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Polish-Russian Relations

With contributions by Cornelius Ochmann

and Alexey Ignatiev / Petr Shopin

Koszalin Institute of Comparative European Studies (KICES)

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ul. Zielona 13-1, PL-75-664 Koszalin

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About the authors:

Alexey Ignatiev is President of the Association of International Experts on the Development of the Kaliningrad Region and Member of the Permanent Advisory Council at IWG.

Cornelius Ochmann is a political scientist and an Eastern European expert with the Bertelsmann Foundation, Gütersloh/Berlin.

Petr Shopin is a Project Manager at the Kaliningrad Regional Economic Development Agency.

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Koszalin Institute of Comparative European Studies

ul. Zielona 13/1

PL-75-664 Koszalin

Poland

e-mail: info@kices.org

internet: <http://www.kices.org>

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Polish-Russian Relations in the Context of the EU's New Eastern Policy

Summary

The Polish people's experience with Russian and Soviet hegemony has pushed the country to advocate a more robust stance against Russian foreign policy. This legacy spurred Poland to take an active role in Ukraine's 2004 Orange Revolution and has also given rise to Warsaw's demand that the EU should adopt a new approach towards the countries of Eastern Europe.

Poland's policy toward Eastern Europe involves more than simply building on the EU's foreign policy to Russia. Special emphasis is given to the integration of Ukraine, Moldova, and Belarus, as well as the Caucasus and Central Asia. These assertive features combine with the Polish government's interest in diversifying energy supplies and reducing the country's dependency on Russian gas and oil deliveries.

Poland's views are not necessarily in synch with the rest of Europe. In order for the EU to implement the eastern dimension of its Neighborhood Policy effectively, the entire EU must ratify the EU Constitutional Treaty or at least sign its institutional aspects into law – a fundamental prerequisite for concerted action on the part of the EU 27. As a result, the Polish government will have to rethink its current stance and adopt a more pragmatic position if Poland is to continue to play an important role beyond the EU's eastern frontiers.

EU Member Poland Wields Veto Power

Since 1 January 2007, the EU has had to coordinate and shape the foreign policies of 27 member states. This difficult task is the responsibility of the EU Presidency, which rests with Germany in the first half of 2007. One of the goals pursued by the previous Finnish Presidency was the initiation of talks with Russia over renegotiating the Partnership and Cooperation Agreement between the EU and Russia, which expires in November 2007.

However, the Polish government has vetoed this step, thus preventing the symbolic beginning of talks on the occasion of the EU-Russia Summit on 24 November 2006 in Helsinki. Though the Polish veto may have been an important and justified move, it came as a surprise to all parties involved and caused dismay on the part of Warsaw's EU partners. In Berlin in particular, where the upcoming EU Presidency and the federal government's as-yet unconfirmed "New Eastern Policy" strategy were still being discussed, the Polish veto was registered with incomprehension. Thus, the existing misunderstandings and open questions in German-Polish relations were compounded by an unresolved issue of great strategic importance to both countries as well as the rest of the EU.

On the other hand, in view of the ongoing domestic disputes in Russia over President Vladimir Putin's successor and Russia's opaque energy strategy, one may question the shrewdness of the Finnish-German efforts to conclude a new partnership treaty with Russia as early as 2007, i.e., on the eve of Russian parliamentary and presidential elections.

Historic Reasons for Polish-Russian Tensions

The particular animosity that Poland directs towards Russia grows from the shared history between the two countries. Events beginning with the Soviet Union's attack on Poland on 17 September 1939 have left deep imprints in the memories of the Polish people. The attitudes of several generations of Poles towards the Soviet and Russian state were strongly influenced by the murder of thousands of Polish officers at Katyn in 1940. The Russian side has still not identified the perpetrators and held them responsible for the massacre. The visit of then-Russian president Boris Yeltsin to Poland in August 1993 and his acceptance of Poland's NATO accession contributed to a *détente* in relations between the two states. However, the president's "spontaneous comment" accepting Poland's membership in NATO was subsequently "properly parsed" by his advisers and the ensuing conflict over Poland's NATO membership overshadowed the two countries' relationship until 1999.

It would be untrue, however, to say that it is only the Poles who entertain phobias about Russia. There are just as many prejudices on the Russian side about Poland. Furthermore, President Vladimir Putin has done Russian-Polish relations a disservice by introducing "Unity Day" on 4 November, commemorating the expulsion of Polish troops from the Kremlin in 1612, as a replacement for the Soviet-era 7 November holiday marking the anniversary of the Bolshevik Revolution. While only 8 percent of Russians polled were aware of the meaning of the holiday, more than 50 percent of respondents in Poland regarded it as an anti-Polish holiday.

