

Challenges and Opportunities for Kaliningrad in an Enlarged Europe

Vladimir Yegorov

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I would like to thank the convenors of this Conference and its participants for the presented opportunity to take part at this event and make a report.

I think that within the framework of the European integration, the situation of the Kaliningrad oblast is undergoing a cardinal change, and before long we will find ourselves fully surrounded by states that enter into the European Union, states that are included into the area of NATO, the Euro zone and the Schengen area. In the Russian-EU Summit in Brussels, the Kaliningrad compromise, as it was perhaps rightly named by Mr Ciosek, was found, and this compromise is able to meet today the requirements of all the interested parties. I am noting this with a particular satisfaction as I personally attended this Summit. Together with the President of the Republic of Lithuania Mr Adamkus, we yesterday analysed all the aspects of implementing the Joint EU-Russian Statement and came to the conclusion that for the present time this is the most promising document. The more so, that consultations between Lithuania and Russia have started, and it is an extremely vigorous start, as it will be necessary to transform all of the 15 provisions of this Joint Statement into technical regulations in order to implement the idea of this compromise document.

I must say that it is not only the transit issue that poses problems for the Kaliningrad oblast. The participants of this Conference are well aware of the fact that only a decade ago the Kaliningrad oblast was a closed area where no foreigners were allowed to enter, the port was closed for foreign ships, and even the citizens of the Soviet Union were not able to visit such regions as Baltysk without previously obtaining an invitation, then their documents had to be processed by the Department of Internal Affairs of their place of residence, and only afterwards they could start planning their trip to Kaliningrad. Certainly, the situation has changed drastically over the recent years, and we have moved from the closed zone into a completely open regime. Nevertheless, we still experience grave consequences of this half a century long isolation, especially in the area of economics. During the first years following the disintegration of the Soviet Union, the Kaliningrad oblast found itself like an actual island without the supply of assembly parts for its industry, which brought about its sharp decline, and this slump in industrial output was the greatest in all Russia. In a number of indicators, our loss was over sixty percent of the previous industrial potential. All this demanded for modernisation of economic life, and in 1996 an economic mechanism was worked out in the form of the law on the Special Economic Zone, which enabled to reach during the last years a rate of development in industrial production which by about three times exceeded that in Russia. By the results for the year 2001, this development rate was 12.5 per cent, while in Russia it was approximately 4.5 per cent. This year it is also at the level of 12.5 per cent, and I am convinced that we will finish the year with the same indicator. In 2001 the volume of investment amounted to 8 billion roubles and exceeded the 2000 level by 37 per cent.

The situation is such that we find ourselves in extremely unfavourable economic circumstances, especially from the point of view of infrastructure. The infrastructure of the oblast is to a great extent based on what was slightly modernised from the pre-war infrastructure, though, basically, especially as concerns housing-utilities and transport spheres, all this is actually still based on the pre-war potential. The Soviet-time modernisation, regretfully, did not affect us to the extent it involved our neighbour Lithuania - now an independent state - and we are well aware of how much effort we still need in order to reach the standard of living and wellbeing enjoyed by both our neighbours, Lithuania and Poland. The President of our country fully understands this and takes a personal interest in the issues related with the Kaliningrad oblast.

Last year the Federal Target Programme of Development of the oblast was adopted for the period until 2010. It started functioning this year. It is foreseen to invest over 3 billion US dollars into the implementation of this Programme for the realisation of a considerable number of projects. These are the projects which involve the energy sector, the satisfaction of demand with our own electric

energy supply, the construction of a power plant with the generating capacity of 900 megawatt, with the introduction of the first block with the generating capacity of 450 megawatt in the year 2005. As concerns the transport infrastructure on the whole - on 1st January 2003, the first section of the ferry terminal to connect St Petersburg and Baltyjsk will start operating, as one of the elements of the conversion of the military naval base, where one harbour was transformed to be used for a civil ferry. The ferry line St Petersburg - Kaliningrad was put into operation in 2001, now it is the line St Petersburg-Baltyjsk- ports of Germany, with the ferry named "Georg Ots", which was obtained from an Estonian shipping company and started sailing on 1st January 2003. A deep-water terminal is under construction now, in general it will be a deep-water harbour in the Baltyjsk region, which is also the result of conversion.

