

# *Occasional Papers*

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## A new European Union policy for Kaliningrad

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by *Sander Huisman*

### A new European Union policy for Kaliningrad

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# Contents

	Summary	3
<b>1</b>	Introduction	6
<b>2</b>	Time of troubles: Kaliningrad as an island of decay within Europe	9
<b>3</b>	Actors in the EU enlargement around Kaliningrad	13
	3.1 <i>Council of the Baltic Sea States – inclusiveness</i>	13
	3.2 <i>European Union – diversity without coordination</i>	14
	On agreements, policies, programmes, strategies and other dimensions	14
	How to engage Russia	17
	From neglecting to prioritising Kaliningrad	20
	Conditionality towards the candidate countries	24
	3.3 <i>Russia – muddling on</i>	26
	Approach to the EU	26
	Conflicting views towards Kaliningrad	28
	3.4 <i>Lithuania and Poland – cooperative neighbours</i>	30
	Lithuania: engagement towards Kaliningrad	30
	Poland: forgetting about Kaliningrad?	32
	3.5 <i>Kaliningrad – a three-dimensional periphery</i>	35
<b>4</b>	Policy options for the decision-makers: the EU and Russia	40
	4.1 <i>More flexibility for Brussels</i>	40
	4.2 <i>More commitment from the Kremlin</i>	45
<b>5</b>	Conclusion	48
<b>a</b>	Annexes	50
	a1 • <i>Abbreviations</i>	50
	a2 • <i>Bibliography</i>	51

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*Just as Königsberg became known for its intellectual weight, symbolised by the brain-twister how to cross the city's seven bridges without passing one of them twice; Kaliningrad is notorious for the immense problems it has to deal with, perhaps mirrored by the inconclusive ways the EU and the Kremlin are figuring out how to assist the oblast. Any government would get frightened if faced with a task of the daunting magnitude that Kaliningrad's governor Yegorov and his administration face.*

*The exclave is cut off from mainland Russia by Lithuania and Poland. The oblast's officials have to cope with the highest percentage of HIV infections in Europe and with an intimidating scale of several manifestations of organised crime. Large outdated industries face structural collapse, resulting in high unemployment rates. A third of Kaliningrad's one million inhabitants live below the poverty line. The oblast's environmental legacy poses threats to the whole Baltic Sea region. The fundamental concern is that Kaliningrad does not play a role of any significance in the region. Trade patterns are diverted away from the oblast, and the main transport routes bypass the exclave. Neighbouring countries have developed far more competitive economies.*

*For a long time Russia's leadership did not know how to relieve its exclave, and instead adopted some creative initiatives. First of all, a Free Economic Zone (later a Special Economic Zone) was established, which was to attract foreign investment by providing tax incentives. Secondly, the Kaliningrad administration was granted considerable powers by which it could shape its own policies. Neither initiative paid off, and Kaliningrad drifted further towards decay.*

*The EU also had no idea concerning the Russian exclave, and at first even neglected it. Urged by the accession negotiations of Lithuania and Poland for EU membership, Brussels saw that it simply had to devise 'something' by way of a policy towards Kaliningrad, as the oblast would one day be a Russian enclave within EU territory. Whereas Vilnius and Warsaw quickly established several forums for cooperation with the oblast, opened consulates in Kaliningrad and ran several projects on economic and environmental cooperation, the EU seemingly remained oblivious to it. Both its Partnership and Co-operation Agreement with Russia and its Common Strategy on Russia (CSR) provide only very weak linkages in its dealings with Kaliningrad.*

*In addition, the conflicting internal and external policies of the EU hinder a constructive approach towards Kaliningrad, as the former aims to make the future EU border as strong and well guarded as possible, whilst the latter wants to engage the 'outsiders' through cross-border cooperative projects. Only after the development of the Northern Dimension in 1999 did the EU seem willing to approach Kaliningrad from a different and more flexible perspective, also involving the Russian government in this respect.*

*The creation of the ND Action Plan has given Kaliningrad priority status, and Lithuania (together with Russia) presented a very comprehensive package of proposals that could concretely counter the oblast's isolation. However, funding is still lacking. Presumably due to its lack of expertise and knowledge of Kaliningrad, the European Commission did not provide*

any suggestions for improvement at that time. All this changed when Sweden took over the presidency of the EU in the first half of 2001. The EC presented its communication on Kaliningrad to the Council, which highlighted the areas where both the EU and Russia need to take action. A Tacis local support office was opened in the oblast, and the EC considered extending Phare aid (in addition to Tacis) to Kaliningrad for specific areas.

At the same time, things were looking brighter in the oblast itself as the new governor Yegorov took over. He is widely regarded as a pro-European and reform-minded pragmatist, and has a good relationship with Putin. In Moscow a new federal programme on Kaliningrad has been adopted, envisaging a grand design for reconstruction of the oblast. Furthermore, Putin convened a special Security Council meeting on the exclave, where he set out a critical analysis of the main shortcomings of the policies of the last years (lack of coordination among ministries, low effectiveness of work and an absence of suitable legal and administrative frameworks). For the last two years the President has also been stressing the need to make Kaliningrad a pilot region in the framework of the EU-Russia relationship.

However, both the new federal programme and the words of Putin conceal or neglect more fundamental issues. The programme seems to be based on an incorrect analysis of the oblast's problems (it is not trying to deal with the issues that Putin addressed). The President, on the other hand, has been successful in putting his appointees and favourites (e.g. Yegorov) into the right places, but he has failed to tackle difficult reforms and to make systematic changes. These will be harder to accomplish, not least because they could weaken Putin's control as well. Whereas the EU operates through its institutions, Russia is governed by personalities.

But with Putin and Yegorov firmly at the head of their administrations, there at least seems to be long-term continuity in policy implementation. And even though the new federal programme has its fundamental flaws, it shows commitment. What Russia now needs to do is to give sufficient leeway to Kaliningrad in order to improve its administration. Moscow should also set up a governmental or presidential commission on Kaliningrad, in which all relevant ministries and the oblast's administration take part, which has to develop a better strategy (based on Putin's criticism and suggestions made at the Security Council) towards the exclave than the newly adopted federal programme. The Kremlin also has to implement clear legislation that takes the interests of foreign investors into account. Only by establishing stability and predictability will the SEZ have a chance to become successful, and foreign money find its way to Kaliningrad.

The EU has a lot to improve upon as well. First of all it needs to find ways to make the overlapping areas of its internal and external policies more coherent, as extension of the Schengen acquis to the applicant countries clearly obstructs the development of regional economic cooperation and trade. Secondly it has to coordinate its aid programmes (Tacis, Phare and Interreg) to increase the efficiency of financial support and to enlarge the possibilities of cross-border projects. Third, Brussels has to bring consistency into the PCA, CSR and ND when it is dealing with Kaliningrad, as the current frameworks are too loose to be effective. Fourth, the EU has to increase the involvement of Lithuania, Poland and the CBSS to increase the regional expertise in the making and find solutions for Kaliningrad after EU enlargement. It has to allow greater participation of the oblast's officials in these discussions as well.

The EU should seriously consider creating a Common Strategy for Kaliningrad, one that is different from the 'old' and ineffective CSR. It would be easier to implement than the CSR, as

*Kaliningrad is small and thus manageable, and currently none of the EU member states has a specific policy towards the oblast. It would also be sensible as the oblast will be surrounded by EU territory after 2004. Most importantly, it would allow a coherent cross-pillar, targeted approach, which Javier Solana would like Common Strategies to be.*

*The year 2001 witnessed a new engagement with Kaliningrad, both from the EU and Russia. Even though Brussels' commitment will be periodic (due to the rotating presidency), the actions undertaken give reason to be moderately optimistic. And whereas the new federal programme is based on an incorrect appreciation of the real obstacles to growth, the Kremlin is willing to launch new initiatives. So, finally, there seems to be light at the end of the tunnel for Kaliningrad. But whether it is going to be candlelight or a halo depends on crucial improvements that cannot be neglected. Moscow holds the key, but Brussels must give a helping hand to enable the Russians to unlock the gate.*

## Introduction

**D**ue to its history, location, and its backward position in the Baltic Sea region, the Russian exclave of Kaliningrad is arguably the most controversial entity in post-Cold War Europe. Its current situation is without precedent in modern European history. From the thirteenth century until the twentieth century Kaliningrad was Königsberg, a part of East Prussia that was a regional linchpin of trade and commerce. Its university was the oldest of the region. At the end of the Second World War it was conquered by the Red Army and Stalin renamed it Kaliningrad. During the Cold War it had a military and strategic function for the Soviet Union, and it was sealed off from the outside world. After the collapse of the Soviet Union, the Baltic States became independent and Kaliningrad was as a result cut off from mainland Russia.

► After 1991 Kaliningrad found itself trapped between the historical enlargement of the European Union on the one hand and the problematic transition of Russia on the other hand. Kaliningrad is sandwiched between Poland and Lithuania, which are separated from Russia by Belarus and Latvia. Brussels became the focal point for Vilnius and Warsaw, whilst Moscow was in the middle of a crisis of its state structures and left Kaliningrad to cope by itself. It was not able to counter the structural depression it was facing. The exclave acquired many disturbing features: high unemployment, a critical environmental situation, the rapid growth of organised crime, the spread of AIDS and tuberculosis, and isolation. The oblast has become peripheral in three respects: as an enclave in the future enlarged EU, as an exclave outside mainland Russia, and as a weak neighbour of EU candidate countries.

► As Lithuania and Poland are in line for membership of the EU they will receive extensive financial aid in order to prepare for accession.

They also have to conform to the *acquis communautaire*. One of the implications is that they will have to adopt the Schengen *acquis*, which will call for strict border controls with its non-EU neighbours. The introduction of visas will cause a deterioration of relations that have been improving since 1991. The visa-free regimes that both countries currently observe with Kaliningrad (but not with mainland Russia) will have to end. The 'outsiders' perceive Schengen as the erection of a new Iron Curtain that has shifted just a little bit eastwards, safely sealing off the prosperous 'Fortress Europe'. This is seen as undermining historical, cultural and political ties and adding fuel to existing regional instability. It is also diametrically opposed to the EU's *raison d'être*: to overcome historic animosities and to build peace, stability and prosperity.

► The EU, however, is becoming increasingly aware of the challenges that this problem-ridden oblast is posing, but only slowly. For a long time Kaliningrad was absent from the consciousness of Brussels' policy-makers. When dealing with Russia, the approach was towards Russia as a whole. The fact that on enlargement the EU would also ingest a little piece of Russia was neglected. In the EU's policies towards Russia, primarily the Partnership and Co-operation Agreement and the Common Strategy towards Russia, no distinction was made. Only after Finland had promoted the EU's Northern Dimension programme in 1999 did the EU change its approach and distinguish between Russia as such and the peculiar challenges that North-West Russia (and thus Kaliningrad) pose.

► The dilemma within the EU's policies is that on the one hand it is working on technically and administratively securing the new border, but that on the other hand it wants to intensify cross-border cooperation. Enlargement will affect both its internal and external policies,

which lack coordination and coherence (as the Commission has acknowledged). Deepening and widening of cooperation should be flexible, in order to produce imaginative, innovative and acceptable approaches to border issues that may arise. Hard borders will hinder the EU's ability to effectively coordinate its relations with 'outsiders'. The Commission's communication to the Council on Kaliningrad issued in January 2001 is the first sign of Brussels' concern with the oblast. The document shows a new, proactive approach by the EU towards Kaliningrad. However, its main line of thinking is that enlargement offers the exclave new opportunities. The instruments that the EU is utilising for the oblast are the Partnership and Co-operation Agreement, Technical Assistance to the CIS, (Tacis), the Common Strategy on Russia and the Northern Dimension.

► Moscow sees challenges arising from enlargement. It wants to make Kaliningrad a pilot project within the EU-Russia relationship, even though it has not proposed how this could be done. This reflects the inconsistent approach of the Kremlin towards the exclave. In the beginning of the 1990s it was hesitating between a military role for Kaliningrad and giving the

oblast more authority to develop economically and to integrate in the region. The latter option has taken root, and Moscow has accorded the exclave special economic privileges for this purpose. Russia's attitude is reflected in its medium-term strategy towards the EU, in Putin's wish to make Kaliningrad a pilot region or bridge for the EU-Russia relationship, and in the ambitious new federal programme on Kaliningrad for 2002-2010. However, it has not implemented crucial reforms, it has not developed appropriate legislation and it has not created openness. All this is hampering the development of Kaliningrad.

► In order to provide realistic policy options, one needs to look into the environment in which two main players have to shape their policies vis-à-vis Kaliningrad: the EU and Russia. Both of them have the ability to change the fate of the oblast, but both are also hampered by the size of their bureaucracies, which affects their decision-making procedures, and by the structures in which they have to operate. The EU also has to take account of the individual agendas of its fifteen member states, whilst Russia has to deal with a fundamental crisis in its state structures. Furthermore, the decision-makers of the EU



and Russia work in quite different political cultures. Despite the difficult talks on improvements of the Kaliningrad issue one thing remains clear: the EU will enlarge in 2004, and if Brussels and Moscow wish to avoid any destabilising repercussions at that time they have to act now.

► This paper will address the policies that the EU and Russia are pursuing towards Kaliningrad. It will analyse the conflicting or overlapping objectives of the external policies that Brussels has adopted, and it will examine the reasons for

Moscow's inconsistent and far from satisfactory approach. It will also discuss the initiatives that Lithuania and Poland have developed and might have to be ended upon adoption of the *acquis communautaire*. Furthermore it will investigate why Kaliningrad has not been able to achieve growth and stability, and how this might result in further isolation in an enlarged EU. Finally, this paper will propose policy options for the EU and Russia that they might consider to improve the prospects for Kaliningrad and for regional stability.

## Time of troubles: Kaliningrad as an island of decay within Europe

Until 1945 Kaliningrad was part of the German empire, known as Königsberg (or Karaliaucius in Lithuanian and Krolewiec in Polish). In the thirteenth century the heathen Prussians were conquered and Christianised by the Teutonic Order, who in 1255 established the fortress of Königsberg. In the following centuries this stronghold developed as a regional centre of trade and commerce, and was one of the most powerful cities of the Hanseatic League. With the founding of the University of Königsberg in 1544 it also became one of Europe's enlightened centres of intellectual excellence. In the eighteenth century it became a stronghold of the Prussian landed and military aristocracy. Prominent Königsbergers have included Immanuel Kant and Hannah Arendt. After Germany's defeat in the First World War, East Prussia was separated from the rest of the German Republic by a Polish corridor, which gave rise to tensions between Warsaw and Berlin.

During the Second World War East Prussia was used as a platform for Operation *Barbarossa* in June 1941, while Königsberg's harbour became an important naval base for the German navy. The glorious German past of Königsberg ended in 1945 when troops of the Red Army were ordered by Josef Stalin to erase everything that recalled its German past. The Western allies at the Potsdam peace conference gave in to Stalin's demand that the region had to become part of the Soviet Union. In April 1946 Königsberg was renamed Kaliningrad, after the first Soviet president Mikhail Kalinin. The German pre-war population of more than one million had perished during the war, died of hunger and disease, or had fled to Germany. The oblast was quickly Russified and Russians from all over the Soviet Union were offered a place there.

Throughout the Cold War Kaliningrad acquired a strategic importance and became a huge military base: hosting the Baltic Fleet and more than 200,000 troops (strong army units, air and air defence forces and border troops). It was sealed off to foreigners, and even Soviet citizens had only limited access. The military dominated Kaliningrad, as the armed forces and military industry were the biggest employers and the civilian structure was adapted to military needs. The deep-sea port of Baltiysk was transformed into a major naval base. All this distorted the economy and hindered its development after 1991.

With the end of the Cold War Kaliningrad lost its strategic significance and thereby its Soviet military identity. As a result of the independence of the Baltic States the oblast was now cut off from mainland Russia, and sandwiched between the emerging democracies of Lithuania and Poland. The Soviet Baltic Fleet lost many of its bases and had to transfer many ships to Baltiysk. The collapse of the Warsaw Pact led to the withdrawal of Soviet troops from East Germany, Poland and Lithuania, which were provisionally based in Kaliningrad. The oblast thus acquired a huge military force which caused concern within Lithuania and Poland. However, the numbers of forces and weapons have been decreasing since 1993. Currently the oblast hosts not more than 25,000 troops.

Kaliningrad measures 15,100 square kilometres (making it about half the size of Belgium) and has a population of around 930,000 (415,000 live in the city of Kaliningrad itself) of which 78 per cent are Russian, 10 per cent Belarussian, 6 per cent Ukrainian and 4 per cent Lithuanian. The population density is around 65 persons per square kilometre (more than 8 times the all-Russian average and even higher

than most of the Baltic and Scandinavian countries). The oblast's economy has suffered immensely from the collapse of the Soviet Union, due to its dependence on outdated heavy industry and to its isolation. It now imports 90 per cent of what it consumes, including 80 per cent of its electricity, which comes from mainland Russia and Lithuania. The port and local industry are struggling to become competitive.

Moscow did not know what purpose Kaliningrad might serve after 1991. The Ministry of Defence wanted to pursue an isolationist course for the oblast, as it preferred to maintain up a large military force there. This diametrically opposed the views prevailing within most other ministries, which wanted to make the exclave a prosperous region, able to compete with its surrounding neighbours. Russian President Boris Yeltsin seemed to be in favour of the latter approach as well, as he gave order to make it a Free Economic Zone (FEZ) in 1991. The reason for this was that Moscow thought that the region needed economic incentives in order to counter the downward spiral. However the Kremlin was not satisfied with the results and ended the oblast's special status as early as 1995.

The creation of a FEZ is appropriate in the case of a country whose internal structures are too weak for a comprehensive solution, and therefore needs to a short-term and easy instrument. The FEZ did not deliver mainly because structural reforms and the establishment of the rule of law did not accompany it. It then became a Special Economic Zone (SEZ) in 1996, whose aim is to attract foreign investors by exempting them from import and export duties and value added tax on various goods. BMW and Kia Motors were quick to open production lines and per capita investment grew to a level 50 per cent higher than in mainland Russia. However, changing regulations, import quotas, and high inflation were major obstacles, and foreign investors consequently stayed away. The SEZ

suffered from the same problems as its predecessor the FEZ: absence of reforms and a weak administration.