Historical awareness is much more acute in both of these countries than in Germany, for example, with notable differences in the respective perceptions of the Second World War in Poland and Russia. The majority of Poles perceived the Red Army as an occupying force, while most Russians regarded it as a liberating army. These diverging perceptions have given rise to tensions, conflicts, and differences in their respective views of history that endure until today. Even in recent years, there have been diplomatic spats over "spies" in diplomatic representations, beatings of Russian diplomats' children in Warsaw, and beatings of Polish journalists in Moscow. Furthermore, Poland continues to support the construction of a US defense shield against intercontinental missiles – a decision that Russia regards as evidence of an antagonistic stance. Russian Foreign Minister Sergei Lavrov's visit to Warsaw in October 2006 did not bring a breakthrough in the tense bilateral relations.

Russia's View of Polish Support for Ukraine

Recent history also played a prominent role in Poland's obstruction of the EU negotiating position on the Partnership and Cooperation Agreement. The power shift in Ukraine in December 2004 marked the failure of the Kremlin's policy of establishing alternative structures to European integration in the post-Soviet space. Specifically, the mission of former Polish head of state Aleksander Kwasniewski to Kiev has not been forgotten in the Kremlin. The results of the Ukrainian parliamentary elections and the resulting cohabitation of the political elite are clear indications for the EU that Ukraine will continue to lean towards Europe, not Russia.

Poland had an important role both in shaping the transformation in Kiev and in challenging the EU to risk a new approach towards the Eastern European states. This has been registered in Moscow, where the Veterinary Department was immediately authorized to send a signal to the Polish side by banning selected Polish agricultural imports. Certainly, the Kremlin does not prepare elaborate campaigns for such measures. Instead, policies

may be the outcome of a process where certain interest groups manage to assert themselves within the jungle of bureaucracy, and the ban on imports of Polish meat should be considered a case in point. The Russian Veterinary Department also has offices in other EU countries and monitors the quality of the agricultural goods that they export to Russia. However, Polish sources claim that the objectionable meat imports were not from Poland, but from India, and that the shipping papers had been forged to discredit Polish meat producers. Regardless of whether the import ban was justified or not, the economic damage to Poland is limited because the meat-producing industry has found other markets in the EU. It is notable, however, that a year later, the EU Commission has still not raised the matter during consultations with Russia, as the Polish government has requested several times.

Diverging Energy Interests

Even though the media coverage in Brussels and Berlin focused on the meat ban, Poland was much more interested in energy issues. Poland's refusal to renegotiate the Partnership and Cooperation Agreement should therefore not be reduced to the topic of meat exports. German diplomacy can be expected to convince the Russian government to lift its meat embargo towards Poland. But even if Poland is very likely to waive its veto against a mandate for new negotiations with Russia, the EU Commission as well as the German EU Presidency will have to take into account the possibility that if Polish energy policy interests are violated, the Polish government will again respond with a veto.

In recent weeks, Russia has once again shown the EU that it follows its own particular interests when it comes to energy policy. The construction of the German-Russian Baltic pipeline, where only German and Russian companies are involved, is regarded in Warsaw as being contrary to Poland's interests.

The strategy of the current Polish government under Jaroslaw Kaczynski is to secure new energy sources for the country. The acquisition of the Mazeiku oil refinery in Lithuania by Polish energy corporation PKN Orlen, which beat out its competitor Lukoil from Russia late last year, should be seen in the context of these developments. Subsequently, the pipeline that had supplied the refinery was shut down by the Russian side and declared to be in need of service. This means that supplies can only be brought in by rail. A mysterious fire on the eve of the sale raised further questions. All of these factors are raising the cost of production for Orlen as the undertaking becomes more and more of a financial liability, and a new conflict is germinating in the Polish-Russian relationship.

Poland is more dependent on Russian gas and oil imports than Germany. So far, all Polish governments have tried unsuccessfully to diversify energy deliveries. The Polish government has not yet responded to an offer by German Chancellor Angela Merkel to promote the construction of a connecting pipeline between the German and Polish gas distribution infrastructures. This proposal has met with criticism from some politicians in Warsaw, who say that the gas deliveries would still be of Russian provenance. No consideration appears to have been given to the fact that the deal would establish a mutual dependency and would include the possibility of accessing Germany's strategic reserves, which were created during the Cold War as stockpiles to cover the country's energy needs for several months. The Polish side would prefer German companies to develop an interest in extending the Polish-Ukrainian pipeline from Odessa to Brody, which could secure a supply of Caspian oil for the European market.

The disruption of oil deliveries via the "Druzhba" pipeline during the Belarusian crisis at the new year has given new urgency to discussions about the security of energy deliver-

ies. It was the conduct of the Russian leadership, not the interruption itself, that destroyed Russia's already damaged reputation as an energy supplier both in Poland and in Germany. Should Gazprom decide to apply the same takeover strategy in the case of the Polish-Russian "Europol Gaz" joint venture that it used towards Ukraine and Belarus, a severe crisis would inevitably ensue. The German federal government might consider making a proposal in this case to inform the Polish public in concrete terms how Germany and the EU could support Poland with oil and gas deliveries in case of an emergency.

