

**Pertti Joenniemi, Raimundas Lopata, Vladas Sirutavicius, Ramunas  
Vilpisauskas**

**IMPACT ASSESMENT OF LITHUANIA'S INTEGRATION INTO THE EU ON  
RELATIONS BETWEEN LITHUANIA AND KALININGRAD OBLAST OF RUSSIAN  
FEDERATION**

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Institute of International Relations and Political Science, Vilnius University

## Summary

The study addresses the issues linked to the impact of Lithuania's membership in the European Union (EU) on relations between Lithuania and the Kaliningrad region of Russian Federation. The analysis deals with the three issue areas considered crucial for the harmonious development of the links between Lithuania and the Kaliningrad region, namely, visa policies, transit and trade regimes.

Lithuania's membership in the EU implies adoption of EU policies, i.e. general principles and concrete legal norms governing the movement of people, services and goods inside the Union as well as between the EU and the third countries. Thus, joining the EU will require Lithuania to adopt Schengen *acquis communautaire* and introduce visa regime to the residents of Kaliningrad travelling to or through Lithuania. In the field of transit, Lithuania will join the Community Customs Code, Common transit system and EU transport policy. However, the issues of transit tariffs and quotas applied to Russian transit to/from the Kaliningrad region will remain a matter of bilateral agreements between Lithuania and Russia. Finally, in the field of external trade regime EU accession implies joining the Common Commercial Policy of the Union, namely, aligning import duties, application of commercial protection instruments, becoming part to trade agreements signed between the EU and the third countries.

The study discusses in detail the differences between the current visa, transit and trade regime between Lithuania and the Kaliningrad region and the prospective changes in these areas that will result after Lithuania joins the EU. It also assesses the significance of these changes, their likely impact and concrete policy measures, which could extend the benefits of EU membership to the neighboring countries and regions. The different policy solutions and scenarios based on existing frameworks and possible innovative approaches are presented. The study argues that the final outcome of the EU enlargement on Lithuania's (and EU's in general) relations with the Kaliningrad region will depend on how innovatively will EU approach this specific issue and how flexible will Russian Federation be in allowing one of its regions a specific treatment in respect of its relations with the Union. It is argued that the most feasible and beneficial solution for all parties involved is to further develop the idea of the Kaliningrad *oblast* as a pilot region acknowledging the specificity of the region and to give more concrete content to this idea. Concrete proposals in the fields of visa, transit and trade regimes ranging from procedural improvements to the innovative solutions are suggested. The adoption of these suggestions could contribute to the creation of a wider European area of peace, stability and prosperity for all.

## 1. Introduction

European integration has been about extending a variety of freedoms to participating nations with the underlying political purpose of securing peace and prosperity in Europe. The Treaty of Rome stipulates that the European Community - now the European Union - is about extending these principles in order for them to become cornerstones for politics in Europe at large. With the criteria laid down at the Copenhagen Council (1993) and the Amsterdam Treaty (which entered into force in 1999) Europeans, including the applicant countries preparing for the EU accession, are expected to abide to a common set of standards and principles.

This implies that the European Union has a considerable impact beyond its own membership. The Union is surrounded by regions, which can be regarded as intermediate spaces between the inside and the outside of the Union. There is a kind of "policy export" which has a considerable impact on actors and regions that are not found within the purview of member or applicant countries.

Kaliningrad – a small Russian exclave wedged between Lithuania, Poland and the Baltic Sea - constitutes one of these regions. It stands out as a site where Russia and the European Union increasingly meet. Policies are established, including the installation of a border regime (encompassing visa, transit and trade regimes) between the acceding countries and the neighboring states that not only reflect but also have a constitutive effect on the relations between these entities. The question posed here pertains to what these policies are, how they function, and what is needed in order for the policy impact to be in line with the basic aspirations of the EU as stipulated in its founding documents.

The *oblast*, i.e. the Kaliningrad region (KR), already deserves consideration because of its being cut off from mainland Russia by foreign states. Travel by land between Kaliningrad, a kind of 'little Russia', and the rest of Russia now involves crossing three borders. The *oblast's* detached position has had – and continues to have – a significant effect that exacerbates various political, economic, security-related and psychological effects, and brings about what has sometimes been called the 'Kaliningrad Puzzle'.

It is not, however, the extraterritorial situation as such that constitutes the crux of the problem. The various issues are compounded by the fact that Kaliningrad is at the crossroads of Russia and the European Union. It is influenced by the policies of both. EU accession negotiations and the potential future membership of Lithuania and Poland place Kaliningrad in the position of becoming a Russian enclave within the enlarging EU. As such, Russia becomes inevitably involved in EU affairs and likewise, the Union is unavoidably entangled in the relations between the 'little Russia' and the 'big' one. In such a scenario, Kaliningrad's position appears to increasingly blur any clear-cut division between the inside and outside of either Russia or the European Union.

This implies that Kaliningrad is the watershed of various modes of thinking concerning the unfolding of political space in the new Europe. In potentially turning into an enclave of the EU, it becomes part of a constituting logic that does not apply with similar force to the rest of Russia. The Union's effort of pursuing policies based on a variety of freedoms has a considerable impact on how borders regimes are comprehended and are managed. It appears that in order to sort out the issue of what Kaliningrad is really about, and to settle this in a flexible and innovative

manner, the parties need to be clear about their approaches as to the construction of political space and borders that to some extent deviate from each other.

Seen from the EU's perspective, the duality visible in the *oblast's* position implies that there is not just one Russia but, in a sense, two. Kaliningrad is increasingly seen within the sphere of the policies of the Union, with the 'big' mainland Russia at a distance. Kaliningrad displays - in part because of being influenced by the policies pursued by Lithuania and Poland, which are adapting to the rules and regulations of the EU – quite particular characteristics. Its in-between position implies that the *oblast* can neither be completely integrated nor separated off by systemic differences without rather far-reaching changes. The region does not allow itself to be categorized in an ordinary manner. It is not to be addressed in terms of either/or. Issues emerge that transcend the ordinary divisions and lines of demarcation. As a 'little Russia', it calls for immediate attention in being far more exposed to the policies of the EU than any other Russian region. By contrast, the 'big Russia' forms a case that has a quality of its own. It is less sensitive to the Union's policies, and may therefore be tackled differently. And yet it is impossible to deal with the 'little' without also sorting out the 'big': they are inextricably linked by the principle of sovereignty with Kaliningrad remaining an integral part of Russia. The prevailing view tends to be that Russia itself cannot be admitted to the EU, but at the same time, a small part of Russia is to a considerable and increasing degree, within the sphere of the Union's policies.

Russia, concerned to high degree with its own security, has traditionally pursued policies that prioritize national sovereignty understood in terms of territorial control and unambiguous borders. Therefore, one may assume that Russia is far more vulnerable to the blurring of crucial lines of demarcation than the EU with its more flexible logic of governance. Russia is thus called on to deal with an increase in its own diversity, as well as to treat the *oblast* explicitly as an entity that can mediate contacts and facilitate linkages between Russia, Europe's integration processes, and regionalization efforts around the Baltic rim. Should Kaliningrad's borders should be, it seems, understood as interfaces that mediate and facilitate contacts rather than strict lines of division.

Kaliningrad is also a considerable challenge to the EU. In the first place, the Union does not revolve around issues pertaining to sovereignty and other concerns of a modern type, nevertheless borders seem to have quite an important function in delineating and distinguishing between those who are 'in' and 'out'. This is required, in particular, by the Schengen rules and the underlying binary concept of political space. Even beyond the extension of various freedoms outside of the Union borders appear to have a distinct role to play in the Union's construction of self-hood. Injecting a EU-related border regime is of importance, but it may also impair what has essentially consisted of cross-border cooperation, endogenous region-building as well as trade and transit regimes. This seems to be the case in terms Kaliningrad's relations with both Lithuania and Poland. Relations important for the local actors and the border-region more broadly become severed. As part of the Union's 'near abroad', Kaliningrad will gain immediate attention by virtue of being extensively exposed to the policies of the EU. As a consequence, the Union may be obliged to adjust its rules and regulations to some degree: that is, to review what its borders – and thereby what the Union's essence - are about. With Lithuania and Poland approaching membership, the EU's policies and border practices will, to a considerable extent, influence the future of the *oblast* and have implications for the relationship between Kaliningrad and the Russian mainland.

A major question posed here is whether Kaliningrad merely constitutes one border among many between the EU and Russia, or if it has some special qualities. In the latter case the argument is that Kaliningrad should also be singled out for special treatment. More generally, what is the probable solution to the Kaliningrad puzzle? What options are open for Kaliningrad to exist simultaneously on the inside and the outside of the Union? Is it a site of conflict or co-operation? Is it at all probable that a genuine dialogue may evolve taking into account the differences between Russian and EU logics and approaches concerning the unfolding of political space? If the role allotted to Kaliningrad is that of bridging – in functional terms and more broadly in the sense of a paradigmatic meeting of minds - what type of EU-Russia relationship is in the cards and what kind of European configuration would emerge as a result of settling the puzzle?

The purpose of this inquiry is to consider the impact of the process of EU enlargement on the border between Lithuania and Kaliningrad. The spheres covered include those of the visa, transit and trade regimes. The study assesses the consequences of the Union's eastern enlargement with Lithuania being an applicant and on its way of becoming a EU member state. The aim is to explore the current situation within these three spheres in order to assess the opportunities as well as liabilities entailed by enlargement. Focusing on these spheres is expected to provide insights into some essential aspects of the process, although the picture emerging is not a comprehensive one. Issue areas such as currency questions, the extension of the Euro zone, access by Kaliningrad's fishing fleet to EU ports, and a variety of security-related matters are not addressed here.

