

## KALININGRAD AND ITS INTERNAL PROBLEMS

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The Kaliningrad District - a Russian enclave on the Baltic remained closed to foreigners, totally isolated from the West up to the year 1991. Flight connections looked solely eastwards, the port hosted only Russian ships while many international railway routes ended abruptly on the Polish border. This situation stemmed from the strategic importance of the District as the base of USSR's Baltic Navy forces as well as infantry and air forces of the so called „second offensive line”.

To the end of the eighties the Kaliningrad District, as the most westward reaching and strongly military part of the Russian Federation, separated from the main motherland by Baltic republics part to the federation of republics, remained a taboo subject as if it were 'non existent' on the political map. The situation of the region underwent sudden change at the end of the eighties and nineties. The disintegration of the Soviet Union caused the region, which had remained closed for decades to become the focus of political discussions. After Lithuania gained independence the District was cut off first by one and next by several states (Latvia, Belarus). The final shape of the District was defined on December 8, 1991 with the disappearance of the Soviet Union. R.

Kaliningrad's position is unique from the historical as well as economic and geopolitical point of view. This former territory of Eastern Prussia, a part of contemporary Russia is distanced 600 km from the homeland. It is much closer to Warsaw and Berlin than to Moscow. On the other hand, the District is relatively near the developed regions of Western Europe. The region held the status of free economic zone and since 1996 holds that of a special economic zone.

Russian authorities have emphasised repeatedly the significance of the District in ensuring the safety of Russia particularly in view of the expansion of NATO and pro NATO aspirations of the Baltic States. Due to the above, a revival of interest in the district and the entire Baltic region is becoming visible in Moscow's policy. Kaliningrad with its geographical location could play an important role of intermediary between the West and Russia.

The Kaliningrad District covers an area of 15,1 thousand km<sup>2</sup>, where 1692 km<sup>2</sup> are part to the water basins of Zalew Wiślany [Wisła Bay] (Kaliningrad Bay) and Kurońsk Bay. The population of almost one million inhabitants (948,5 thousand in 2000) comprises 78.1% of Russians, 7,6% Belarussians 8,5%, Ukrainians 7,5%, Lithuanians 1,9%, Ormians 0,8% Germans 0,6% and Poles 0,5% (5 thousand.). The negative birth rate in 1999 read - 6,8 per mil. At the end of 1999, unemployment became the problem of 75 thousand persons, i.e. 15,8% of the population in production age. The number of people suffering from tuberculosis and AIDS (25 thousand persons) shows a growing tendency. In recent years a sense of local identity of the enclave's inhabitants started slowly unfolding. This is

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not the question of a Kaliningrad nationality but awareness of own specifics within Russia at large.<sup>1</sup>

From the economic point of view Kaliningrad was and is very important for Russia. Up to the nineties it supplied approximately 10% of fish products, 6% cellulose, 4% paper (4 cellulose paper mills), 100% of amber (ok. 700 tons annually). Exploitation of this mineraloid at the present pace in the area holding 95% of existing resources should last for the next 300 years. Exploitation of natural, low sulphur content crude oil resources in the area amounted to over half a million tons. 654 thousand tons were mined in 1999. The oil is sent to the Lithuanian refinery in Możejki<sup>2</sup>. There are plans for seabed mining of D-6 located on the Baltic shelf. Other extensive, economically significant resources include rock-salt, peat and mineral water.

Until recently, 10% of the inhabitants worked in marine related industries, the deep sea fishing fleet comprising 600 vessels<sup>3</sup>. The region was generally military and strategy oriented with a number of military industrial plants manufacturing for the needs of navy vessels, producing space rocket engines, electronic and optical products, etc. Lack of military orders in the last few years meant problems in sustaining these branches of industry. Only some plants had managed to switch to a non-military production range, others as e.g.. OKB „Fakel” have found a market for their low power engines thanks to their application in French and American artificial satellites<sup>4</sup>.