The Interests of the EU and Russia in the Post-Soviet Space

German Foreign Minister Frank-Walter Steinmeier will be able to count on no more than partial support from Poland for his approach of "Change through Integration" in dealing with the EU's eastern neighbors, which he presented to the EU partners on the eve of the German EU Presidency. As far as the Polish side is concerned, this strategy favors Russia too much. Poland's interests dictate that policy towards the eastern neighborhood must by necessity consist of more than just a common EU foreign policy geared towards Russia. Despite these objections, however, Poland is quite pleased with some elements of the EU approach, namely the closer integration of Ukraine, Moldova, and Belarus, as well as the Caucasian and Central Asian states. The linkage between these regions and the EU's sphere of interest showcases the real shared interests of Poland and Germany in the post-Soviet space.

There is reason to doubt, however, that Russia will acquiesce to the EU's engagement in the Caucasus and Central Asia. The Russian Foreign Ministry as well as the Kremlin have so far signaled that Russia regards the entire post-Soviet space (not including the Baltic states) as its own sphere of influence. Furthermore, there is currently no expert close to the government in Moscow who would argue in favor of Russian-European cooperation in the Caucasus or Central Asia. The key question is therefore how Russia will deal with the processes of democratization in the Southern Caucasian and Central Asian states in the future. For Moscow, having lost Ukraine, it is currently a matter of paramount importance to be able to offer the states of the post-Soviet space and their political elites new, stable concepts for economic, political, and societal cooperation. The recent tensions concerning energy deliveries to Belarus and Azerbaijan indicate that there will be no politically motivated special deals for the CIS states and that Russia has switched to selling energy to the highest bidder. The post-Soviet era of subsidized energy policy in support of political allies is over.

Germany has been encouraged for months by many, though not all of the EU countries to wrap up negotiations with Russia by the end of its EU Presidency. On the other hand, some of the new EU members that border Russia and whose outlook has been shaped by negative experiences with their neighbor argue that it would be better to wait until after the Russian parliamentary and presidential elections before concluding new treaties with Moscow. Poland is at the forefront of this group.

In shaping its relations with the eastern neighboring states, the EU should take into account the extent of their commitment to democratic principles. In the future, the EU will therefore need to devote itself more diligently to the process of democratization in its neighborhood than has hitherto been the case. Besides maintaining official relations with the respective governments, it will be essential to foster civil society actors more strongly. The EU requires flexible funding in order to be able to support democratization processes in an unbureaucratic manner. Europeans should not leave it to US NGOs to accompany these social upheavals, as the long-term outcome would be US dominance coupled with

a loss of credibility for the EU. This process is already under way, and the only way for Brussels to define a coherent policy so far has been to offer the prospect of EU membership to the countries in question. It remains an open question how such processes will play out in countries that have no immediate perspective of joining the EU. Poland and other new EU members can and will play an important role in this context.

New forms of integration must transform the general rejection of EU accession into support for an association of democracies in the post-Soviet space. This should be the guiding principle of the EU's "New Eastern Policy". Association can be defined in a purely functional manner and should not initially encompass a promise of full EU membership. In the context of social transformation processes, issues such as freedom of travel, student exchanges, and trans-border infrastructure are more important than assurances of membership that would certainly not find sufficient support among the EU's citizens at the current time.

Prospects of a New Eastern policy for the EU and Poland's Contribution

The EU is in need of a blueprint at several levels. On the one hand, the goal is to ensure the freedom of action of a reforming and expanding EU that should not be jeopardized by overstretch. On the other hand, the EU must preserve the security and stability of the continent. It may be useful to offer different forms of association and partial membership in various areas. The Schengen Area and the Eurozone are functioning examples of differentiated integration and should be developed further.

A new eastern policy for the EU must first of all take into account the potential capability of pan-European integration. It demands that the entire EU ratify the EU Constitution or at least implement its operational part, which would be an indispensable prerequisite for giving the EU of 27 members the capability to act at all. The Polish government will have to reconsider its current stance on this issue and adopt a more pragmatic approach if Poland is to continue playing an important role beyond the EU's eastern borders in the future. In the absence of institutional reform, the instruments for pursuing effective foreign policy are lacking. The German Presidency's proposal for a new "Eastern Policy" will have to take into account Moscow's changing foreign policy in the context of the EU's dependency on energy. Germany is in favor of concluding a new treaty with Russia that includes strong signals welcoming Russia into Europe. Goals to be achieved in the middle term include the establishment of a free-trade zone; an energy partnership; close relations in the fields of research, education, and culture; and the development of closer social and human contacts. Furthermore, the proposal envisages that options be explored for closer cooperation in the framework of European Security and Defense Policy (ESDP) – initially as part of civilian assistance measures and disaster relief, later to include joint missions of peacekeeping or stabilization troops.

