Kaliningrad would

act as a pilot region for a major, but complex, development in overall Russia-EU cooperation.

3.2.5 Improving Border Management and Border-Crossing Transport Infrastructure

The Kaliningrad economy is highly dependent on foreign trade. The ratio of Kaliningrad's foreign trade (exports + imports) over its GRP (the so called coefficient of economic openness) is very high, reaching 160% in 2003. The creation of a FTZ in Kaliningrad or any improvement in the access of Kaliningrad companies to the EU market (see above) would presumably further boost its trade with the EU. These economic factors make efficient operations of customs as well as the existence of a well-designed transport infrastructure across the borders very important for the general business climate in the region. The matter will become even more urgent as the elimination of customs barriers and passport controls between the new and existing Member States (which will develop further as the new members move to full inclusion in Schengen over the next few years) progresses. Combined with improving and increasingly integrated infrastructural networks (TENs, PECs) throughout, especially, the Baltic Sea Region, north-south trade flows between the Baltic States and Poland and the western EU, even those between, for instance, Klaipeda and Gdansk, will completely bypass Kaliningrad if nothing serious happens.

It is proposed, therefore, that within the framework of the KPPP, Russia should work with the EU to find solutions to both improvement of border management and development of high-standard transport routes linking Kaliningrad with its vicinity.

Physical integration of road and rail networks

Kaliningrad's road and rail networks, especially on routes IA and IXB must be upgraded to the standards of those net-

works in its neighbouring states and fully, physically integrated with them. This will require very substantial investment, requiring support from IFIs as well as both private investment and public funding. This is however, totally in line with the envisaged CES instruments. Further, a number of transport studies and plans have been prepared concerning Kaliningrad's transport needs, so there is a good information base for the KPPP to build upon. A further element to the infrastructural component is to continue the process, funded by the EU's TACIS Cross-Border Co-operation Programme, to upgrade border crossing-points.

Integrated border management

On its own, improved infrastructure will be worthless if its benefits are undone by problems at the borders themselves. Consequently, border management procedures have to be addressed in parallel. The Russian Customs Code needs to be updated (especially where the federal code contradicts the SEZ provisions) and a special regime for transit freight needs to be developed (analogous to Russia's request for favourable treatment for transit of freight between Kaliningrad and the Russian mainland). EU companies should not have to pay additional charges for moving freight through Kaliningrad compared with using the direct Poland-Lithuania route. Electronic processing of customs documents should be widened.

Border guards and customs officials need training and additional equipment. It is proposed that this should be done in co-operation with, and partially funded by, the EU. Border clearance procedures should be streamlined and more integrated. In the spirit of the 'ring of friends', as is envisaged by the EU in Wider Europe, and in the spirit of developing the four Common Spaces between Russia and the EU, the border project needs to be reoriented towards a

concept of inclusion and co-operation across frontiers, and away from traditional, statist exclusionism. Thus, it is proposed that for Kaliningrad borders an integrated border management concept should be developed and implemented in partnership with the neighbours. Kaliningrad customs officials and border guards should undergo joint training with their opposite numbers across the borders, and have at their disposition a modern infrastructure and equipment which is compatible and inter-operational with that of their colleagues just a few yards away across the lines on the map so that they can work with them as equal partners.

Russia and the EU have already taken some steps towards improving the compatibility of their customs procedures. However, Kaliningrad can become a pilot region for intensified co-operation between Russian and EU customs authorities through:

- Simplified customs procedures;
- Introduction of an integrated data transmission system;
- Harmonisation of Russian and EU rules on customs and transit.

It is also essential for corruption to be eliminated from these areas – a tough, difficult and potentially dangerous undertaking, but one that must be implemented to ensure the success of this project.⁶

The lessons learned from this pilot region project will immensely benefit EU-Russia relations along the entire EU-Russia common border and will directly contribute to achieving the two parties' overall goals, in particular – the development of the common spaces.

3.2.6 Supporting Consolidation of Values and Civil Society Development

No other part of Russia is as strongly exposed to the abroad as Kaliningrad due to its history and its location. Kaliningrad is

⁶Specific recommendations aiming at the practical implementation of an integrated approach to the border management in Kaliningrad (on the Russian-Polish border) can be found in the Policy Brief "Integrated Border Management on the Russian-EU Border: the Kaliningrad Pilot".

surrounded by foreign states that have played prominent roles in its history. This means that its people's values are inevitably affected by this proximity and shared history. Due to the specifics of the Kaliningrad case, any development of economy and society presupposes and, simultaneously, causes an increase in cross-border co-operation on all levels (administration, municipalities, business, and society). It is one of the unique features of the Oblast that it is located where Russian statehood is most strongly exposed to the European Union's gravity and where Russian-European culture and traditions mingle strongest with non-Russian European culture and traditions. From this fact arises specific problems and challenges, but also great opportunities, in particular as concerns the educational and cultural dimensions of the envisaged Common Space of Research and Education, including Cultural Aspects.

