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COPY OF LETTER

from : Mr. Romano PRODI, President of the European Commission
dated : 23 May 2002
to : Mr. Vladimir PUTIN, President of the Russian Federation

Subject : EU-Russia Cooperation on Kaliningrad: 2002 and beyond

Delegations will find enclosed a letter by President Prodi and three Annexes ¹.

¹ Documents received in English only.

ROMANO PRODI
PRESIDENT OF THE EUROPEAN COMMISSION

Brussels,
D/880251

23-05-2002

Dear Vladimir,

I am well aware that one of the many important items on the agenda for our Summit meeting at the end of this month is Kaliningrad. The unique situation of this part of Russia following the enlargement of the EU merits particular attention. We have discussed this issue on previous occasions and, as you know, the Commission has been carefully looking at ways of ensuring that Kaliningrad can duly benefit from the new great opportunities offered by enlargement.

In a Communication issued in January 2001 we indicated our willingness to consider all questions relating to the impact of future EU enlargement on Kaliningrad, within the institutions of our Partnership and Co-operation Agreement, and put forward concrete proposals. Since then we have studied several reports and have deepened our analysis and understanding of the region. A fruitful exchange of views and information on all of these issues, which will allow us to concentrate on the political issues, took place at the special meeting of the Co-operation Committee held on 15 May.

In view of our discussions in Moscow my services have prepared a document setting out the Commission's analysis of the main issues and making concrete proposals for further work with the Russian authorities. I am prepared to make very concrete commitments to provide financial support and expertise in several areas in order to facilitate the movement of people and goods between Kaliningrad and the rest of Russia after enlargement. For example, we are already investing substantial sums in upgrading border crossings and are prepared to contribute further, provided Russia also makes clear commitments to fund access and approach roads. If we both commit ourselves to a clear plan of action I am confident that we can resolve the problems of physical infrastructure within a few years.

H.E. Vladimir Putin
President of the Russian Federation
Moscow

The Commission has already committed €40 million in recent years for technical assistance projects in Kaliningrad; projects in the pipeline for the period 2002-2003 will have a beneficial effect in a wide range of areas such as border crossings, port development, environment, and health. Depending on the plans of the Russian authorities for the future development of the region, we are prepared to go further and provide a further €25 million under the Tacis programme which will be additional to current funding and could be used to promote economic development, though investment in enterprise development and in small scale infrastructure. We could even consider the creation of a new Kaliningrad Fund, using this contribution from the Commission and inviting EU Member States and other interested parties to contribute. But before we can finalise plans for additional assistance, the EU and Russia must agree on how to proceed on the key issues.

I am aware of the importance you attach to the movement of Russian citizens between Kaliningrad and the rest of Russia after enlargement. This issue has been carefully considered by the EU Member States and we have also consulted the candidate countries. The position of Member States was transmitted to the relevant Russian authorities on 5 May 2002 explaining that after EU enlargement all Russian citizens passing through EU Member States will have to be in possession of a valid passport issued according to international standards and appropriate visa.

Transit corridors across future EU Member States would not meet our safety and security concerns, and would not be acceptable to Lithuania and Poland. Provided we work together before enlargement, the visa system should not entail any substantial difficulties for Russian citizens. If priority is given to dealing with passport applications from Kaliningrad and to the requests of current and future EU Member States to establish consular facilities in Kaliningrad to facilitate the issuance of visas, it should be possible to ensure that all intending travellers can acquire the necessary documentation without difficulty. I want to assure you that, if appropriate, the Commission would be glad to assist with this process, to help to speed up the issuance of passports to citizens of Kaliningrad.

Mr. President,

There are several other areas where we can explore new and imaginative ways of working together in Kaliningrad. In some areas, such as energy and transport, further discussion is needed with the Russian authorities before we can identify possible areas for co-operation. But let me stress one point.

I strongly believe that the forthcoming enlargement of the EU will bring many advantages for Russia, as well as for the EU. Kaliningrad is particularly well placed to benefit from these new opportunities if we make preparations now to equip it to take full advantage of its location. I look forward to our meeting in Moscow and hope that we will be able to agree to accelerate our efforts on this important area of EU-Russia co-operation.

I am copying this letter to President Aznar.

Please accept, Mr. President, dear Friend, the assurances of my highest consideration.

Con multa amicis

Provanche

ANNEX A

EU-RUSSIA CO-OPERATION ON KALININGRAD: 2002 AND BEYOND

I. INTRODUCTION

This paper presents a short up-date on developments in a number of areas of considerable importance to the Kaliningrad region, giving an overview of the extensive work that has already been undertaken, and sets out ways in which accelerated efforts by the EU, Russia, the candidate countries and the International Financial Institutions could respond to the immediate concerns arising from enlargement, and beyond.

The enlargement of the European Union to neighbouring countries presents a clear opportunity for Kaliningrad. Responsibility for the development of Kaliningrad rests with Russia and the region itself. Kaliningrad is part of a wider region, which stands to benefit from close co-operation in the EU-Russia partnership. As the accession of Poland and Lithuania to the European Union draws closer, an assessment of progress made so far and future prospects for improving coherence and effectiveness of action between all regional players is opportune.

Recognising the unique situation of Kaliningrad, and the particular challenges arising from the forthcoming enlargement of the European Union, the Commission published a Communication on "The EU and Kaliningrad" in January 2001¹. In this Communication the Commission outlined various elements and options for co-operation with Russia and neighbouring countries on regional development for Kaliningrad.