Germany believes that the core element of cooperation with Russia must be in the area of energy policy. On the one hand, the country's importance for the EU's energy supply will increase further in the coming years, while on the other hand, the Russian energy sector depends on investments in new technology. Furthermore, Russia is to be integrated into an international regulative framework that defines energy security as the outcome of a cooperative partnership between producers, transit states, and customer states. The joint statement of the G8 summit in St Petersburg, in which Russia acknowledged the principles of the Energy Charter without making explicit reference to the document, was a step

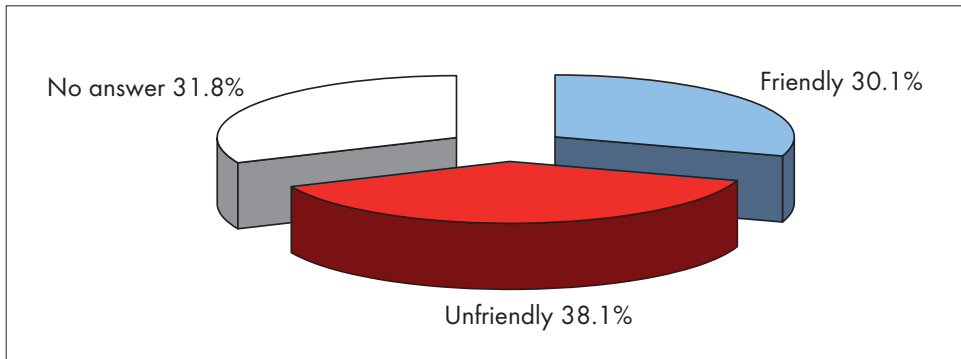
in the right direction. However, Russia's behavior in the current conflict with Belarus has caused an erosion of international trust in Russia as an energy supplier.

The German Foreign Ministry's proposal for expanding relations with Russia is accompanied by the offer of a "Modernization Partnership" with Eastern Europe (meaning, in this case, Belarus, Moldova, and Ukraine) and the Southern Caucasus. This proposal is to be supplemented by a similar concept for Central Asia. These three ideas are to form the basis for a "coherent EU eastern policy". The European Commission is currently elaborating measures to strengthen the European neighborhood policy towards the countries situated between the EU and Russia, while Foreign Minister Steinmeier has announced that the German EU Presidency will propose a strategy for Central Asia that will specify the EU's interests in its relations with Kazakhstan, Turkmenistan, Kyrgyzstan, and Tajikistan.

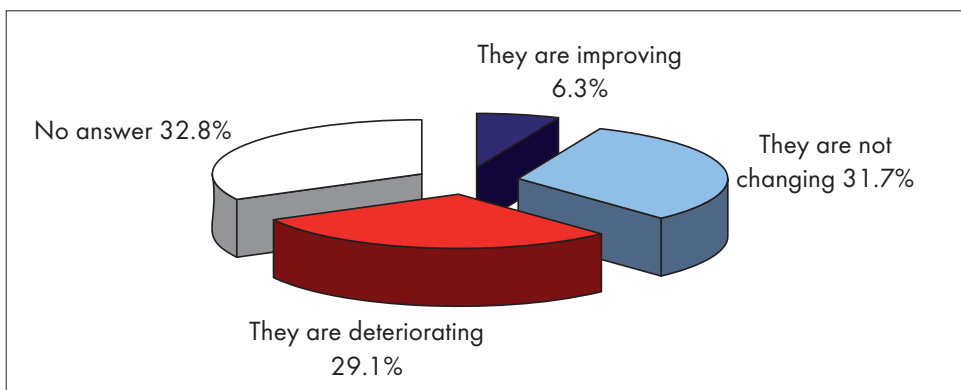
The aim of the EU's new eastern policy is peaceful, stable development featuring rule of law and democracy in the post-Soviet space for the coming decade and beyond. Poland and Germany have shared interests in this matter and will have to work together if this policy is to be successful.

Russian Attitudes Towards the Relations with Poland

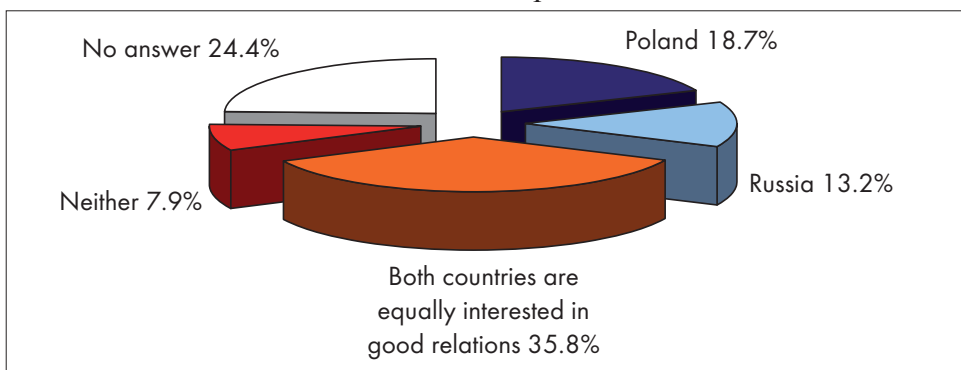
In Your Opinion, What is the Polish Attitude Towards Russia?