The areas analyzed in this study are of considerable significance for the rather small economy of the Kaliningrad *oblast* as well as its neighbors and the political and economic situation in the Baltic Sea region more generally. Despite their obvious importance, these questions have thus far received relatively little scholarly attention. This study aims at remedying this state of affairs and aspires to provide insights into the current situation with respect to the visa, transit and trade regimes between Lithuania and the KR and into changes pertaining to prospective Union enlargement and their implications for the parties involved. Further, it suggests possible policy solutions aimed at maximizing the benefits of EU enlargement. In conclusion, a number of general and more specific policy proposals are presented. In line with the framework chosen, these proposals pertain specifically to a variety of enlargement-related issues in the Lithuania-Kaliningrad context, but may also be seen as having relevance and applicability for Poland as well as in the larger Baltic Sea region.

## **2. Visa regime**

### **2.1. Background to the Issue**

In terms of the KR, the EU has thus far restrained itself to the pursuance of two goals: to get, on the one hand, the advantages of legitimate cross/border travel, contacts and trade with a non-EU neighbor and, on the other hand, the minimization of 'soft' security risks that arise from problems such as crime, illegal immigration, transmission of communicable diseases and environmental pollution. For some time the emphasis seems to have been on the down-grading of borders, but then the Treaty of Amsterdam came into effect in 1999. From the Kaliningrad perspective, this implied that the balance between two contradictory goals had changed in favor of the EU by placing top priority on securing freedom within the Union and protecting the EU itself against various risks emanating from the outside. The Treaty requires all applicant countries to

adopt the Schengen *acquis* and aims at having EU member states use a common visa within five years.

The visa policies are part and parcel of overall policies that aim at creating an 'Area of Freedom, Security and Justice' with various regimes dealing with cross-border flows, refugees and asylum-seekers. The objective is to create an area of free movement within the EU by removing controls at the common borders of the participating states, and in compensation, strengthening controls at the external borders. Candidates for membership, such as Lithuania and Poland, are required to adhere to these policies.

In principle, the issuing of visas is about controlling and regulating the free movement of people. This is to say that such policies restrain the liberty to travel. In the context of the EU's enlargement, they are part of an overall constellation in which the Union is not only opening up its borders. The EU is also exporting its border control policies which is controversial because the introduction of such policies will minimally complicate cross-border relations – including the installment of the now established Euroregions (Baltika, Saule and Nemunas in the making) - and in the worst case, will break socio-economic and political ties between applicants and non-applicants.<sup>1</sup> Cross-border-trade, both official and unofficial, accounts for a substantial part of both Lithuania's and Poland's entire foreign exchange, and this applies even more to Kaliningrad. The implementation of rather strict and uniform visa procedures constitutes a particularly outstanding issue if the border-tightening side of EU policies runs ahead of the travel- and trade-liberalizing side.

The implementation is not a matter of negotiation for the applicants as they are not yet members of the Union. They are expected to abide by the rules, although it is admitted that this is a cumbersome task. The problems of implementation are compounded given the difficulties in discovering the content of the Schengen *acquis*: the Schengen Executive Committee decisions and rules were only formally published in April 1999 immediately prior to the Amsterdam Treaty coming into effect. The allocation of various parts of the Schengen rules across the first (immigration and asylum) and the third (police and judicial cooperation) pillars has also been quite challenging. The legal complexity of the system has been further exacerbated by the British and Irish opt-outs from Schengen, the inclusion of non-members, and the Danish position as a member of Schengen in opposition to the communitarisation of the competences falling under the third pillar. In their study on the EU's border policies, Giuliano Amato and Judy Batt conclude that the Amsterdam Treaty made welcome progress in transferring competences in the field of visas, immigration and asylum to the first pillar. However, in their view the emergent border policy still suffers from the legally convoluted and obscure *acquis*, institutional fragmentation and poor coordination between the three pillars.<sup>2</sup>

The issue of striking a well-considered and functioning balance between the free, and smooth contacts between and movement of people, on the one hand, and the scaling down of various forms of abuse of the freedom of movement on the other hand, appears particularly acute in the case of Kaliningrad. The *oblast* stands out as a region which was previously free in the sense

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<sup>1</sup> See Grabbe, Heather, (2000). The Sharp Edges of Europe: Extending Schengen Eastwards. *International Affairs*, 76:3, 519.

<sup>2</sup> Amato, Giuliano and Batt, Judy, (1999). Final Report of the Reflection Group on the Long Term Implications of EU Enlargement: The Nature of the New Border. The Robert Schuman Center for Advanced Studies and the European University Institute. April.

that there were no state borders or currency obstacles to take into account if going to mainland Russia or the Baltic countries. Even access to Poland was relatively smooth. With the demise of the Soviet Union and the emergence of a great number of new state borders, as well as a hardening of those that have been around for a longer time, Kaliningrad is faced with a qualitatively quite different, and more restricted situation. The imposition of high and unpenetrable barriers would in all probability have quite detrimental effects in terms of stability and would further undermine the prospects of economic as well as social recovery, this clearly calling for rather flexible approaches as to the movement towards a common visa, asylum and immigration policy.

## 2.2. Special Regimes

Some of the liberties are still there, or have remained in force until recently. Special visa regimes have existed with regard to Lithuania and Poland. Such an arrangement allows residents of Kaliningrad and Lithuania to cross their mutual border on internal passports/ID cards. The visit period is 30 days. Russian citizens residing in Kaliningrad do not require visas for their transit to and back from the KR while traveling by regular direct trains if they do not get off in the territory of Lithuania. According to an agreement, simplified rules of border-crossing apply on the Russian-Polish border, including Kaliningrad. The border can be crossed on the basis of permits, identity cards and other ID documents and stay is allowed without visa in the localities mentioned in the single-use permit. The duration of the stay is limited to seven days.<sup>3</sup> Currently, Russian citizens also need a voucher which shows the name of the traveler and the hotel reservation in Poland.

For Kaliningraders, these arrangements have been quite important in reducing feelings of isolation and in maintaining links to their nearby environment. Shuttle-trade and local tourism have flourished and the prevailing conditions match the attempts to develop institutionalized cross-border co-operation along Kaliningrad's various international borders<sup>4</sup>. While these liberal regimes have allowed for the preservation of at least some freedom of movement, the situation has in general become far more restricted and regulated. Yet, the Treaty of Amsterdam requires EU candidate states such as Lithuania and Poland to join the common policies. As part of EU membership, both are expected to adopt the Schengen *acquis*, which requires that previous treaties providing for the current arrangements be abrogated. Both Lithuania and Poland will eventually have to introduce visas for Russians and harmonize their visa policies with the rest of the Union.

As the Schengen admission process is different from the admission into the EU itself, the candidate countries have a certain flexibility at their disposal. Lithuania has thus declared that it will adopt Schengen once it enters the EU, and Poland has stated that it may introduce visas for Russians during the second half of the year 2001. This may, pending final decisions, imply that the two applicants will apply somewhat different policies as to timing. Access to Lithuania may remain – at least for some time – easier than entering Poland. Lithuania would provide the only remaining visa-free travel route by land between Kaliningrad and mainland Russia. In any case, the final outcome appears to be that both countries will apply more strict policies than the ones in force currently.

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<sup>3</sup> See Council of the Baltic States, (1999). Conditions of Travel Across the National Borders of the CBSS Member States: A Survey with Recommendations. 10<sup>th</sup> of May.

<sup>4</sup> It should be noted that currently about 3,6 million people cross Lithuanian-KR border every year.

Obviously, the Union's abolition of checks at its internal borders and the aspiration for homogeneous policies within the Union entail that the border regime becomes more restrictive for Kaliningrad. Russia will in all probability reply in kind, thus implying that Lithuanians and Poles visiting Kaliningrad would also need a visa. The Union's need to ensure a secure external border as it enlarges to include Lithuania and Poland works against the premised goal of refraining from the creation of new dividing lines in the new, post-Cold War Europe. The policies pursued do not contribute to freedom of movement but hamper traveling to and contacts with the EU area, including Lithuania and Poland. In some cases a rather special constraint could occur. If Lithuania introduces a visa requirement, it could be that those Kaliningraders who now go to Vilnius in order to get visas at foreign embassies located there (only Lithuania and Poland have consulates in Kaliningrad with a Schengen-related competence of issuing visas), would first need to acquire a visa for Lithuania in order to be able to travel to Vilnius for the purpose of getting a visa for the country they actually aim at visiting. In other words, Kaliningraders could find themselves behind a double barrier – at least until the Union introduces a common visa for all the member countries.

However, the implications are not only felt in Kaliningrad's external relations. The border regime installed by the EU will have an impact on intra-Russian relations as well. The introduction of a strict visa system will also hamper the traveling of Kaliningraders to their own country if traveling by land. The arrangement is bound to not only impede contacts to the nearby environment and EU countries; it will also restrain intra-Russian contacts. New dividing lines will open between countries and between the 'ins' and the 'outs' of the Union, as well as between Russia's center and a particular periphery as well. This is the factor that makes the Kaliningrad case rather special and sensitive. In the context of current policies aimed at introducing freer movement within the Union, Kaliningrad appears to stand out as a case demonstrating that for entities on the fringes or outside of the Union, the price to be paid entails considerable risks and undue costs.

### **2.3. Possible Solutions**

It has been broadly recognized that introducing a strict visa regime in the case of Kaliningrad is particularly problematic<sup>5</sup>. For example, the conclusions from a conference on Kaliningrad, jointly organized by Denmark and the Nordic Council of Ministers in Copenhagen in 1999, included the point that relevant regional and sub-regional organizations and bodies should keep the issue of border crossing and free travel in the Baltic Sea region on their agenda. The Council of Baltic Sea States (CBSS) has, for its part, taken the following stand:

The approach taken by the EU in the Treaty of Amsterdam seems to be an attempt to find solutions to contemporary problems relating to globalization and the migration tendencies. But creating unified rules for the whole EU area will not necessarily solve the problems of individuals who come from third countries and intend to visit an EU country. There might be a risk of a more automatic and less humane handling of visa applications in a large and unified system. Furthermore, the price for abolition of checks at internal borders within the EU, which are partly also CBSS members states' borders, may be that the border regime between EU member states and third countries

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<sup>5</sup> See, for example, one of the recent studies on the impact of EU enlargement on Kaliningrad oblast produced by the Kaliningrad scholars – Хлопецкий, А. П., Федоров, Г. М., Зверев, Ю. М. Стратегия развития Калининградской области как пилотного региона сотрудничества Российской Федерации и Европейского Союза, Калининград, Август 2000.