The EU has made clear, on numerous occasions, its willingness to discuss any issue relating to Kaliningrad within the institutions of the Partnership and Co-operation Agreement. Until recently Russia has appeared reluctant to engage in the kind of detailed technical discussions that are necessary if the impact of enlargement is to be fully assessed and if solutions to problems are to be found. The EU is already actively dealing with a number of key issues in Kaliningrad and is willing to provide increased financial and technical help to deal with challenges faced by Kaliningrad. However, before such aid can be effective, it is necessary for the EU and Russia to agree on the key issues to be addressed and on how to take work forward. The Commission's views and suggestions are set out below.

¹ COM(2001)26 final, 17.1.2001

II. BORDER AND CUSTOMS CO-OPERATION

Kaliningrad Oblast has a unique geographical position as an enclave separated from the rest of Russia, which gives rise to special considerations in terms of movement of goods and people. Soon Kaliningrad will be surrounded by an enlarged European Union, thus the EU and Russia have a particular immediate interest in prioritising practical co-operation to ensure the smooth and secure transit of people and goods to and from Kaliningrad after enlargement without long delays at borders. Transport links and infrastructure, efficient border control and good customs co-operation with neighbouring countries are key factors for the smooth movement of goods and people to and from the Kaliningrad region.

1. MOVEMENT OF PERSONS

It is in the interests of both Russia and the EU to ensure that border crossing to and from Kaliningrad takes place in a controlled and secure way, but without unnecessarily hampering the movement of people. The European Union has already made clear that the 'acquis' requires Russian citizens to be in possession of visas attached to a valid travel document when crossing the external border of EU Member States. The EU position and the main possibilities for facilitating movement of people within the acquis are set out in an EU position paper delivered to the Russian government on 5 May 2002 (attached at annex C for ease of reference).

Poland and Lithuania are expected to accede to the European Union in 2004. In order to prepare for enlargement over the next two years, discussion with Russia must move rapidly beyond general principles to specific practical efforts to facilitate the issuance of visas and passports valid for international travel (issued according to international standards) and to maximise ease of passage at border crossings. EU assistance provided to border crossings is a key part of this effort (see below).

After 2003, the Polish and Lithuanian authorities have estimated that their Consulates in Kaliningrad should be ready to issue respectively 50,000 and 150,000 visas per year. Sweden will establish a Consulate in Kaliningrad in October 2002 and Germany is also considering applying to establish a Consulate in Kaliningrad in the near future.

The Russian Federation has sole responsibility for passport issuance for Kaliningrad citizens. Russia has indicated that 250,000 of Kaliningrad's 947,000 residents already possess a passport valid for international travel, and that currently more than 50,000 passports are being issued per year. It is clear that in order to facilitate movement of people in the future this rate of passport

issuance would need to be accelerated over the next few years.

Action required:

- Jointly identify practical measures to be taken in preparation for enlargement, within the framework of the acquis, concerning movement and transit of people.
- Russia should take all necessary steps to provide Kaliningrad residents with passports meeting international standards. The EU is ready to look with Russia at ways to facilitate the process of acceleration of passport issuance for Kaliningrad residents. Russia should make clear where assistance is needed.
- EU invites Russia as a matter of urgency to give positive replies to requests from the candidate countries and EU Member States on the establishment and extension of consular facilities in Kaliningrad and in the rest of Russia, and to provide necessary administrative assistance thereafter, in order to facilitate increased capacity and ease of visa issuance in the region.
- Visas issued by the new EU Member States after accession will be national visas until the lifting of internal border controls. It would be useful for Russia to consider discussing with the relevant candidate countries reciprocal agreements to reduce the cost of visas.

BORDER CROSSINGS

Modern border control facilities, together with modern and efficient control procedures, are key to facilitating cross-border movement. An estimated 9 million border crossings from Kaliningrad via Poland or Lithuania by both Kaliningrad residents and foreign nationals took place in 2001, with over 3 million vehicle trips across the border. Four road border crossings are the most important ones in the region: Bagrationovsk, Mamonovo I / II, Chernyshevsky and Sovetsk. Improving infrastructure at these four border points is one of the main priorities for Russia and for EU assistance to the region. The EU is ready to step up assistance efforts on border crossings as detailed below, but Russia must enter into firm agreements with Poland and Lithuania and must make a substantial continued commitment and provide the necessary investment on road infrastructure.

The EU has already committed support to the tune of €11m under the Tacis Cross Border Co-

operation programme, and is considering up to €8.5 m of support under PHARE, for the development of infrastructure at border crossings linking to Kaliningrad.

- Bagrationovsk border crossing is under construction. Tacis is supporting the project with a maximum amount of €3m. The project is expected to be completed by June 2003.
- Chernyshevsky is being supported by €8 m of Tacis funding, with \$5m provided by the Russian authorities, but there have been problems on the Russian side related to land availability, which have caused delays. The necessary steps to be taken by Russia are already under discussion between the Russian State Customs committee and Commission experts. Russia is proposing a by-pass road in order that the new border post (freight terminal) could be constructed outside of the city of Chernyshevsky, which would resolve the land availability problem. The Russian Ministry of Transport would fund the by-pass road.
- Mamanovo II is a potentially important crossing point with Poland located on transport corridor IA. Poland has requested €6.5 m in PHARE support to fund the first phase of the construction of the border post, and IPSA support for road works. The Commission understands that Russia has made funds available to construct the road leading to the border and that an agreement will be finalised between Russia and Poland in June or July 2002. This project will qualify for Tacis support from the EU on the Russian side provided that Poland and Russia conclude a written agreement as foreseen. The Russian State Customs committee has estimated the cost at €16m (although EC estimates that €10m should be sufficient), a significant amount of which could be covered by Tacis support.
- at the Sovetsk border crossing, work is underway in Lithuania on constructing a new crossing financed by PHARE. The Kaliningrad side of the border requires a new by-pass road, a new crossing and bridge across the Nemunas (Neman) river at an estimated total cost of €35m. EU support for the crossing will be given (the Russian authorities estimate that the cost of the crossing will be €16m, the EC estimate is €10m) provided that Lithuania and Russia conclude a written agreement and that Russia makes funds for the road infrastructure available. Russia has not so far allocated funds to this, although it is mentioned in the Russian road development plan 2000-2010. Russia should indicate whether it considers this border crossing point to be a priority and how much funding will be available from the Russian budget.