Kaliningrad's first governor was Yuri Matochkin, a Yeltsin appointee who applied a liberal and pro-Western rule, and who unsuccessfully tried to open up the oblast to the neighbouring countries and the Baltic Sea region. In 1996 he was voted out of office and replaced by Leonid Gorbenko, who established an almost de facto self-rule in 1998 after the collapse of the Russian economy by proclaiming a state of emergency (which he was not allowed to do so). Gorbenko became known as a governor who followed an isolationist course, who had connections to many enterprises, and who had a corrupt image. The fact that he was able to conduct such a policy shows the internal structural weaknesses within the Federation.

In 1997 Moscow implemented the Federal Task Programme on Development of the SEZ in Kaliningrad for the period 1998-2005, which aimed to increase federal investment. The programme specified that the oblast's authorities had to develop and manage the region, even though the administration was known for its lack of expertise, professionalism and experience in dealing with such issues, and there were many power struggles going on within the Gorbenko administration. So subsequent criticism by the Kremlin of the Kaliningrad administration for its failure to implement the programme came as no surprise. In fact all attempts that the authorities of the oblast undertook between 1991 and 2000 to increase economic development failed due to mismanagement. Dissatisfaction with Gorbenko's rule provoked local and city administrations into taking the initiative, drafting their own development plans, expanding their international and regional networks and attracting new bilateral projects.<sup>1</sup>

Kaliningrad does not play a role of any significance in the region. Trade patterns and invest-

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<sup>1</sup> S. Jakobson-Obolenski, 'Europe's Enlargement and Russian Estrangement. A Tale of Two Peripheries: Kaliningrad and Karelia', in G. Herd, (ed.), *EU Enlargement in the North* (Conflict Studies Research Centre, Sandhurst, 2000) pp. 32-3.

ments are diverted away from the oblast. Also between the three Baltic States the low level of trade is striking (not to speak of Kaliningrad's involvement). Another setback for Kaliningrad is that the surrounding countries have a big competitive advantage regarding infrastructure, services and environment. Productive sectors all face structural collapse, and the level of unemployment has reached enormous heights. Traditional industries (fishing, paper and pulp) are outdated, and the amber industry is in the hands of criminal groups. Within the oblast 30 per cent of the population live below the poverty line. Gross domestic product per capita is just about \$500US, while in Poland it is around \$4,000 and in Lithuania \$3,000. Income per capita is only 83 per cent of the federal average.

Corruption is endemic (bribes, drug-trafficking, smuggling, illegal migration, prostitution, organised crime, contract killings) and still spreading each year. Given the nature of the border it is not difficult to smuggle goods or persons into or out of the oblast. It is also believed that the military is engaged in illegal arms smuggling. On 5 November 2001 two rocket engines were confiscated that were due to be shipped to the Netherlands by a dealer in scrap metal parts. Crime levels are 30 per cent higher than in mainland Russia, and 10 per cent of the men drafted in Kaliningrad have criminal records.<sup>2</sup>

Kaliningrad's environmental legacy (nuclear waste, forest destruction, water, air and terrestrial pollution) has a deep impact on the Baltic Sea region. The oblast's socio-economic or environmental collapse could have severe consequences for its direct neighbours and lead to a regional crisis. According to Swedish experts the upgrading of municipal and industrial waste water cleaning facilities alone will require around \$3 billion of investment in the next four years. Another regional threat is that Kaliningrad has the highest rate of HIV infection in Europe (350 per 100,000 persons, against 6.8 in Lithuania).

Within Kaliningrad more voices (although still a minority) are calling for the oblast to be granted special status. The most radical proposal has come from Sergei Pasko, the leader of the Baltic Republican Party and president of the Businessmen's Union of Kaliningrad, who wants to make the exclave an independent Baltic republic with associate membership of both Russia and the European Union.<sup>3</sup> Similar political ideas have been emerging since 1991. Reportedly 80 per cent of Kaliningrad's youth (presumably those under 21 years old) have never visited mainland Russia, but have several times visited Poland or the Czech Republic.

At the beginning of January 2001, *The Washington Times* wrote that, according to a US intelligence report, missiles with a range of 70 km capable of carrying nuclear weapons had been moved into a naval base in Kaliningrad. It was not sure whether they were armed with nuclear warheads. Even though this would not contravene any international agreement to which Russia is a signatory, it would undermine its pledges to keep the Baltic Sea a nuclear-free zone. Although the deployment of tactical nuclear weapons has limited military significance, it could very well influence NATO's attitude to enlargement towards the Baltic States, it was thought. The Russian Ministry of Defence, President Putin and the exclave's administration immediately said that the report was nonsense.

The most recent setback for Kaliningrad has been the developments following '11 September'. The EU is increasing its efforts to improve internal security, which has direct consequences for the candidate countries and indirectly also for the oblast, as border controls will be tightened and visa applications subjected to greater scrutiny. A direct consequence of the terrorist attacks on the USA has been the decision by the Scandinavian airline company SAS to stop its services to Kaliningrad. It provided the only international air connection for Kaliningrad.

<sup>2</sup> Radio Free Europe/Radio Liberty (RFE/RL) Newswire, 19 October 2001.

<sup>3</sup> E. Vasilieva, 'Testing the Waters', *Transitions Online*, 1 March 2001.

Despite this depressing enumeration of problems, there might be light at the end of the tunnel for Kaliningrad. First of all, whereas the Baltic Sea region was characterised by mutual suspicion and distrust during the Cold War, within one decade this has been replaced by new structures of cooperation and more openness in general. Inclusiveness is the new mantra in the Baltic Sea region, with Lithuania and Poland as

front-runners in engaging Kaliningrad. In addition, the corrupt, incapable and isolationist governor Leonid Gorbenko has been replaced by the reform-minded pragmatist Vladimir Yegorov, the popular former commander of the Baltic Fleet. Finally, and perhaps most importantly, the two main actors that will shape the oblast's future – Brussels and Moscow – are showing more commitment.

## Actors in the EU enlargement around Kaliningrad

Since the early 1990s the EU has been engaged in two historical processes taking place at the same time: deepening and widening the Union. The deepening involves numerous internal reforms that have to be implemented throughout its structures, institutions and pillars in order to be prepared for the challenge of enlarging to an organisation of 25 member states. The widening is about preparing the candidate countries for membership, and about engaging the countries that will not receive an invitation for membership. Several steps that the EU has taken have a special implication for Kaliningrad, even though these steps were not taken vis-à-vis the oblast (e.g. the Schengen agreement or the extensive Phare aid for applicant countries). The PCA and the CSR make up Brussels' framework for Russia – and not especially for the oblast. A regional approach towards Russia's North-West (including Kaliningrad) took off with the ND, even though this initiative has not evolved into anything practical yet.

Russia has not conscientiously developed a real policy or approach towards Kaliningrad, but has tried to lift the oblast out of its multifaceted isolation through ad hoc steps or insufficient initiatives (e.g. the FEZ and SEZ and the two federal programmes). More generally, Moscow is still grappling with the relationship between the centre and the regions. Lithuania and Poland have been able to conduct policies that engaged the oblast in bilateral and regional affairs, but both countries will find it difficult to continue these approaches because of their obligation to adopt the *acquis communautaire*. Kaliningrad itself has over the last ten years been subject not only to external forces (the EU, Moscow and the neighbouring countries), but also to internal weaknesses – a weak administration, a decayed infrastructure and widespread corruption. At

this moment there is only one organisation that has been able to approach Kaliningrad continuously in a sensible manner: the CBSS.

### *3.1 Council of the Baltic Sea States - inclusiveness*

The Council of the Baltic Sea States (CBSS) was established in March 1992. Its members are the three Baltic States, the five Nordic countries, Germany, Poland, Russia, and the European Commission (EC) – with Kaliningrad represented in the Russian delegation. The rationale of the CBSS is to provide a forum for closer contacts and cooperation of states around the Baltic Sea in order to secure democratic and economic development and greater unity between member states. The CBSS's strength is its regional foundation, involving the Commission, EU member states, candidate countries and Russia, all on an equal footing. The terms of reference of the CBSS include: assistance to new democracies; economic and technological assistance and cooperation; humanitarian matters and health; protection of the environment and energy cooperation; cooperation in the fields of culture, education, tourism and information; and transport and communication. All of these areas concern Kaliningrad. The EC, EBRD, EIB, Nordic Investment Bank (NIB), Nordic Environmental Finance Corporation (NEFCO) and national governments finance the CBSS projects.

The Council meets at foreign ministerial level once a year, and in a group of senior civil servants around ten times each year. The presidency of the CBSS rotates among the member states. Substance was added during the Swedish presidency in 1995-96, when an action programme was adopted (on participation and sta-

ble political development, economic coordination and integration, and sustainable development and environmental cooperation) and two initiatives took off (with a task force on combating organised crime and a CBSS coordination mechanism). The Council has formed three working groups: on assistance to democratic institutions, on economic cooperation, and on nuclear and radiation safety. A permanent secretariat has been established in Stockholm since October 1998.<sup>4</sup>

Kaliningrad became a priority area for the CBSS when Lithuania held the presidency in 1998-99, promoting regional and cross-border cooperation (CBC) projects with the exclave and holding more events in the oblast. Germany held the CBSS presidency in 2000-01, continued with similar priorities and added active participation in the Northern Dimension (ND – of which more later) by developing a shortlist of regional projects to be included in the ND Action Plan. Germany also gave concrete recommendations on how the priorities should be implemented. The contrast with the current Russian presidency (2001-02) is striking. Even though the advancement of sustainable socio-economic development of Kaliningrad remains a priority, how this should be done in practice is not specified. The same applies for other areas. This means either that Russia's contribution to the CBSS is nothing more than declaratory statements, or that it does not know how to lead this organisation during its presidency.

CBSS member states have been conducting several projects in Kaliningrad. In September 2000 a EuroFaculty was established at Kaliningrad State University. The CBSS Commissioner in the oblast has been working on the training of officials and parliamentarians; Finland ran a project on AIDS prevention and is establishing a Nordic Environmental Development Fund (two energy efficiency projects in Kaliningrad have been approved) and modernising the water and sewage systems in the city of Kaliningrad

(jointly with Denmark and Sweden); Kaliningrad itself has developed a project on social integration of redundant military servicemen and a project to improve the three most important border crossings; and Lithuania has projects on AIDS prevention, promoting local government and civil society, and educational support. The total cost of all these projects is around €2 million.<sup>5</sup>

### *3.2 European Union - diversity without coordination*

#### **On agreements, policies, programmes, strategies and other dimensions**

##### **■ THE EU'S AID PROGRAMMES**

The EU has several instruments at its disposal to assist the transition countries financially, of which the most important are Phare, Tacis and Interreg. Phare is designed to support the candidate countries (e.g. Lithuania and Poland) and therefore does not apply to Russia or its exclave Kaliningrad. Phare focuses on institution-building (30 per cent of its resources) and investment (70 per cent) and has an annual budget of €1.5 billion. In addition the EU has created Ispa and Sapard. Ispa focuses on environmental and transport infrastructure, and Sapard deals with structural adjustment in the agricultural sector and rural areas. There is also the Phare CBC programme that deals with border areas between accession countries and EU member states, and focuses on transport, environment and regional economic development.

Tacis was set up to aid Russia and the Newly Independent States. Through Tacis the EU has provided more than €2 billion to Russia since 1991, inter alia on institutional, legal and administrative reform, infrastructure networks, environmental protection, regional programmes such as cross-border cooperation and nuclear safety. Tacis activities in Kaliningrad

<sup>4</sup> C-E. Stalvant, 'The Council of Baltic Sea States', in A. Cottey, (ed.), *Subregional Co-operation in the New Europe* (New York: EastWest Institute, 1999) pp. 46-68.

<sup>5</sup> Information on presidency agendas and on Kaliningrad projects is taken from CBSS website: <http://www.baltinfo.org>.

were increased in 1994, when the oblast was selected as a priority region, and most assistance went to the energy sector. City twinning, entrepreneurial assistance, health and social issues, academic cooperation, environmental issues and CBC and Interreg projects have also received aid. Thus far only €16.8 million have been allocated to projects in Kaliningrad, with the same amount in the pipeline.

The methods used by Tacis have not been popular in Russia. Local partner organisations have never been consulted about the selection of projects or Western partners, a huge bureaucracy slows down the procedures and payments are lagging considerably. The selection, implementation and management process is too long and too complex. Normally it takes one year before a project can be implemented. Therefore Tacis has been advised to look beyond rigid conditionality and instead make decisions on the basis of political judgement. It should move from unilateral assistance to a greater involvement of the beneficiaries.<sup>6</sup> The EU responded to this criticism by establishing the EuropeAid Cooperation Office in January 2001, which wants to implement and better coordinate the external aid instruments of the Commission (except for pre-accession aid programmes such as Phare, Ispa and Sapard). EuropeAid (covering the Directorates-General for External Relations and for Development) aims to delegate responsibilities and competencies to the local level, thereby establishing a more decentralised system that will hopefully be able to increase the speed of implementation.

Interreg is a programme designed to finance and enhance CBC between regions in two or more EU member states. It stimulates cross-border as well as transregional links and is a very useful measure in terms of region-building. The introduction of joint CBC projects between Phare, Tacis and Interreg was not foreseen initially. Through some ad hoc changes, CBC proj-

ects with Phare countries became possible after 1992. Tacis territories had to wait until Finland's accession to the EU before they too could benefit from jointly funded Interreg projects. In 1994 the Interreg II programme was created for the EU's current external borders to influence local economies, and it enables regional authorities and entrepreneurs to appeal to their partners across the border, or even directly to Brussels. In 2000 Interreg III was established. Interreg IIC and Interreg IIIB deal with transnational cooperation.<sup>7</sup> Two Interreg IIC projects have been implemented in the Baltic Sea region, and these provide a minor spin-off for Kaliningrad as well.

#### ■ EXPANDING SCHENGEN EASTWARDS

One of the most far-reaching consequences of the implementation of the EU's *acquis communautaire* for the candidate countries and regional relations in Central and Eastern Europe is adoption of the Schengen regime. The objective of Schengen is to create an area of free movement within the EU by removing controls at the common borders and to strengthen controls at the external border. Schengen encompasses several measures: strict control of the external frontier according to common rules; exchange of information; enhanced police cooperation between the participating states (including the Schengen Information System – SIS – database, which will be broadened with the use of magnetic readers of passports); measures for judicial assistance and cooperation; and the development of a common visa, asylum and immigration policy. This means that in introducing the Schengen regime applicant states are required to introduce rigorous controls, sealing off and policing the Union's external borders.

There are some difficulties in the Schengen agreement: it is not clear which parts of the Schengen *acquis* have to be adopted before accession, there is no transparency within the agree-

<sup>6</sup> R. Braithwaite, *Russia in Europe* (London: Centre for European Reform, 1999), pp. 33-4. L.D. Fairlie, *Will the EU use Northern Dimension to solve its Kaliningrad Dilemma?* (COPRI Working Paper, Copenhagen, 1999), p. 14.

<sup>7</sup> N. Catellani, 'The Multilevel Implementation of the Northern Dimension', in H. Ojanen, (ed.), *The Northern Dimension: Fuel for the EU?* (Helsinki and Berlin: Finnish Institute for International Affairs and Institut für Europäische Politik, 2001), pp. 60-5.

ment, there have been ad hoc changes in the agreement, and different parts have been allocated under the First (immigration and asylum) and Third (police and judicial cooperation) pillars.<sup>8</sup> This has led to confusion in the accession countries. However, it is clear how strict Schengen is vis-à-vis the participating states and those that have opted out. The fact that the EU has allowed Britain and Ireland to opt out also implies that it does not permit any flexibility within Schengen, as that would severely undermine the effectiveness of the agreement. So a differentiation of rules on visas is not compatible with a common immigration policy. In addition, with the exception of some aspects of visa policy, decisions on border controls, asylum and immigration are subject to unanimity of voting.<sup>9</sup>

#### ■ PARTNERSHIP AND CO-OPERATION AGREEMENT

The core of the EU's relationship with Russia is the Partnership and Co-operation Agreement (PCA), signed by both in June 1994 but which only came into force in December 1997 due to Russia's military actions in Chechnya. The PCA provides a political and administrative framework for dialogue, through regular meetings between the Russian president and the presidents of the Commission and the European Council. The aims of the PCA are to increase political dialogue; to remove certain restrictions on exports, to extend Most Favoured Nation (MFN) treatment, to help Russia gain WTO membership and to establish a free trade area; economic and legislative co-operation on science and technology, energy, transport and environment; and cooperation in the fight against organised crime. Three committees have been set up to ensure the implementation of the PCA: the Co-operation Council (ministerial level), the

Co-operation Committee (senior officials) and the Parliamentary Co-operation Committee. Last but not least, an EU-Russia summit is held every six months. Tacis is the financial tool of the PCA.<sup>10</sup>

The lack of progress on the implementation of the PCA, mainly due to the rising number of trade disputes and other Russian infringements of sectoral agreements, is causing increased frustration with the EU (as can be seen from the conclusions of the General Affairs Councils of the last three years). On 10 April 2001 the Annual Co-operation Council took place and focused on the establishment of an energy partnership, trade disputes, the environment and nuclear safety. At the end of the meeting EU officials openly asked their Russian counterparts for a more constructive approach. On 17 May 2001 President Putin hosted the EU-Russia summit in Moscow, which dealt mainly with the same issues (again due to a lack of progress). The fight against terrorism dominated the EU-Russia summit of 3 October 2001. It was agreed that both parties would explore the conditions and arrangements for the exchange of information within the PCA. Putin stated that this dialogue should result in the creation of a permanent EU-Russia structure in which all security-related issues in Europe could be covered.

#### ■ COMMON STRATEGY ON RUSSIA

Over the years the EU has become increasingly frustrated with the lack of progress in its relationship with Russia. Despite all the coordinative bodies of the PCA, it has not delivered. Therefore a Common Strategy on Russia (CSR) was created at the Cologne European Council of June 1999. Priority areas are to consolidate and strengthen democracy, the rule of law and institutions, to integrate Russia in Europe's economic and social space (and not to create a free

<sup>8</sup> G. Amato and J. Batt, *The Long-Term Implications of EU Enlargement: The Nature of the New Border* (Final Report of the Reflection Group, European University Institute, Florence, 1999), p. 55.