(i.e. also between some CBSS countries) becomes more restrictive than before. Making travel into the EU area more difficult because of progress within the EU cooperation does not seem to be fair and in harmony with the OSCE commitments.<sup>6</sup>

However, despite increased awareness there is still a lack of constructive and commonly agreed measures that would remedy the situation, Russia has proposed that the current system be kept unchanged, and has also aired ideas about 'a Baltic Schengen'. Authorities from the Kaliningrad city have, for their part, departed from the conclusion that the Schengen rules will be implemented and, as a consequence, have called for visas that would be long-term, low cost and allow for multiple entries. The observation has been made that transit visas could be of some help, although it would require a new definition because the current Schengen Convention does not include in its definition of transit visas the kind needed by Russian citizens aspiring to visit – in the case of Kaliningrad – their own country.<sup>7</sup> In any case, the fact that the Schengen regulations have a severe impact on freedom of movement within Russia and effects the relations between the center and one Russian region, a situation making the case of Kaliningrad quite unique. Seen from EU's perspective, the impact is an inadvertent one, but it is nonetheless there. As it is an outflow of the EU's eastern enlargement, there are good grounds for claiming that it falls, in the first place, upon the Union to restore unimpeded contacts to the extent possible.

In order to facilitate the process of granting visas, it would be of considerable help if a joint EU facility could be established in Kaliningrad. Proposals to that effect have been tabled, but so far without results. Both the European Union and the Russian Federation have been reserved vis-à-vis such ideas. The CBSS has, for its part, aired the idea of a consulate of one of its member states being empowered to issue visas on behalf of the other member states. The Council has also argued for measures such as moving consulates closer to borders and extending opening hours, increasing the use of long term multiple entry visas, the construction of more border crossings and the introduction of shorter procedures at the border.<sup>8</sup> The more innovative ideas include a reduction of the need for strict visa procedures by introducing the establishment of extensive data banks combined with the checking of fingerprints at borders. Such systems could potentially allow the reduction of visas to a mere stamp in the passport of those crossing borders, although they do not offer any quick solution taking into account that the Schengen Information System (SIS) is currently being re-designed and only expected to be ready around 2003.<sup>9</sup>

One opening is found in the notion that the Schengen system is not cut in stone. It is increasingly recognized that the system places undue pressure on the applicant countries and may have excessive consequences in hampering legitimate cross-border contacts. After all, the Treaty of Rome sets the target of "eliminating the barriers that divide Europe" and the aspiring to "an ever closer union among the peoples of Europe". The EU border policies are seen as fragmentary and inconsistently developed, and it is conceded that the implications for regional development of extending EU border regimes eastwards have so far been little discussed.<sup>10</sup> The issue of visas

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<sup>6</sup> Council of the Baltic States, (2000). Secretariat Report on Visa Requirements in the Baltic Sea Region. 2nd of June.

<sup>7</sup> Fairlie, Lyndelle (1999). Will the EU use Northern Dimension to solve its Kaliningrad dilemma? Working Papers, no.21. Copenhagen Peace Research Institute.

<sup>8</sup> CBSS Secretariat Report, 2<sup>nd</sup> June 1999, *ibid*.

<sup>9</sup> Information provided in Bort, Edward, *Under the Shadow of Schengen: The Borders of Central and Eastern Europe* (forthcoming towards the end of 2000 in a book edited by Judy Batt, University of Birmingham).

<sup>10</sup> Grabbe, *ibid*, p. 526

remains a significant theme in this context. The 'paper curtain' of visas and frontier controls will, no doubt, inhibit the economic co-operation and cross-border trade between Kaliningrad and Lithuania. The prospects for the development of the border region becomes undermined and links between societies and people are disrupted. Such unwarranted impacts – leading also to costs for the Union and the applicant countries in particular - need to be flanked by a variety of measures premised on the allowance of Schengen to return increasingly to its original purpose of facilitating free circulation of goods, services and people. The parties should refrain, in the short run, from an overly rigid and extensive adoption of the Schengen *acquis* and - as some complications are unavoidable - supplementary financial aid and political support should be considered in order to bolster their ability to deal with issues resulting from the implementation of the Union's border policies. Such assistance should to the extent possible also cover Kaliningrad, including support for sub-regional co-operation, as effective border policies require co-operation and reciprocity: borders cannot be managed from one side only. It has to be taken into account that there has to be well-functioning administrative systems capable of implementing complex regulations and monitoring compliance on both sides of the border.

### 3. Transit regime

#### 3.1. Current situation

The dependency of the KR “from/to mainland” transit via Lithuania has been emphasized in many studies. The importance of this factor became particularly clear during the financial crisis in Russia. For instance, in December 1998, a Tacis report characterized the constellation in this way: "The main feature of the crisis in the Kaliningrad oblast is its qualitative difference with the other regions of Russia, with a strong dependence on outside external relations (approximately equally important with mainland Russia and the Baltic region)"<sup>11</sup>. The situation in the KR has improved after the crisis, although the region's dependency on transit still prevails. For instance, regional power engineering is totally dependent on imported fuel (mainly from Russia). Structurally, oil and coal account for 80 % of the fuel imports and their delivery is costly, complicated and dependent upon external political factors. Coal deliveries from Kuzbass, Workuta and Inta (mainly by rail) entail high transportation costs comparable to the price of the delivered coal. At the same time, the share of natural gas - the most eco-friendly power source - remains very low (about 15 %) compared to the total amount of fuel used for power production<sup>12</sup>.

In examining the concrete situation with the Russian transit of goods via Lithuania to/from KR, it is necessary to emphasize that the main flow of transit is going by land transport in which the transit of goods by rail is dominating\* :

**Table No. 1.** Russian transit of goods by land via Lithuania to/from the Kaliningrad Region.

Year	Transit of goods by rail (t)	Transit of goods by road transport (t)
1997	5.530.600	228.300
1998	4.965.200	224.100
1999	5.667.700	359.500

<sup>11</sup> Samson I. (ed.). Kaliningrad Region: The Diagnosis of a Crisis. - Kaliningrad: Tacis PROMETEE II, 1998. P. 7.

<sup>12</sup> Ibid, p. 157.

\* The other kinds of the transit (by sea, transport by it's own run) form insignificant part of the Russians transit to/from KR via Lithuania. It should be noted that the transit of gas, electricity, i.e. transit by stationary transport, is not a subject of the research. Besides it is necessary to emphasize that the used data must be treated only as preliminary.

1st half of 2000	1.535.800	222.600
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Source: Lithuanian Ministry of Transport.

As mentioned before, regional power engineering is totally dependent on imported fuel from Russia. Table No.2 shows that fuel constitutes the main share of Russia's transit to/from Kaliningrad via Lithuania.

**Table No. 2.** Fuel transit to Kaliningrad Region via Lithuania by rail in 1999

Fuel	Tons	% from general weight of transit (4.654.400 t)
Coal	1.074.300	23
Oil and its products	795.200	17
Coke	671.300	14,5
<b>Total</b>	<b>2.540.800</b>	<b>54,5</b>

Source: Lithuanian Customs Department, Ministry of Finance.

Finally, it should be noted that the transit to/from KR goes mainly via Lithuania (see Table No. 3).

**Table No.3.** The share of the transit to/from Kaliningrad Region via Lithuania from total transit

Year	The share of the transit to/from KR via Lithuania (%)
1997	12,71
1998	26,74
1999	50,036
1st half of 2000	53,59

Source: Lithuanian Customs Department, Ministry of Finance.

The legal framework of Russian transit via Lithuania is based on bilateral agreements. On July 29, 1991, the "Agreement between the Lithuanian Republic and the Russian Federation on long-duration economic and socio-cultural cooperation in the development of the Kaliningrad Oblast" was signed. The Agreement in accordance with Article 14 (transit of goods without discrimination) of the bilateral "Agreement on the basis for inter-state relations" (July 29, 1991) was foreseen (Articles 1, 8) to guarantee the transit of goods free of custom taxes and to establish a favorable customs regime on the Lithuanian - KR border. The Bilateral "Agreement on trade and economic relations" (November 18, 1993) provided further guarantees for transit free of custom taxes (Article 7) and defines the status of the most favorable nation for transit. The "Agreement on mutual cooperation in customs service" (February 25, 1995) stipulates that transited goods are exempt from the customs clearing (Article 3). Finally, the "Agreement on long-term cooperation between the regions of Lithuania and Kaliningrad Oblast of Russian Federation" (June 26, 1999) confirmed (Article 5, 7) that the transit of goods will take place on a non-discriminatory basis according to the GATT/WTO principles<sup>13</sup>.

<sup>13</sup> Svarbiausios Lietuvos Respublikos tarptautinës sutartys. 1918 - 1995. - Vilnius, 1997. - P. 168 - 182.

However, despite the legal framework providing favorable treatment for Russian goods transited via Lithuania to/from KR, there are two main problems: firstly, border crossing permeability (road/rail) and secondly, the rates of the transit tariffs (rail). The first problem is related to the infrastructure of the border crossing points and the time required for the border crossing. Factors contributing to long crossing times include standing in queues and a mounting of customs' formalities.