In addition the rail crossing at Chernyshevsky needs upgrading at a likely cost of €15.9 million to be financed by the Russian side.

Action required:

As the EC has already stressed in discussions with Russia on cross border co-operation in February and April 2002, it is critical to have a clear commitment from the Authorities on both sides of the borders to make the necessary contribution to the road improvements leading to the border crossings, in order to avoid any problems associated with lack of border infrastructure after enlargement.

BORDER CONTROL

Modern border control procedures, efficient management and fully trained officials are equally essential in facilitating cross-border movements of goods and persons. Firm efforts to eliminate corruption are also key. EU assistance for training of customs officials and border guards was proposed under the Tacis cross border co-operation programme for officials working at the Bagratiyovsk and Chernyshevsky border crossings. However this project has not yet taken place as a result of a failure to identify an EU member state partner ready to participate in the training project. Training on customs control can continue under the Tacis customs programme and may be reinforced after completion of the main border crossings in the region. Poland has also offered training to Kaliningrad customs officers.

BORDER DEMARCATION

Significant progress has been made on clear border demarcation for the Kaliningrad Oblast. The Russian government has finalised the necessary border agreements with Poland and Lithuania. The agreement with Lithuania has been signed, but awaits ratification by the Duma. The timeframe for this parliamentary ratification is not clear and Russia should clarify this. Only after this ratification has taken place can physical border demarcation work be completed. The border with Lithuania is mainly a river border, however the EU is ready to provide assistance to demarcation work for the remaining 15 kilometres of land border, which would require site clearance, marker posts, border posts and mapping. Costs are likely to be modest (not more than €250,000) and a project to

complete border demarcation with Lithuania could already be prepared, pending ratification of the border agreement. The border with Poland is already demarcated and requires no further work.

Action required:

- EU invites Russia to inform the EU and Lithuania of likely timeframe for ratification by Duma of the border agreement, and the likely start date for the demarcation work.
- European Commission to provide for assistance for necessary border demarcation work

CUSTOMS CO-OPERATION

The need to improve co-operation on customs issues is not limited to Kaliningrad, but is a broader priority for EU-Russia relations. After enlargement there will be an immediate increase in movement of goods and transit to and from Russia through the EC customs territory as a direct result of transit to and from Kaliningrad, thus work on customs procedures and control requires additional impetus in the coming months. The Commission is ready to co-ordinate efforts with Russia, Poland and Lithuania to meet the objective of eliminating delays on borders.

Two EC funded projects are already underway in Kaliningrad under the Tacis customs programme: €570,000 to support the establishment of a Customs laboratory and €100,000 for a Kaliningrad seaport project. This includes the procurement of equipment and training of staff necessary for operation of a modern customs laboratory, and training to familiarise further Russian customs service in Kaliningrad port with risk analysis based on container controls. Further assistance to Kaliningrad on customs co-operation would be possible (within the existing Tacis allocation for Russia) in line with the overall strategy to be developed for Russia as a whole.

The EU encourages Russia to continue to address administrative capacity and integrity of its Customs administration in order to create a reliable service able to facilitate the smooth and secure movement and transit of goods through its borders, making it possible to develop trade while effectively combating fraud.

Action required:

- EC will prioritise assistance and co-ordination efforts on specific measures and training needed in relation to customs procedures for assuring smooth movement of goods and transit between Kaliningrad and the EU and mainland Russia, and for tackling illegal cross-border activities, and for improving administrative capacity.

III. COMMON REGIONAL CHALLENGES: SECURITY, ENVIRONMENT AND HEALTH.

FIGHT AGAINST ILLEGAL ACTIVITIES

Russia has already taken steps to tighten law enforcement and tackle corruption at a Federal level. The EU encourages Russia to intensify the fight against crime in Kaliningrad. Strong commitment from the Russian authorities at all levels continues to be crucial to combat illegal activities, which have a detrimental effect on regional development and the general investment climate, and also on the security of neighbouring states. Russia has shown interest in up-grading facilities to fight organised crime in Kaliningrad and to develop co-operation with EU Member States' police and Customs authorities. It would be an advantage for both sides if the frequency and scope of the joint Baltic Sea law enforcement operations concerning Kaliningrad could be increased. In August 2001, Europol submitted to the Russian authorities a draft of a possible agreement, on exchange of strategic information. Such an agreement could lay the basis for co-operation through training, exchange of best practice and co-operation among liaison officers.

Due to the transnational nature of many illegal activities, both the EU and Russia have a mutual interest in pursuing a co-operative approach and co-ordinated efforts in the fight against illegal activities such as illegal migration, trafficking in human beings, drugs trafficking, smuggling, and stolen cars. On measures to combat trafficking in human beings, the EU will shortly launch a feasibility study in Russia.

The conclusion of a Re-admission Agreement would be an effective instrument in the fight against illegal migration. The Commission presented a draft agreement to the Russian Federation in March 2001. The EU is ready to begin negotiations on a Re-admission Agreement.