The District features a relatively well developed transport system including an ice-free Baltic port directly connected by shipping lines with Russian and non Russian ports on the Baltic. Annual turnover of the port amounts to 3-5 million tons, which is merely 1/3 of its handling capacity. Recently a concept has been developed to build a new port in Świetły and dredge the port canal in Kaliningrad as presently it does not accommodate for bigger ships.

The most important city in the District is that of Kaliningrad, which houses 46% of the population and 60% of the industrial potential<sup>5</sup>. In the academic year 1999/2000 the university and two other schools of higher education enrolled almost 18 thousand students, with over 10 thousand pursuing daily studies. The scientific and technical potential of the District diminished considerably. In the years 1993-1995 educational funds were reduced 8,5 fold, and in the case of some fields of knowledge even tenfold. The number of scientists fell in this period fourfold.

Economic problems, which came to light after the disintegration of the Soviet Union, had a specific impact on the economic downfall of the enclave. Economic indicators in the District are not only significantly worse than those of neighbouring countries but also

<sup>1</sup> G.Gromadzki, A.Wilk, Raport 1. Przewycięzanie obcości: Kaliningrad jako rosyjska enklawa wewnątrz Unii Europejskiej (Overcoming alienation. Kaliningrad as an enclave inside the European Union). Fundacja im. Stefana Batorego, Warszawa, January 2001.

<sup>2</sup> G. Medwedew, Droga do energetycznej niezależności, Rosyjskie Regiony (Way to power supply independence, Russian regions), no 3(279), February 1999, p.20

<sup>3</sup> A. Zbudzki, Współpraca przygranicznych województw RP z Obwodem Kaliningradzkim Federacji Rosyjskiej (Cross-border co-operation of Polish Regions with the Kalinigrad District of the Russian Federation), [w:] J. Rocławski, G. Grzelak (red). Woj. Gdańskie 2000 plus, Strategia rozwoju, (Development strategy) Gdańsk 1997, p. 62

<sup>4</sup> N. Muraszow, Pokojowa produkcja „Obronki” Rosyjskie Regiony, (Peace oriented production of „Obronki”, Russian Regions), no 3(279), February 1999, p.27

<sup>5</sup> G. Fiodorow, V. Korneyevets, Multilevel Interests for the Development of Kaliningrad Region as an Enclave Territory of Russia, Ię7R-Schriften, no 17/1996, p.45

worse than the Russian average (e.g. gross regional product per capita in the year 2000. amounted to 65% in comparison to the Baltic States and 50% in comparison to Poland). Recently the falling rate in industrial production was thrice that in Russia as a whole. Concurrently production of alcoholic beverages is increasing.

The most important projects relating to environmental protection have been suspended thus breaching Russia's international obligations. The District deposits 253 million m<sup>3</sup> of municipal and industrial sewage annually into the Baltic with barely 1/4 treated prior to release. The operating sewage treatment plants are working at double projected capacity. Pregoła releases daily approximately 400 thousand tons of sewerage exceeding admissible standards many tenfold. In accordance with the Helsinki Convention of 1972 and 1992 on protection of the marine environment the Russian Federation should undertake steps to inhibit sewerage disposal.

As the state ceased financing water melioration works the soils are turning into swampy land. 1/3 of the 136 drainage pumping stations for an area of 100 thousand ha remain inoperative. 86 thousand inhabitants live in areas threatened with flooding. Excessive water saturation and recession in state farming has contributed to a 10% fall in agricultural production annually. The increasing number of private farms has not improved the food market situation. Over 1,5 thousand farms sprouted in the year 1998. Presently, almost 6 thousand farms are run in the region supplying 20% of the regions agricultural products.