In terms of the problem pertaining tariff rates, it is noteworthy that the cost of the Lithuanian portion of the Moscow - Kaliningrad transportation route, is greater than the Lithuanian section of the Moscow to Klaipeda route<sup>14</sup>. Table No.4 illustrates the differences in tariff rates concerning the transit of specific goods (January - August, 2000):

**Table No. 4.** The differences of tariff rates

Goods	Kaliningrad (USD/tkm)	Klaipeda (USD/tkm)
Oil and it's products	0,0195	0,0104
Ferrous metals	0,0197	0,0092
Grain and flour	0,0186	0,0096

Source: "Lithuanian Railways"

Undoubtedly various political and economical circumstances are influencing the size of the tariffs rates. The case illustrates that the Lithuanian authorities exploit the fact that the main flow of the transit of the Russian goods are crossing Lithuania by attempting to direct the transit to the Klaipeda port instead of Kaliningrad port. It is obvious that some interest groups related to port of Klaipeda influence the strengthening of such motivations. In addition, the last changes in the Russian "tariff rates" policy confirm the political and economical dimensions of the transit issue. The Russian side seeks to press the Lithuanians to rebalance the tariffs' rates by reducing tariffs for the Russian transit goods to KR and increasing corresponding tariffs to Klaipeda. The Russian side is especially trying to promote so-called "Two 'K' " project in that context<sup>15</sup>. The idea is to make Kaliningrad and Klaipeda ports not competitors but respectively specialized units.

### **3. 2. The issues: implications of adopting EU *acquis***

#### **3. 2.1. The framework of the EU - Russia relations and the Kaliningrad Region**

It could be stressed again that the Kaliningrad Region is progressively becoming a Russian enclave within the enlarging EU. The neighbors of Kaliningrad - Poland and Lithuania - are preparing for membership in the EU, while the EU treats Russia as part of its "external relations". Consequently, the EU's eastern enlargement may harm some forms of regionality in the Baltics and may lead to new divisions in Europe, instead of overcoming the old dividing lines. It means that Kaliningrad is affected not just by the EU's agreements with Russia but also by the accession negotiations. It is necessary to recognize that the EU acknowledged, at least in principle, the whole scope of problematiques in this respect. However, it has led to the development of two formats in the relations between the EU and Russia.

<sup>14</sup> It should be noted that Russia which applied 18 % privileges for the Lithuanian freight crossing the Russian territory recently cancelled that practice because Lithuania did not abolish the existing tariffs rates on Kaliningrad port direction.

<sup>15</sup> Damauskas Ž. Nori kontroliuoti tranzitą in Lietuvos Rytas. - Vilnius. - July 31, 2000.

The first format is represented by the EU's treatment of Russia as an undifferentiated space. The Partnership and Co-operation (PCA), which came into force in December 1997 aims to encourage political, commercial, economic and cultural co-operation. It has nine sub-committees covering sixteen areas of cooperation. The Common Strategy of the EU on Russia, adopted in June 1999, aims at improving coherence in the efforts of the member states and the EU. It aims to facilitate additional dialogue on economic and foreign policy and an action plan to fight organized crime will be started. Like the PCA, the Common Strategy also presents an extensive menu of co-operation possibilities, which could link the EU and Russia. Both of these agreements have treated Kaliningrad as simply one more Russian border, one that is eligible for the same programs that apply to the rest of Russia.

Specifically on transit question the PCA confirmed that the EU and Russia agree that the principle of freedom of transit is an essential condition in attaining the Objectives of the Agreement. In this context, each Party obliged itself to provide *for freedom of transit* in its territory for goods originating in the customs territory or destined for the customs territory of the other Party (Articles 12, 43, 78). In addition there was mentioned the possibility to conclude specific Agreements with the goal to ensure the interconnection between the transit systems of the Community and Russia.

The second format is represented by the EU's treatment of Russia as a state with specific regional characteristics. This format is especially evident when taking into account the EU's Northern Dimension Initiative (NDI), which constitutes the first EU initiative singling out Northwest Russia, including Kaliningrad, as having unique importance for cross-border relations with the EU. The initiative, taken by Finland in 1997 and accepted by the Union, is premised on the idea that there is a need for special EU policies in Northern Europe. The NDI focuses on the periphery rather than the center and is, by its very nature, premised on crossing borders rather than fortifying them.

This approach was already reflected in the Common Strategy, which anticipated the integration of Russia into a common European economic and social space by supporting the integration of Russia into a wider area of economic cooperation in Europe. It further examines how to create the necessary conditions, in addition to Russia's WTO accession, for the future establishment of a *EU-Russia free trade area*, encouraging Russia to remove obstacles to trade and investment. The removal of such obstacles is envisioned in particular through *the improvement of border crossing procedures and facilities*, and by examining, in accordance with EU rules and procedures, Russian concerns with respect to access to the EU market. This in turn may be promoted by exploring more concretely the scope for cooperation in areas of established Russian expertise as well as the *promotion of regional and cross border cooperation and infrastructure*. Such measures may include: *enhancing cross-border cooperation with neighboring Russian regions including Kaliningrad, especially in view of the EU's enlargement and including in the framework of the Northern Dimension*; enhancing cooperation and technical assistance in the areas of border management and customs; *exploring the scope for working towards linking the Russian transportation systems (road and rail) with the trans-European corridors*; and *seeking mutually satisfactory ways to address transport issues*.

Another step consists of the adoption of the EU Action Plan for the NDI. It is stated that barriers to cross-border trade, co-operation and investment have to be removed by upgrading border-crossings, facilitating information exchange and promoting closer cooperation between local

authorities. Furthermore, regional mainstream flows of goods and services need to be stimulated by further removing barriers to trade and investment. The necessity of encouraging the linking of networks and assistance on both sides of the border (e.g. border-crossing facilities and training) was recognized. These activities should include the improvement of the efficiency and effectiveness of border controls, *facilitating transit* and in particular *local transit across the borders*.

It is important to note that the EU's Action Plan for the NDI especially emphasizes the development of the region's transport infrastructure and services, as well as the promotion of the development of a multi-modal transport system, including the stimulation of the regional mainstream flows of goods and services by further removing barriers to trade. These include: the development of Trans-European transport networks (TEN) within the EU and the extension of the TENs where appropriate (Article 37) and in accordance with their rules towards the acceding countries with the consideration to exploring the scope of working towards linking the Russian transportation system (road and rail) with the TEN's (Article 39). Special support should be given to the promotion of cross-border business cooperation (Article 75), most appropriately between the Kaliningrad oblast and its neighbors. Action in this area will focus on removing trade barriers through the improvement of *border transit*, the exchange of information and the cooperation of regional and national authorities (Article 76).

Russia, for its part has been stressing the need to avoid the emergence of new dividing lines in Europe. The Medium-term Strategy for Development of Relations between the RF and the EU (2000-2010) clearly emphasized the need: to *combine the search for a diplomatic solution to the problems of normalization of transit through the Baltic and CEE countries by developing the pan-European cooperation infrastructure*; to promote cooperation in working out common transport policy; to introduce efficient transport process technologies on the basis of approximation and harmonization of its legal framework; to simplify border crossing procedures subject to assuring the economic security of Russia and developing the pan-European transport corridors (first of all corridor number 1 and in particular, its laterals to Riga - Kaliningrad - Gdansk, as well as numbers 2 and 9). The problematique of the Kaliningrad oblast was especially stressed as follows: "The KR is to 1) determine the prospects of the optimal economic, energy and transportation specialization of the region in order to ensure its efficient functioning in the new environment; 2) to establish the sound transportation links with the Russian mainland; 3) to pursue a line to the conclusion, if appropriate, of a special agreement with the EU in safeguarding the interests of the KR as an entity of the Russian Federation".

More generally, at the EU-Russia Summit in October 1999, Kaliningrad was viewed by Russia as a "pilot region" within the framework of Euro-Russian co-operation in the 21<sup>st</sup> century, although the idea has not been elaborated in any detail.

### **3.2.2. Changes resulting from the EU *acquis* implementation in the area of transit**

The adoption of EU *acquis* in the area of transit implies that Lithuania joins the Community's (Community Customs Code) / common transit (Convention on a common transit procedure) system, and fulfils the requirements of the common commercial policy and Community *acquis* regarding to transport sector.

In the meantime the EU is conducting a thorough, balanced and realistic reform of the transit system<sup>16</sup>. An Action plan for transit in Europe and a new customs policy is being developed<sup>17</sup>. The reform of the customs transit systems should ensure their continuation as an instrument to facilitate cross-border goods traffic, as well as a sufficiently secure system of suspending duties in order to continue the prevention of and the fight against fraud. The reform has to proceed, taking due consideration of the views of business interests by means of legislative and uniform operational measures, together with rapid computerization (New Computerized Transit System - NCTS), and the necessary legislative steps and uniform operational measures making for the harmonized application of the relevant provisions by economic operators and customs administrations. These measures will be taken in order of urgency.

The reform of the transit system, however, does not question the other regime under which goods may traverse Community customs territory. A transit operation Community may in fact be effected under the TIR Convention, the ATA Convention, SMGS (rail), etc. The Commission intends, however, to play an active role in current efforts to revise the TIR convention with a view to improving the security of TIR transit operations.

In any case all forms of external transit allow the movement via Community's territory of non-Community goods on which duties, other charges or commercial policy measures have been suspended. Concerning the simplification of customs procedures it should be noted that the Community has entered a general reservation with regard to Annex E.1 to the Kyoto Convention which sets out the minimal conditions which the transit regimes of its contracting parties have to meet.

The adoption of the Community *acquis* in the sphere of transport involves measures to improve transport safety (the Community *acquis* on maximum authorized limits of weight and dimensions for road vehicles in international traffic, a high technical standard of vehicles complying at least with Euro I standards), TINA requirements, requirements for drivers, approximation of the environmental standards in the sphere of transport, etc. On the other hand, the adoption of Community *acquis* in the sphere of transport implies further promotion of the trans-European networks (TENs) system which intends to help create a cost-effective transport system, planned on a European basis, with special attention to the development of the high-speed rail network.

### **3.2.3. How significant are the changes?**

As mentioned above, there are two main problems for the transit of Russia's goods via Lithuania to/from KR: the border crossing permeability (road/rail) and the rates of the transit tariffs (rail). The adoption of EU *acquis* in the sphere of transit will have no impact on the bilateral agreements between Lithuanian and Russian Federation on the Russians transit of goods to/from KR.

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<sup>16</sup> Council Resolution of 21 June 1999 on the reform of the customs transit systems in Official Journal C 193, 09/07/1999. - P. 0001 - 0002.