<sup>9</sup> For an extensive analysis of the limits and prospects for more flexibility within the EU's JHA, see: B. Hall, *How Flexible should Europe be?* (Centre for European Reform Working Paper, London, 2000), pp. 16-18.

<sup>10</sup> *Partnership and Co-operation Agreement*, see: [http://europa.eu.int/comm/external\\_relations/ceeca/pca/pca\\_russia.pdf](http://europa.eu.int/comm/external_relations/ceeca/pca/pca_russia.pdf).

trade area as proposed in the PCA), to cooperate to strengthen stability and security in Europe and beyond, and to address common challenges such as the environment, nuclear safety and organised crime.<sup>11</sup> The EU also aims to intensify cross-border cooperation with North-West Russian regions, including Kaliningrad. Explicit mention was made of cooperation on environmental issues, nuclear safety, border crossings and customs, and the Russian inclusion in trans-European networks (TENs). There are no concrete project proposals for joint cooperation between the EU and Russia.

#### ■ NORTHERN DIMENSION

In 1995 the European Commission launched its Baltic Sea Region Initiative, involving the EU member states in economic and security-related activities in the region. It outlined proposals for enhancing regional cooperation and for better coordinated use of the EU's main structural programmes. When Finland and Sweden acceded to the Union in 1995 the EU acquired a 'Nordic dimension'. Helsinki was the driving force behind a more comprehensive EU policy for the Baltic Sea region that added a new approach to security as well: on 'soft' security issues. Finland introduced the concept of Northern Dimension (ND) in 1997 in Lapland. It claims to represent a whole new approach to European security by providing more space for regional arrangements in the economic and political sphere. It is aimed at political, social, economic and environmental cooperation in Europe's North, carefully avoiding military security issues. The rationale is to create a form of positive interdependence between the EU, its direct neighbour Russia and other states in the Baltic Sea region that enhances regional security and stability. Participating states are Denmark, Estonia, Finland, Germany, Iceland, Latvia, Lithuania, Norway, Poland, Russia and Sweden (i.e. the same membership as the CBSS).

The ND will be implemented through the PCA, the CSR and the Accession Partnerships with candidate countries. The instruments to be used in the ND are EU programmes such as Phare, Tacis and Interreg and institutions such as the CBSS and the Barents Euro-Arctic Council (BEAC). The Helsinki European Council in December 1999 asked the Commission to prepare an ND Action Plan for the period 2000-03 that would deal with external and cross-border policies of the EU in order to ensure a coherent approach to the problems and needs of Europe's North. The Action Plan was accepted at the Feira European Council in June 2000 and focused on infrastructure, energy and transport, education and research, training and human resources development, public health and social administration, environmental and nuclear safety, cross-border cooperation, cross-border trade and investment, and countering organised (cross-border) crime. The Presidency Conclusions of Feira included an invitation to the Commission to take the leading role in the implementation of the Action Plan, and highlighted the priorities environment and nuclear safety, the fight against organised crime, and Kaliningrad.<sup>12</sup>

The regional and cross-border approach of the ND is suitable for dealing with Kaliningrad's problems. It is a horizontal initiative that cuts across the Union's pillars without differentiating between the EU's internal and external policies.<sup>13</sup> However, little progress has been made concerning the special case of the oblast within the ND. There have been two ND Foreign Ministerial conferences thus far – one in Finland in November 1999 and one in Luxembourg in 2001 – and EU officials, ambassadors and parliamentarians have visited Kaliningrad to be introduced to the oblast's problems. During this period more Kaliningrad issues have been put on the ND agenda, but there has been no progress on implementation.

<sup>11</sup> The European Council adopts a Common Strategy for areas where members have an important interest, and may cover first- and third-pillar matters. The idea is that Brussels has to take a long-term view of its foreign and security policy and that there has to be agreement on the priorities. *Common Strategy on Russia*, see: [http://europa.eu.int/comm/external\\_relations/ceeca/com\\_strat/russia\\_99.pdf](http://europa.eu.int/comm/external_relations/ceeca/com_strat/russia_99.pdf).

<sup>12</sup> *Action Plan for Northern Dimension with External and Cross-border Policies of the European Union 2000-2003*, see: [http://www.europa.eu.int/comm/external\\_relations/north\\_dim/ndap/06\\_00\\_en.pdf](http://www.europa.eu.int/comm/external_relations/north_dim/ndap/06_00_en.pdf).

<sup>13</sup> P. Joenniemi, 'Kaliningrad: a Pilot Region in the Russia/EU Relations?', in: Ojanen, *The Northern Dimension: Fuel for the EU?*, p. 173.

## How to engage Russia

The relationship between the EU and Russia has primarily an economic and security dimension. The EU is Russia's most important trading partner (accounting for 40 per cent of its foreign trade, which will increase to more than 50 per cent after enlargement), its biggest investor, and its largest provider of aid. During the 1990s the EU was the only Western organisation that brought Russia closer to Europe, as it tried to engage Moscow on a variety of economic issues. The relationship became even closer with the advent of Vladimir Putin. As a result of the events of 11 September 2001, the bond with Russia improved even further, and the emphasis switched to the combat of organised crime and terrorism. However, the relationship still lacks substance, since most of the politically correct declarations and initiatives have not been followed by implementation of numerous proposals.

The EU has shown considerable commitment towards engaging Russia, to help it in its transformation and to bring it closer to the EU. In 1997 the PCA came into force, in 1999 the CSR was added, and in 2000 the ND Action Plan was approved. However, even though these documents address timely and topical issues and speak the right language, it is not clear how the EU is going to put all this into practice. The development of the CFSP is also related to the development of the EU's relationship with Russia (in fact the CSR is a practical outcome of it). The implementation of the PCA has not progressed, mainly due to Russia's problems in reforming its economy and administration, and outstanding trade disputes. The CSR is inconsistent and is not delivering. The ND has an action plan that has not been implemented. Tacis is primarily used in support of the implementation of the PCA, but it is also the main

financial instrument of the CSR and one of the tools of the ND (with Phare and Interreg). Coordination is not taking place.

Neither is there coordination of the financial instruments of the EU. Whereas Phare and Tacis operate in annual timeframes, Interreg does its business in two or three years. To merge these instruments in a joint approach will be difficult from a practical point of view. In addition, the lack of common budget lines, cross-funding and diverging objectives could cause problems as well. An essential element in the efficient implementation of transnational projects is good administrative coordination. However, this is still absent within the Commission, where the DGs for Enlargement and for External Relations prefer a sectoral approach and the DG for Regional Policy supports a territorial approach.<sup>14</sup>

As David Gowan argues, Brussels' frustration with the Kremlin has resulted in a harder stance towards Moscow. The CSR states 'the Union and its member states offer to share with Russia their various experiences in building modern political, economic, social and administrative structures, fully recognising that the main responsibility for Russia's future lies with Russia itself'.<sup>15</sup> The CSR is an important document since it firstly confirms the EU's intention to carry out the PCA and secondly it aims to create a coherent EU policy: 'For their part the European Union and its member states will develop the coordination, coherence and complementarity of all aspects of their policy towards Russia'. However, it is not clear precisely how the EU will do all that. After the CSR was agreed the Commission drafted a questionnaire for the member states in order to be able to monitor and coordinate their individual policies. The objective is to create a common position and to improve the internal coherence of the EU's instruments. It is not clear what the results are of the first review; in fact it is not known whether all member states have completed the

<sup>14</sup> Catellani, pp. 61-3.

<sup>15</sup> D. Gowan, *How the EU can help Russia* (London: Centre for European Reform, 2000), p. 10; his quotation.

questionnaire. So it remains to be seen whether the EU will be able to create a *common* strategy towards Russia.<sup>16</sup>

It is therefore not surprising that the creation of the CSR has not changed the EU's policy towards Russia. More relevant factors that affected the approach of Brussels were Russia's financial crisis of August 1998, the change of leadership in Russia, the accession of Finland and Sweden to the EU, the second Chechnya War and '11 September'. Also, the CSR has not affected the PCA or Tacis. In fact, the priority areas and the regional approach of Tacis are different from those of the CSR, as these are taken in large part from those of the PCA (trade and investment) and Tacis (twinning and exchange programmes), and are also present in the Northern Dimension Action Plan (cross-border cooperation and health and welfare). The other important areas (CFSP and JHA) have not shown progress, even though the EU-Russia Cooperation Council adopted a joint action plan on organised crime in April 2000.

The main problem of the CFSP is that it constitutes the EU's second pillar and is a matter of intergovernmental cooperation. This implies that it cannot trespass on issues that come under the first and third pillars, which is very frustrating for Javier Solana, the High Representative for the CFSP. For example, the CFSP deals with the EU's external policy towards Lithuania, Poland and Russia, but it cannot deal with visa matters, as these come under the first pillar. However, Solana and Chris Patten, the Commissioner for External Relations, increasingly work together to provide more consistency within the CFSP. The naked truth is that the CFSP is taking shape through reaction and improvisation instead of resulting from a clear vision. In addition the EU's member states continue to shape and conduct their foreign and security policy primarily on a bilateral

basis. The CFSP is in the first place a policy of declarations.

Proof of the EU's continuous frustration over the lack of progress in the PCA and the CSR has been the non-stop repetition in the General Affairs Council (GAC) meetings from 1999 onwards of the wish for 'full and rigorous' implementation of both initiatives. The areas of focus have remained the same: the consolidation of democracy, the rule of law and public institutions; the integration of Russia into a common European economic and social space; cooperation to strengthen stability and security in Europe and beyond; and the common challenges on the European continent. Only the GAC of 16 July 2001 addressed additional issues, such as cooperation on JHA, consultation on ESDP and crisis management, cooperation on non-proliferation and disarmament, on environment, energy and nuclear safety, and above all improved overall coordination.

It is precisely because of this vagueness that Javier Solana has vented harsh criticism on common strategies. He maintains that the CSR has no added value over existing policies, that the broad approach makes it difficult to distinguish the real priorities, and that the working programmes of each Presidency are just routine exercises; common strategies are nothing more than an inventory of existing policies. Solana therefore calls for strategies to be targeted, to give real added value and to truly coordinate all the EU and member states' instruments and policies. He has emphasised adequate cross-pillar coherence, as a common strategy should be suitably adapted to improve coordination and synergy between the CFSP, Community action and member states' activities.<sup>17</sup>

In contrast with the PCA and the CSR, the ND offers room for optimism as it has a different and innovating approach. There are important differences between the CSR and the ND.

<sup>16</sup> S. De Spiegeleire, 'The Implementation of the EU's Common Strategy on Russia', in: H. Haukkala and S. Medvedev, *The EU Common Strategy on Russia. Learning the Grammar of the CFSP* (Helsinki and Berlin: Finnish Institute for International Affairs and Institut für Europäische Politik, 2001), pp. 95-100.

<sup>17</sup> 'Mr. Solana Presents to Ministers a Highly Criticised Document on EU "Common Strategy"', *Bulletin Quotidien Europe*, 22-23 January 2001. 'EU Common Strategies for Third Countries: Suggestions and Criticism from Javier Solana', *Bulletin Quotidien Europe*, 31 January 2001.

The former has a budget, whereas the latter unfortunately has not (although it can draw upon Tacis, Phare, Interreg, Ispa, Sapard, and contributions from IFIs). The CSR is aimed exclusively at Russia; the ND also involves other non-EU members. In the ND the Scandinavian EU member states as well as candidate countries and Russia itself put forward proposals. The underlying idea of the ND is inclusiveness by countering marginalisation. In a way it is almost a replica of the CBSS. The important difference is that in the CBSS the EC and Russia are on an equal footing with the other participants, which helps the Council to achieve a high level of inclusiveness and breaks down regional hierarchy. In the ND the Commission has ultimate authority, as it decides upon the allocation of funds.

The development of the ND gathered pace under the Finnish Presidency in the second half of 1999. In November 1999 it hosted an ND conference of foreign ministers where an inventory of current ND activities was made. The Helsinki European Council of December 1999 asked the Commission to prepare an Action Plan, which was presented and adopted in the external and cross-border policies of the EU at the Feira European Council of June 2000. Kaliningrad was made one of the three priority areas, although it was the only one where no practical measures followed. This indecisiveness or incompetence on the part of the EU is even more striking compared with the Nida Initiative (projects on Kaliningrad) that Lithuania and Russia have proposed should be included in the Action Plan already of 9 February 2000. Also the CBSS, BEAC and Arctic Council presented extensive documents with proposals at the ND conference of foreign ministers on 9 April 2001, held to review progress made in implementing the ND Action Plan. Kaliningrad was scarcely discussed in the conference proceedings or proposals (with the exception of those of the CBSS).

The ND's ambition is at the same time its weakness. Because it engages countries with dif-

fering 'status', and because it cuts across the EU's pillar system, it might very well not be so productive after all. None the less, the ND could very well lead to better communication within the different DGs. Another problem is that, with every change of EU presidency, the focus of the EU shifts as well. The ND is an EU initiative with considerable financial resources at its disposal but it does not receive permanent attention (the CBSS on the other hand is an organisation that is continuously devoted to the Baltic Sea region but has fewer resources than the ND). The ND has disappeared in a desk drawer of some EU official, and will probably be picked up again with the Danish EU presidency in the second half of 2002.

### From neglecting to prioritising Kaliningrad

Brussels has neglected Kaliningrad, even though it knows that the oblast will one day be within EU territory. It could very well be that this dilemma scared the EU off in the early 1990s, i.e. if it were to devote special attention to Kaliningrad, Russia might become suspicious and think that the EU was trying to get hold of the oblast.<sup>18</sup> Kaliningrad appeared on the EU's agenda once its relation with Russia was no longer influenced by the crisis in Chechnya, and after Putin had consolidated his power as President (in the conclusions of ACs before 2001 it was never mentioned once).

The main fears of the EU concerning Kaliningrad are the various dimensions of its isolation, and the negative spin-offs this will have on the region. Internal developments in the exclave have a visible security context because of their potential transborder effects. At the same time the implementation of the Schengen agreement by future EU member states could lead to a new dividing line with its unstable eastern neigh-

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<sup>18</sup> L.D. Fairlie, *Will the EU use Northern Dimension to solve its Kaliningrad dilemma?*, p. 10.

bours, for whom the political, economic, societal and even psychological costs of exclusion will be enormous, especially for Kaliningrad. As an enclave of the EU it would be increasingly affected by the EU's internal affairs, and it would be sensible if the EU acknowledged this by making special arrangements for the oblast in the DGs for Enlargement and for Regional Policy. However, the EU is only approaching Kaliningrad through the DG for External Relations, i.e. it does not take account of the real situation.

Within the EU's existing policies there is room for differentiation. In the conclusions of a conference on the ND and Kaliningrad organised on 17-18 May 2000 in Copenhagen (by Denmark, the Nordic Council of Ministers and the EC) it was stated that Article 73 of the PCA included specific provisions on regional development, with particular attention to disadvantaged regions. Other conclusions focused on areas where action should follow: creation of special financing systems and small loans for SMEs, establishment of a Regional Development Agency (RDA) in Kaliningrad, the training of social workers, establishment of a task force on communicable diseases (which was done by the CBSS in June 2000), upgrading of transport facilities, linking of Kaliningrad to the TENs and exploration of the possibilities for the oblast to join the regional energy network. A final recommendation was that a flexible mechanism for financing cross-border projects should be established.<sup>19</sup>

Brussels is assisting Kaliningrad through its Tacis programme, providing help in institution-building, enterprise restructuring and human resources development. After 1994 Tacis assistance in Kaliningrad was extended to include other areas as well, such as border management, environmental, social and health issues. As has been previously stated, the coordination of aid programmes is far from satisfactory, leading to stalled implementation of projects and pay-

ments. The EU should better coordinate the Phare and Tacis programmes to enhance cross-border cooperation, and also to increase the role of Interreg IIC/IIIB. However, the Kaliningrad administration is also to blame for the situation. In October 1999 the EU funds allocated to the oblast were not made available due to a lack of transparency in the Kaliningrad administration's budgets.

The projects that were implemented in the oblast in 2000 by Tacis focused on economic development (through the strengthening of the RDA), modernisation of port facilities and management, border crossings (development of infrastructure, technical equipment and training of officials), and reform of the health system (the North West Health Replication project). Interreg IIC focused on the improvement of regional air transport (SEABIRD) and on a waterfront urban development. The total funds of Tacis and Interreg projects accounted for €10 million. In 2001 Tacis projects concerned water and waste management, improving efficiency in energy distribution, effective management of public buildings, training programmes on entrepreneurship, AIDS prevention, institutional strengthening of the Kaliningrad port, and ecological policy management. The total cost of these projects was around €6.5 million, and primarily German and Scandinavian partners were responsible for their implementation.<sup>20</sup>

The establishment of the Tacis local support office in Kaliningrad in January 2001 will hopefully result in a greater involvement of Tacis in the oblast. The office will provide information about Tacis, it will plan future projects (the focus is on CBC) and assist with current projects (already listed above), and it will work with local and regional authorities. A new initiative is the provision of technical assistance to the RDA, whose aim is to provide policy advice to municipal, regional and federal authorities, to promote

<sup>19</sup> *The Northern Dimension and Kaliningrad Region. European and Regional Integration*, Organised by the Danish MFA, the Nordic Council of Ministers and the European Commission, Copenhagen, 17-18 May 2000.

<sup>20</sup> Information taken from the website of the office of the European Commission in Moscow, <http://www.eur.ru>.

the region internationally, to monitor the regional economy, to implement recommendations from previous projects, to organise training modules and to assist with the creation of enterprise promotion institutions.<sup>21</sup> If managed properly and financially supported the RDA could play a crucial role in the economic development of Kaliningrad. Its present budget is a modest €1 million.