Action required:

- The Commission is working on a project on “Combating organised crime in Kaliningrad” and is willing to explore possibilities for technical assistance to support the training of law enforcement officers and border guards. Such a project will lead to enhanced capabilities in combating the various forms of organised crime. The Russian Ministry of Interior has approved the project and has sent it to other Russian agencies and to the Kaliningrad region for comments.
- Explore the possibilities for increasing the frequency and scope of joint Baltic Sea law enforcement operations involving Kaliningrad.
- EU urges Russia to conclude Re-admission agreement with the EU.

2. ENVIRONMENT

The EU, the Baltic States and Russia all agree that improving the environment in the Kaliningrad area should be a priority for regional co-operation. Poor waste water treatment and industrial emissions threaten the Baltic Sea environment.

In addition to assistance to environment projects provided bilaterally by the Member States (nine projects in the environment sector in the Kaliningrad region received funding directly from member states over the past five years), Kaliningrad has been targeted for support from the Northern Dimension Environmental Partnership support fund, due to be launched this year. The NDEP will be based on co-operation between the International Financial Institutions, the European Commission, bilateral donors and the Russian Federation. The Commission has earmarked a contribution of €50 million over three years, while €10 million (over 5 years) is expected from the Russian Federation, but final approval for this has not yet been given. Proposed projects for Kaliningrad on District Heating, and on a solid waste management project are to be funded by the NDEP.

The EU is currently supporting to the tune of €2 million a project on water quality management for Kaliningrad, and another project of €2 million on waste management, which is awaiting final approval by the Regional Administration. A project aimed at implementation of Regional ecological policy management for sustainable development is also being part-funded by Tacis. The European Commission has launched a study on the environmental situation in Kaliningrad to define more

clearly the problems and future needs for assistance in this area.

In September 2001, the first project (prevention of marine pollution) was drawn up under the special E.I.B lending action (provision of up to €100 million of financing for operations on the environment) for selected environmental projects in the Baltic Sea Basin of Russia under the Northern Dimension. Financing approval is currently stalled pending finalisation of the required framework agreements between the Russian Government and the E.I.B., including confirmation of the Russian commitment to co-operating with the E.I.B on the projects to be supported.

The EBRD is also providing support to a number of environmental projects, including the Kaliningrad Water and Environmental Service Project. In the long-term, the aim should be for the provision and financing of public infrastructure and services to be commercialised.

Action required:

- EU urges Russia to conclude rapidly the necessary framework agreements with the E.I.B.
- EU urges Russian Government and Duma to approve the proposal from the Ministry of Finance for the Russian contribution to the NDEP Support Fund as soon as possible.
- Await final approval from Regional Administration to allow the project on waste management to proceed without delay.
- Inclusion of Kaliningrad as third pilot region for energy efficiency projects under the EU-Russia Energy Dialogue
- Support by the Russian Authorities in the process of identifying further elements for co-operative action and EU assistance is essential.

3.

4. HEALTH

Kaliningrad is one of three pilot regions under the Tacis North West Health Replication project looking at health care reform. The priorities identified by the local administration for this project are the strengthening of primary health care delivery, prevention of drug abuse and mother and child health care. One of the most serious problems for the region is the spread of communicable

diseases, particularly HIV/AIDS and tuberculosis. A regional project aimed at the prevention of mother-to-child HIV transmission is currently being part-funded under the Tacis Cross Border Co-operation programme. Based on a partnership between Kaliningrad and Malmo (Sweden), the project aims to develop specific health and social policies for the referral of HIV-infected pregnant women and to provide additional post-natal care services. The total project cost is €250,000 with 80 per cent funding from the EU. A further €2.5 million has been earmarked under Tacis for a project with the Ministry of Justice on the prevention of communicable diseases within prisons and penitentiary institutions in North West Russia, with Kaliningrad as a possible pilot region. Numerous small projects in the health sector are already being funded bilaterally by the Member States in Kaliningrad.

Action required:

- The Commission would like to work together with Russia to examine what can be done to further co-operation and improve co-ordination on assistance in the health sector, particularly to address the growing problem of HIV/AIDS.

IV. REGIONAL ECONOMIC DEVELOPMENT

Much remains to be done to stimulate economic development and to encourage investment on a regional basis, which is essential to the economic and social welfare of the people of Kaliningrad. The primary responsibility for economic development of Kaliningrad lies with the central authorities in Moscow and local authorities in the Kaliningrad Oblast. EU enlargement should create opportunities for Kaliningrad.

In December 2001, the Russian government adopted the Federal Programme of Development of the Kaliningrad region up to 2010. The programme contains an overview of the current difficult economic and social situation of the region and proposes measures to remedy the situation through promoting the region as a Special Economic Zone (SEZ). According to the Russian Federal programme, in 2000 Kaliningrad's Gross Regional Product per capita was 75% of Russia's average level, 65% of the average level of the Baltic States, 50% of Poland's, and 5 to 8 times lower than in other European States. The role of foreign trade to the region (imports of foodstuffs, consumer goods and parts and equipment; and exports of fuels, timber and machinery) is growing in importance.

A number of specific regional development projects are identified in the Russian programme at an estimated cost of around \$3.2 billion to come from federal and regional budgets, as well as the private sector. The programme identifies energy security and developing Kaliningrad a transport hub as key priorities.

The EU and other donors have a clear shared interest in efforts to stimulate private investment and economic development of the region. As the economies of the new Member States neighbouring Kaliningrad continue to strengthen, it is all the more important that Kaliningrad is not left behind. The Russian Federation's regional development programme explicitly recognises the goal of narrowing the gap in living standards between Kaliningrad and its neighbouring countries. However, the means for improving the business conditions of the region are not defined in the programme. Effective implementation by the Russian authorities at all levels of policies and measures for Kaliningrad, such as those outlined in the 'Federal programme for the Development of Kaliningrad', is critical for regional economic development.