<sup>17</sup> Resolution of the EC-EFTA Joint Committee on Common Transit of 2 December 1999 on the reform of the common transit system (2000 /C 42 /04); Commission communication to the European Parliament and the Council entitled "Action plan for transit in Europe: A new customs policy" in Official Journal C 176, 10.6.1997; The European Commission and the EC/EFTA Joint Committee adopt the legal bases for the New Computerized Transit System (NCTS). - Brussels, 15 February 1999. IP/99/108; European Commission. Interim report on transit. Annex I (General description of transit regimes in the Community) and Annex II (Analysis of Community legislation on customs transit). - 10/3/00.

The formalities of the customs procedures will remain practically the same. The Lithuanian customs code, drafted with assistance from PHARE and which came into effect on 1 January, 1998, corresponds in fact with the Community Custom Code. The introduction of a new transit system and the plans that the new convention, would initially cover transit and customs declarations using the single administrative document. This could later be extended to all provisions in other **bilateral** and multilateral conventions on simplifying and facilitating trade and the NCTS as a core of reform. In this view, it is possible to conclude that the procedures of border crossing will be less complicated and permeability will increase. It is notable that to some extent this is confirmed by the experience of the Finnish - Russian border crossing: the experience is based on the management of the customs' formalities by electronic data interchange (EDI).

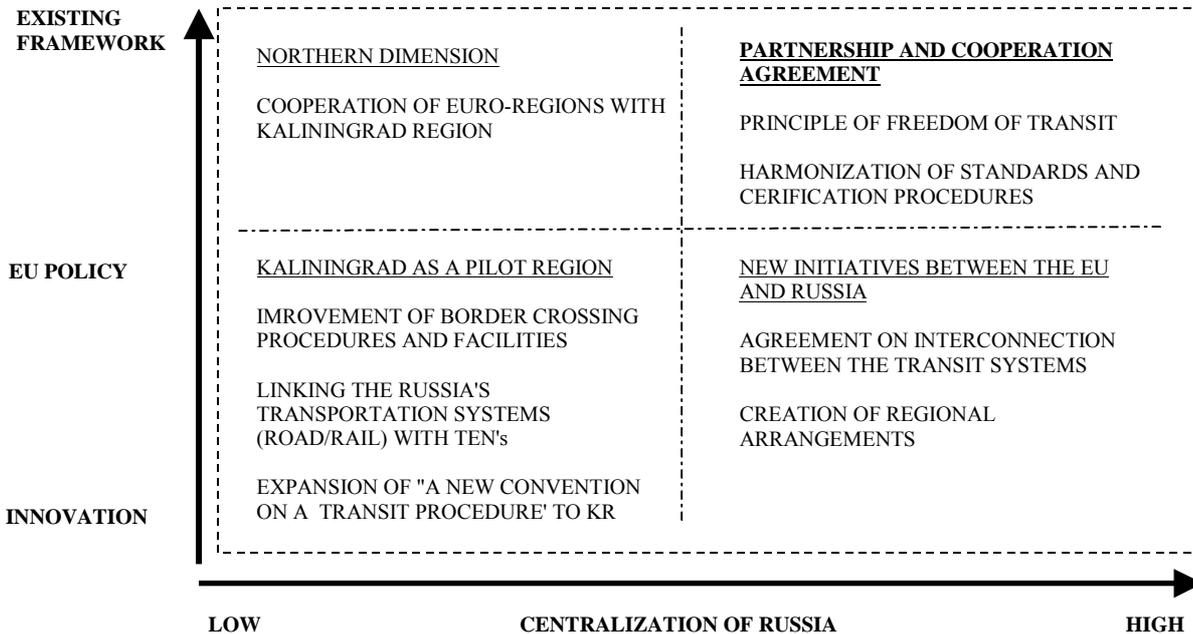
The development of laterals of the TEN's, especially the two spurs of IX transport corridor (Helsinki - Aleksandropol), the IXB (Klaipeda - Vilnius - Minsk - Kiev) and the IXD (Kaisiadorys - Kaunas - Kaliningrad), will provide (if in the end constructed) greater access between Kaliningrad and Klaipeda. Likewise, the logistics of the border crossing points will improve. However, although progress is being made on the development of these corridors, each participating state is responsible for finding the funding for stretches within its own territory. Arguably, Russia is in a weaker position than others in this regard. If Kaliningrad would be unable to upgrade its sections to the same standards as others, it could easily be effectively by-passed - albeit Gdansk would also suffer in such a situation. Thus, although the idea is to increase integration, the actual implementation may further increase Kaliningrad's already considerable isolation. If Kaliningrad (Russia) will be able to elevate its sections to the same standards as others, the logistics of the border crossing points will no doubt improve. It should be noted that new efforts in transit reform foresee the application of NCTS to TIR operations as well.

As to the passing of Russian transit goods to and from Kaliningrad via Lithuania by rail, the question of the rates of the transit tariffs will remain an object of bilateral agreements. It should be noted that the settling of the transit tariffs rates should become more flexible in Lithuania because of the restructuring and privatization of "Lithuanian Railways" in accordance with the EU *acquis* (EU directive No. 91/440)<sup>18</sup>. One may assume that such measures will promote conditions of competition among the operators that will result in a decrease in the transit tariffs rates.

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<sup>18</sup> Restruktūrizavimo stabdys - valstybinio mąstymo stygius in Veidas. - Vilnius. - September 28, 2000. - P. 16-18.

### 3. 3. What are the possible scenarios of maximizing the benefits of integration?



There are a few possible scenarios that could be developed in the area of transit. They are dependent on two main factors: 1) how much flexibility is granted to the KR and whether Russian central authorities will further support the idea of a “pilot region”; and 2) how innovative EU policies towards the KR are going to be.

1. **The existing PCA framework** foresees the commitment by both the EU and Russia to ease customs procedures for both freight and passenger traffic. However, there are no practical mechanisms for implementation.
2. **The "New Initiatives between the EU and Russia"** may be seen in a long-term perspective because its implementation depends on the success of the fundamental structural reforms in Russia.
3. **The “Northern Dimension”** scenario is the closest to the current situation. It implies using the existing frameworks of cooperation between the EU and the Russian Federation and focusing on regional cooperation projects, which are currently being developed.
4. **The "Northern Dimension"** scenario could be supplemented by the "**Kaliningrad as a pilot region**" scenario. Despite the fact that the idea of a “pilot region” is still vague, this option implies the provision of more flexibility to the region on the Russian part and innovative policy on the part of the EU. Such developments will open the possibilities for the consideration of the expansion of a new transit system into the KR if *oblast* will be able to meet the corresponding requirements. Given present circumstances, it is a more realistic way to avoid the new dividing lines and isolation of KR.

## **4. Trade regime**

### **4.1. What are the issues?**

One of the factors that will influence future conditions for business and economic growth in the Kaliningrad Region (and the Baltic sea region in general) is the process of Lithuania and Poland's eventual accession into the EU. Due to its geographical position, Kaliningrad would be surrounded by the EU customs union. The accession of Lithuania into the EU will imply the adoption of the EU Common Commercial Policy including the alignment of customs tariffs, commercial protection policies and other measures. This in turn will imply changes in rules regulating the KR's trade with neighboring countries and, consequently, changes in transaction costs. Due to geographical and proximity factors, Lithuania and Poland can be considered to be natural trading partners of the KR; trade regime changes related with EU accession deserve the attention of all interested parties.

As an enclave region of another country – the Russian Federation – and potentially surrounded by the EU, the KR may represent a unique case in the history of the EU and its enlargements. While there have been cases in the history of the EU when some foreign territories were given (usually temporarily) special status in terms of their trade relations with the EU, there is one major difference that differentiates these cases from the KR. When certain territories were granted special trading regime status by the EU they have, as a rule, been linked to acceding EU member states by historical or political ties and therefore aimed at preserving existing trade regimes. For example, this could be said about the overseas Commonwealth territories that were granted association with the EU after the accession of the Great Britain, the Faeroes island which was granted a free trade regime, or Greenland, which was granted association status with the EU due to their links with Denmark. However, in the case of future EU enlargement there seems to be no precedent which could form the basis for a special trade regime between the EU and the KR, particularly as it is not linked by such a trade regime to any acceding neighbor countries, and is itself part of Russia.

The trading status of the KR inside of an enlarged EU is an issue that is receiving increased attention particularly from Russia, the EU and Lithuania. The issue can be dealt with as a part of EU enlargement process or as a part of a strategy focusing on longer-term relations between Russia and the EU. Several factors are important in estimating the likely impact of EU enlargement on the KR and likely policies to deal with this issue.

First, the possible economic impact on trade has to be estimated to identify possible increases in barriers to trade and trade opportunities, their overall significance, and the balance between trade creation and trade diversion. This paper presents preliminary estimates based on trade flows between the KR and Lithuania as well as likely changes in barriers to trade as a result of EU membership.

A second and related question is that of appropriate policies. To extend the benefits of EU enlargement to the KR and Russia in general, the further development of cooperation policies might be necessary. Obviously, the parties involved here are the Russian federation and the EU. The main issues are (1) how much flexibility or specificity is likely to be given by the Russian authorities to the KR in terms of its different status from the general framework of Russia-EU relations - or how centralized the process of developing Russia-EU relations will be; and (2) how

much innovation is likely on the part of the EU (and to some extent Russia) in dealing with the KR's trading status. The future trading status of the KR will depend on how these questions are dealt with. The issues are discussed below after a brief presentation of trade figures characterizing trade between Lithuania and KR. The chapter concludes with policy suggestions on extending the benefits of EU enlargement to Russia, and Kaliningrad in particular.