But even with the increased attention that Kaliningrad is getting from Tacis and Interreg there will remain a huge imbalance between the financial support the oblast will have and that what goes to Lithuania and Poland (Phare/Ipsa/Sapard, structural funds and spatial planning). Clearly, this will create an asymmetric relationship within the region. In the period 1994-99 Tacis provided Kaliningrad with €16.8 million, which is a fraction of the assistance that Poland and Lithuania are receiving (hundreds of millions of euros in the same period), and also a fraction of the total Tacis assistance that flows to mainland Russia (€2 billion since 1991).

In 2001 the EU finally started to give targeted attention to the dilemma concerning Kaliningrad, under the presidency of Sweden. On 17 January a communication from the Commission to the Council on Kaliningrad was adopted. In the same month the Tacis local support office in Kaliningrad was opened. Chris Patten, Javier Solana and the Swedish Minister for Foreign Affairs, Anna Lindh, visited the oblast on 16 February to meet its officials and also become acquainted with its problems, and presented the Commission's communication. The GAC of 26 February instructed the Working Party on Central Europe to identify possibilities for cooperation with Lithuania and Poland regarding the EU-Russia Co-operation Council of 10 April. On 4 April the European Parliament urged the Council and the Commission to establish flexible relations with Kaliningrad, in an endeavour to make the application of the

Schengen acquis to Lithuania and Poland, and access to Russian citizens, mutually acceptable. On 9 April a ND conference of foreign ministers took place in Luxembourg at which Kaliningrad was discussed separately (but no results were achieved). The GAC of 11 June devoted much attention to the oblast, and came up with constructive ideas for improvement.

The Commission's communication to the Council of January 2001 is a breakthrough in the EU's thinking of Kaliningrad. Its purpose is 'to contribute to a debate that the EU should launch' with Russia (including Kaliningrad), Lithuania and Poland. The communication is a comprehensive document, whose bottom line is that the oblast can only gain from enlargement if it (and mainland Russia) pursues the right policy. It is divided in three parts: issues related to enlargement (movement of goods, energy supplies, movement of people and fisheries), other issues of mutual concern (economic development, governance, democracy and the rule of law, environment and health), and suggestions.<sup>22</sup>

The first part points out that enlargement will result in lower tariffs (4.1 per cent against the current Polish MFN tariff of 15.8 per cent). The PCA will also provide free transit through Lithuania/Latvia. Kaliningrad is advised to adopt EU technical norms and standards, as the oblast relies on trade with its neighbours. Concerning energy supplies the oblast should either maintain its link with the Russian electricity grid or switch to the Central European grid. Regarding the movement of people the Commission notes that not all requirements of the acquis will have to be implemented until internal border controls in the EU are lifted for the new member states. The *acquis* also allows issuance of transit visas, short-term visas and long-term national visas (possibility of multiple entries).<sup>23</sup>

In the second part the Commission urges Russia to ensure a stable and secure legal and

<sup>21</sup> Ibid.

<sup>22</sup> *The EU and Kaliningrad*, Communication from the Commission to the Council, COM (2001) 26 final.

<sup>23</sup> Ibid, pp. 3-6.

institutional environment, good corporate governance, enforcement of legislation, development of SMEs and the strengthening of market institutions. Moscow and Kaliningrad are also asked to identify priority areas for support, in order to facilitate EU assistance. Furthermore, the purpose of the SEZ should be clarified, as it has only limited backing and results in distorted trade effects that are incompatible with PCA and WTO rules. Regarding the environment the Commission has advised Moscow to involve Kaliningrad in monitoring and the harmonisation of standards. Concerning communicable diseases the oblast should be engaged in preventive action.<sup>24</sup>

The Commission has made several proposals. Studies should be made on the impact on Kaliningrad that enlargement will have in the fields of trade, energy needs, energy potential and scenarios for the future. In addition, the control of border crossings should be discussed (focusing on customs, border guards, ratification of agreements on border demarcation, and the upgrading of facilities) and advice on the securing of funding should follow. Other issues are the proposed use of liaison officers, the establishment of consular offices in Kaliningrad by the (future) EU member states, and resulting costs of visas and passports. The applicability of Community rules to small border traffic and transit to Kaliningrad's situation should also be assessed, as well as any special arrangements permitted by the *acquis*. A readmission agreement between the EU and Russia should be concluded quickly. Finally, Brussels should provide the oblast with information on how border management will be affected by EU enlargement.<sup>25</sup>

In a discussion paper presented by Sweden on the eve of the ND conference of 9 April 2001 there were some notable suggestions for improvement of the ND, which will have impli-

cations for Kaliningrad as well (which was not discussed at length at the conference). It addressed the insufficient coordination between Tacis and Phare, and suggested that operational guidelines for joint projects financed by Tacis and Interreg should be drawn up. It also recommended that longer-term view of the ND (beyond the Action Plan) should be taken, development of flexible and transparent review mechanisms to strengthen coordination, and follow-up activities. Concrete cooperative initiatives that were launched at the conference were the Northern Dimension Environmental Partnerships (NDEP – which will have a total budget of €7 billion and of which waste water management projects in Kaliningrad will be part) and the Northern e-Dimension Action Plan (NeDAP).<sup>26</sup>

The most comprehensive cluster of proposals put forward at the conference on 9 April to be included in the ND Action Plan came from the CBSS, and numbered 250 ideas and proposals. The package was tailored to the sectors of the operational part of the Action Plan, some of which were already at an early stage of implementation and some had received funding from sources outside EU programmes. The CBSS offered its expertise and structures (task forces and working groups) and emphasised that where possible public funds should function as a catalyst for private capital as the main source of finance for future projects (e.g. in energy and infrastructure). Projects were focusing on practical issues such as reducing the clearance time for border crossings to less than two hours by the end of 2001, the creation of integrated Baltic Sea energy markets, the improvement of road, rail and port infrastructure, the increased use of information technology, CBC on waste water treatment, on public health, on education and training, and on JHA issues.<sup>27</sup>

The GAC of 11 June 2001 was the first occa-

<sup>24</sup> Ibid, pp. 6-8.

<sup>25</sup> Ibid, p. 10.

<sup>26</sup> Swedish discussion paper prepared for the ND Foreign Ministerial conference, issued on 29 March 2001.

<sup>27</sup> Contribution of the CBSS to the Action Plan for the ND, 9 April 2001, information taken from the CBSS website: <http://www.baltinfo.org>.

sion on which the fifteen foreign ministers of the EU member states agreed upon a constructive approach to Kaliningrad. It welcomed the dialogue launched with Russia on the oblast within the PCA, 'in order to identify practical solutions for the region *with due respect for the Community acquis*'.<sup>28</sup> It also welcomed the dialogue with Lithuania and Poland on issues related to Kaliningrad (within the Europe Agreements). Due attention had to be paid to the bilateral relations of Vilnius and Warsaw with Moscow. The GAC also suggested holding ad hoc meetings at expert level within the ND to address the technical issues raised in the Commission's communication. The opening of the Tacis office in Kaliningrad was a step in the right direction. The GAC noted in particular that the issue of the movement of people should be examined under the policy guidance of COREPER, to find practical solutions to facilitate light border traffic and transit for Kaliningrad, permitted by the *acquis*. Finally, the GAC asked the Commission to present a comprehensive report to the Council on the progress made by September 2002.<sup>29</sup>

Concerning the insufficient financial assistance, the good news for Kaliningrad is that on 15 October 2001 the EU Court of Auditors said that the effectiveness of Tacis CBC could be improved if it were better coordinated with Phare and Interreg. It also noted the inadequate budget. The Commission replied by saying that certain measures had already been taken, such as common Tacis/Interreg guidelines, joint Phare/Tacis offices and strengthened inter-service consultations. It was also willing to consider an extension of Phare to the border zones of Tacis countries.<sup>30</sup> This could mean a dramatic increase of funds available for Kaliningrad projects. Two days later the Commission approved a large Interreg III programme for the Baltic Sea

region (including Kaliningrad, Lithuania and Poland), providing €97 million to promote transnational cooperation (expecting attracting additional funds to create a total of 218 million Euro). Its priorities are spatial development, sustainable development and transnational institution-building. Regional and local administrations will be involved, and multinational cooperation will be promoted.<sup>31</sup>

Despite the momentum that the Swedish presidency brought to the Union's approach towards the oblast, solutions to the Kaliningrad dilemma are still bound by the EU's pillar system and the *acquis*. In its Enlargement Strategy Report issued in November 2001 the European Commission stated that 'it is in the interest of the EU and Russia to ensure that Kaliningrad can gain from beneficial economic consequences of enlargement. Practical issues like visas and border formalities between Kaliningrad and the rest of Russia need to be discussed with a view to finding constructive solutions *within the acquis*'.<sup>32</sup>

### Conditionality for the candidate countries

There is confusion among the candidate countries about the complexity of the Schengen *acquis*. Lithuania only grasped the implications of Schengen in the first half of 2001. It is also unclear which areas come under the *acquis* and which are the responsibility of Schengen signatory states. Another source of misunderstanding is the EU's continuing adaptation of Schengen without proper consultation with the candidate countries. They are expected to apply strict controls on their non-EU borders without having the opportunity to influence the contents or development of Schengen. It is also not possible to negotiate a flexible arrangement

<sup>28</sup> Emphasis added. General Affairs Council, Chaired by Sweden, Luxembourg, 11-12 June 2001.

<sup>29</sup> Ibid.

<sup>30</sup> 'Court of Auditors Criticises Lack of Co-ordination between Tacis CBC, Phare and Interreg Programmes', *Bulletin Quotidien Europe*, 15 October 2001.

<sup>31</sup> 'First Transnational Programme Interreg III', *Bulletin Quotidien Europe*, 17 October 2001.

<sup>32</sup> Emphasis added. *Strategy Paper 2001*, see: <http://europa.eu.int/comm/enlargement/report2001/index.htm>.

regarding the relation with the 'outsiders'. Schengen could be regarded as an imposed system designed to guard the interests of the member states that does not take account of the needs of the new members to preserve the level of relationships with their Eastern neighbours.

The perception is that there are first- and second-class member states, and that the latter have to agree to all the conditions set by the former, who have had the opportunity to bargain some flexibility for themselves. Candidate countries only comply in order not to create an obstacle to their accession. The prospect of being treated as a second-class EU citizen after accession makes the public in these countries very sceptical of the EU (e.g. the seven-year transition period before the introduction of the free movement of labour negotiated by Austria and Germany).

One of the most controversial aspects of Schengen is management of the external border. The future member states of the EU face a burdensome task in two respects. First, the costs for the introduction of strict border controls are to be born by the individual countries that have external EU borders. This will be a heavy burden on the budgets of Lithuania and Poland (as for other prospective member states). Secondly, they have to deal with the 'outside' neighbours through EU conditionality (strict borders will have their repercussions on cross-border trade and personal contacts). It also obstructs and conflicts with the rationale of the EU's external policies: to create a stable and prosperous Europe whole and free.

In July 2001 the Commission presented an Action Plan for regions bordering the candidate countries (23 regions in Finland, Germany, Austria, Italy and Greece) with a series of measures (e.g. upgrading of transport infrastructure) that should help these regions to prepare better for EU enlargement. These border areas presently enjoy structural aid amounting to €16 billion for the period 2000-06. There is no such substantial plan for the future EU border,

nor is such a budget available. However, the EU should consider constructing a programme in which border management would extend to fully-fledged cooperation with the new neighbours on policing and judicial affairs, economic development, education, and cross-border relationships between local and regional authorities and communities. It would be a concrete contribution to erasing the dividing line.

The candidate countries are working hard on improving border management with Kaliningrad, but are hampered by a lack of training for border personnel, skilled interpreters, installations for equipment and coordination of operational contacts with EU member states. The main obstacle is a lack of financial and human resources. None the less 'Lithuania will have to prove already in 2001 that the EU state leaders and citizens may have no fears about the protection of their external borders in the future', according to Eneko Landaburu (Director-General of the Commission's DG for Enlargement) on a working visit to Lithuania on 19 September 2001.<sup>33</sup> In addition other EU officials have said that candidate countries should step up the security of their external borders and align their visa policies with the EU well ahead of enlargement.

On 12 November 2001 the EC presented its annual reports on the twelve candidate countries, as well as a strategy paper to help them prepare for accession. Günter Verheugen, the EU Commissioner responsible for enlargement, said that the aim of achieving the first accessions in 2004 was a realistic and feasible challenge. The Commission also pointed out the areas that needed special attention. Like the other candidate countries, Lithuania and Poland need to improve their administrative and judicial capacity, and to reform and build the institutions to ensure full implementation of the *acquis communautaire*. For this purpose the Commission has earmarked €250 million in addition to the existing annual €750 million to assist them in these reforms.<sup>34</sup> The Laeken

<sup>33</sup> *Bulletin Quotidien Europe*, 20 September 2001.

<sup>34</sup> *Financial Times*, 14 November 2001.

European Council of 14-15 December 2001 agreed with the EC's report and stated its determination to finish accession negotiations by the end of 2002 and to have all ten accessions ratified by June 2004. If Lithuania and Poland continue their reform and adaptation process they too will join the EU in 2004.<sup>35</sup>

The Explanatory Memoranda to the Commission's 2001 Regular Reports show that concerning cooperation in the field of JHA both Lithuania and Poland have to implement the Schengen Action Plan. Lithuania has to complete the border demarcation with Kaliningrad and strengthen border control, continue training for border guards and improve infrastructure and equipment. It has to conform completely with the *acquis* on visa policy, and to improve its administrative capacity. Poland has to continue preparation for future participation in the SIS, upgrade equipment at border crossing points, allocate adequate administrative resources, align visas, implement a strategy to combat organised crime and improve internal cooperation among the police and other law enforcement agencies. It has to strengthen its integrated border management system, draw up simplified procedures and strengthen the administrative and operational capacity of its customs service. Both Lithuania and Poland have to take measures to ensure that international treaties or agreements incompatible with the *acquis* are renegotiated or terminated on accession.<sup>36</sup>

In October 2001 Antonio Vitorino, Commissioner for JHA, suggested that cooperation with candidate countries and their eastern neighbours ('third countries', as the EU calls them) should improve so as to counter the dramatic increase in trafficking in human beings. Even though 60 per cent of the Phare money goes to JHA for the upgrading of border management, coordination on border controls of

third countries should improve. For this purpose the highly regarded CBSS Baltic Task Force on Organised Crime could be used. In addition the implementation of Schengen should be improved. The EU can assist by setting up a common management system.<sup>37</sup>

On 28 November 2001 Lithuania had closed 21 of the 31 chapters, including the chapters on external relations, CFSP, free movement of persons and customs union. Poland had closed 19 chapters, with the chapter on free movement of persons still open. Neither has yet closed the chapter on JHA, and discussions on the management of the external border are ongoing. It is also unclear whether control of the external borders will remain a responsibility of the future member states, or whether it will become the EU member states' common responsibility.

### 3.3 Russia – muddling on

#### Approach to the EU

For several years Russians did not really care about the EU. The prevailing attitudes that existed towards the West were based on experience with NATO. Furthermore, Russia's relationships with Western governments were on a bilateral basis, and did not involve the EU. This ignorance led to a misunderstanding of what the EU is all about, and the ways in which the EU's policies affect Russia. The media and the public have displayed a similar ignorance. The Kremlin also has difficulty over whom to approach within the EU: the President of the Commission, the High Representative for the CFSP, the Commissioner for External Relations, or the rotating President of the European Council.<sup>38</sup>

<sup>35</sup> European Council, *Presidency Conclusions*, Laeken, 14-15 December 2001.

<sup>36</sup> *Explanatory Memorandum to the Commission's Regular Report on Lithuania*, 12 November 2001. *Explanatory Memorandum to the Commission's Regular Report on Poland*, 12 November 2001.

<sup>37</sup> *Bulletin Quotidien Europe*, 19 October 2001.

<sup>38</sup> Gowan, pp. 5-8. Y. Borko, 'The EU's Common Strategy on Russia: a Russian View', in: Haukkala and Medvedev, *The EU Common Strategy on Russia*, pp. 118-119.

Since the advent of Putin, however, Moscow has devoted more attention and more personnel towards its relationship with Brussels. Its approach is more thorough, as can be seen from the way Russia is addressing the issue of enlargement: with more detail, more substance, and less rhetoric. The Kremlin is strengthening the staff and resources of various structures and ministries that deal with EU affairs. The Government's coordination committee now meets monthly, instead of twice a year. Officials dealing with the EU now complain that the existing mechanisms for EU-Russia relations are inadequate, and that a permanent and substantial consultative framework is needed.<sup>39</sup>

A sign of Moscow's acknowledgement of the EU's importance for Russia was the country's medium-term strategy towards the EU that was published in October 1999. The document is a response to the CSR, and reiterates many of its priorities. Its main items are proposals for an increase in the Tacis programme; support for programmes on transport, infrastructure and energy; cooperation on combating organised crime and on law enforcement; and insistence on increased cross-border and regional cooperation. The medium-term strategy shows on the one hand that Russia wants to use the opportunities resulting from EU enlargement, and on the other hand that it is concerned about possible negative consequences. It proposes a special agreement with the EU on Kaliningrad, which it wants to be anchored within the Russian Federation but could also be transformed into a pilot region for EU-Russian cooperation. How this might be done has not been specified.

It is interesting to note the differences between the CSR and the mid-term strategy. The EU's first priority is to consolidate democracy, the rule of law and public institutions in Russia. The language in the CSR contains many refer-

ences to support and assistance. Moscow, however, does not speak about support but wants to utilise the Union's economic potential and management experience, as can be seen from the proposals the Kremlin has put forward in its strategy. Furthermore, the readmission agreement is a priority in the CSR, but is not even mentioned in the medium-term strategy. An important view that is shared by the EU and Russia is that unless Russia harmonises its standards and legislation with those of the EU it will fall further behind and become increasingly isolated. One of the objectives Moscow sets out in its mid-term strategy is to come closer towards harmonising its legislation with that of the EU in the areas of common engagement.<sup>40</sup>

Moscow has taken a positive stance towards the ND, as it is inclusive in character, and it will hopefully allow better coordination between the different actors and programmes. According to Igor Leshukov, three areas that are covered by the ND deserve special attention: energy, nuclear and environmental safety and Kaliningrad. Energy plays an important role in the EU-Russia relationship because the former increasingly needs it; while at the same time it is concerned about the latter's unpredictability in its provision of sustainable energy. Nuclear and environmental safety have to be ensured in Russia's North-West, as there is a dangerous concentration of old reactors, used nuclear fuel and serious water pollution. Concerning Kaliningrad the ND is ill-equipped, as it does not present the oblast with 'a concept and means of implementation of sustainable development and structural reform'. It should be dealt with in the framework of the accession of Lithuania and Poland, rather than by the loose EU-Russia forums and the DG for External Relations.<sup>41</sup> In June 2001 the Kremlin made a request to Brussels with a similar rationale,

<sup>39</sup> Gowan, pp. 21-2.