In 2001 the Federal government proposed and then withdrew changes to the tax status of the SEZ. As uncertainty is a strong disincentive for private investors, urgent clarification is needed on the compatibility of the present Special Economic Zone rules that apply to Kaliningrad with WTO rules, and of the Russian Government's future intentions for the region.

The Business Advisory Council of the Council of Baltic Sea States (CBSS) recently presented an analysis and recommendations for increased investment in the Kaliningrad region. This submission highlights the need for the central government and the authorities in Kaliningrad City and Oblast to work together to reduce barriers to investment. This would include pursuing efforts to improve the quality of public administration and to strengthen anti-corruption efforts (including transparency in management of public funds, and clear lines of responsibility among the different levels of administration).

There are more than 63,000 small and medium size businesses in the Kaliningrad region, employing 20 per cent of the economically active population. The expansion of small and medium size enterprises (SMEs) is key to sustained economic growth for the region, as is action to improve the general investment climate, including administrative and corporate governance aspects.

A Tacis funded project (€1m over 18 months) on promoting trade and investment in the Kaliningrad Oblast, supports the Kaliningrad Regional Development Agency (RDA). The RDA is developing a strategy for regional development and promotion of Kaliningrad as a region for investment, and is seeking to strengthen links between the business community and business support agencies. The RDA is also preparing a regional economic survey, including the grey economy. A follow-up project on regional economic development (with a budget of €3m) is planned.

Two SME development projects have been earmarked for Tacis funding at a regional level, including Kaliningrad, with the aim of reinforcing support to existing SME Development Agencies. The European Bank for Reconstruction and Development is also looking at ways to support the development of the investment climate and to increase SME financing and support initiatives in Kaliningrad. A feasibility study is underway on the possibility of establishing a Business Advisory Service office in Kaliningrad to provide expert business advice to local SMEs. These efforts are linked to the Kaliningrad Oblast government's SME development programme. In order to avoid the risk of overlap, it is important to ensure co-ordination of all future projects aimed at economic development and business support with the established support infrastructure. The EBRD with the Foreign Investment Advisory Service are also preparing to launch a specific study on obstacles to investment in Kaliningrad. Further strengthening of investment in the region should be a priority. The EU and EBRD are co-operating on financing of the expansion of the Small Business Credit Bank (KMB) to seven cities in Russia, including Kaliningrad. The KMB will serve as an efficient, sustainable and viable provider of financial services to SMEs, and will provide a best practice model for lending to SMEs.

The EU is ready to strengthen its role in a co-ordinated approach to stimulating the private sector in the Kaliningrad region. The European Commission is prepared, as part of an agreed overall approach to co-operation on Kaliningrad, to work in co-ordination with the Russian authorities to provide more assistance for regional economic development, especially for small and medium sized businesses. The European Commission is ready to recommend that considerable further resources be set aside to assist Kaliningrad, including the possible establishment of a special Kaliningrad Fund, the primary purpose of which would be to stimulate economic activity, in particular enterprise development and related small scale infrastructure in the region. The Commission would envisage making available a contribution to the proposed Kaliningrad Fund of around €25 m in the period 2003-5. This would be additional to the annual Russian allocation under Tacis, and the Fund would be open to other contributors. As a first step, a concept study should be carried out to

identify the scope and possible operations of such a fund, and the interest of potential contributors, as well as the opportunities to co-operate with the existing development funds.

In the Communication of January 2001, the Commission already noted that the effectiveness of measures to promote regional development is dependent on continued efforts to strengthen the rule of law, and implementation of good governance principles. Regional economic development in the longer-term perspective also requires sufficient attention to development of infrastructure, and to education.

Action required:

- EU invites Russia to provide clarification of the current status of the SEZ and future intentions for developing the Zone.
- In addition to targeting Kaliningrad under the current technical assistance programmes, the European Commission is ready to explore with the Russian authorities and all other donors, the possibilities for launching a special Kaliningrad Fund, the primary purpose of which would be to stimulate economic activity in the region, in particular enterprise development.
- European Commission to continue to provide assistance in a co-ordinated approach on activities in support of development of the investment climate in the Kaliningrad region.

Fisheries: In view of the ecological constraints on fishing activities (overexploitation of many stocks), development efforts for the fishing sector in Kaliningrad should concentrate on restructuring of the existing fishing fleet, and possibly development of fish processing facilities. Kaliningrad has a clear interest in the outcome of negotiations on a future EU-Russia fisheries agreement, which are about to begin. Once signed, such an agreement could include financial support for the fisheries sector in domains to be mutually agreed between the EC and the Russian Federation. Existing bilateral agreements between the Russian Federation and the candidate countries would be incorporated into the EU-Russia agreement after EU enlargement, following the appropriate re-negotiation.

5. ENERGY SUPPLIES

At present more than 90 per cent of Kaliningrad primary energy sources are imported from other

regions of Russia. The Tacis Kaliningrad Energy Study ¹ was completed in January 2002. It was developed in close co-operation with the Kaliningrad Regional Development Agency and makes a number of technical proposals on how to address the energy needs of Kaliningrad in the future, notably by building a modular gas-fired power plant (two modules of 230 MW each) and by refurbishing existing small hydro-power generation plants. However, before considering the construction of new power generation plants opportunities for energy savings must be pursued, as there is a considerable potential for energy efficiency in Kaliningrad. In parallel to the TACIS study, the Russian State Duma has completed an enquiry on ensuring Kaliningrad's energy supply and recommended the construction of a power plant of 900 MW, twice the capacity recommended in the Tacis study. The Duma also recommended the construction of a second gas pipeline.