#### **4.2. The current situation: trade and its regulation between Lithuania and Kaliningrad region**

Lithuania's accession into the EU is likely to change the legal framework for trade between Lithuania and the Kaliningrad region. From the date of accession, Lithuania will adopt the EU's Common Commercial Policy, which entails among other things the alignment of import customs tariffs, commercial protection instruments and agreements with third countries. The resulting changes are likely to affect Lithuania's trade relations with Russia in general, and Kaliningrad the region in particular. It should be noted that exports from Lithuania are unlikely to be affected given that Russia (including the KR) applies the Most Favorite Nation (MFN) treatment to goods originating in Lithuania as well as to goods originating in the EU. Due to the KR's status of a Special economic zone, it applied special treatment to some of imported goods; nonetheless, no changes in import regulations are likely to arise from EU enlargement.

However, exports from the KR to Lithuania will be directly affected by Lithuania's accession into the EU, as the Lithuanian foreign trade regime will be replaced entirely by the one applied by the EU. The scope of this change will depend on two factors – the quantity of trade flows from the KR to Lithuania, and the differences between current trade regime applied by Lithuania and the one applied by the EU (for example, how different are the import duties applied by Lithuania and the EU to the goods originating from the KR, and whether an increase or decrease in import tariffs is to be expected).

Foreign trade plays important role for the small and open economies of both Lithuania and the KR. However, the relative weight of each other's foreign trade turnover is different. Lithuania is among the main trade partners of the KR while the KR plays only a minor role in Lithuania's foreign trade turnover. In 1997, Lithuania was the second largest market for exports from the KR with a share of 9.4 percent, although this figure declined slightly in recent years and in 1999 equaled 5 percent<sup>19</sup>. At the same time, the share of imports from the KR to Lithuania constituted only 0.78 percent of Lithuania's imports and later decreased by several times<sup>20</sup>.

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<sup>19</sup> Samson, I. (ed.) Kaliningrad region. The diagnosis of a crisis. Tacis Prometee II, Kaliningrad, 1998, p. 86.

<sup>20</sup> Data provided by the Lithuanian Customs Department, September 2000; Хлопецкий, А. П., Федоров, Г. М., Зверев, Ю. М., opt. cit. P. 60. It should be noted that there is a large possibility of error in these figures as institutions from Lithuanian and Kaliningrad region provide different numbers for the same periods. For example, according to the Kaliningrad region authorities, the volume of exports from Kaliningrad region to Lithuania in 1997 were 48,8 mln. USD, and imports equaled 196,1 mln. USD. Estimates of trade during the same period provided by Lithuanian authorities are respectively 44,7 mln. USD and 190,9 mln. USD.

Table 1. Lithuania's trade with Russia and the Kaliningrad region (preliminary data)

	Exports to:						Imports from:					
	1997		1998		1999		1997		1998		1999	
	Mln. \$	%	Mln. \$	%	Mln. \$	%	Mln. \$	%	Mln. \$	%	Mln. \$	%
Russian Federation	969	21.4	680	15.3	330	9.15	1355	23.8	1782	26.8	1208	21.1
Kaliningrad region	191	4.21	168	3.76	65	1.79	45	0.78	19	0.28	10	0.17
Total	4534	100	4455	100	3611	100	5697	100	6648	100	5725	100

Source: Lithuanian Customs Department

Several tendencies can be observed from these trade figures. First, the trade volumes of Lithuania with both Russia and the KR have recently decreased. This tendency reflects the general trend after the economic crisis in Russia in August 1998, therefore any evaluations have to take into account this factor. Still, even in 1997, i.e. before the crisis, the share of the KR in Lithuania's imports did not exceed 1 percent of total imports. Therefore, changes related with EU membership will affect very small share of Lithuania's imports. However, trade relations between Lithuania and the KR are characterized by significant asymmetries in trade shares. Lithuania's membership in the EU might affect a relatively higher share of the KR's exports to Lithuania, which in 1999 continued to be their second major export market after Poland.

Second, although relatively speaking, Russia is much more important for Lithuania as a source of imports (particularly imports of mineral products) than of exports, the opposite could be observed for Lithuania's trade with the KR. Exports from Lithuania to KR have continuously exceeded its imports from the region. Therefore, a large share of Lithuania's trade turnover with the KR will not be affected by EU membership.

Third, imports from the KR to Lithuania are much more diversified than Lithuania's imports from Russian Federation. The latter is dominated by mineral products, namely crude oil and natural gas (see Table 2), while imports from Kaliningrad are more diversified and include timber and its articles, paper, metals, wheat, food stuff, fish, etc. (see Table 3).

Table 2. Lithuania's main imports from Russia and conventional import tariff rates, January 1999 – November 1999

CN group, code and title	Million Lit	% from total imports from Russia	Lithuania's conventional import duty, %	EU conventional import duty, %
Total	3507.643	100	-	-
V chapter, 251020 Natural calcium phosphates, natural aluminium calcium phosphates and phosphatic chalk: Ground	205.268	5.85	Free	Free
V chapter, 270900 Petroleum oils and oils obtained from bituminous minerals, crude	1718.193	48.98	Free	Free
V chapter, 271121 Natural gas	494.827	14.11	Free	0.7
VII chapter,				

390110 Polyethylene having a specific gravity of less than 0.94	55.726	1.59	Free	8.9
IX chapter, 440710 Coniferous	54.755	1.56	Free	Free
XVI chapter, 840130 Fuel elements (cartridges), non-irradiated (Euratom)	176.775	5.04	Free	3.7

Sources: Lithuanian Department of Statistics, Ministry of Economy, Commission Regulation (EC) No. 2204/1999

Table 2 presents the main Combined Nomenclature groups of products, the imports of which exceed 1 percent share of Lithuania's imports from Russia. Altogether these groups constitute almost 80 percent of Lithuania's total imports from Russia. As the data illustrates, petroleum oils, crude oil and related products constitute almost half of Lithuania's imports from Russia, and for these products neither Lithuania nor the EU apply conventional import duties. For several groups of goods, however, the EU applies import duties. The most important of these is natural gas, although the MNF duty applied by the EU to imports of this product is relatively low. Increases in import duties and some trade diversion are possible for some chemical products and imports for the Ignalina nuclear power plant.

Table 3 presents the main Combined Nomenclature groups of products, the imports of which exceed 1 percent share of Lithuania's imports from the KR. Two aspects illustrate much higher levels of product differentiation in comparison with Lithuania's imports from Russia. First, as it was noted, there are many more product groups exceeding the share of 1 percent of imports from the KR to Lithuania. Second, the total share of products imported from the KR to Lithuania exceeding 1 percent of imports is only 57.49 percent (as opposed to almost 80 percent in case of Russia), which also illustrates a very differentiated and widely spread structure of imports.

Table 3. Lithuania's main imports from the Kaliningrad region (KR) and conventional import tariff rates, 1999

CN group, code and title	Million Litass	% from total imports from the KR	Lithuania's conventional import duty, %	EU conventional import duty, %
Total	39.847	100	-	-
I chapter, 030250 Cod, excluding livers and roes	1.218	3.06	Free	12
II chapter, 100200 Rye	1.579	3.96	50	93 euro/t
V chapter, 270119 Other coal	1.635	4.10	Free	Free
VI chapter, 310551 Other fertilizers containing nitrates and phosphates	0.423	1.06	Free	6.5
VIII chapter, 410121 Other hides and skins: whole	0.486	1.22	Free	Free
IX chapter, 440320 Coniferous wood	0.603	1.51	Free	Free
IX chapter, 440391 Other: of oak	0.601	1.51	Free	Free
IX chapter, 440710 Coniferous	1.362	3.42	Free	Free
IX chapter, 440791 Other: of oak	0.432	1.08	Free	Free

X chapter, 470421 Chemical wood pulp: coniferous	3.008	7.55	Free	Free
X chapter, 480100 Newsprint	0.531	1.33	Free	1.5
X chapter, 481830 Tablecloths and serviettes	1.058	2.66	Free	4.8
XV chapter, 721012 Flat-rolled products of iron of a thickness of less than 0.5 mm	1.118	2.81	Free	2
XVI chapter, 841430 Compressors used in refrigerating equipment of different power	0.832	2.09	0/10	0/2.2
XVI chapter, 843149 Other parts of machinery	0.460	1.16	Free	Free
XVI chapter, 847720 Extruders	2.201	5.52	Free	1.7
XVI chapter, 850211 Electric generating sets of different outputs	1.152	2.89	Free	0/2.7
XVI chapter, 854411 Winding wire	0.595	1.49	Free	3.7
XVII chapter, 870190 Other tractors	0.503	1.26	Free	0/7
XVII chapter, 880330 Other parts of aeroplanes and helicopters	3.112	7.81	Free	0/2.7

Sources: Lithuanian Customs Department, Ministry of Economy, Commission Regulation (EC) No. 2204/1999

The comparative data illustrates that the impact of EU membership on import customs duties is more diversified. Although imports in most natural resources and unprocessed products (including coal, wood or skins) are not taxed by the EU, the general level of protection on products imported from the KR is likely to increase. The highest increases are likely in cases of imported agricultural and food products. The impact of non-tariff barriers might also be most significant in the cases of some foods, fish, and some other product groups.

In summary, there is a possibility of a slight increase in protection in Lithuania's imports from the KR after joining the EU. However, due to relatively small volumes of trade this increase will not produce significantly negative effects and its impact will depend on concrete product groups with the unlikely imposition of high imports duties. It should be acknowledged that the impact will be relatively more important to the KR than to Lithuania due to formers higher share of trade with the latter.

#### **4.3. Extending the benefits of EU enlargement to the Kaliningrad region: policy solutions**

Although no significant negative impact on trade between the Kaliningrad region and Lithuania emerges from the static analysis, joint Russian-EU initiatives aimed at reducing barriers to mutual trade might bring dynamic economic benefits to all parties involved. The main questions that have to be dealt with in this respect are: (1) how much flexibility is granted to the KR, i.e. whether Russian central authorities will further support the idea of a "pilot region", with EU trade relations with the KR being different from their relations with the remaining Russian territory, and (2) how innovative EU policies towards the KR are going to be. To consider and compare possible

outcomes, first the current attitudes of the Russian Federation and the EU towards the future status of the KR are presented.