<sup>40</sup> *Medium-term Strategy for Development of Relations between the Russian Federation and the European Union (2000-2010)*, see: [http://europa.eu.int/comm/external\\_relations/russia/russian\\_medium\\_term\\_strategy/index.htm](http://europa.eu.int/comm/external_relations/russia/russian_medium_term_strategy/index.htm).

<sup>41</sup> I. Leshukov, 'Can the Northern Dimension Break the Vicious Circle of Russia-EU Relations?', in: Ojanen, *The Northern Dimension: Fuel for the EU?*, pp. 130, 134.

namely to include Lithuania and Poland in the EU-Russian dialogue on Kaliningrad (within the PCA).<sup>42</sup>

Russia sees both opportunities and threats arising from enlargement. In August 1999 it presented a list of 15 concerns. Regarding Kaliningrad, freedom of travel and transit are deemed important. It wants to have unrestricted transit of goods and persons to and from Kaliningrad through Lithuania. Russia would also like to see that the oblast receives additional EU aid (Phare as well as Structural Funds) to avoid any asymmetric development vis-à-vis its neighbours.<sup>43</sup> The benefits to Russia of enlargement are to be found in the increased economic activity within the Baltic, Barents and Black Sea regions. In addition, the single customs tariff in the new member states will be more advantageous to all than the current national ones.<sup>44</sup>

### Conflicting views towards Kaliningrad

Under Boris Yeltsin, Russia saw a decentralisation of the state prompted by the weakness of the central state structures and institutions. This encouraged regional governors to increase their powers and influence at the cost of the Kremlin. At the same time Yeltsin deliberately gave more responsibilities to regional administrations. For example, in May 1995 he granted the governor of Kaliningrad the right to hold negotiations and to conclude agreements with administrative-territorial units, ministries and other institutions of foreign states. Yeltsin also instructed the governor to put forward proposals for the establishment of a structure for regional cooperation between Kaliningrad and Lithuania.

The rights that a region of Russia can claim and the extent to which it can exert influence depend on the one hand on its economic strength within the Federation and on the other hand on the effectiveness of its lobby within the central power structures (i.e. personal contacts with the decision-makers in the Kremlin). Since Yeltsin's administration became weaker and failed to exercise its coordinating function adequately, it gave regions the opportunity to establish their own foreign networks. They were able to establish their own representation in foreign countries (as Kaliningrad temporarily did in Brussels).<sup>45</sup> In addition, Russian regions negotiated and concluded several agreements on cross-border and regional cooperation. Also, offices of the MFA were created in those regions that had considerable involvement in international economic cooperation, such as Kaliningrad.

Since the rise of Vladimir Putin, Russia has seen a quick re-centralisation of state powers away from its regions and back to the Kremlin. The President got rid of secessionist powers in the regions, domesticated their governors and made them into 'Kremlin supervisors'. Putin obtained the power to sack governors and to dissolve regional dumas when federal laws were violated. There are now two kinds of federalism: the seven federal districts, created by Putin in order to increase control over the regions, and the 89 oblasts. Kaliningrad has come under the North-West Federal District (NWFD), which has its in St Petersburg and is headed by Viktor Cherkessov, a favourite of Putin. Cherkessov's tasks are to rewrite regional laws so that they conform to federal law, to supervise anti-corruption campaigns and security institutions, and to monitor elections and the mass media. He has monthly meetings with Putin. The danger now

<sup>42</sup> C. Bayou, 'Les relations économiques polono-russes. L'ébauche du pragmatisme', *Le courrier des pays de l'Est* (August 2001), p. 43.

<sup>43</sup> A. Sergounin, 'EU Enlargement and Kaliningrad: the Russian Perspective', in: L.D. Fairlie and A. Sergounin, *Are Borders Barriers? EU Enlargement and the Russian Region of Kaliningrad* (Helsinki and Berlin: Finnish Institute for International Affairs and Institut für Europäische Politik, 2001), pp. 152-3.

<sup>44</sup> Gowan, pp. 17-18. *The EU and Kaliningrad*, Communication from the Commission to the Council, p. 3.

<sup>45</sup> J. Perovic, *Internationalisation of Russian Regions and the Consequences for Russian Foreign and Security Policy* (Zürich: ETHZ, 2000), p. 40.

is the emergence of a battle for authority between Cherkessov and the leadership of the oblast.<sup>46</sup>

Putin also heavily influenced the gubernatorial elections. He was dissatisfied with Kaliningrad's governor Leonid Gorbenko and implicitly stated his support for Admiral Vladimir Yegorov (the former Commander of the Baltic Sea Fleet) who indeed became the new governor after the elections of November 2000. The Putin-Yegorov relationship will probably last for the next seven years, which means that these two persons will primarily decide on the nature of Kaliningrad-EU relations.<sup>47</sup>

At a government meeting on 22 March 2001 a new 'Federal Target Programme of Economic and Social Development of the Kaliningrad Region for the Period Till 2010' was discussed. Its challenging objective is to create conditions for the sustainable and social development of Kaliningrad on the basis of an expansion of the export-oriented industries and the attainment of living standards for the population comparable to these of neighbouring states, all through the improvement of the SEZ. In the first stage (2002-05), the most pressing social and economic problems will be dealt with and an effective vehicle for the functioning of the SEZ will be created. In the second stage (2006-10), investments and social measures will be strengthened in order to accomplish the objective of the programme. The focus will be on the development of the transport and infrastructure sector, the operation of an energy complex, the improvement of a (tele)communications infrastructure, the development of a tourist and recreational complex, the solving of ecological problems and the improvement of the social sector.<sup>48</sup> How all this should be done has not been spelt out. In fact, the programme does not take account of

the real obstacles to growth (e.g. the absence of essential legislation and ineffective management).

Within Russia there are different opinions on the future of Kaliningrad. The political party Union of Right Forces considers making it a Russian Hong Kong by giving it maximum economic and administrative freedom. The Kaliningrad administration wants to maintain the SEZ, while the Foreign and Defence Policy Council suggests changing the status of the oblast by making it a federal land under Moscow's control and with an appointed governor. The MFA argues that visa and transit problems should first be solved, in order to increase the chances of a better future for Kaliningrad. The Analytical Board of the Federal Duma is of the opinion that a number of legislative and administrative regulations should be introduced to improve the current situation.<sup>49</sup>

On 26 July 2001 Putin convened a special Security Council meeting on Kaliningrad (for the first time ever). The President addressed the low level of investment (50 per cent of the national average), the low standard of living and the high crime rate, and again mentioned that Kaliningrad could serve as a model for Russian-European relations. He also stated that the responsibility for solving Kaliningrad's problems rested exclusively with Russia. He criticised the lack of coordination among ministries and departments, the low effectiveness of their work, and wondered whether the SEZ had been effective for the exclave. The key issues for Putin are to establish effective interaction at all levels and to create a reliable legal and administrative situation in the oblast. The Kremlin had considered three options for Kaliningrad: (1) the introduction of direct presidential rule, (2) the transformation of the oblast into an eighth Federal

<sup>46</sup> P. Rutland, *The Role of the Presidential Representative: Reflections on the North-West Federal Okrug*, Russian Regional Report (EastWest Institute), 1 October 2001

<sup>47</sup> G. Gromadzki and A. Wilk, *Overcoming Alienation: Kaliningrad as a Russian Enclave inside the European Union* (Warsaw: Batory Foundation, 2001), p. 6.

<sup>48</sup> 'On the Draft Federal Target Program of Economic and Social Development of the Kaliningrad Region for the Period till 2010', *Ministry of Foreign Affairs Daily News Bulletin*, 8 October 2001, <http://www.mid.ru>.

<sup>49</sup> 'Certain Aspects of Ensuring the Security of Kaliningrad Region', *Ministry of Foreign Affairs Daily News Bulletin*, 25 May 2001, <http://www.mid.ru>.

District and (3) a strengthening of the position of the regional governor. The Security Council proposed a fourth option: the creation of a parallel administration with its headquarters in Moscow.<sup>50</sup> All these suggestions point to a greater role for the centre, to the detriment of further democratisation.

There is widespread dissatisfaction within Kaliningrad over the unclear attitude taken by Moscow. In the autumn of each year, when the budget is assessed, the Federation has its doubts about the purpose and added value of the SEZ. Officials in Kaliningrad have to do their best to preserve the oblast's acquired rights. They argue that if SEZ status ended this would result in an increase in commodity prices of 30 to 40 per cent, a sharp decrease in foreign investments, bankruptcy of the majority of enterprises and a rise in unemployment.<sup>51</sup> Similar concerns were voiced in Moscow on 10 October 2001, when a report by the Accounting Chamber showed that the previous programme for the development of the Kaliningrad Oblast (1998-2005) and the attempt to set up the SEZ had been unsuccessful. The tax and customs benefits made it more profitable to import than to export, so instead of a SEZ a trade zone was created, resulting in enormous debts for the oblast. Concerning the programme for 1998-2005, the Accounting Chamber noted that there was very little money available to implement the plan, while the allocated money had been spent ineffectively.<sup>52</sup>

The current governor Yegorov was happy with the report, as it put the blame on his predecessor. He was also content with the recommendations made by the Accounting Chamber: improve the managerial effectiveness and allocate sufficient federal resources to implement the new federal programme (2002-10, see above). The new programme has a budget of €3 billion, of which only 20 per cent is provided by Moscow. The rest should come from investors, but these are very sceptical of the pro-

gramme and argue that the oblast should first of all create a favourable investment climate. It is striking but symbolic to see that the new federal programme does not reflect the suggestions made by Putin at the Security Council meeting, nor does it endorse the recommendations of the Accounting Chamber based on its assessment of the previous federal programme. Neither does it make any reference to Putin's wish to make it a pilot region.

### 3.4 Lithuania and Poland – cooperative neighbours

#### Lithuania: engagement with Kaliningrad

Of the three Baltic States, Lithuania has the best relationship with Russia. It helps that it has no direct border with mainland Russia, that it has not contested its borders, and that it has a relatively small Russian minority (8 per cent of the total population, who were given Lithuanian citizenship automatically after independence). Even though there exists a difference of opinion over Lithuania's membership of NATO, Vilnius has wisely not let this issue dominate the relationship. However, there are tensions over Lithuania's energy dependency vis-à-vis Russia. Moscow wants Lukoil to become the principal shareholder of Lithuania's oil refinery Mazeikiu Nafta, which is in the process of privatisation. In addition, with EU accession Vilnius will have to close its Soviet-type nuclear power plant Ignalina, which provides 75 per cent of the country's electricity. This in turn will make the country even more dependent on Russia for energy.

The status of the boundary that separated Lithuania from Kaliningrad was not properly defined under the USSR. None the less, mainstream politicians have never let the border issue

<sup>50</sup> 'Russia will Introduce "Mild" Presidential Rule in Kaliningrad, *National News Service Strana.ru*, <http://www.the-russianissues.com/print/996228706.html>. 'Russian President Putin's Remarks at the Russian Security Council Meeting on 26 July 2001', *Ministry of Foreign Affairs Daily News Bulletin*, <http://www.mid.ru>.<sup>51</sup> H. Timmermann, *Die russische Exklave Kaliningrad im Kontext regionaler Kooperation* (Cologne: Berichte des BIOST, 2000), p. 16.

<sup>52</sup> 'Accounting Chamber Issues Report Critical of Kaliningrad Zone', *Russian Regional Report* (EastWest Institute), 10 October 2001.

become an obstacle for Russian-Lithuanian relations. The border is marked along its entire length and guarded on both sides. Formal demarcation is expected to follow Russian ratification of the agreement that was signed in 1997 (which Lithuania ratified in October 1999). One topic that still needs to be settled is Russian military transit to and from Kaliningrad through Lithuanian territory. Vilnius imposed severe restrictions on Russian military movement to and from Kaliningrad. According to an agreement of 1993, Russia had to ask permission and pay for every convoy and allow inspections, while troops were forbidden to leave their train or to carry weapons. In 1994 Russia had turned down even stricter proposals made by Lithuania. In 1995 both countries decided that the 1993 agreement would be extended year-by-year.<sup>53</sup> With the coming accession of Lithuania to the EU the country will have to make a final arrangement with Russia on this issue, as the current agreement has no juridical basis.

Lithuania, which is trying to find a reasonable solution to Kaliningrad's problems after EU enlargement, is without doubt the most dedicated player in the region. Lithuania opened a consulate in Kaliningrad in 1994. In 1995 an agreement was signed that allows Kaliningraders to stay in Lithuania for 30 days without a visa (and vice versa). All three Baltic States have Russian minorities, some of whom have relatives in Kaliningrad. Only Vilnius has been searching for a sound settlement that permits the Kaliningraders to visit their relatives (or their graves).

The regionalisation of Russia provided opportunities for Lithuania, as the chances of involving regions of Russia on a micro-level in a cooperative framework are higher than on a macro-level – directly with the Kremlin. A number of smaller regional projects have been made in the sensitive border areas in the Baltics, as well

as on the Lithuanian-Kaliningrad border. Lithuania is also participating in three Euroregions where Kaliningrad is involved as well (Baltika, Saule and Neman).<sup>54</sup> When Kaliningrad faced enormous hardships after the financial collapse of August 1998, Lithuania provided the oblast with considerable humanitarian aid. At the end of 1998 Vilnius concluded an agreement with Kaliningrad on 15 projects dealing with environment, transport, education, cross-border cooperation and so forth. Various cooperative agreements have been signed between Kaliningrad and the bordering Lithuanian counties.

In 1999 a joint association of NGOs and academic institutions was created (that had already been cooperating closely since 1991), on 14 June 2000 Lithuania and Kaliningrad established a Cooperation Council (without any interference from Moscow) and on 13 June 2001 a joint inter-parliamentary forum was formed. The visit of Lithuanian President Valdas Adamkus to Putin at the end of March 2001 was also a major boost to cooperation with the oblast, since that was the central theme of their discussions. The universities of Klaipeda and Kaliningrad signed an agreement on academic cooperation. Earlier the ports of these two cities had also proposed substantial cooperation. There is also cooperation on the training of public administration officials and businessmen from Kaliningrad. In addition, Lithuania has invited military officers from the exclave to participate in environment protection training. The Lithuanian MFA is coordinating the 'Kaliningrad policy', but practical implementation is delegated to local authorities (e.g. Klaipeda is responsible for the promoting of cooperation between SMEs).

On 9 February 2000 the Lithuanian MFA and the Russian MFA signed the Nida Initiative, which provides for common proposals to be implemented in the Northern Dimension. It

<sup>53</sup> I. Oldberg, 'Kaliningrad: Problems and Prospects', in: P. Joenniemi and J. Prawitz, (eds.), *Kaliningrad: the European Amber Region* (Aldershot, 1998), p. 7.

<sup>54</sup> It is striking to see that the importance or usefulness of Euroregions is hardly mentioned by officials from Brussels, Kaliningrad, Moscow, Vilnius or Warsaw. Kaliningrad is currently participating in three Euroregions: Baltika (Denmark, Sweden, Poland, Lithuania, Latvia and Russia, established in 1998), Neman (Poland, Lithuania and Belarus, established in 2001) and Saule (Lithuania, Latvia and Sweden, established in 1999). Since the beginning of the 1990s Euroregions have been promoted a lot as a measure to diminish regional differences and to increase cooperation and transparency. These goals are hard to measure, so real progress is not visible.

originated from the Lithuanian MFA, where senior official Vygaudas Usackas and others drafted the initiative. Cooperation is foreseen or already taking place in infrastructure and energy projects (TENs and a gas pipeline), environment protection (water management), education (training of public administration officials, student exchange programmes and the establishment of a EuroFaculty), health care (AIDS prevention), trade and investments (setting up of a business information centre), fighting crime and strengthening border control (construction of border crossing posts and training of border control personnel) and CBC (creation of an information centre on cooperation).<sup>55</sup>

The ambitious projects of the Nida Initiative rely upon the support of Phare, Tacis and other EU assistance programmes and funds. Lithuania and Russia are still waiting for practical progress in the ND, which still exists only on paper. Vilnius regrets the modest scope of Tacis in Kaliningrad, and is of the opinion that if the EU wants to deal effectively with the oblast, greater financial resources should be made available. The Lithuanian-Kaliningrad Co-operation Council has recently been focusing on attracting investment to the Nida Initiative. Priority projects are the construction of a bridge over the Neman river (which runs along the common border) and construction of the Via Hanseatica.

At the beginning of 2001 Lithuania initially tried to acquire intermediate status within the Schengen agreement, but when it met resistance from the EU and realised the possible consequences (no accession to the Schengen area) it gave up and adopted the common EU position. However, the country wants to have as much flexibility as possible (on the prices of visas, on the number of entries and on multiple-entry visas). It also made clear that it would only introduce visas in July 2003, on the eve of EU accession. None the less, Moscow continues to insist that it wants to have a simplified procedure

allowing the freedom of movement of persons and goods.<sup>56</sup>

Since Lithuania and Poland created their strategic partnership many joint forums have been established (e.g. regular summits, governmental and parliamentary councils). However there is no talk on practical coordination concerning Kaliningrad. During a meeting with his Polish counterpart in Warsaw in March 2001, Lithuania's parliamentary chairman proposed a trilateral meeting between the leaders of the Lithuanian, Polish and Russian parliaments should be held to discuss the prospects for Kaliningrad in the light of EU enlargement. In addition, Lithuania is hoping to organise a meeting with the Commission, Poland and Russia on the future of Kaliningrad (similar to Moscow's suggestion to Brussels).