In Your Opinion, Russian Relations with Poland are Developing in Which Direction?



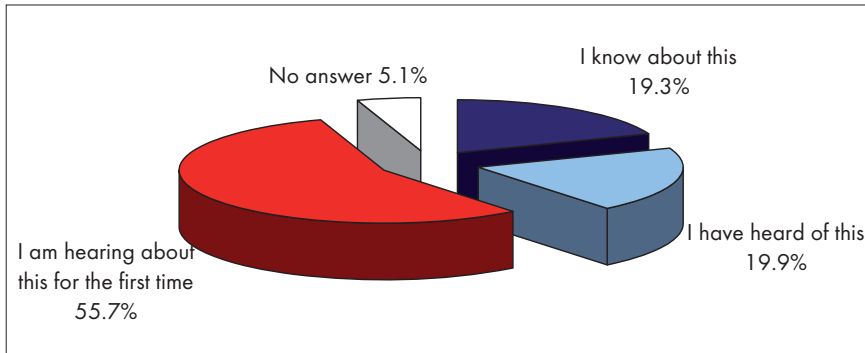
Which of the Two Countries is in Your Opinion More Interested in Good Relations?



Source: opinion survey of the Public Opinion Fund (FOM) of 2-3 December 2006, <http://bd.fom.ru/zip/tb0648.zip>

Russian Attitudes Towards the Polish Veto

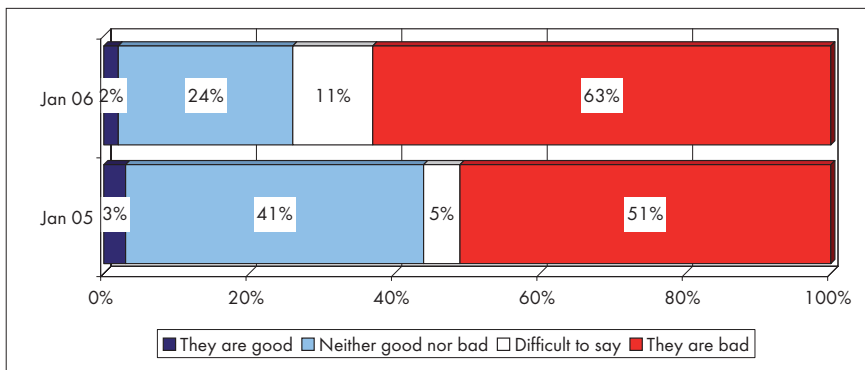
Poland Recently Vetoes Talks on a New Partnership Agreement Between Russia and the EU. Do You Know About This?



Source: opinion survey of the Public Opinion Fund (FOM) of 2-3 December 2006, <http://bd.fom.ru/zip/tb0648.zip>

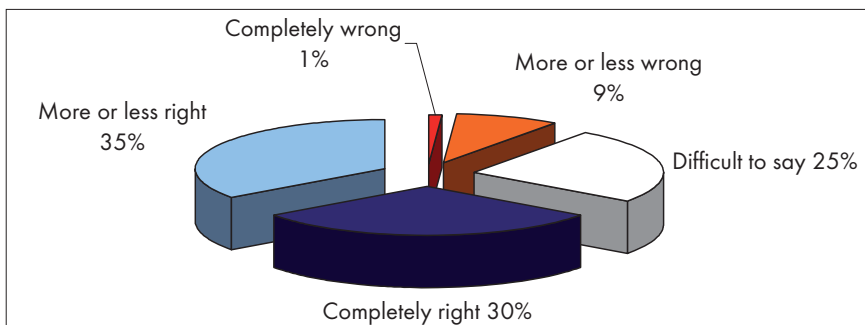
Polish Opinions on Relations Between Russia and Poland

What is Your Opinion of the Relations Between Russia and Poland?



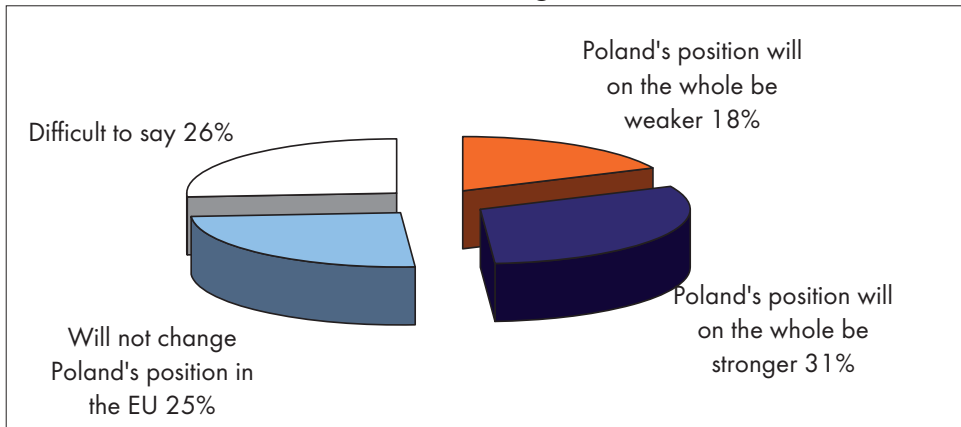
Polish Attitudes Towards the Polish Veto

Poland has vetoed the initiation of talks on a new partnership agreement between the EU and Russia. Poland will only retract its veto if Russia cancels its trade sanctions against Poland. Is the Polish point of view right?