An EU funded Tacis project of €2 million begun in 2000 has supported improvement of the efficiency of the regional energy company Yantarenergo by reinforcing management and commercial capacity in heat and power distribution (commercial efficiency, technical and non-technical losses, energy efficiency and energy savings).

Currently 97 per cent of the electricity used in Kaliningrad is imported, much of it from power plants considered by the EU to be below international environmental standards or nuclear safety levels, in particular the Ignalina nuclear power plant. The Ignalina nuclear plant should be closed down in two steps: module one before 2005 and module two by 2009. At that time options for electricity supply to Kaliningrad will include: a dedicated link with the Russian electricity grid (RAO UES); switching to the Central European grid (UCTE); and indigenous production of electricity. The Kaliningrad electricity network is connected at present to the Russian grid (RAO UES), also used by the Baltic States. In the longer term Lithuania might consider a switch to the Central European network (UCTE). This possibility needs to be considered in relation to future electricity supply for Kaliningrad.

At present gas is supplied to Kaliningrad from Russia via a pipeline that passes through Lithuania. No particular difficulties are foreseen as a result of EU enlargement. Transit of gas through Lithuania territory will be subject to normal bilateral agreement between the two countries. Ratification by Russia of the Energy Charter Treaty, under which Transit Protocol negotiations are nearing completion, would provide a useful basis for this. There is no particular need for construction of a new gas pipeline to Kaliningrad, however the existing pipeline needs to be

¹ Kaliningrad Energy Study 5 European Expert Service Project No. RF 49

refurbished.

Transit of conventional energy sources through Lithuania to Kaliningrad would also be able to continue as at present after enlargement without particular difficulties. However, the transport of Liquefied Petroleum Gas (Kaliningrad consumption at 30.000 tonnes a year) by rail and road must comply with EU standards for the transportation of such potentially hazardous products.

In summary, there appear to be three main options for addressing in the longer-term the future energy needs of Kaliningrad: increasing power generation capacity within Kaliningrad; supply from mainland Russia transiting through Lithuania; and buying energy supplies from neighbouring countries. All of these options, together with the question of energy balance in the region and potential energy efficiency savings and use of renewable energy, require further detailed joint examination, which should take place as soon as possible.

Action required:

- Data on Kaliningrad's energy balance to be verified between experts as soon as possible.
- Options for future energy supply to Kaliningrad and technical requirements, and for enhancing energy efficiency and the use of renewable energy, to be examined jointly as a priority.
- EC to explore with Russia opportunities for launch of energy pilot projects in the Kaliningrad region, with a focus on energy efficiency and promotion of renewable energy sources.

6. TRANSPORT, INCLUDING INFRASTRUCTURE

The overall joint aim is to ensure a multi-modal transport strategy with a view to securing a well functioning system linking Kaliningrad with the neighbouring countries and mainland Russia by land, sea and air.

Land transport

Two combined road and rail pan-European corridors cross Kaliningrad. Corridor I connects the Baltic States to Poland and Germany through Kaliningrad and for the EU this is the key priority for further development. There are two side branches of corridor I, one of which goes through

Kaliningrad to Gdansk. Corridor IX connects Kaliningrad to Minsk and Kiev and also should be a focus of co-operative efforts to improve transport infrastructure. Memoranda of understanding for the development of these two transport corridors have been signed with Russia in 1995 (Corridor IX) and 1996 (Corridor I).

Improvements to transport corridors are financed in the EU Member States through financial support to the Trans European Transport Network, and funding for transport infrastructure is provided in candidate countries under the ISPA programme. Development of transport infrastructure on the Russian side of the future EU-Kaliningrad border is clearly the responsibility of the Russian authorities and no EU funds are available for this purpose. However, EU financial assistance to border crossings (notably at Sovetsk and at Mamanovo II, which both currently represent bottlenecks on Corridor I) is detailed above. The Russian government is reaching agreement with both Lithuania and Poland on a co-ordinated development of these corridors and has included them in the Federal road development programme “Russia’s ways of the 21st Century”. These projects are building blocks for longer-term development of transport routes. The necessary current and future funding and commitment from the Russian Federation could be complemented by efforts of the EBRD and other donors. Without sufficient resources devoted to this in Russia, Kaliningrad will not be able to benefit from improved transport links to the European Union and beyond.

Two Tacis funded studies: the Multi-Modal Transport Action Plan for Kaliningrad (1997) and Kaliningrad Port Development study (2001) provide useful data on transport needs.

Rail transport

In order to strengthen Kaliningrad’s position as a transport hub, the EU sees potential for the development of inter-modal rail terminals: road-rail, and rail-rail between the different gauge widths. Kaliningrad railways are connected to the networks of Russia, Belarus, the Baltic States and Finland (1520 mm), which is different from the network used in most of Europe (1435mm). Development of rail should be carried out in conjunction with the development of the ports. The effective operation of transport corridors I and IX would be a pre-requisite for such further development.

Sea transport

The EC is providing almost €1m of TACIS support for a Kaliningrad Port development project, with the aim of strengthening competitiveness of the Kaliningrad Ports. Options for developing the port will be screened and investment studies for potential investors (public and private/ domestic and international) are being drawn up ahead of an investors' conference at the end of June. Port development options will include an evaluation of a possible rehabilitation of the Kaliningrad Sea Channel (which links the city ports to the Baltic Sea) as against possible new investments at Baltiysk. The EU's White Paper on European Transport policy for 2010 outlines the concept of "Motorways of the Sea" to alleviate transport problems and relieve bottlenecks. There may be potential for a "Baltic Motorway of the Sea" and for transport links by sea to Kaliningrad to be integrated into this. An agreement between Russia and Poland on the development of free navigation in the Vistula Bay/Kaliningrad (Zalew Wilsany), opening the Pilawa Strait, would be of benefit to both the Polish ports at present without access to the open sea and also to the Kaliningrad region.