The differences between the Lithuanian and Polish approaches to Kaliningrad is symbolised by their reactions to the article in *The Washington Times* on the possible deployment of nuclear weapons to the oblast. Whereas the non-NATO member played the report down, the NATO member reacted frantically. According to the Lithuanian Minister for Foreign Affairs, similar reports have circulated several times each year and they are usually soon forgotten. Whereas the Lithuanian Minister for Defence said that he was not willing to debate the issue excessively, his Polish counterpart immediately called for international inspectors to verify Moscow's claim that it had not brought such weapons into the exclave. Sweden, which held the EU presidency at that time, said that it believed Russia's denial.

### Poland: forgetting about Kaliningrad?

In the early 1990s Poland proclaimed itself a bridge between the 'West' and 'East' that aimed to bring stability in the region through active bilateral relations. The fact that Polish-Russian relations took such good shape has had its

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<sup>55</sup> Joint Statement by the Lithuanian and Russian MFA on the Nida Initiative, 9 February 2000. Information taken from the CBSS website, <http://www.baltinfo.org>.

<sup>56</sup> A Lithuanian diplomat in *Le Monde*, 10 May 2001.

influence on Lithuania's approach towards Russia. However, this policy will become harder to pursue once Poland has adopted and implemented the Schengen *acquis*. This already became evident in 1998, when Poland ended its liberal regime for visitors from Belarus and Russia, which gave rise to loud protests from Minsk and Moscow. When local inhabitants and politicians from Poland's North-East also voiced their dissatisfaction, Warsaw decided to relax some of its new regulations. So the Polish government in principle is open to a flexible approach towards the establishment of a visa regime for Kaliningrad, but also realises that this flexibility will delay Poland's own controls at its western border.

Poland has taken a constructive approach towards Kaliningrad. Initially there were some concerns about Moscow's intentions. Warsaw was particularly sensitive to Moscow's request to establish a 'corridor' through Poland to Kaliningrad for a highway, a gas pipeline and electricity. This was reminiscent of the infamous Polish Corridor in the interwar years, and Warsaw rejected the proposal put forward by the Kremlin. Another worry concerns Polish commercial interests. Border controls are overstretched (*inter alia* due to widespread alcohol and cigarette smuggling) and Polish entrepreneurs do not have sufficient expertise in Russian law or on the specificities of Kaliningrad. Polish investment in Kaliningrad is therefore minimal, even though the majority of foreign companies in the oblast are of Polish origin. The Polish consul has complained that if this does not change Kaliningrad could be lost to Western enterprises.<sup>57</sup>

Cross-border economic and trade relations are Poland's main instruments for building stability and growth within Kaliningrad, and for preventing isolation. In May 1992 an 'Agreement on Co-operation between the north-eastern voivodships of the Republic of Poland and the Kaliningrad Region of the Russian Federation' was signed. Poland was also the first

country to open a consulate in Kaliningrad in 1993. In the autumn of 1994 a Co-operation Council between Kaliningrad and the Polish north-eastern regions was established. The Council of Ministers also appointed a delegate for Kaliningrad. Since then many Polish-Russian meetings have taken place aimed at devising ways to strengthen the links between the administrative regions of Poland's North-East and Kaliningrad in the areas of transport, agriculture, trade and banking, environment, tourism, cross-border traffic, culture, education and sport. Also the construction of new border-crossings was planned.

Unlike Lithuania, which has its cooperative forums with the oblast on a national level, Poland has delegated this to its voivodships. Cooperation with Kaliningrad improved after Warsaw implemented a radical administrative reform in 1999, when more competencies were delegated to the voivodships (there are sixteen, of which Warminsko-Mazurskie borders Kaliningrad). This has led to better and more frequent forms of cooperation between border regions, and also with Kaliningrad (and not only in the Euroregions of Neman and Baltika). Improvements have been made in the areas of transport, traffic, spatial planning and ecology. In addition, the Polish East will receive more financial support from the EU in the coming years to stimulate the regional economy, to improve its infrastructure, its border management and its environment.

Warsaw's efforts within the ND are meagre compared with the zealous approach taken by Vilnius. Poland's proposals to be included in the ND Action Plan are to improve methods to fight international organised crime, to create a regional Baltic television network, to further develop the EuroFaculty with curricula in economics and law, to create a Baltic Committee for investment projects, to develop the energy infrastructure in the Baltic Sea region, to improve the road and sea transport infrastructure, and to increase environmental protection.<sup>58</sup>

<sup>57</sup> K.-O. Lang, *Polens Beziehungen zu Rußland: Zwischen Argwohn und Zusammenarbeit* (Cologne: Berichte des BIOST, 2000), p. 33.

<sup>58</sup> W. Zajaczkowski, 'Poland and Kaliningrad Region: the Present and Future Prospects for Co-operation', in: J. Baxendale, S. Dewar and D. Gowan, (eds.), *The EU & Kaliningrad. Kaliningrad and the Impact of EU Enlargement* (London: Federal Trust, 2000), p. 154.

On the other hand Poland has been upgrading its border infrastructure in the East. At the end of 2001 fifteen new border crossings will have been created, the number of border guards will be increased and with Phare aid new equipment will be installed.<sup>59</sup> Currently Poland requires Kaliningraders to carry a minimum amount of money when they cross the border. The Polish government will introduce the visa requirement for all Belarussian, Russian and Ukrainian citizens by the end of 2003 at the latest. At the same time it will modernise its consulate-general in the oblast, upgrade the border infrastructure and set affordable visa charges. So in principle Poland is trying to find a balance between the adoption of Schengen and the maintenance of the current good relationship with its Eastern neighbours.

Within Poland there are diverging views on the oblast. The media primarily perceive the oblast as a region of decay, where corruption and crime are endemic, the administration is malfunctioning and environmental and health safety are in a downward spiral. NGOs have a more constructive approach and are devoting more attention to the exclave's problems, providing Brussels (but not Warsaw!) with policy recommendations. The Polish government has expressed its concern about the identity crisis of the oblast, as the SEZ is not progressing and Kaliningrad's regional isolation is growing. The chief foreign policy adviser of President Aleksander Kwasniewski argues that Kaliningrad is a problem that should be solved with active participation of the EU.<sup>60</sup> The main political party, the SLD, states that Poland should adopt a more active approach towards Kaliningrad, with a commercial rationale.

However, the Polish government is currently not devoting as much attention to Kaliningrad as in the 1990s. The new SLD (sic) government that entered office at the end of September 2001 made no mention of the oblast in its main policy

statement. It only expressed its satisfaction with the new cooperative attitude within the Kremlin towards Europe. It is clear that the focus of Warsaw is on Russia as a whole, but primarily on Ukraine. The difficulty with Poland's 'policy' towards Kaliningrad, however, is that it has no priority, that it is ad hoc, and that initiatives have to originate from local and regional authorities, while at the same time Warsaw's approach to the oblast is via Moscow.

During the summit between the Polish and Russian presidents in Moscow on 14 and 15 October 2001, talks focused on bilateral trade, Russian gas and commodities exports to Western Europe via Poland, and the traffic at border crossings between Poland and Kaliningrad. There are plans to hold a meeting on cross-border cooperation in Kaliningrad in 2002 between the Polish and Russian leaders. In addition, Putin is to visit Warsaw on 16 and 17 February 2002.<sup>61</sup>

With the adoption of the *acquis communautaire* Lithuania and Poland will have to bring their technical equipment up to EU standards (e.g. checkpoints, a border control information network, communications), which will improve the flow of border traffic. Schengen will also lead to a higher burden for Lithuania and Poland in guarding the EU's external border. For this reason the Commission is studying the possibilities of setting up an integrated system of border management within the EU. Firstly, the professional training of border guards should include common courses for border patrols for member states and candidate countries. Secondly, a common EU border guard corps should be set up that would patrol the EU borders. Furthermore EU Commissioner for JHA Antonio Vitorino has urged a radical change in the current visa policy, in order to counter illegal migration. He envisages the setting up of joint offices for delivering visas to third countries' citizens and the introduction of a European Visa

<sup>59</sup> H. Grabbe, 'The sharp edges of Europe: security implications of extending EU border policies eastwards', *Occasional Paper 13* (Paris: WEU Institute for Security Studies, March 2000), p. 19.

<sup>60</sup> R. Vetter, 'Kaliningrad und die Osterweiterung der EU', *Osteuropa* (February 2000), p. 154.

<sup>61</sup> 'Mr. Kwasniewski goes to Moscow', *The Warsaw Voice*, 21 October 2001.

Identification System.<sup>62</sup> The Laeken European Council of 14-15 December 2001 stated its support for the Commission's work in this respect.

Another consequence of the imposition of Schengen could be an obligation on local and regional authorities to cooperate on economic infrastructure and other issues that are essential to stability in the border region. However, the prospect of cross-border cooperation depends of course not only on EU regulations. The differences in economic development, standard of living, structural weaknesses, fragile infrastructure and the capacity and authority of local and regional administrations equally determine the future of cross-border trade and personal contacts at the new border. On a more positive note, since EU membership will result in an acceleration of the Lithuanian and Polish economies, this could very well strengthen the commercial, financial and personal contacts between Russia and the EU and provide a stimulus to Kaliningrad's economic development.

### *3.5 Kaliningrad – a three-dimensional periphery*

Over the last ten years Kaliningrad has been transformed into a three-dimensional periphery. The EU has neglected the oblast for a decade, Moscow has not known how to deal with its exclave, and even though Lithuania and Poland have actively tried to engage Kaliningrad both have had their foreign policy priorities elsewhere. The most visible reflection of this awkward situation can be found in the oblast's economy. Poland's economy is geared towards the West, and Lithuania's economy is additionally focused on the Baltic Sea region, in fact the two neighbours hardly do any trade with each other. The oblast has failed to develop competitive businesses and industries. There is no firm

structural basis for trade relations with other countries. Kaliningrad does not matter in regional affairs, as countries are bypassing the exclave. There is even no need to involve the oblast, as that would only obstruct the current commercial and transport directions. So it will be very difficult for Kaliningrad to establish itself as a regional transport and trading centre, when even its two neighbours have no shared commercial interests.

Currently Kaliningrad is responsible for just 5 per cent of the total turnover of goods in the Baltic Sea region, and this will only decrease after EU enlargement. In addition, Poland and Lithuania have signed a free-trade agreement and Klaipeda (in Lithuania) has the status of free economic zone (making it more difficult for the SEZ). Simply put, the oblast is of no importance to the surrounding region. The TENs that go through Kaliningrad are spurs off the main I and IX routes. If the exclave's TENs are not developed, that will not harm the region's economy or trade. Kaliningrad is located on an economic fault-line: it is neither a gateway nor a crossroads (as is sometimes argued by Russian officials); it is a dead end.<sup>63</sup>

Kaliningrad has a considerable trade deficit. It accounts for only 1.7 per cent of total Russian exports to Lithuania, while 25 per cent of Lithuania's exports to Russia go to the oblast. During January-September 2000 total exports were \$360 million (33 per cent to Poland, 11 per cent to Germany and 6 per cent to Lithuania), whereas total imports accounted for \$560 million in the same period (25 per cent from Germany, 19 per cent from Poland and 8 per cent from Lithuania). Germany, Lithuania and Poland are the oblast's biggest trade partners. Enterprises from these three countries also make up the largest part of joint ventures in Kaliningrad (416 from Poland, 305 from Lithuania and 260 from Germany).<sup>64</sup> Foreign investment in 2000 (again mainly from

<sup>62</sup> 'Commission studies creation of EU border guards', *EUObserver.com*, 19 November 2001.

<sup>63</sup> S. Dewar, 'Kaliningrad: Key Economic Issues', in Baxendale, Dewar and Gowan, *The EU & Kaliningrad*, pp. 79-87.

<sup>64</sup> Information taken from the Kaliningrad administration's website: <http://government.kaliningrad.ru>.

Germany, Lithuania and Poland) was around \$70 million, i.e. \$68 per capita against \$563 per capita in Lithuania.<sup>65</sup> Of the 1,400 joint ventures, only 15-20 per cent are operating. Only 2.2 per cent of the Kaliningrad work force is employed in these joint ventures, but they account for 23 per cent of the oblast's total production.<sup>66</sup>

Moscow generally misperceives the oblast's potential. It thinks that Kaliningrad will develop as an export-oriented region. For the past ten years, however, the exclave has become an import zone, and its few foreign investors have come to Kaliningrad in order to penetrate the Russian market. Some of the Kremlin's other perceptions (and those of many foreigners and Kaliningraders) are equally wrong. One is that the ice-free port provides Russia with best access to the sea; however, in order to reach the port two countries have to be crossed. Another is the well-educated workforce. These workers are mostly only engineers, and they do not receive training to update their knowledge. In addition it is claimed that Kaliningrad has good arable land; but there is not much use of it since organised crime hampers harvesting (which could pose a threat to retail distribution monopolies).<sup>67</sup>

When addressing the many structural economic shortcomings of the oblast, the question immediately arises why the SEZ project has failed. Even though Gorbenco's administration was known for its incompetence, its corruptness (favouring the governor's interest groups) and its mismanagement, there are other reasons that are more fundamental. The main obstacles to progress have been the frequently changing and incomplete legislation that Moscow has drafted

on the SEZ, as well as the generally hostile investment climate.<sup>68</sup> Also, the recurring threat from Moscow to end the SEZ has affected investors' confidence.

The oblast's authorities want to continue the SEZ in its present format for the next ten years, as long as Kaliningrad needs to adapt to Lithuania and Poland. According to the oblast's Duma chairman Vladimir Nikitin, the exclave could at the same time function as a Russian experiment for political and economic innovations. With the adoption of the new federal programme (2002-10) Moscow seems willing to extend the SEZ. At the same time it will take over the coordination and approval of projects, so as to increase effective management and shorten procedures.<sup>69</sup> Although understandable (judging from the experience with Gorbenco), this approach could be harmful for the oblast, as it will become more dependent on Moscow and again be marginalised.

Officials from Kaliningrad would like to be better informed by the EU of the progress that Lithuania and Poland are making concerning their accession to the EU. Even though the EU tariffs will be lower, Kaliningrad has to adopt EU standards and certification with regard to consumers' rights, the environment and technical quality if it wants to be anywhere near competitive. It will have to adopt tighter technical and ecological regulations on transport.<sup>70</sup> Also, officials would like to receive more EU assistance from experts to train professionals who are working in the areas that will be affected by enlargement (customs, borders and immigration officials, economists, lawyers, etc).<sup>71</sup>

Kaliningrad itself has developed very concrete project proposals that target its present

<sup>65</sup> H. Timmermann, 'Kaliningrad: eine Pilotregion für die Gestaltung der Partnerschaft EU-Rußland?', *Osteuropa*, September 2001, p. 1054.

<sup>66</sup> A. Kuznetsov, *Die Osterweiterung der EU: Chancen und Gefahren für die Kaliningrader Oblast der Russischen Föderation* (Kiel: SCHIFF, 2000), p. 4.

<sup>67</sup> For an extensive and sometimes surprising overview of debunking various myths on Kaliningrad, see: S. Dewar, 'Myths in the Baltic', in Baxendale, Dewar and Gowan, *The EU & Kaliningrad*, pp. 175-205.

<sup>68</sup> For an elaboration on the introduction of legislative acts by Moscow in the oblast from 1991 to 2001, and on the Kremlin's efforts to create cohesion in the oblast's and federation's laws, see: Sergounin, pp. 163-72.

<sup>69</sup> Timmermann, pp. 1054-6.

<sup>70</sup> Kuznetsov, pp. 8-9. Timmermann, p. 1052.

<sup>71</sup> S. Gourouva, 'EU/Kaliningrad: Future Aspirations', in: Baxendale, Dewar and Gowan, *The EU & Kaliningrad*, p. 125. Ms. Gourouva is the Deputy Mayor of the city of Kaliningrad.

economic and social circumstances. The oblast's administration has provided a programme on how the infrastructure of the three main border crossings (one with Lithuania and two with Poland) should be improved. Another proposal is to establish information and communication networks on new border crossing requirements, as in the current situation new requirements are being implemented without advance notification.<sup>72</sup> The quality of the programmes varies. Many projects have been an analysis of the existing situation with recommendations, but the follow-up has been insufficient due to a lack of financial and human resources.

The authorities of Kaliningrad are worried by the fluctuating commitment from neighbouring countries (e.g. although the oblast has upgraded its road network and border crossings, Poland has not yet made similar investments in its North-East). There also is a lack of know-how, a lack of equipment and infrastructure, and a need to increase training for officials on both sides of the border. Officials (and businessmen from the exclave) are also concerned by Moscow's guidance: control remains over-centralised and legislation insufficient. But also within the oblast's administration there is too much disagreement, and a lack of qualified personnel. In addition Kaliningrad officials criticise the EU and Moscow for their unwillingness to involve the oblast administration in their talks.<sup>73</sup>

As Andrew Dolan has rightly pointed out, both Kaliningrad and Moscow misunderstand or underestimate the importance of the EU's *acquis communautaire*. Despite recurring hopes on the part of Russia, the *acquis* is untouchable. The EU for its part has to face the fact that, with a Soviet-style bureaucracy, neither Moscow nor Kaliningrad will be able to quickly implement much-needed economic reforms. This does not alter the fact that thinking and policy-making

will have to change in the oblast. In the words of Dolan, Kaliningrad should show 'a willingness to face harsh reality and finally an acceptance that doing existing things better may in the long term prove more beneficial than promoting unrealistic initiatives'.<sup>74</sup>

To relieve Kaliningrad of its peripheral status, the focus should be on specific areas: energy, transport, environment and borders. The oblast is dependent on energy that comes from Russia via Lithuania. When this country joins the EU it will join the Central European grid. Even though it has been proposed that Kaliningrad join, this will be too expensive, and therefore Moscow is considering building a gas pipeline to the oblast. To avert isolation it is essential for Kaliningrad to be connected to the TENs. The problem, however, is that each country bears financial responsibility for the construction of its own part of the TEN. If surrounding countries improve their portions of the TENs but Moscow does not do the same for Kaliningrad, the oblast could even become more isolated. One of the main challenges to the Baltic Sea region is the environmental mess in Kaliningrad. Improvement of (waste) water management is currently taking place but should be assisted with additional means and resources.<sup>75</sup>

The borders of Kaliningrad are the most controversial in Europe, not because they are contested (they are not) but because they might become barriers in an enlarged EU. Kaliningrad fears that Lithuania and Poland will not be able to devote much attention to the oblast once they have acceded to the EU, since the administrative capacities in both countries are inadequate. Implementation of the Schengen regime by Lithuania and Poland could have economic and societal costs for Kaliningrad if cross-border exchanges fall sharply. This will also have consequences for the local and regional economies, and for social and cultural contacts. The struc-

<sup>72</sup> Projects proposed by the Government of the Kaliningrad Oblast, information from the CBSS website: <http://www.baltinfo.org>.