The region is almost completely dependent on external power supplies. Local power and central heating stations are capable of meeting the needs of inhabitants and the industry in an insignificant degree with 98% of electric power supplied via a unified Russian power system running through Lithuania - three power lines of 330 kV and three of 110 kV. The demand in winter amounts presently to 560-570 MW. Any form of economic revival creates the hazard of a power deficit. In order to improve the situation the construction of a new power station fitted with two 450 MW turbines to be powered by either gas, oil fuel or mazout was commenced in 1994. However, shortage in federal resources stopped the investment project. Intensive efforts are being undertaken since 1998 to reactivate the project.<sup>6</sup> On March 22, 2001, in their complex programme aimed at solving the District's problems, German Gref, the Minister of Trade and Economic Development of the Russian Federation and admiral Władimir Jegorow, District Governor supported reactivation of the first phase of the project construction of the first unit powered by gas and completing it by the year 2003 with the second unit in the future.

Lack of direct connection to the Russian power system has an adverse impact on the power security of the District. Dependence on power supply delivered across countries party to or aspiring to NATO are contradictory to the security policy of Russia. This official standing on the issue is in conflict with statements of some experts from Kaliningrad who at the verge of the third millennium see a possibility of selling future power surplus to western Europe<sup>7</sup>, after constructing a new power plant and including the District in the Baltic power ring.

Gas is supplied to the District by the Wilno-Kaliningrad gas pipeline. In 1997, its throughput amounting to 500 million m<sup>3</sup> annually was insufficient. The construction of a

<sup>6</sup> G. Medwedew, op. cit. Page 19

<sup>7</sup> as above



new pipeline is necessary for the new power station and other power consumptive industry. Several routes for the future pipeline have been developed. The first one projects a route through Belarus and Poland, skirting Lithuania whereas the second one is an arm of the pipeline running from Yamal Peninsula to western Europe, and the third option is a pipeline running through Lithuania parallel to the present pipeline. Works on completing the building of a 30-kilometre section of pipeline between Czerniachowsk and Sowietk and a gas distribution station in Kaliningrad are delayed. Meeting gas demand in full requires commissioning of 45 kilometres of pipeline annually for a period of 10 years. Projects have been developed for using rock-salt layers 200 m thick to construct underground gas storage facilities. Concurrently the District would have no need of importing rock salt currently imported from Lithuania, Poland and Germany.

The Kaliningrad District is one of the most military focused regions in Russia. Since 1993 the number of navy vessels of the Baltic Fleet has been reduced threefold and the number of crew by 40%. The Baltic Fleet and 11 Guardian Army left the District deserting 17 military towns. The military airport on Mierzeja Wiślan has also been wound up. Bałtyjsk - apart from Sankt Petersburga - continue to be the main marine base on the Baltic for Russia. In 1994, a special defence district was established in Kaliningrad in an effort to territorially regroup Russian military forces. Formerly the District was part of the Baltic military District - an organisation of clearly offensive nature. Since June 1998, after installing S-300PS mobile anti-rocket systems in Kaliningrad, the region belongs to the best-guarded ones in Russia. The Governor of Kaliningrad announced in January 2001, that the number of soldiers in the District shall be reduced from 25 thousand to 16 thousand<sup>8</sup> in 2003. However, with Poland joining NATO and the perspective of Baltic States following suit Russian generals emphasise that the military role of the District is more important to Russia than the economic one<sup>9</sup>.

It is estimated that at present 10 % of the District's population are the military and their families, half of the territory, 30-40% of the economy is connected with the army and to the same extent dependent on the financing from the state budget.

Functioning of existing military basis, military practice range areas and storage facilities create a series of environmental protection problems and socio-economic problems. The principle ecological problems are connected with storage and treatment of ammunition and obsolete military equipment. Army arsenals, stations and storage facilities are located in close vicinity of the city of Kaliningrad. The bad technical condition of storage facilities and frequently storage of ammunition, which does not comply with binding regulations, enhance the direct hazard for the city and its inhabitants.

Housing shortages for the military, reservists and their families has an adverse impact on the moral of soldiers and officers. There are no funds in the state budget for building annually 5 thousand flats. Several months long delays in paying out wages contribute to rising tension. In effect Kaliningrad has lost many of the best-qualified and proactive energy experts. In March 1998 a special centre was established to enable the military to adapt to non-military professions. The first group of 245 graduates was granted

<sup>8</sup> Wir brauchen das reiche Europa, Der Spiegel, nr 11,13.01.2001, s.152-155.