Civil society development and Euroregion participation

A thriving civil society is an essential component of a developed society based on core values to which all European states are committed. Russia's commitment to a strong civil society was reaffirmed in President Putin's 2005 State of the Nation address. Thus, in the case of Kaliningrad, the authorities should offer all possible support to strengthen civil society, for example:

- by lowering administrative and fiscal barriers for establishing and running non-governmental organisations (NGOs),
- by providing access to information, and
- by co-operating actively and constructively with NGOs.

Further, the active participation of Kaliningrad municipalities in the various Euroregion schemes should be encouraged by the KPPP and made operational by sufficient budgetary allocations to the participating local entities and by training of their staff.

The idea of the members of Kaliningrad Regional Duma to establish a House of Europe (Russian-European House) in Kaliningrad should be further explored. Such institution could become the centre for practical activities not only by the EU state institutions, but also by civil society institutions, particularly, national cultural autonomies, and act as a resource centre for all types of cross-border co-operation (Euroregions included).

Capacity building for consolidation of values

The region and its inhabitants are both detached from Russia proper and exposed to the non-Russian environment – this is self-evident. The worries of the Russian political elite concerning the possible increased alienation between the Kaliningraders and the citizens of mainland Russia is equally evident and understandable. A strong presence of foreign actors at the grass-roots of society additionally fuels such worries. Indeed, a process of interference and interpretation of Russian and European values will continue in Kaliningrad and cannot be stopped. From the positive viewpoint, Kaliningrad has the opportunity, as well the challenge, to make historic progress in uniting and reconciling the best of Russian cultural traditions and values with the best Western European traditions and values, and to do this without distancing itself from Russia – i.e. to establish a common European cultural space in the essence of the term. If it does not function in Kaliningrad, where else shall it do?

However, and of high importance, one may very well doubt that a tiny province in the double periphery – and that's what Kaliningrad in fact is – can mobilise on its own and out of its own the intellectual resources and creativity needed to cope successfully with a task, which the European intelligentsia in sum works hard to address. Against this background it is recommended that special attention is paid to all measures which enhance the capacity of

Kaliningrad's intellectual and political elite to constructively deal with Russian and non-Russian cultural influence. Kaliningrad must simply become more attractive for the European intelligentsia, starting with its Russian proponents. Kaliningrad should be developed into a show-case for Russia being a part of Europe.

As a core contribution here it is suggested to complement the Moscow-based European Training Institute, decided upon at the 14th EU-Russia Summit in November 2004, by a centre of excellence for Russia-in-Europe Studies at Kaliningrad State University – which has been recently renamed as Immanuel Kant State University of Russia. The proposed centre should be well staffed with the best Russian experts in the respective field and become the first point of reference for students from Russia and equally for students from Europe who want to receive a high-level education in the history, current state and future challenges of relations between Russia and its European neighbours. Further, Immanuel Kant State University of Russia should be made eligible to participate in the ERASMUS MUNDUS programme not only under the complementing Action 3 (Partnerships), but also under the core Action 1 (tri-partite Erasmus Mundus Master Courses).

As concerns the Western actors and donors in the field, state and non-state alike, it is strongly recommended to them to firstly, acknowledge the existence of the above-mentioned worries and their legitimacy, secondly, to take them sensitively into account instead of unintentionally cultivating them further. This should include, for example, abstaining from using former German place names. Furthermore, support schemes should be offered and actively promoted, which bring together partners from Kaliningrad, mainland Russia and abroad in one project. This would strengthen not only civil society in Kaliningrad, but also the links between the exclave and mainland Russia. Finally, Russia's attempts to strengthen the elements of Russian culture in the region

and support a feeling of Russian belongingness should be received with empathy by the foreign actors, without necessarily being uncritical of all aspects.