<sup>73</sup> A. Songal, 'Kaliningrad Oblast: Towards a European Dimension', in: Baxendale, Dewar and Gowan, *The EU & Kaliningrad*, pp. 108-12.

<sup>74</sup> A. Dolan, 'Kaliningrad and the European Union: the Clash of Expectations', in: Baxendale, Dewar and Gowan, *The EU & Kaliningrad*, pp. 210-11.

<sup>75</sup> Timmermann, p. 1060.

tural weaknesses of Kaliningrad will be exacerbated. Frustration over Schengen could lead to contempt of Lithuania and Poland, who will soon have to end their visa-free arrangements with Kaliningrad. This means that Kaliningraders will not only need a visa to visit Lithuania and Poland, but also to visit their own country: mainland Russia.

Residents of Kaliningrad cross the border fourteen times more often than the average Russian: to visit relatives in the Baltic States and mainland Russia, to get visas at foreign embassies in Vilnius, shuttle trading (especially smuggling of cigarettes and alcohol), travel between towns that were one community in the USSR, for personal and business reasons, transit or tourism. Border management comprises the issuing of visas and related facilities, but it also covers the infrastructure at the border, such as the number of traffic lanes and the way personnel work and procedures are used. Currently there exist huge bottlenecks at Kaliningrad's main border crossings with Lithuania, but even more so Poland.<sup>76</sup>

Russia will have to introduce national passports for Kaliningraders that will replace the old Soviet-style domestic passports (the *propuska*). The fact that EU enlargement necessitates this change (which will cost local inhabitants money they would not otherwise have to spend) should encourage the EU to assist Kaliningraders to cover these costs. Furthermore the EU should press member states to establish consulates in Kaliningrad, to avoid local inhabitants having to travel to Moscow to get a visa. These high transaction costs, as Lyndelle Fairlie puts it, should be avoided from a humanitarian and economic perspective (to apply for a visa could be a high financial burden for someone from Kaliningrad).

Possible options for the introduction of visas would be: (1) simultaneous accession to the EU

and Schengen, which would impose a Schengen visa requirement at the Kaliningrad border; (2) accession to Schengen after EU accession, which would allow the existence of a visa-free regime between Kaliningrad and Lithuania and Poland; and (3) again, separate accession to the EU and later Schengen, whereby a national visa requirement exists for Lithuania and Poland and a Schengen visa for the rest of the EU.<sup>77</sup>

As mentioned earlier, Lithuania and Poland will introduce visas for Kaliningrad at the end of 2003. The implementation of Schengen will also result in more vagueness and less transparency. It seems that there are unofficial quotas set by some Schengen countries that will limit the number of visas issued for certain countries of origin, which could obstruct Kaliningraders in their travel. Other disturbing features are the long waiting periods (up to three weeks) and the annoying procedures (in-depth interviews that intrude on privacy and lack of any explanation on refusal of a visa application).<sup>78</sup> Another problem is that the consulates of Lithuania and Poland in Kaliningrad are small, lack facilities and are understaffed. Sweden, Iceland and Denmark have honorary consulates in the oblast, and the Belarussian Embassy has a department there.

The Kaliningrad Duma has proposed retention of the visa-free regime with Lithuania and Poland, and instead of visas the Russian authorities would strictly scrutinise national passports. It is more than probable that neither the candidate states nor Brussels would allow such a system. Another proposal has been put forward by the city of Kaliningrad, namely that when visas are introduced they should be long-term (up to three years), low cost and multiple-entry. It also would like to see the customs clearance procedures simplified. The Kremlin is suggesting visa-free access by Kaliningraders to Latvia, Lithuania and Poland, and also for Russians

<sup>76</sup> L.D. Fairlie, 'Kaliningrad Borders in Regional Context', in: Fairlie and Sergounin, *Are Borders Barriers?*, pp. 30-53.

<sup>77</sup> Three options put forward by Michael Emerson of CEPS, used by Fairlie, 'Kaliningrad Borders', p. 71.

<sup>78</sup> Centre for European Policy Studies and Batory Foundation, *Friendly Schengen Borderland Policy on the new Borders of an Enlarged EU and its Neighbours* (Brussels, 2001), pp. 3-4.

<sup>79</sup> Fairlie, 'Kaliningrad Borders', pp. 72-5.

travelling to Kaliningrad by fixed train and bus lines, and a special permit system for travel by car.<sup>79</sup>

EU enlargement could very well result in a regional asymmetry of economic and political weak and unstable states and strong and stable states. Kaliningrad will be on the outer side, held back in its development by the Schengen regime and Russia's incapability, whilst Lithuania and Poland will be inside the EU, attracting new investments and structural funds. The only

viable strategy for Kaliningrad is to increase the level of economic development, improve its ecological, social and health circumstances, augment the stable provision of energy, boost competitiveness and attract investments, and finally merge into the economic space of the EU. This strategy can only be implemented if Kaliningrad is assisted in its regional integration. This is a job that only the EU and Russia *jointly* can perform.

## Policy options for the decision-makers: the EU *and* Russia

### 4.1 *More flexibility for Brussels*

After the terrorist attacks of 11 September, the EU's fear over internal security, border, customs and police controls in candidate countries could impede accession negotiations. EU member states already regard the former communist countries as the soft underbelly of Europe. Brussels will ask applicant states to increase their efforts to combat illegal migration and trafficking. However, the EU should be aware that neither border controls nor a 'Fortress Europe' approach is a suitable policy option. Firstly, land borders can never be fully controlled. Instead, the focus should be on intelligence-led policing. Secondly, to seal off the EU will isolate neighbouring countries that have weak political and judicial systems, resulting in even more instability. Inclusiveness is the proper approach: engaging the countries on the EU's periphery through more intense cooperation. This would eventually mean providing financial, logistical and technical assistance to law enforcement bodies in Kaliningrad and Russia.

The way forward will be first of all to create more flexibility. Even though unity in diversity is a cliché, it is the practice on which the EU is developing. For decades core groups have taken the lead within the EU. The Franco-German axis gave shape to the political and economical dimension; the Anglo-French summit at St Malo initiated a military dimension. The same goes for individual 'projects' such as the Stability Pact for South-East Europe (under the German presidency) or the Northern Dimension (under the Finnish presidency). More recently Britain, France and Germany convened to discuss the European position vis-à-vis the war against terrorism. However, not only flexi-

bility should apply for closer cooperation: limited forms of differentiation should be allowed for as well, but only in special cases where existing EU institutions and policies are not so easily applicable. Kaliningrad is such a case.

It was decades ago that a common approach was abandoned and replaced by concepts like multi-speed Europe, concentric circles, core groups, Europe à la carte and flexibility. Some of the Union's existing member states have negotiated exemption from certain treaties (e.g. the EMU, the Schengen agreement, WEU) or specific transitional periods. Until now, this has not harmed or hampered the Union from functioning in a coherent manner. A similar approach should be worked out for the Union's external policies, as it will become increasingly difficult for the EU to preserve a clear distinction between internal affairs, economic cooperation and foreign and security policy. Until now this has been prohibited in areas that are deemed 'exclusive' to the EU, which include a common visa policy. In principle, border controls, asylum and immigration could be negotiated.

Even though the EU has been aware that it should have its house in order before it takes on 10 new members in 2004 (as EU Commissioner for Enlargement Günter Verheugen stated in his speech to the European Parliament on 12 November 2001), it has failed to do so. The EU is now establishing a Convention on the future of Europe precisely because 'Nice' did not deliver. With the accession of 10 new member states existing problems of cumbersome decision-making will be multiplied. Issues of necessary procedural and institutional reforms, the veto question or the weighing of votes, and the number of Commissioners, have not been tackled. Probably some of these will remain unresolved, and for others certain member states will be

granted exemption. At the same time applicant states are required to accept all of the *acquis*, with no opt-outs or flexible arrangements whatsoever.

The EU's current arrangements for applicant countries are conflicting: on the one hand Brussels is promoting regional cross-border cooperation (e.g. through its Northern Dimension) but at the same time it is setting strict internal security policies (e.g. the adoption of the Schengen agreement), which prevents development of the former. The EU needs to develop a more refined approach, and attempt to synchronise the external and internal policies and connect its three pillars, to enable authorities in Lithuania and Poland to work together effectively with their counterparts from Kaliningrad. It cannot demand observance and commitment from prospective members only, as these are equally applicable to the EU.

The EU should opt for more flexibility and better coordination in the areas of CFSP and JHA to deal with the diversity in political, economical and security interests of the enlarged Union (the CSR already allows for first- and third-pillar engagement). This could help the EU to maintain the dynamic towards integration and enlargement. Concerning its Kaliningrad dilemma, Brussels should also better coordinate the different aid programmes, forums, institutions and policies that have been developed during the last five years – such as Interreg, Phare and Tacis, and the PCA, the CSR and the ND – and to engage and learn from the initiatives that Lithuania and Poland have adopted towards the exclave. A sensible step for the EU to undertake would be to use Lithuania's expertise on the oblast. The same applies to Poland, even though this country has not been very much committed to Kaliningrad for the last few years. The EU must also involve the CBSS more, as it is the only organisation that has developed a niche, and it is appreciated by all the participat-

ing states (including Russia). Last but not least, Brussels has to engage the administration of Kaliningrad, which under its new leadership is committed to seeking a solution that will not scare off the EU or Russia.

Some suggested proposals will not be feasible. A measure like preferential tariff arrangements will not be applicable to Kaliningrad, as it would create a huge obstacle to trade with mainland Russia. Nor would making an exemption for transit through Lithuania or Poland be a realistic option, neither would the abolition of visas for Kaliningraders (both of which were proposed in Moscow at the government meeting on 22 March 2001). It would be very difficult to control applications and it would mean a continuation of internal border controls in Lithuania or Poland (which would then not be able to be a member of Schengen). Other proposals that have been put forward – but will probably not be supported by the EU – are the creation of a binding agreement on Kaliningrad based on the PCA, CSR, ND Action Plan and Russia's Medium-term Strategy towards the EU, the establishment of a free-trade agreement with the oblast, or setting up an Accession Partnership with it.

But there are also proposals and projects that make sense. The best examples are those of the CBSS and some of its member states, several of which are being implemented already. The Nida Initiative also points in the right direction, but its projects have not yet been funded. The Commission itself also put forward suggestions in its communication of 17 January 2001. In addition Tacis and increasingly Phare and Interreg support relevant projects as well.<sup>80</sup> Furthermore, NGOs and academics have made other useful proposals, of which CEPS/Batory Foundation and Stephen Dewar deserve special mention. The policy options and suggestions for improvement that are being presented are grouped as follows:<sup>81</sup>

<sup>80</sup> For the projects, proposals and suggestions from the CBSS and its member states see pp. 7 and 16, from Tacis see pp. 14-15, from the EC communication see pp. 15-16, and those from the Nida Initiative see p. 25.

<sup>81</sup> CEPS and Batory Foundation, *Friendly Schengen Borderland Policy on the new Borders of an Enlarged EU and its Neighbours*. S. Dewar, 'What is to be done?', in Baxendale, Dewar and Gowan, *The EU & Kaliningrad*, pp. 231-64.

### Internal EU coordination

■ The PCA should be developed further, not only in dealing with political, security, economic and trade areas but also with third pillar issues (especially in the light of 11 September) and to coordinate Kaliningrad affairs. There are nine sub-committees within the PCA: amongst others on transport, energy, telecommunications, trade, and investments. The EU could consider establishing a Kaliningrad task force within the PCA in which officials from both the oblast and the Kremlin could participate, and also Lithuania and Poland. This would be more effective than the current separate discussions held with Russia in the PCA forums and with Lithuania and Poland in the Europe Agreements. The task force could provide the PCA sub-committees with advice on Kaliningrad.

■ The EU should seriously consider creating a Common Strategy for Kaliningrad, one that is different from the 'old', ineffective CSR. It would be easier to implement than the CSR, as Kaliningrad is small and thus manageable, and currently none of the EU member states has a specific policy towards the oblast. It would also be sensible, as the oblast will be surrounded by EU territory after 2004. Most importantly, it would allow a coherent cross-pillar, targeted approach, which Javier Solana would like Common Strategies to be. Other positive factors are the current leadership within Kaliningrad and Moscow, who cooperate well and agree on the measures that should be taken (their suggestions are often shared by the EU). The question is in which format a strategy towards Kaliningrad should be adopted. The PCA provides working groups and sub-commissions, the ND offers a horizontal approach on different levels, and the CBSS (which is not an EU instrument) has thus far been the most constructive in engaging Kaliningrad, and is moreover willing to share its expertise with the ND.

■ Another suggestion would be to increase the role of the Policy Unit, as one of its tasks is to assist with cross-pillar cohesion. This body could establish continuity in a strategy towards Kaliningrad, which is far better than the periodic attention the oblast has received during EU presidencies of Scandinavian member states.

### Aid programmes

■ The EU should instruct the Tacis local support office in Kaliningrad not only to publish information about the EU, but also to provide information on the future EU rules that will apply to Lithuania and Poland, and the changes for Kaliningrad. In addition the EU should keep Russia better informed on the progress of accession negotiations with Lithuania, Poland and Latvia.

■ Brussels should improve coordination of Phare, Tacis and Interreg projects running in Kaliningrad. That is easier said than done. However, in its reply to the Court of Auditors (17 October 2001) the Commission showed that it was considering a new approach that would greatly benefit Kaliningrad, as it is thinking of extending Phare aid to Russia's North-West. Brussels could give the Tacis local support office in the oblast the overall authority to oversee Phare, Tacis and Interreg finances in Kaliningrad, which undoubtedly will lead to better management and coordination.

■ The Union could consider increasing financial assistance to CBC projects, as these will have a direct spin-off on economic development, but they will also lead to increased transparency and contacts. Initiatives that should be supported are CBC projects between municipalities, educational institutions, SMEs and border officials.

### Infrastructure (energy, transport and telecommunications)

■ As the transport infrastructure is essential for Kaliningrad's integration in the Baltic Sea region, the EU should make the oblast a geographical focal point, providing as much assistance as is realistically feasible on infrastructure projects: ports, airport, the TENs and the railway lines.

■ The same goes for telecommunications, as the exclave's system is outdated and needs to be modernised to be able to support the latest generation of communications (e.g. internet). This is especially needed since the Baltic Sea region is an area where ICT has developed fast, and Kaliningrad risks isolation in that respect as well. The CBSS's NeDAP project provides an

excellent framework in this respect, involving public administration and SMEs through education and training. The EC could extend financial support to update Kaliningrad's communications systems. Most probably the private sector would be willing to invest as well (once Russia has implemented clear legislation).

■ The Commission is already participating in a CBSS project to explore the possibilities of reliable, efficient and environment-friendly energy provision, which in the longer term could lead to a regional integration of electricity and gas structures (requiring enormous financial and technical input). That is not enough: Brussels should try to engage Moscow and Kaliningrad in these discussions, as they are still only thinking of constructing a new pipeline from Russia to the oblast.

### Environment and public health

■ Projects on waste management and waste water management, the cleaning of redundant military bases, and the reduction of pollution from factories and industries (by providing incentives to end inefficient production methods) have been funded for many years already. The CBSS's NDEP project (in which the Commission participates) has established a comprehensive, cohesive approach. The EC and the CBSS should involve the Kaliningrad administration in order to let its officials become acquainted with strategies to counter environmental threats.

■ Prompted by the rapidly deteriorating health situation in Kaliningrad (and its surroundings) the CBSS has set up a Task Force on Communicable Disease Control. Its main function is to set up early warning systems and to undertake targeted interventions against AIDS, tuberculosis, hospital infections and antibiotic resistance.

However, authorities from each country are responsible for the implementation of the Task Force's recommendations. It would be more effective if the EU were to provide Kaliningrad with financial and technical support through the Tacis local support office.

### Border management, visa regime and countering organised crime<sup>82</sup>

■ Firstly, the EU has to realise that a 'Fortress Europe' approach is a threat to European security itself, as it creates isolated and unstable 'outsiders'. Brussels' policy should be based on a comprehensive, coordinated and cross-pillar approach, involving both the CFSP and JHA. The Policy Unit could play a valuable role in this respect.

■ As the EU will not lift its border controls with applicant states immediately after their accession, there could be a similar gradual approach in the application of Schengen at the new EU border. Brussels could easily allow Latvia, Lithuania and Poland to issue national visas to Kaliningraders until their integration within Schengen.

■ Upon accession to Schengen, new member states have adopted and implemented its *acquis* and are using the SIS. Using such a high level of information technology and qualified personnel it must be possible to develop friendly and faster visa applications and border controls, without endangering security. A visa application should be handled within one working week, preferably quicker. High technical standards should lead to a clearance time at border crossings of less than 2 hours (the target set by the CBSS).

■ The EU could investigate options that would allow Kaliningraders to travel visa-free. A suggestion would be to conclude an agreement with

<sup>82</sup> The movement of people is widely seen as the most controversial aspect of the enlargement of the EU around Kaliningrad. Almost every participant in the ongoing discussion has put forward suggestions, the most important of which are: to develop faster visa application procedures, to make visas cheaper, to improve and modernise border crossings' facilities and infrastructure, to consider a phased implementation of certain Schengen rules (as some current EU member states have), to allow visa-free travel for 'minor border traffic' (Article 62 of the Amsterdam Treaty offers some flexibility here), to allow long-term national visas (in some cases permitted by Schengen) and one-year multiple-entry visas (allowed by Schengen), to increase the opening hours of consulates, to increase the consular staff, to allow a consulate of one EU member state to issue visas on behalf of another member state, and to create a EU consulate. Some of these are considered by the EC.