<sup>9</sup> P. Jendryszczyk, Nie wykorzystana szansa Kaliningradu (Lost chance for Kaliningrad), Rzeczpospolita, 12.09.1997.

licences in such fields as international transport managers, industry specialists or farmers<sup>10</sup>. In 1999, students from the centre started training sessions on Bornholm. Running farms and fish processing units according to European standards are a new experience gained in Denmark by the former military thanks to financing by the European Union<sup>11</sup>.

In June 1991 the „Jantar” Free Economic Zone was established. The gap between establishing the free zone for entrepreneurship and its actual presence turned out to be too big and could not be successfully overcome. Obviously, the free economic zone status gave an impulse to the development of foreign trade, attracted the attention of foreign companies to the Kaliningrad District and capital from 42 countries. In 1996, the President of Russia signed a Federal Act on "Special Economic Zone in Kaliningrad District". As a result the whole territory of the District obtained the status of a special economic zone. This was a step backwards in comparison to conditions which prevailed during the previous 3 year period of free economic zone. The Special Economic zone is not managed by an independent company but by the Kaliningrad administration, which undertakes all entrepreneur, related decisions. The most significant factors hindering economic and commercial activity is the weak banking and insurance system, excessive bureaucracy, complicated tax regulations and an unstable political climate.<sup>12</sup> Increased duty fees on imported goods were introduced in 1998 in order to limit the inflow of cheap cars, alcohol and tobacco coming to Russia through Kaliningrad. The reaction to the above was a spontaneous, mass development of smuggling practices. With disintegrating local industry and agriculture and the necessity to import practically every thing from Russia, Poland and Lithuania, smuggling of liquor, cigarettes or petrol became the way for survival in case of a considerable part of the population. The value of smuggled goods is estimated at hundreds of millions of dollars per year.<sup>13</sup>

Although problems exist 1243 companies with foreign capital have been registered. In the Kaliningrad District 423 registered companies hold shares of Polish capital.<sup>14</sup> Dominating in the investments are those connected with the fuel and power sectors, transport, wood machining and cellulose and paper industry. The biggest investment include: *Balktran* (production of port cranes - German capital), AEG (production of technical gases - Swedish capital). In the years 1998 - 1999 the value of foreign investments fell from 39,3 million USD to 18,2 million USD. In 1999 the biggest investments in the District were made by Switzerland 4,8 million USD, followed by Lithuania 4,7 million USD, Germany 3,5 million USD, Austria 2,3 million USD and Poland 1,3 million USD.<sup>15</sup>

No sense of stability and a changing legal system led to a withdrawal of foreign companies from the District. Out of 55 Italian firms only 6 have remained<sup>16</sup>. Kia-Baltica

<sup>10</sup> E. Poljakow, Dawni wojskowi zostają przedsiębiorcami, Rosyjskie Regiony, (Former military turn businessmen) no 3(279), February 1999, page.28

<sup>11</sup> as above page.29

<sup>12</sup> ABC Inwestora w Federacji Rosyjskiej, Kaliningrad- Rosyjska Specjalna Strefa Ekonomiczna, (ABC for investors in Russian Federation, Kalinigrad\_Russian Special Economic Zone) Sambia Consulting Ltd. Kaliningrad, November 1997, page. 4

<sup>13</sup> S. Popowski, Rosyjska wyspa w europejskim morzu (Russian Island on the European Sea), Rzeczpospolita, 23 March 2001.

<sup>14</sup> Por. A. Fibak, Ł. Bojakowski, Kierunek Kaliningrad, Pomorski Przegląd Gospodarczy nr 2/2001.

<sup>15</sup> Kaliningradzka Oblast in figures 2000, Kaliningrad 2000, s.144

<sup>16</sup> Exodus of Italian businessmen, The Coastal Times, No.2(68), February 1999, s. 12

and Avtotor - car assemblies located in one of the navy shipyard halls Jantar and Kaliningradbummasz Works (until recently working for military purposes) have gone bankrupt). The fate of the former plants was saved by BMW, which chose to open its assembly plant there.