Dealing with the past in a future-oriented mode

In the spirit of growing integration between Russia and the EU, it is proposed not to impose a taboo on any aspects of Kaliningrad's complicated history. Faults, wrongdoings and evil acts exist within, and have been perpetrated by all parties. They may become subject to sensitive and empathetic discourse just as the richness of the varied cultures that have contributed to the development of the region over time should be celebrated. Not only in relation to Kaliningrad, but also to Russia and non-Russian Europe in general, one has to admit, that as a result of history considerable deficiencies in inter-cultural competency, mutual understanding and trust exist on both sides. However, this fact becomes particularly relevant and establishes an invisible hurdle for problem-solving when it comes to Kaliningrad. Dealing with the past in a constructive, open-minded and future-oriented manner would therefore be of benefit for Kaliningrad and the overall relationship between the Russian and the non-Russian parts of Europe. Approached adequately, Kaliningrad could, so to say, become a pilot region for mutual reconciliation and understanding and for building a future of trust and openness between communities in Europe, while preserving its original, Russian identity.

One of the opportunities to contribute to this orientation could be the renaming of the region's capital. Of course, the decision has to be made by respective Russian authorities, however, it is recommended not to return to the old name, but to integrate German history and Russian present. Suggestions have been made to rename the city after its most famous son, Kant. "Kantgrad" - why not do this? The recent renaming of Kaliningrad State University as Im-



manuel Kant State University of Russia may encourage the next step. Kant's philosophy underpins many of the principles of the European peace project. Adopting his name to symbolise the new Kaliningrad would send out an important message to the international community as well as providing a source of pride for the Russians and further help to reinforce Russia's rightful place alongside civilised Europe.

When discussing the Common Space for Research and Education, including Cultural Aspects, the Russian side suggested including into the road map the preservation of monuments of architecture from the early German period in the Kaliningrad Oblast. Why not, if it is wanted? However, we may add, that such restoration activities should be complemented by a concept for the future usage of the restored buildings. For instance, some of them would provide an environment well-suited for more than plain come-and-see tourism, but for the establishment of academies of adult education and educational tourism. These could deal with matters of Russian culture and history, Russia's relations in culture and politics with Europe, varying perceptions of the joint history, inter-cultural learning, etc. For instance, the Castle of the German Order in Chernyachovsk would be perfectly suited to the purpose. Other such monuments of architecture could become venues for cultural events such as exhibitions, festivals, etc. Adult learning tourism and cultural tourism is a growing segment of the tourism industry and it could as well serve as a frame for dialogue among diverse cultures.

Dealing with the past in a future-oriented mode calls not least for addressing the youth of Russia and the neighbouring countries by respective programmes. Kaliningrad would provide a perfect place for international youth meetings, training and exchange programmes for strengthening a pan-European consciousness and mutual empathy among young people. Again, one of the restored monuments of architecture could find an appropriate usage by integrat-

ing it into what might be called an 'international centre for youth co-operation'.

One of the major obstacles to improved mutual understanding *among the people in general* as well as for intensified exchanges among the business communities, is constituted by different languages. Increasing language competencies and providing translation services sufficient in quantity as well as in quality is an educational task of importance for the future of Kaliningrad. It also suits perfectly the spirit of a Common Space of Research and Education, including Cultural Aspects. A centre for training of Russian and foreign translators of Russian language from and into other European languages should be established in the Kaliningrad Oblast and would contribute the region's business-friendliness. It might also be a purposeful and economically viable possibility for the usage of one of the restored castles from the medieval German period.

3.2.7 Securing Financing

We admit that bringing into existence what we propose will require funding. We are also fully aware of the fact that neither the Russian taxpayer nor (and even more definitely) the EU taxpayer can be asked to limitlessly subsidise Kaliningrad's development. However, this reality should not be made an argument against our proposals. Rejuvenating Kaliningrad may require considerable initial investment, but it will also generate considerable financial returns to the public budgets. In a longer-term perspective these returns (and savings due to increased efficiency) will easily outweigh the initial investments. Further to this, and as a matter of fact, the largest bulk of work is to be done by means of private investment. Consequently, direct financial help to Kaliningrad, although desirable and partially necessary, does not belong to the core means with which to cope with the "Kaliningrad problem". The main goal is to create favourable conditions for the region to attract investments and to develop, which

should be done by way of greater openness, higher efficiency and more targeted use of funds. With some additional financial allocations from public budgets needed, the establishment of new financial instruments seems appropriate.