In 2000-2001 port inspectors from Kaliningrad participated in training courses provided under a Tacis project on Marine Seaport Safety.

Air transport

The EC welcomes the recent launch of daily Warsaw-Kaliningrad flights and Russian efforts to encourage the re-establishment of direct flights to the EU. Measures aimed at improving air links and airport infrastructure in Kaliningrad should be part of increased EU-Russia co-operation on aviation and be co-ordinated with the EBRD's envisaged 'Russian Aviation Modernisation Fund'.

Action required:

- On development of transport infrastructure, in particular roads, continued implementation efforts on the part of Russia are key. Corridor I (North-South) is particularly important in terms of developing links between Kaliningrad and the EU, including at the Mamonvo II and Sovetsk border crossing points. Russia is the chair of the Steering Committee for Corridor IA and it is important that a meeting of the Steering Committee is organised soon in order to make progress.
- Support for a number of infrastructure projects is already provided by the EBRD, possibilities for additional support should be explored further. EU-Russia co-operation on Kaliningrad should facilitate increased involvement of International Financial Institutions, with a view to securing funding for priority projects.
- EC awaits the outcome of the current Kaliningrad Port development project, before assessing how best to support the further development of Kaliningrad ports for transport of freight and people.

V. OTHER ELEMENTS

EDUCATION AND TRAINING

Regional development in the longer-term is likely to be based on a knowledge-based economy. Tacis is currently funding a project in Kaliningrad to develop training programmes for adults, including the development of training on entrepreneurship. The EU has provided support to projects with Kaliningrad State University under the Tempus programme, but the number of good quality project proposals submitted has been disappointing. In 2002 we are supporting a project on curriculum development for environmental issues. Several EU Member States in the Council of Baltic Sea States are also particularly active in providing bilateral assistance to the education sector, such as the establishment of a EuroFaculty at Kaliningrad State University.

Action required:

The EU will continue to provide assistance to education and training in Kaliningrad. This could include support to Information Technology education for business, and support under Tempus in response to submission of high quality proposals from Kaliningrad educational institutions. The Commission is prepared to examine the possibility of organising specific Tempus information activities in Kaliningrad.

INFORMATION ON THE EU AND IMPACT OF ENLARGEMENT

In light of the visa and passport requirements post-enlargement for the movement to and from Kaliningrad, good clear and timely information provision for the populations of Kaliningrad and bordering regions on the functioning of the future external border of the EU is essential.

The EU supports the provision of general information on the European Union via an "EU Information Relay" established at Kaliningrad State University in June 2001. The info-relay is open to the general Public and offers access to a wide range of background publications: the EU Treaties, documents on EU policies and EU-Russia relations, publications about Tacis, Tempus and other EU programmes. There are also regular press releases and free access to Celex database and other EU databases available through internet. The information services provided at the Info-relay include searches for EU documents and consultations on EU related matters. This Info-Relay is a part of a network of 10 European Documentation Centres and Info-relays established in Russia since 1991.

In 2001 there were two specific workshops providing information in relation to EU enlargement: "Kaliningrad Region in the Context of the Northern Dimension of the EC" and "The Prospective of Kaliningrad Region in the Framework of the EC Enlargement".

Action required:

- In the period 2002-4 the Commission is willing to launch a targeted information campaign on practical questions arising from EU enlargement for Kaliningrad residents. The Commission hopes that the Russian Federation and local authorities will facilitate this initiative.

VI. CONCLUSIONS: FUTURE CO-OPERATION ON REGIONAL DEVELOPMENT

The suggestions outlined above could make a substantial contribution to the development of the Kaliningrad region. Pursuing the practical measures outlined in a timely way requires firm commitment and sufficient resources from Russia and the EU over the next few years.

Annex B: TACIS PROJECTS IN THE KALININGRAD REGION (on-going projects)

<i>No of contract</i>	<i>Comments</i>	<i>Title of the project</i>	<i>Project No</i>	<i>Date of signature of contract</i>	<i>End Date</i>	<i>Budget in EUR</i>	<i>Name of company / expert</i>	<i>Nationality of company/ expert</i>	<i>Name of Russian partner</i>
National Programme									
00-0003	total budget 2,000,000	Support to Regional Energy Organisations (Novgorod, Kaliningrad)	ERUS9804	5/févr/00	5/févr/02		STEAG AG		Ministry of Fuel and Energy
SCR-E/111060/C/SV/RU	1,000,000	Technical assistance contract for promoting Trade and Investment in Kaliningrad Region	SCR-E/111060/C/SV/RU	5/mars/01	5/nov/02	1.000.000,00	IMC, UK		Regional Development Agency
CUSTOMS									
CUS 5/6 Russ 07/02		Kaliningrad Trade seaport controls		1/juil/01	30/juin/02	90.750,00	Eurocustoms	D	North-West Customs Committee
CUS 5/6 Russ 09/02		Kaliningrad Customs Laboratory Equipment		1/avr/01	30/sept/02	569.160,00	Eurocustoms	D	State Customs Committee
CBC									
00-0054.00		Water Environmental Monitoring and Management in the Kaliningrad Oblast	ENVRUS 9803	5/déc/00	5/déc/02	2.400.000,00	Carl Bro International	DK	Kaliningrad Regional Administration
n/a		Bagrationovsk-Bezledy Border Crossing Point		3/mai/01		3.000.000,00			State Customs Committee