In order to override the crises a resolution of the Russian Federation was passed<sup>17</sup> *On the Federal programme of development of the special Economic Zone in the Kaliningrad District in the years 1998 - 2005*. The aim of the resolution was to weaken the effects of the crises and improve the economic climate. However, in view of NATO's expansion, political security and defensive objectives of Russia in the region prevailed over accelerating economic co-operation of Russia with European countries, protection of economic security of the region and development of the Special Economic Zone. The programme also assumed transforming the region from a subsidised one to one contributing to the federal government<sup>18</sup>. Unfortunately, the resolutions did not bring expected results. Another complex programme aimed at solving the enclave's problems was presented at a government meeting of the Russian Federation on March 22, 2001. It foresees transformation of Kaliningrad from a region functioning mainly based on import into a zone focusing on production and export. The appearance shows rising interest of the federal authorities in the region's problems. However, implementation of the project does not seem to be feasible among others due to lack of funds and little interest of local and federal authorities.<sup>19</sup>

The above picture of complex transformation processes of the Kaliningrad District clearly shows the various counter priorities. G. Fjodorow and V. Korneyeviec (1996) identified the main areas of development with reference to interregional, national, regional and local interests in view of regional development plans. (Table 1). The table presented below shows not only varied interests but also basic contradictions and conflicts of interest particularly at the level of Russian Federation and Kalinigrad District. No possibility of eliminating the above gives rises to doubts as to all the expected effectiveness of this repair programme.

Experts from the Russian Academy of Science calculated that that elimination of differences in civilisation and economic standards between the District and Europe requires investments amounting to 36 million dollars to the year 2010. The question remains where the funds can be found as Russia will not have the necessary means.

Isolated from the outside world and featuring a falling economy the Kliningrad District is a hazard to the political and military space. In order to counteract the above it is necessary to undertake steps towards involving the District in all possible forms of Baltic and European forms of co-operation. Europe's opening to Kaliningrad and that of Kaliningrad to Europe is an opportunity for progressive breaking through the isolation which is the main cause of its peripheral position. This is conditioned by reductions in the military sphere to the level required to defend the District. In the present boundaries and as part of Russia the District could become a bridge between Western and Eastern Europe, Belarus and the Baltic States.

<sup>17</sup> No 1259 dated 29 September 1997

<sup>18</sup> ABC Inwestora w Federacji Rosyjskiej (ABC for investors in Russian Federation), op. cit., page. 61

<sup>19</sup> B. Cichocki, Rosyjski rząd chce poprawić sytuację w Kaliningradzie, (Russian government wants to improve the situation in Kaliningrad) OSW, 29 March 2001



Table 1

*Priorities in regional development of Kaliningrad District*

Principle development sectors	Cross-regional	National	Regional	Local	Branch of industry	Total
Transport network:						
a) Roads	***	*	***	**	***	12
b) Railway	**	*	**	*	**	8
c) Ports	*	***	***	**	**	11
d) Airports	*	*	**	*	*	6
Tourism and recreation	**	*	***	**	*	9
Energy	*	**	**	*	*	7
Agriculture	*	*	***	***	***	11
Fishing	*	*	***	***	***	11
Celluloid and paper industry	*		**	**	**	8
Social and economic situation	**	**	***	***	**	12
Sustainable development of cities	**	**	**	***	*	10
Development of agriculture	**	*	**	***	*	9
Conversion of military industry	**	n o	*	n o	n o	3
De-militerisation	***	n o	**	**	*	8
Environmental protection	***	*	**	**	n o	8
Special Economic Zone	**	n o	***	***	**	10
Cross border co-operation	**	n o	***	**	*	8
Total	31	18	41	35	26	

Key: top priorities \*\*\*, high priority \*\*, low priority \*, no priority - no

Source: G. Fjodorow, V. Korneyevets, *Multilevel interests for the Development of the Kaliningrad Region as an Enclave Territory of Russia*, I Schriften no /7, Dresden 1996, page 47