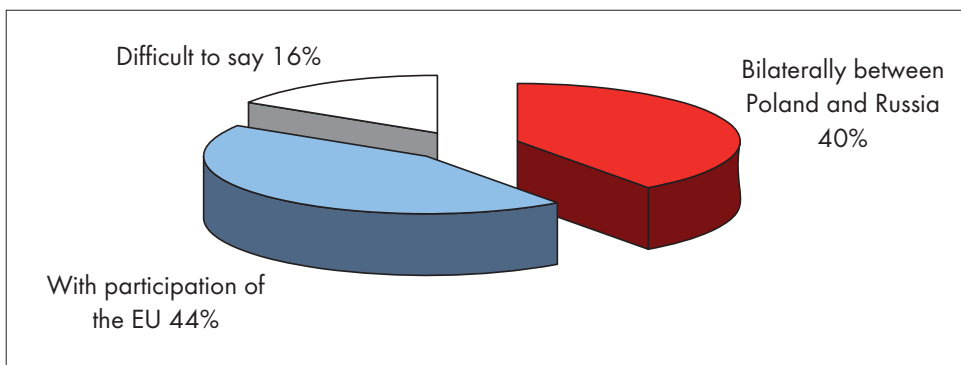


Source: CBOS, BS/192/2006: Opinie o sprawie polskiego weta przeciw rozmowom UE-Rosja, Warszawa, grudzień 2006 [Opinions on the Polish veto on talks between the EU and Russia, Warsaw, December 2006], <http://www.cbos.pl>

Will Poland's Position in the EU be Stronger or Weaker because of the Polish Veto?



For the Last Year, Russia Has Been Blocking the Import of Polish Meat and Other Goods. How Should this Problem be Solved?



Source: CBOS, BS/192/2006: Opinie o sprawie polskiego weta przeciw rozmowom UE-Rosja, Warszawa, grudzień 2006 [Opinions on the Polish veto on talks between the EU and Russia, Warsaw, December 2006], <http://www.cbos.pl>

Polish Attitudes towards Selected Nations

How would you define your attitudes towards other nations? (in %)
Opinion survey of October 2006

Nation	Sympathy	Indifference	Antipathy	Difficult to say	Average*
Americans	49	32	16	3	0.70
Arabs	9	19	66	6	-1.40
Belarusians	23	31	39	6	-0.34
Chinese	18	29	43	10	-0.58
Germans	33	31	33	3	-0.02
English	50	31	15	4	0.76
French	48	31	16	5	0.62
Italians	52	29	14	5	0.76
Jews	20	30	45	5	-0.64
Lithuanians	36	33	24	7	0.19
Austrians	36	34	23	7	0.19
Roma	14	24	58	4	-1.01
Rumanians	16	26	52	6	-0.83
Russians	22	28	47	3	-0.52
Serbs	18	30	43	9	-0.54
Slovaks	44	33	18	5	0.44
Spanish	53	28	12	7	0.83
Czechs	52	30	14	4	0.70
Turks	17	27	48	8	-0.70
Ukrainians	24	29	42	5	-0.47
Hungarians	45	32	18	6	0.53