Russia on national passports for Kaliningrad citizens, which would have a distinguishing mark (one, of course, that cannot be forged). Or perhaps the SIS is so advanced that Kaliningraders can easily cross the border once their documents have been checked.

■ The EU must increase its financial aid to Kaliningrad, Lithuania and Poland for updating existing border crossings (to modernise facilities and infrastructure) and building new ones (to relieve the existing ones). Also the procedures need to be clarified for border and consular personnel (through the training of staff), with an optimal use of technology. It could consider engaging the Euroregions of Baltija, Neman and Saule for this purpose. The ideal situation would be to get a visa on the border (as was the case at the beginning of the 1990s), which could be possible through the adoption of high technical standards and fast procedures. Brussels could assist Latvia, Lithuania and Poland to create facilities within Kaliningrad to issue visas faster and cheaper, as these are the countries that will receive the majority of applications. Phare CBC and Tacis CBC instruments could be used for this purpose.

■ Within the CBSS Task Force on Organised Crime the EC could promote the creation of a working group on Kaliningrad. This group should carry out a risk (or threat) assessment, which could act as a basis on which to develop further initiatives to combat different forms of organised crime.

■ In its current eagerness to increase internal security the EU should provide law enforcement agencies on both sides of the future EU border with financial and technical assistance to improve their technical capacities and human resources.

### **Institution-building**

■ Brussels could employ twinning, a pre-accession instrument that assists in institution-building by providing a framework for administrations and semi-public organisations in the candidate countries to work with their counterparts in member states. It sets out to deliver specific guaranteed results, as the parties agree in

advance on a detailed work programme to meet a priority area. Trainings is an essential part of twinning. The EU could think of twinning Kaliningrad with Polish and German counterparts, or Lithuanian and Danish counterparts.

### **Education, information and training**

■ The CBSS EuroFaculty has been working now for more than a year, providing curricula in economics and law. The EU could provide financial support to enable the EuroFaculty to widen its curricula to include courses on the EU (such as institutions and legislation), on aspects of democracy (such as the rule of law and civil society) and other areas.

■ Brussels must consider establishing a separate programme on the exchange of students and academics from the oblast to the EU member states (thus broadening the existing cross-border exchange programmes).

■ The EU should provide the Tacis local support office with resources to enable it to set up training modules for entrepreneurs, public servants and border personnel – jointly with the EuroFaculty – on issues concerning the EU, enlargement, the Baltic Sea region, and economic development (e.g. chambers of commerce, finance, Internet Communication Technology, investment and marketing). This is in addition to the proposal made by Dewar to provide businessmen from Kaliningrad with know-how and training on EU standards.

### **Assisting the RDA**

■ To increase financial support to the RDA in Kaliningrad, establishing close cooperation between the RDA and the Tacis local support office. The role of international financial institutions (IFIs) could be transposed from the framework of the Stability Pact for South-Eastern Europe. In a similar manner the EU could consider setting up a structural fund for Kaliningrad (e.g. Dewar's proposed Kaliningrad Equalisation and Development Fund. Dewar has calculated that if the oblast were a part of the pre-accession programmes it could look forward to receiving an average of €40 million each year).

This list is by no means exhaustive or complete. It is an attempt to highlight certain areas that are receiving attention but still need fine-tuning, and to provide suggestions for other areas where the EU could do (much) more. It is up to the Commission, the Council of Ministers and national governments to initiate the necessary changes. The much-needed momentum (to use a fashionable term) will most probably be provided by the Danish EU presidency in the second half of 2002.

## *4.2 More commitment from the Kremlin*

While the task of the EU is more comprehensive, the role of Russia is more fundamental. The obstacles to economic growth in Kaliningrad are partly geographical in nature, but more importantly they stem from Moscow's ineffective rule and unrealistic perceptions. The main barriers are a difficult economic heritage, infrastructural weaknesses, distrust on the part of Moscow regarding greater economic freedom in the oblast, a lack of federal means and resources to effectively help Kaliningrad in its development, an absence of essential legislation, insufficient property and investor protection, no predictability, a huge bureaucracy, and disagreements between the local and federal authorities.

If Moscow is able to achieve a modest form of political stability and embarks on a modest course of reform and integration, the future of the Russian relationship with the EU lies in cooperation, primarily in the Baltic Sea region. It will not join the EU in the near future, but it can cooperate in certain areas and in certain regions, of which the Baltic Sea region provides the best opportunities. None the less, Russia remains a difficult partner. Fortunately it has abandoned its isolationist approach to Kaliningrad, and the developments now taking place mirror commitment. Lithuania was the only country that immediately took advantage of the new approach from the Kremlin (by constructing the Nida Initiative). Another positive

development has been that after 11 September the relationship between the EU and Russia has improved. Both sides should grasp the opportunity and apply the new dynamism to the Kaliningrad dilemma.

Russia's approach to Kaliningrad has since 1991 been ad hoc and lacking in continuity. It would be very sensible for the Kremlin to develop a regional strategy for Kaliningrad, parallel to the Northern Dimension, in order to facilitate the integration of the exclave in the Baltic Sea region. On the eve of the arrival of the EU's mission to Kaliningrad on 16 February 2001 consisting of Anna Lindh, Chris Patten and Javier Solana, Boris Nemtsov argued that Kaliningrad should be given a high degree of economic and administrative independence in order to better take part in regional cooperation. The Security Council meeting of 26 July 2001 suggested the opposite – to bring the management closer to the centre. On the other hand, the fact that a new federal programme for Kaliningrad has been adopted, and that the future of the SEZ looks secure, gives cause for cautious optimism. Nevertheless, the constant shifting in the Kremlin's attitudes logically leads one to wonder if, perhaps, Moscow honestly does not know (although it will never admit it) how to tackle the important and far-reaching reforms. Moscow shows commitment, but does it know how to proceed with practical measures?

Apart from ad hoc and top-down decisions made primarily in Moscow, Russia has not shown that it has a substantial strategy for Kaliningrad. Even though the new federal programme reflects Moscow's engagement and commitment to the oblast, it seems to be based on a weak analysis and provides an unrealistic strategy (dealing with all the foreseeable problem areas, except for the most important: legal and administrative reform). The oblast itself has limited means, but has developed a few useful proposals (e.g. social re-integration of redundant servicemen and improvement of border crossings). Moscow and Kaliningrad could consider the following policy options:

## Strategy

■ Kaliningrad is not representative of Russia itself. Kaliningrad should be given a special status (as Putin has acknowledged by suggesting that the oblast should be made a pilot region), and its administration should be awarded sufficient authority and powers by the Kremlin to overcome its isolationism more effectively. The Kremlin should give a clear definition of the authority of the federal supervisor and the oblast's governor. (Some might think that this has already been tried – unsuccessfully, in the 1990s. However, the prospects for Kaliningrad are much greater under Yegorov (and Putin) than they were under Gorbenko (and Yeltsin).)

■ The Kremlin could consider creating a governmental or presidential commission on Kaliningrad in which the relevant ministries take part (Economic Development and Trade, Energy, Finance, Foreign Affairs, Health, Internal Affairs, Justice, and Transport), and the oblast's administration itself. This commission should establish a strategy on Kaliningrad, based on the principles laid down by Putin at the Security Council meeting: enhanced coordination among ministries and departments, effective interaction at all levels and a reliable legal and administrative situation in the oblast. Yegorov's comments on the importance of adequate financial resources and capable and effective management should also be taken into account.

■ Moscow would do well to reconsider the new federal programme in order to tackle the issues that really obstruct economic growth, instead of spending valuable and scarce resources on the construction of new container terminals or building a new deep-water port. This focus on grand design projects could usefully be replaced by assistance to SMEs and sound legislation. As the rationale for this federal programme is primarily support for the development of the SEZ, it would be good if Moscow were first to look into the reasons for the failure of the SEZ so far. Federal policies have not worked so far due to the incompetence of the previous leadership of the oblast, the sudden changes in Moscow's approach and the absence of structural reform.

■ Russia could consider creating a Constitu-

tional Law on Kaliningrad (under the Federal Constitution of course) that establishes the rights of the oblast's administration vis-à-vis Moscow. This law should also specify the uniqueness of the exclave, in order to avoid claims from other oblasts or federal districts.

## Institution-building, rule of law and democratisation

■ Moscow has to guarantee legal and administrative stability, i.e. to create the conditions for the sound, practical enforcement of legislation. The Kremlin and Kaliningrad should also work towards good governance and the strengthening of market institutions, in order to attract foreign investment. Only after the oblast has put appropriate legal standards in place (e.g. protection of investors' property) will foreign investors make their way to the exclave.

■ The Kremlin should actively cooperate with academia, media and NGOs on improving the openness of Kaliningrad (and Russian) society. It should also allow the development of a civil society, instead of opposing it. However, judging from the treatment of the independent media one should not be too optimistic about the Kremlin's willingness to allow this. At the moment the Kremlin is trying to impose a civil society from above, which obviously will be easily controllable and send politically correct messages to serve Putin.

## Economic development

■ Moscow could actively support (through participation) the facilities provided by the CBSS's EuroFaculty, RDA and the Tacis local support office to develop and educate Kaliningrad's business community. Russia could ask these institutions to develop curricula to retrain the unemployed workforce and to provide courses on management skills, and on the norms and standards of the EU and of other foreign markets.

■ Both the Kremlin and the Kaliningrad administration should jointly identify priority areas for which the EU's financial support programmes could be utilised (e.g. border cross-

ings, environment, health, and infrastructure). Russia could then try to develop a plan together with the EU and the CBSS (as this organisation has the expertise) to attract investment from the private sector in these areas. However, the bottom line will undoubtedly be that Kaliningrad (and Russia) should first implement administrative and legislative reforms.

The biggest challenge for Vladimir Putin lies in systematic, structural reform. All his actions

and recommendations to date have focused on putting the right persons in place and shaping new initiatives and policies. Thus far he has not adequately dealt with setting up a sound, independent administration and creating comprehensive legislation. Only after Moscow has fulfilled these conditions will Kaliningrad be able to attain its share of economic growth and prosperity in the Baltic Sea region.

## Conclusion

One decade after the break-up of the USSR, the dilemmas that Kaliningrad poses to Brussels and Moscow seem a reflection of the problems that the EU is encountering in its enlargement process, and of the troubles that Russia is experiencing in its approach to transformation as such. Regarding the EU, Kaliningrad suffers from Brussels' rigid division between internal and external policies (JHA versus CFSP) and from the lack of coordination and concrete implementation in the different initiatives and programmes that have been in place for the last ten years (CSR, PCA, ND and Tacis). Concerning Russia, the oblast suffers from the lack of continuity in Moscow's approach, the absence of systematic administrative and judicial reforms, and the generally wrong perceptions of how to extract the exclave from oblivion.

For the EU and Russia, the difficulty is their sheer size: for the EU the size of its decision-making procedures and bureaucratic rules, for Russia the omnipresent legacy of communist rule, which explains the absence of the rule of law and of democratic principles. That is why both the EU and Russia face enormous problems in developing commitment and applying flexibility to the special case of Kaliningrad, whereas Lithuania and Poland have not encountered this problem. Even though both the EU and Russia have developed proposals for Kaliningrad, implementation is lagging or failing due to these bureaucratic circumstances.

For the EU, as well as for Russia, some pluses and some minuses can be discerned in their approaches to Kaliningrad during the last few years. Optimism regarding the EU can be derived from the opening of the Tacis local support office in Kaliningrad, the willingness to extend Phare aid to Kaliningrad, the ideas put forward in the EC's communication to the council, and the many project proposals (e.g. the CBSS projects NEDP and NeDAP that are included in the ND) and suggestions for improvement that increasingly originate from

Brussels itself (e.g. joint EU border and customs services at the new external border).

Even though the minuses for Brussels seem less weighty than its pluses, they have far-reaching consequences. The Tacis support going to Kaliningrad is too modest to have much effect, the expertise within the EU seems to be inadequate (it could learn a lot from Lithuania and the CBSS), the conflicting aims of the internal and external policies hamper a constructive approach towards the oblast, and the lack of coordination between the PCA, the CSR, the ND and the aid programmes leads to random and therefore ineffective policy-making. A final, and more general criticism is that the system of rotating presidencies is preventing continuity of policy-making and implementation.

The positive developments in Russia are the election of Yegorov as governor of Kaliningrad in November 2000, the personal chemistry between Yegorov and Putin, the continuing commitment of Putin to make the oblast a pilot-region, the critical analysis by Putin of the failure of Kaliningrad policies at the special meeting of the Security Council, and the adoption of a new federal programme. However, the negative features are more considerable: the new federal programme is based on an incorrect analysis, the Kremlin is considering weakening the powers of the Kaliningrad administration, and systematic administrative and legislative reforms have still not been implemented. In fact, the chances of a successful development of Kaliningrad depend on the personal capabilities of Putin and Yegorov, which implicitly shows the many shortcomings of institutional arrangements.

Despite these failures inside the oblast and the federal administration, Lithuania and Poland have managed to develop a stable relationship with Kaliningrad. Both have opened consulates in the oblast, established flexible border regimes, created various cooperation councils with Kaliningrad and assisted the exclave with CBC, economic and environmental

projects. In addition Lithuania has directly engaged Russia through the development of the Nida Initiative. Warsaw, however, only paid Kaliningrad considerable attention in the first half of the 1990s. Furthermore the Polish approach towards the oblast lacks guidance from the national government, as it has to be conducted through the voivodships. In fact, Lithuania has been the only country that has been continuously engaging Kaliningrad, cautiously but steadily and with the approval of the Kremlin.

The oncoming isolation that Kaliningrad fears will probably not happen in a political sense. Just as Poland sees itself as the ambassador of its eastern neighbours in the West, Lithuania has adopted a similar approach regarding Kaliningrad during the last years. It will most probably continue this policy of engagement. This is one of the positive results of enlargement: the EU will acquire an eastern dimension and the biggest advocates will be the new member states. Furthermore, with the accession of Estonia, Latvia and Lithuania the EU will be home to more than a million ethnic Russians, many of whom have relatives in Kaliningrad or other parts of Russia. This group of 'Euro-Russians' has the potential to become a human link between the EU and Russia.

The prospect of Kaliningrad becoming a pilot region within the EU-Russia relationship might have gained impetus following the attacks of 11 September, as the EU and Russia are cooperating more closely on security affairs, especially with regard to terrorism and organised crime. However, if these joint efforts by the EU and Russia are made at the cost of Kaliningrad the oblast will once again sink into a state of isolation. Both Brussels and Moscow have to continue their engagement with Kaliningrad, and to give substance to the ideas and proposals that emerged in 2001.

As the key for structural change in Kaliningrad lies with Moscow (as Putin has acknowledged), the Kremlin has the ability to set the parameters for the oblast's future. It is necessary first of all to implement structural reforms and to establish good governance, so as to achieve stability and predictability (which will attract investments). This implies that the oblast

should be given more powers, assets and responsibilities, in order to enhance its management capabilities and its financial resources. Moscow could also consider creating a governmental or presidential commission on Kaliningrad in which all relevant ministries and the oblast administration take part. This commission should provide the Kremlin with recommendations on how to improve overall coordination and efficiency. It could also reconsider the new federal programme, which is based on erroneous perceptions of the oblast's problems.

It will be essential that the EU assist Moscow in carrying out these crucial reforms. First of all the EU needs to adopt a more flexible approach towards synchronising its internal and external policies (e.g. border management versus CBC projects) and it has to improve the coordination and coherence of the aid programmes and the policies that affect Kaliningrad (the PCA, the CSR and the ND). Brussels should attempt to increase its financial and technical support to local institutions that coordinate and facilitate the implementation of projects (through education, information and training). Furthermore it has to drastically increase the provision of financial resources for the upgrading and updating of Kaliningrad's infrastructure (e.g. border crossings, energy, transport and telecommunications). Last but not least the EU has to increase cooperation with the oblast's officials on the management of the future common border, the introduction of a friendly visa regime and a joint approach to countering the threat of organised crime.

Previous enlargements have not had such an impact on European security and stability as the oncoming one will, nor have they affected the EU's external borders so severely. Neither has the EU had to deal with an exclave of a non-member state before. What is not new is the ultimate aim of EU enlargement: to build a Europe (and that is not just the EU) whole and free, and to extend the zone of peace, prosperity and stability. If this means that the EU has to make internal adaptations and has to allocate more money to the 'outsiders', then that is an affordable cost, all the more so when a part of the 'outside' is surrounded by EU territory.

## Annexes

### Abbreviations

BEAC	Barents Euro-Arctic Council
CBC	Cross-Border Cooperation
CBSS	Council of the Baltic Sea States
CFSP	Common Foreign and Security Policy
CSR	Common Strategy on Russia
DG	Directorate-General
EBRD	European Bank for Reconstruction and Development
EC	European Commission
EIB	European Investment Bank
EMU	European Monetary Union
ESDP	European Security and Defence Policy
EU	European Union
FEZ	Free Economic Zone
GAC	General Affairs Council
IFI	International Financial Institution
Interreg	Community Initiative concerning Border Areas
Ispa	Instrument for Structural Policies for Pre-Accession
JHA	Justice and Home Affairs
MFA	Ministry of Foreign Affairs
MFN	Most Favoured Nation
NATO	North Atlantic Treaty Organisation
ND	Northern Dimension
NDEP	Northern Dimension Environmental Partnerships
NeDAP	Northern e-Dimension Action Plan
NEFCO	Nordic Environmental Finance Corporation
NGO	Non-Governmental Organisation
NIB	Nordic Investment Bank
PCA	Partnership and Cooperation Agreement
Phare	Action Plan for Coordinated Aid to Poland and Hungary
Phare-CBC	Phare Cross-Border Cooperation
RDA	Regional Development Agency
Sapard	Special Accession Programme for Agriculture and Rural Development
SEZ	Special Economic Zone
SIS	Schengen Information System
SMEs	Small and Medium-sized Enterprises
Tacis	Technical Assistance to the Commonwealth of Independent States
Tacis-CBC	Tacis Cross Border Cooperation
TEN	Trans-European Network
WEU	Western European Union
WTO	World Trade Organisation



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