Certainly, much effort will also be necessary for the upgrading of what is known as joint undertakings. These are border-customs crossing points. There are quite a number of border crossing points in the oblast, where only three of them meet the requirements of the present day. Of particular importance there is the assistance promised to us by the European Union and recorded in the Joint Statement. Nevertheless, it is very important not to stretch this assistance over a lengthy period of time. Work is in process over a joint project to upgrade the border crossing point at Bagrationovsk on the Polish border, where 18 million US dollars are being invested, with Russia investing 15 million, while 3 million are coming from the European Union. The European share was extended over a period of time almost as long as one year. At such a pace, the process of upgrading will take a very long time, and finally it is not just about setting people to making the crossing in comfort - it is first of all for the sake of the functioning of the region's economy.

This year for the first time we reached the Soviet-time level in the cargo turnover of our ports, and we believe that the next year this rate will be more significant. Every day 49 trains arrive to the Kaliningrad oblast from Russia, thus you can imagine the burden this creates on the still underdeveloped customs infrastructure at the border crossings, especially in the region of Kybartai - Chernyshevskoje.

I would especially like to concentrate on the results of those economic changes that took place during these years. The industry is in essence restored, with the exception of individual enterprises. There have appeared completely new industries which previously did not exist in the economy of the region. These are the assembly of BMW vehicles, Kia Motors, there function the assembly and production of TV sets and work meat processing factories that produce 20 per cent of all tinned meat products for the Russian market. There actively works the fish processing industry, which produces 32 per cent of all tinned fish products for the Russian market. At present there function in the region almost 200 joint ventures, thus it is possible to say that through the joint ventures, the economy of the Kaliningrad oblast is deeply integrated into the economy of Western countries, I will present here only some numbers about the oblast: there function about 500 Russian-Polish joint ventures, 500 Russian-Lithuanian enterprises, and 307 Russian-German ones. Next, there follow Russian-Belorussian enterprises, and the development of Russian-Belorussian relationship is gaining momentum by way of establishing joint enterprises. I would especially like to highlight our long-standing relationship with Lithuania. I have already mentioned the 500 joint ventures, and there also are substantial investments. Thus, for instance, within this year alone, 7 million US dollars were invested in Sovetsk for the enterprise "Viiknai" producing fish fingers. This means the output of 20 000 tonnes a year and the production will be exported to 32 countries.

I am telling you all this, dear colleagues, to show that even a slight interference with the existing communication regime, economic ties and human relationships may produce a setback. Therefore, as a participant of both the Moscow Summit of 28 May and the Brussels Summit, I can say that we, both the Russian and the European diplomats, took a serious attitude towards the preparation of the Brussels Summit including serious consultations with the governments of Poland and Lithuania, and managed to come up with a mechanism that enables us to talk about dynamics, namely positive dynamics, based on the development of economic ties and human relationships, without inflicting damage on any of these elements.

There is one issue, I believe, that cannot be left without separate attention, namely the issue of environment. Regrettably, the Kaliningrad oblast finds itself in the most difficult situation in comparison with Lithuania and Poland, as during the last decade, we have done very little to improve the ecologic situation, especially in respect of the Nemen River. Yesterday we discussed this issue with President Adamkus. Prime Minister Kasjanov, with whom I had a comprehensive conversation, informed that there was a possibility to get a credit from the European Bank of Investment for the

construction of waste water treatment plant in Sovetsk, in Nemansk and in Slavsk with the capacity of 120 000 cubic meter per 24 hours, including waste water treatment facilities for the pulp and paper factories in Sovetsk and Nemansk. This amounts to 55 million euros. I am sure that here are present very influential people who might give us their assistance in promoting this project, the more so that this was promised by the European Bank of Investment. We are fully aware of the degree of our responsibility in ensuring that the Baltic Sea basin, as well as the basin of the air ocean above the Kaliningrad oblast, which means above our mutual European home, remain clean. It is us our task, and we will fulfil it, but it would be desirable to deal with it while the consequences of those dangerous emissions, which for many decades have been flowing and poisoning not only the rivers but likewise the Baltic Sea itself, have not become too grave.

I would like to mention with gratitude the efforts of business people, those business people from 52 states who are bringing their capital into the Kaliningrad oblast. We maintain contacts with the governments of 138 states of the world, and the trade turnover of our oblast for the period of 9 months amounts to 1,800m US dollars. I am convinced that this constitutes dynamics in comparison with the previous year. Now we know that it is a 40 per cent increase, and I believe that, despite all those difficulties we are experiencing, we will gradually be implementing the objectives we were given by the President of our country: to reach the standard of living enjoyed by our neighbours.

Thank you for your attention.