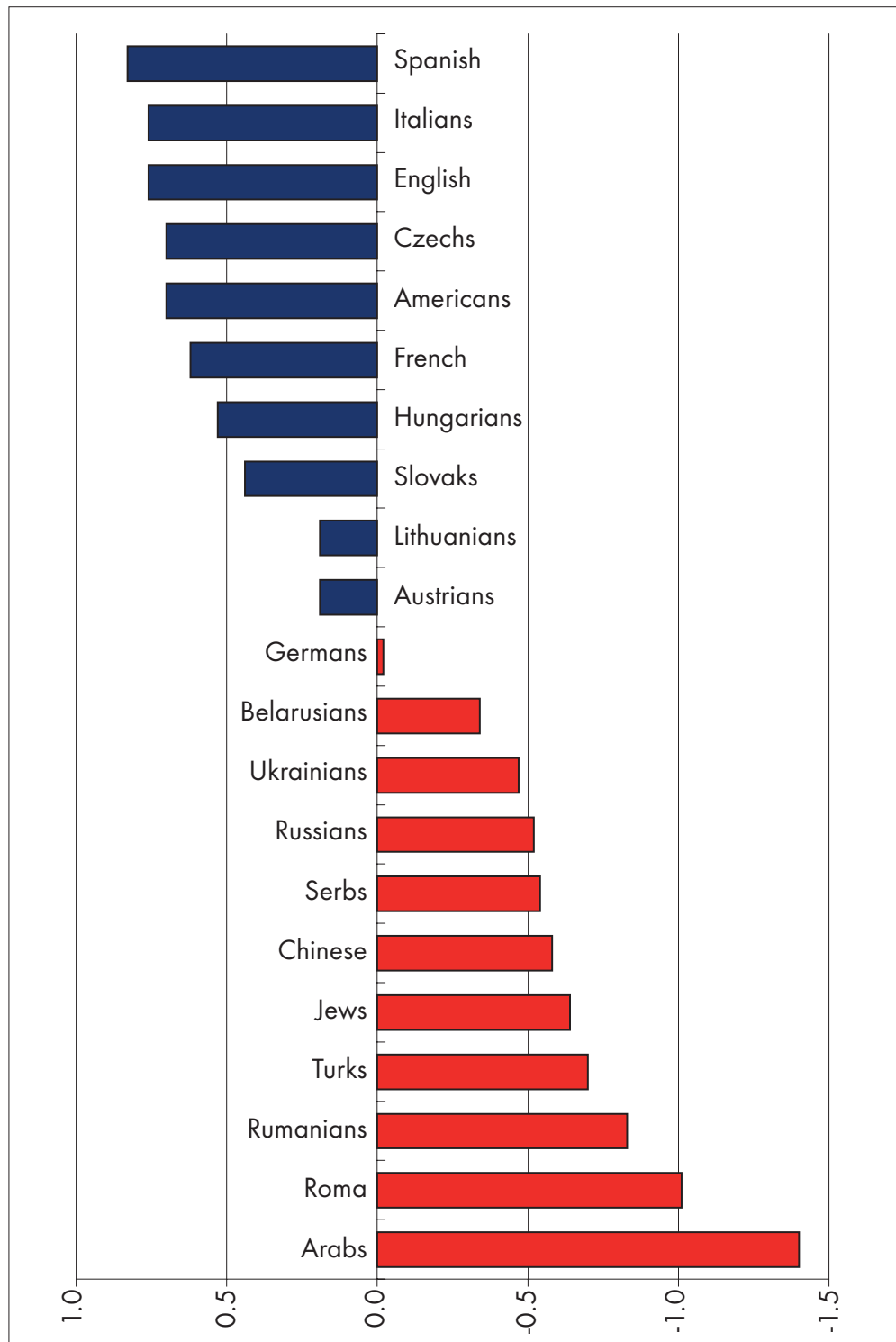
*The values are averages on a scale of +3 (maximum sympathy) to -3 (maximum antipathy).

Source: CBOS. BS/148/2006, Stosunek Polaków do innych narodów, Warszawa. październik 2006, <http://www.cbos.pl>

How would you define your attitudes towards other nations?

Opinion survey of October 2006

The values are averages on a scale of +3 (maximum sympathy) to -3 (maximum antipathy).



Changes in sympathy values regarding selected nations (in %)

	2001	2002	2003	2004	2005	2006
Americans	50	58	56	45	46	49
Arabs	-	16	13	11	8	9
Belarusians	26	26	22	21	18	23
Chinese	22	26	22	20	16	18
German	32	38	36	33	34	33
English	44	51	49	46	50	50
French	55	51	48	45	43	48
Italians	54	54	53	50	52	52
Jews	19	23	21	18	20	20
Lithuanians	36	38	36	38	32	36
Austrians	37	40	36	31	30	36
Roma	17	15	16	15	13	14
Rumanians	15	15	15	14	12	16
Russians	23	24	22	18	16	22
Serbs	17	18	17	15	12	18
Slovaks	42	42	43	41	36	44
Spanish	-	-	-	47	47	53
Czechs	47	50	50	49	46	52
Turks	-	-	-	-	14	17
Ukrainians	19	22	19	29	23	24
Hungarians	47	48	45	43	39	45

Source: CBOS, BS/148/2006, Stosunek Polaków do innych narodów, Warszawa, październik 2006, <http://www.cbos.pl>

Changes in antipathy values regarding selected nations (in %)

Nation	2001	2002	2003	2004	2005	2006
Americans	14	12	17	20	24	16
Arabs	-	54	60	59	70	66
Belarusians	40	36	44	37	51	39
Chinese	35	32	39	37	47	43
Germans	36	31	38	34	38	33
English	18	15	19	17	19	15
French	9	12	19	19	25	16
Italians	8	10	12	11	15	14
Jews	47	46	47	45	50	45
Lithuanians	24	24	26	21	31	24
Austrians	21	19	25	21	32	23
Roma	56	60	61	56	65	58
Rumanians	56	55	58	54	62	52
Russians	47	43	49	53	61	47
Serbs	42	42	45	40	51	43
Slovaks	15	17	20	16	26	18
Spanish	-	-	-	12	18	12
Czechs	15	15	18	14	22	14
Turks	-	-	-	-	53	48
Ukrainians	49	48	51	34	50	42
Hungarians	15	14	19	13	25	18

Source: CBOS, BS/148/2006, Stosunek Polaków do innych narodów, Warszawa, październik 2006, <http://www.cbos.pl>

Which states can Poland rely on?