Kaliningrad Development Fund

A Kaliningrad Development Fund (KDF) was rejected by the EU in the Commission's 2001 Communication to the Council of Ministers. The Russian Federal Government originally opposed the idea as well. However, as the situation has changed in the last two to three years, the idea of KDF became more feasible. The EU has explicitly recognised the need for specific treatment of Kaliningrad. The Russian federal authorities have also become more flexible on the issue of European-Russian co-operation on Kaliningrad. In fact, the European Commission has made an informal attempt to establish a special fund for Kaliningrad in the summer of 2002. It committed itself to investing 25 Euro mln and called upon Member States and international financial institutions for additional funds. As it proved to be unsuccessful, the Commission abandoned the idea and decided to channel the money through TACIS. Nevertheless, with this rising awareness of Kaliningrad's specifics the idea of a KDF should not be abandoned. The amount of financing required for the Fund is surely a matter of discussion. After all, why should the EU try to exactly match the EU programmes for accession states, as it was proposed?

The amount of money provided should depend on concrete goals to be accomplished. The ways the money should be spent vary from loans for small businesses and institutional development to major infrastructural projects, such as the reconstruction of the airport and railways, the development of air-carriers' capacities, the reconstruction of the Elblag-Kaliningrad highway, and the development of telecommunications facilities, etc. It therefore appears to be crucial for the KDF to have a set

of priorities, by which it would allocate its resources. We suggest that, if a KDF comes into existence, the priorities should be set according to a principal aim: adaptation of Kaliningrad's economy to the demands of European markets, the creation of conditions of successful exploration of opportunities arising from its location and presumed competitive advantages. Another important condition for a KDF is a system of tight controls from the donor countries.

Expansion of the EIB mandate

The EU proposal on Common Spaces contains a suggestion to secure investment for EU-Russian infrastructural projects through the European Investment Bank. A related proposal is to expand the EIB mandate on the whole of the Kaliningrad Oblast. That means that under this general mandate not only infrastructural projects will be covered but also all varieties of project types where the resources of EIB are usually involved.

4. CONCLUDING REMARKS

The Enlargement of the EU entails some hardships for Kaliningrad. However, it also offers an opportunity for Kaliningrad to put behind it many of the problems that have afflicted it over the last decade and more. It is time to get away from such images as a “black hole”, the place with “the worst rate of HIV/AIDS infection in the whole of Europe and Russia”, a “centre for international crime”, “one of the worst sources of pollution in the Baltic Region”, etc.

The new climate of relations between Russia and the EU presents the framework for such a transformation to be undertaken – by using Kaliningrad as a pilot region to develop new modes of co-operation between Russia and the EU. This paper proposes a number of ways in which this can be done. The proposals are not exhaustive – many other issues are important (and are detailed in Kiel, Swiecicki and Usanov, for example as well as in two other Policy Briefs from this series – “Kaliningrad in the Context of Establishing the EU-Russia Common Economic Space” and “Integrated Border Management on the Russian-EU Border: the Kaliningrad Pilot”) – but they have the advantage of being important, relevant and, above all, practical.

However, for the successful implementation of the pilot region concept, it is essential that there be total commitment to success at the highest relevant levels of political leadership. Without this nothing can be done. But once in place, there is no shortage of expertise and people available to turn ideas into realities.

Unavoidably, there must be a formal institutional structure dedicated to developing the pilot region and we proposed a Kaliningrad Pilot Partnership Program as the appropriate mechanism – since it emphasises the process rather than the structure.

An important additional point needs to be made here. This document has addressed the future of Kaliningrad in the context of EU-Russia co-operation. According-

ly, it has dealt almost exclusively with the role of the political leadership of Russia and the EU. However, it is obvious that while these two “leadership groups” must make the key decisions, especially the Russian one, there are valuable roles to be played by a very large range of institutions, from political structures such as the CoE, the CBSS, etc., to many other networks representing particular issues (e.g. NDEP) and groupings (e.g. Euroregions), quite apart from bottom-up-driven relationships (civil society). All of these have parts to play, so the process must be as inclusive as possible. It is proposed, therefore, that as far as possible, the Russian side will invite constructive contributions from all relevant bodies who can offer useful and valuable support to the pilot region programme. Of course, the people of Kaliningrad and their institutions can and must also play a substantial role.

A new future is opening up for Russia and the EU in their relations with each other. Both parties are committed to the ideals of the European peace project, to further strengthen security, stability and prosperity, based on shared values and growing interdependence in many important areas. These prospects however raise new questions over how best to implement these ideas in practical and successful ways, bringing the hoped-for benefits to all participants. Kaliningrad is uniquely placed (in all senses of that word) to help find the right answers. This paper calls upon all parties concerned with the future of Kaliningrad to heed the call to implement the pilot region project under the umbrella of the Common Spaces, and in the spirit of the Partnership and Co-operation Agreement, through the measures put forward here.



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