#### **4.3.1. Russia's policy towards the Kaliningrad region**

The issue of the Kaliningrad region's status has been part of a generally cautious position by Russian authorities about the potential negative economic consequences of EU enlargement. Concerns about the negative impact of EU enlargement on economy of the KR were expressed in September 1999 and soon after Russia had detailed its position on the issue in the Medium-term Strategy for Development of Relations between the Russian Federation and the EU (2000-2010).

First, this strategy acknowledged that relations between Russia and the EU during the period under review will be based on a Partnership and Co-operation Agreement, without Russia's accession to or association with the EU as an officially stated objective<sup>21</sup>. It also repeats the aim of the parties to create a Russia-EU free trade zone subject to adequate conditions.

Second, the Strategy devotes considerable attention to "securing Russian interests in an expanded EU", and to the interests of KR in particular. In this respect, it aims "in contacts with the EU to pay special attention to securing protection, including under international law, of the interests of the KR as an entity of the Russian Federation and of the territorial integrity of Russia". The Strategy devotes the entire section on transboundary co-operation to the issue of the KR.

Concerning the questions pertaining to trade regimes, the Strategy aims "to pursue a line to the conclusion, if appropriate, of a special agreement with the EU in safeguarding the interests of the KR as an entity of the Russian Federation in the process of the EU expansion as well as to its transformation into a Russia's pilot region within the framework of the Euro-Russian cooperation in the 21<sup>st</sup> century". Importantly, it also address the issue of legal approximation aiming "to pursue a line to its approximation and harmonization with the EU legislation" in the fields of standards and certification.

Thus, the position of Russia concerning the status of the KR has been somewhat unclear. While it has been promoting the idea of a rather vague concept of the "pilot region", it has repeatedly stated that relations between Russia and the EU have to be developed in the framework of the Partnership and Co-operation Agreement which aims at establishing a free trade area between Russia and the EU. It has been suggested, that "Russia is increasingly prepared to single out Kaliningrad as a rather special case"<sup>22</sup>. At the same time, the recent tendency towards the centralization of power in Russia questions the future developments concerning the "special status" of the region inside the EU. The resulting position might include a combination of central decision making structures with special economic arrangements for the KR.

#### **4.3.2. The EU's policy towards the Kaliningrad region**

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<sup>21</sup> Unofficial translation by the Russian MFA of the Medium-term Strategy for Development of Relations between the Russian Federation and the European Union (2000-2010), 26.10.1999, <http://presidency.finland.fi/frame.asp>.

<sup>22</sup> Joenniemi, P. Kaliningrad: a pilot region in the Russia/EU relations?, appearing in a book from the Finnish Institute of Foreign Affairs, edited by Ojanen, H., draft, p.15.

Differently from Russia, the EU has been treating the Kaliningrad region issue as a part of its external policy towards Russia. The Partnership and Cooperation Agreement (PCA) between the EU and the Russian Federation, which was signed in 1994 and came into force in December 1997, has set the aim of promoting trade and investment and harmonious economic relations between the parties<sup>23</sup>. In the area of trade, this agreement - in addition to stabilizing the legal basis for mutual relations - has set the aim of creating the necessary conditions for the future establishment of a free trade area substantially covering all trade in goods between them. In addition to outlining cooperation in a number of areas, the Agreement states the aim to reduce the differences which exist in the fields of metrology, standardization and certification, and the harmonization and simplification of customs procedures, as well as to start negotiating mutual recognition agreements.

The PCA does not address the issue of the KR specifically. The logic of the agreement seems to suggest that the trade regime between the EU and the KR is seen as an outcome of the agreement between the EU and the Russian federation. The specificity of the region was not acknowledged and no intentions for specific policies foreseen.

The objectives of the PCA were restated by the EU in the Common Strategy of the European Union on Russia announced by the European Council in June 1999<sup>24</sup>. The Strategy explicitly linked the establishment of the free trade zone between the EU and Russia with the latter's membership in the World Trade Organization. The adherence to the rule of law and democratic governance by Russian authorities also seem to be a necessary condition for the establishment of the free trade area between the parties.

The Strategy states that the EU attaches "particular importance to regional and local administrations, within their powers. Relations between central, regional and local authorities are an essential factor in the future of the Federation". Although the Strategy talks of "specific initiatives" including those in the areas of harmonizing legislation, the creation of the free trade zone and by examining "Russian concerns with respect to access to the EU market", it does not explicitly address the issue of the KR in this context. The section on regional and cross border cooperation declares the aim of working more effectively with Russia for regional cooperation and "by enhancing cross-border cooperation with neighboring Russian regions (including Kaliningrad), especially in view of the EU's enlargement and including in the framework of the Northern Dimension".

It seems that the EU has been cautious to see what position Russian central authorities will take on the "specificity" of the KR. The Northern Dimension, which addresses issues of cross-border cooperation does not deal directly with trade issues. Therefore, if the removal of obstacles to trade between the EU and the KR is not to be removed by the creation of the free trade agreement between the EU and Russian Federation, there is a need for an innovative initiative based on a new Action plan. However, during the recent Russia-EU Summit in May 2000, the parties reaffirmed their "readiness to discuss, *within the agreed format and framework of existing PCA bodies*, the impact of future EU enlargement on Russia's trade and economic interests and the special issues

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<sup>23</sup> The Agreement on partnership and co-operation establishing a partnership between the European Communities and their Member States, of one part, and the Russian Federation, of the other part, Official Journal L 327, 28/11.1997, p. 3-69.

<sup>24</sup> The Annex II of the European Council on the Common Strategy of the European Union on Russia adopted in Cologne on June 4, 1999.

existing in the KR” [italics added]. The parties also state the joint aim to mobilize the potential that EU enlargement will offer for increasing trade between the enlarging European Union and Russia, and between Russia and candidate countries”<sup>25</sup>. This wording on special issues related to the KR to be dealt with within the existing framework leaves several options for the potential settlement of the status of the KR (Picture 2). These scenarios are presented below.

**Picture 2. Scenarios of maximizing the benefits of integration in the area of trade**



As was noted the earlier, the policy solutions are dependent on two main factors: (1) how much flexibility is granted to the KR, i.e. whether Russian central authorities will further support the idea of a “pilot region” with EU trade relations with the KR being different from its relation with the remaining Russian territory; and (2) how innovative EU policies towards the KR are going to be. Depending on different combinations of these characteristics of EU and Russian policies, four scenarios of setting up the trade regime between the EU and the KR after the EU enlargement are discussed.

- (1) **Northern dimension.** This scenario is the closest to the current, and therefore the status quo. It implies using the existing frameworks of cooperation between the EU and the Russian Federation and focusing on the regional cooperation projects, which are being currently developed. It singles out the KR in implementing projects in cooperation with other EU regions. Differently from projects in infrastructure, this scenario does not bring additional benefits in the field of trade, which is not included in the list of issues dealt with by the Northern Dimension initiative. However, this framework might be used to facilitate the exchanges between the border regions that might be relatively more affected by the introduction of the EU common customs tariffs.

<sup>25</sup> EU-Russia Summit: Joint Statement, Press Release: Brussels (29-05-2000) – Press: 188 – Nr.: 8976/00.

- (2) **New initiatives between the EU and Russia.** Contrary to the Northern dimension scenario, this initiative implies the most innovation and new policy initiatives in terms of relations between the EU and Russia. However, although such initiatives as the Association Agreement or even closer forms of cooperation and integration seem feasible in the long term, it has been stated by the Russian authorities that Russia does not intend to become associated with or in any other way linked to the EU by at least 2010. Therefore, if a policy solution is to be found before 2010, i.e. at the time of enlargement, which is likely to take place earlier, other options have to be considered.
- (3) **Partnership and Cooperation Agreement.** This option implies using currently existing frameworks by the EU and approaching the issue of trade regime with the KR by liberalizing trade relations with the Russian Federation. As it was mentioned before, the possibility of the free trade area between the EU and Russia is foreseen in the PCA. However, it is closely linked to the accession of Russia into the WTO, even directly dependent on it, and on Russia's internal situation. In addition to the free trade area, issues related to non-tariff barriers need to be addressed in the framework of the PCA, and this is an equally challenging task for both parties.
- (4) **Kaliningrad as a pilot region.** This option implies innovative policy on the part of the EU and giving more content to still vague idea of the pilot region by the Russian central authorities. As it was argued, the KR surrounded by the EU customs union will be the first case in the EU's history, therefore new solutions might be needed to avoid negative trade effects in relation to the KR. From the Russian side, this implies giving more autonomy to the region and agreeing to the different trade regime between the EU and the KR, and the EU and the rest of Russia. Free trade agreements, the alignment of product quality standards and certification procedures or selected liberalization between the EU and the KR are the possible options. Implementing them would bring new challenges such as strict control over the origin of goods.

Judging on the basis of how realistic and how beneficial each scenario is to all parties, the last two scenarios seem to be priority scenarios. While the full implementation of the PCA would bring the biggest economic benefits, its implementation might still be obstructed by practical and political difficulties, which might be avoided if the idea of the pilot region is implemented.

## 5. Conclusions

The analysis illustrates the changes in the areas of visa, transit and trade relations between Lithuania and the KR resulting from Lithuania's accession into the EU. It has identified a number of policy changes such as: the introduction of visas for KR residents, or the increase in some duties levied on imports from the KR which would increase the level of restrictions for the movement of goods and people from the Kaliningrad *oblast* to neighboring countries and mainland Russia. However, it should be noted that these issues may be dealt with by the parties involved in such a manner as to turn them into dynamic benefits of EU enlargement for the whole Baltic Sea region. These issues and the recommended policy solutions are summarized below, followed by some general observations.