<i>No of contract</i>	<i>Comments</i>	<i>Title of the project</i>	<i>Project No</i>	<i>Date of signature of contract</i>	<i>End Date</i>	<i>Budget in EUR</i>	<i>Name of company / expert</i>	<i>Nationality of company / expert</i>	<i>Name of Russian partner</i>
CBC SPF									
tsp/RN/0003/030	administrative reforms	Implementation of the Regional ecological policy management for sustainable development of Kaliningrad Oblast		30/janv/01	30/juil/02	200.000,00	Halmstad Municipality	SW	Regional Duma of Kalinigrad
tsp/RN/0003/068	local economic development	Training of Trainers on Andragogy and on training programmes on entrepreneurship		15/janv/01	16/juin/02	179.576,00	County of Funen	DK	Kaliningrad City Hall
tsp/RN/0003/076	social affairs	The Kaliningrad/Malmo Cross Border Cooperation on Mother-to-Child HIV prevention (New Beginning)		12/févr/01	12/août/02	200.000,00	The Skane Region	SW	The City of Kaliningrad
tsp/RN/0103/002	administrative reforms	Best practice in fundraising and project management (BestFund)		28/déc/01	28/juin/03	147.197,00	Aalborg Local Authority	SW	City of Kaliningrad
Baltic Line									
	1999	Kaliningrad Sea Channel and Port Development	SCRE-E/110624/C/SV/RU	27/déc/00	27/juin/02	1.000.000,00	Uniconsult (Port of Hamburg)	D	Regional Transport Administration
01-0048.00	total budget 2000000	North-West Health Replication project (Kaliningrad is one of the focus regions)	SCR-E/111053/C/SV/RU	30/avr/01	30/avr/03		EPOS Health Consultants	UK	Minzdrav

<i>No of contract</i>	<i>Comments</i>	<i>Title of the project</i>	<i>Project No</i>	<i>Date of signature of contract</i>	<i>End Date</i>	<i>Budget in EUR</i>	<i>Name of company / expert</i>	<i>Nationality of company / expert</i>	<i>Name of Russian partner</i>
CITY TWINNING									
1502-31		New methods and technologies in management of public buldings under the scope		20/févr/01	20/mars/03	100.000,00	Bremerhaven	D	City of Kaliningrad
BISTRO									
BIS/01/015		Prevention of pollution in the coastal areas of the Kaliningrad Baltic Sea near-shore zone of the Kaliningrad region				99.350	BGT Belgium NV	B	Kaliningrad Administration
BISTRO TOTAL						99.350,00			
TOTAL : TACIS FOR KALININGRAD:						8.986.033,00	NB: This figure does not include those projects whose budget is shared among several regions.		

ANNEX C:

KALININGRAD: MOVEMENT AND TRANSIT OF PEOPLE

In view of efforts made to investigate the possibilities within the acquis and the long list of meetings scheduled this spring between EU and Russia, it is clear that EU treats the Kaliningrad situation with very high priority. However, final responsibility for Kaliningrad remains with Russia. No other actor can do more to improve the situation of Kaliningrad than Russia itself

The EU acquis and its consequences for Kaliningrad

This informal paper refers to the time period between EU-accession and the lifting of internal border controls vis-à-vis the new Member States. After that period, the Schengen acquis will be fully implemented.

The acquis in force requires that third country nationals listed in Annex 1 of Regulation 539/2001, as amended by Regulation 2414/2001, are in possession of visas attached to a valid travel document when crossing the external border of the Member States. This requirement applies for transit as well as for short stay up to three months. The visas issued by the new Member States will be national visas issued in accordance with national legislation, following the principles concerning the issue of visas in the acquis.

The EU has consulted the candidate countries concerned with a clear understanding that before accession, measures are subject to their sovereign national decision. However, no measures should be considered which might put the full implementation of Schengen at risk, and the candidate countries would be expected not to introduce any measures which would run counter to the basic principles of the acquis.

With this in mind, the main possibilities within the acquis are:

- multiple entry visas issued on a case-by-case basis, including favourable treatment for certain professionals such as lorry drivers and crews of means of transport who regularly need to cross the border,
- flexibility with the visa fees until the lifting of internal border controls,
- exemptions from the visa requirement for certain categories of persons as provided in Regulation 539/2001.

- as a rule, visas will be issued by consular offices.

When implementing the possibilities within the acquis, the candidate countries will normally expect the application of reciprocity.

It is important to note that the acquis ensures, in the interest of both sides of the border, that the border crossing can take place in a controlled and secure way and without unnecessarily hampering the movement of persons.

The way forward

Further efforts, which would improve the situation of Kaliningrad, are being discussed in the PCA framework. Support is provided, and may be provided, by EU external aid programmes, e.g. development of infrastructure at border crossing points, modernisation of border procedures and training to facilitate the movement of persons and goods, as well as cooperation with Russia in the fight against organised crime and corruption. Useful joint law enforcement operations are in this respect being organised by the Baltic Sea Task Force on organised crime.

Support by other Community programmes are used and may be used, as appropriate, for similar activities, including for consular facilities.

As part of co-operation aimed at facilitating visa issuance and border crossing, the EU would expect Russia to do its part to facilitate collaboration between Russian and EU customs, border management and immigration authorities, as is also foreseen in the Protocol to the PCA. Such collaboration must go wider than purely Kaliningrad-related aspects and should include: conclusion of a readmission agreement and appropriate arrangements in this respect; facilitation of the establishment and operation of consulates on the territory of the Kaliningrad oblast and mainland Russia; border management supported by demarcated borders based on ratified agreements; the issuance in Kaliningrad of passports meeting the conditions required by ICAO regulations; and such other JHA problems as may be considered relevant.