*Visa regime.* In the context of its Eastern enlargement, the EU is actively exporting its visa, asylum and immigration policies. There is a movement, with considerable determination, towards a common policies albeit such endeavours constitute a rather contentious topic. This is so as increasingly restrictive border policies are inevitably breaking existing socio-economic and

political ties across borders between applicants and non-applicants. Various costs – political, economic and human - of exclusion are great, and this appears to be particularly true in the case of Kaliningrad. They seriously hamper the chances of Lithuania and Poland to maintain good relations with an immediate neighbouring region and may cause – due to the pivotal role of cross-border contacts for Kaliningrad - destabilising effects that are of importance also for the EU at large. Hence more coherent visa policies should be defined that are attuned to the needs of a comprehensive neighbourhood policy and which allow the applicant countries to make use, in a positive manner, of their good knowledge and experience in dealing with Kaliningrad. The Union should take stock of its long experience of managing rather open borders with a somewhat problematic neighbour.

The EU should also itself seek for an active and differentiated engagement in the border-related issues between Lithuania and Kaliningrad. This is needed for a functioning system to be emerge. Lithuania should be encouraged to pursue rather flexible policies - within limits – as to the timing of its implementation the Schengen *acquis* in full. Time-tables for tightening external borders and implementing functioning systems should be reciprocated with binding commitments to loosening the ones in relation to the EU member states. There should also be willingness to consider an easing of the extensive burden of costs of policing and administering the border according to the new requirements, taking into account the special nature of the Union's border in the case of Kaliningrad as the maintenance of existing links also pertains to intra-Russian relations. A more integrated approach, one that helps mitigating the negative consequences of the new policies installed, to the border management appears to be particularly significant in the case of Kaliningrad. This is so as the *oblast* has turned increasingly isolated and needs stability in order not to complicate the broader pattern of relations around the Baltic rim.

The implementation of increasingly strict and uniform visa policies as a form of border-tightening should be in balance with the implementation of various freedoms, including liberalisation of travelling and trade. The policy goal of good relations between applicants and their neighbours in order to stabilise their relations should be on level with other concerns such as dealing with threats of cross-border crime and other similar dangers. These aspirations imply, among other things, that the policies pursued should be as transparent as possible and open for public debate. To provide such a debate with sufficient and accurate information, the extending of the EU border regimes eastwards should be studied further. It also appears that the problems of co-ordination and management that have been there should be basically sorted out within the Union itself instead of just pushing the burden – as has sometimes been the case – over to the applicants to handle, thereby complicating the relations between the applicants and their neighbours.

One response to the dilemma of how to maintain good regional relations and close ties with a neighboring area while imposing border policies, including those pertaining to visas, consists of advancing cross-border co-operation. The EU has aimed, since 1989, at encouraging of integration and improving intra-regional relations in order to achieve stability. This aim should be preserved and also taken into account in the context of accession. Lithuania's endeavors to this effect, i.e. reducing socio-economic disparities and knitting populations together so that tensions are undermined, should be supported further both politically and financially.

With the Union's undifferentiated approach to Kaliningrad, the inhabitants of the *oblast* will remain on the EU list of those required to have a visa to enter the EU. Yet it is conceivable that over time a special visa regime covering Kaliningrad has to be negotiated. As to

the prevailing conditions, it is important that the flexibility of the Schengen system – visible for example in the case of the treatment allotted to the special administrative regions of Hong Kong and Macao - is utilised in full. Kaliningrad might be similarly singled out – pending Russia's approval – as a special visa system. In any case, the visas granted should be low cost if not free. If needed, they should be long-term and allow for a multiple entry. The options offered by a system of transit visas issued to Russian citizens travelling by land between Kaliningrad and mainland Russia should be studied. In order to facilitate the process of granting visas and avoiding the placement of Kaliningraders behind a double visa barrier with the emergence of unified EU visa policies, a EU facility with the power to issue visas should be established in Kaliningrad. Consular practices should be designed to ease the various difficulties that applicants for visas are encountering, and in general the visa policies should be innovative and technologically advanced to provide content to Kaliningrad as an eventual 'pilot visa region'.

To sum up, the following concrete policy solutions ranging from procedural improvements to special arrangement for KR residents could be proposed:

- The long-term, low cost and multiple entry visas (when the Schengen rules are implemented);
- The transit visas (although it would require a new definition because the current Schengen Convention does not include in its definition of transit visas a kind of a need that Russian citizens have in aspiring to visit – in the case of Kaliningrad – their own country);
- In order to facilitate the process of granting visas, it would be of considerable help if a joint EU facility could be established in Kaliningrad;
- A consulate of one of EU member states being empowered to issue visas on behalf of the other member states. Moving consulates closer to borders and extending opening hours, increased use of long term multiple entry visas, construction of more border crossings and the introduction of shorter procedures at the border;
- The more innovative ideas include a reduction of the need of strict visa procedures by introducing the establishment of extensive data banks combined with checking of fingerprints at borders. Another solution is a special visa system extended to Kaliningrad residents by using ID cards instead of single entry visas.

*Transit regime.* In the area of transit, the adoption of the EU *acquis* implies Lithuania's membership in the Community (Community Customs Code) / common transit (Convention on a common transit procedure) system, and adoption Community *acquis* regarding transport policy. It should be noted that the adoption of the EU *acquis* in the sphere of transit will have no effect on the bilateral agreements between Lithuania and the Russian Federation on the Russian transit of goods to/from the KR:

- The formalities of the customs procedures will remain practically as they are. The Lithuanian customs code is already in line with the Community Custom Code. It is planned to introduce a new transit system and the new convention that would initially cover transit and customs declarations using the single administrative document. It could later be extended to all provisions in other bilateral and multilateral conventions on simplifying and facilitating trade and the NCTS as a core of reform. Therefore it is possible to conclude that the procedures of border crossing will be less complicated and permeability will increase.
- The development of laterals of the TEN's, especially two spurs of IX transport corridor, i.e. IXB and IXD will provide greater access between Kaliningrad and Klaipeda and will improve the logistics of the border crossing points. This will occur under the condition

that the KR (and more broadly, the Russian Federation) is able to upgrade its sections to meet the same standards as others. This implies that initial investments are needed.

- In the case of rail transit from Russia to/from the KR via Lithuania, the question of the rates of the transit tariffs will remain in the sphere of bilateral agreements. It should be noted that the settling of the transit tariffs rates should become more flexible in Lithuania because of the restructuring and privatization of "Lithuanian Railways" in accordance with the EU *acquis*. The measures should create the conditions of increasing competitions among the operators, which should lead to a decrease of the transit tariffs rates.

The benefits of EU enlargement in the area of transit could be extended to the KR by choosing an appropriate transit regime. Several scenarios are possible depending on the degree of innovation on the part of the EU and the degree of flexibility granted to the KR by the Russian Federation. The most beneficial one in terms of permeability and simplicity of procedures are the developments of the "Northern Dimension" and "Kaliningrad - a pilot region" initiatives. Such developments will open the possibilities for the considerations of the expansion of a new transit system to KR if *oblast* is able to meet the corresponding requirements.

*Trade regime.* Adoption of the EU Common Commercial Policy implies: (1) the alignment of the conventional and autonomous import customs duties; (2) the adoption of EU commercial protection instruments (anti-dumping duties, etc.); (3) the alignment of a preferential trade regime (joining trade agreements signed between the EU and third countries); (4) the harmonization of other external trade policy measures (exports promotion, etc.). Adoption of the EU Common Commercial Policy will have a number of outcomes:

- It will mainly affect Lithuania's imports from the KR;
- The trade share affected will be relatively more significant for the KR than for Lithuania; in case of the latter the share of trade affected would be very small;
- The general effect can be characterized as a slight increase in the level of import duties on imports from the KR (and Russia in general);
- The precise impact of adopting EU customs duties will depend on concrete product groups with natural resources taxed less than food, agricultural and some processed products;
- Lithuania's imports from the KR are much more diversified than imports from Russia; therefore the impact of adopting EU import duties will be more diversified;
- Anti-dumping duties are more likely to affect Lithuania's trade with Russia than with the KR, although the general impact is likely to be insignificant;
- Non-tariff barriers such as products standards are likely to affect some of imports from the KR (food, agricultural products, mechanical and electrical equipment, etc.).
- Lithuania will become part of the EU initiatives and agreements such as the Partnership and Cooperation Agreement with Russia and the Northern Dimension Initiative.

The dynamic benefits of EU enlargement in the area of trade could be extended to the KR by choosing an appropriate trade regime. Several scenarios are possible depending on the degree of innovation on the part of the EU and the degree of autonomy granted to the KR by the Russian Federation. These scenarios range from the status quo to the eventual association or some form of closer integration between the EU and Russia. The most beneficial one in terms of economic effects is the full implementation of the PCA; the implementation of the Pilot region idea

only involving trade liberalization between the EU and the KR is more feasible in the short term but requires more innovation on the part of the EU and Russia.

In conclusion, the main challenge of the upcoming EU enlargement in the context of its relations with the Russian Federation in general, and the Kaliningrad *oblast* in particular, is to agree on an innovative solution pertaining to the status of the KR and acknowledging its specificity. Notably it implies, first of all, Russian authorities giving more substance to still vague concept of the pilot region and, second, the EU agreeing on a special regime in the above discussed areas of the movement of goods, services and people dealing adequately with the special situation of the *oblast*.

However, it should be clearly acknowledged that although the enlargement of the EU will inevitably affect its future members' and thus Union's relations with Russia, in Lithuania's case there is no linkage between these issues and Lithuania's negotiations with the EU and its eventual accession. The changes to Lithuania's visa, transit and trade relations with the Kaliningrad *oblast* result from the adoption of the EU's *acquis* because this is one of the conditions of the membership. Therefore, the main challenge for the EU is to find a balance between respect for the existing *acquis* and special amendments to some of the rules needed to avoid the isolation of the Kaliningrad *oblast* and extend the benefits of integration in Europe. In such a way the main EC/EU aims of "ensuring economic and social progress", and "preserving and strengthening peace and liberty" by "ending the division of the European continent" would be best achieved. As stated by Romano Prodi, President of the European Commission: „All of us – the European Union, the applicant countries, and our neighbours in the wider Europe – must work together towards a common destiny: a wider European area offering peace, stability and prosperity to all. A new European order“<sup>26</sup>

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<sup>26</sup> Investiture speech to the European Parliament, 14 September 1999.