United States of America	32%
United Kingdom	17%
Germany	15%
France	11%
Ukraine	6%
Czech Republic	5%
Spain	4%
Italy	4%
Ireland	3%

Source: CBOS, BS/98/2006, Opinie o stosunkach z Rosją, Niemcami i Ukrainą. Na kim Polacy mogą polegać, a kogo się obawiać. Warszawa, czerwiec 2006, <http://www.cbos.pl>

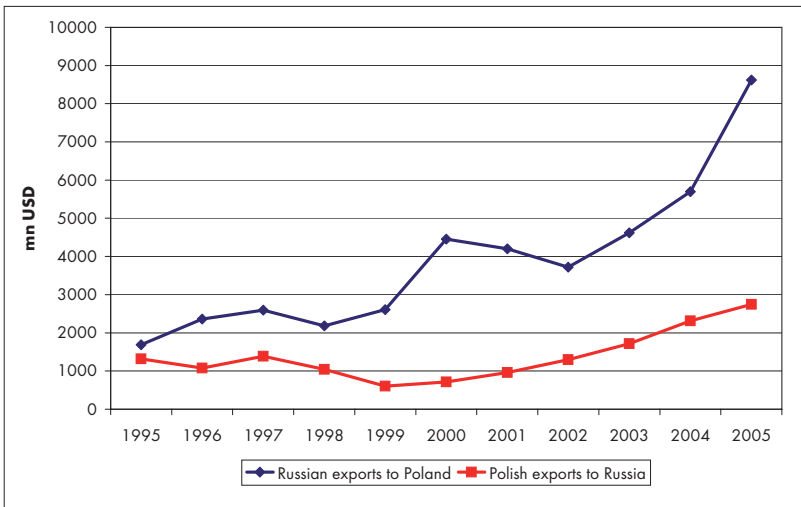
Which states does Poland have to fear?

Russia	59%
Germany	23%
Belarus	11%
Iraq (also 'Arab' / 'Muslim' countries)	7%
Ukraine	5%
France	4%
United States of America	3%
Iran	3%
China	3%

Quelle: CBOS, BS/98/2006, Opinie o stosunkach z Rosją, Niemcami i Ukrainą. Na kim Polacy mogą polegać, a kogo się obawiać. Warszawa, czerwiec 2006, <http://www.cbos.pl>

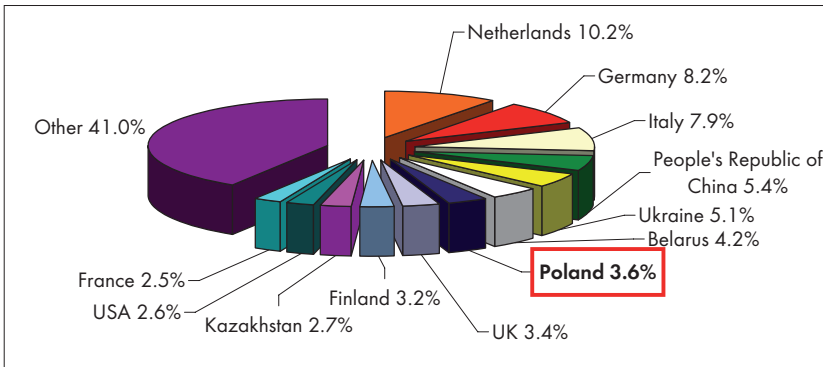
Bilateral Trade Between Russia and Poland

Trade Between Russia and Poland (in mn USD)



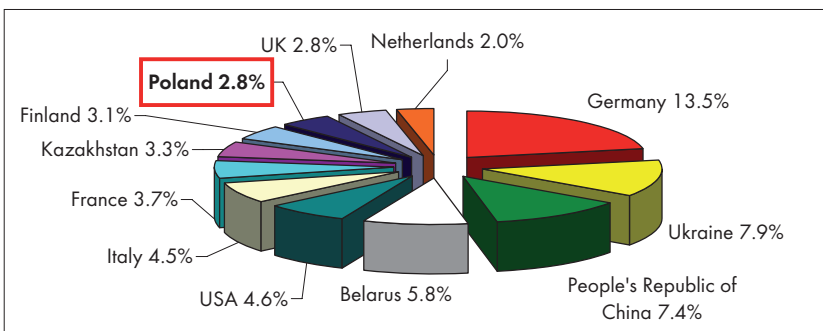
Sources: Russian Statistical Yearbook 2005; Russian Federal Customs Agency, <http://www.customs.ru/ru/stats/arhiv-stats-new/popup.php?id286=125>

Russian Exports According to Target Countries (2005)



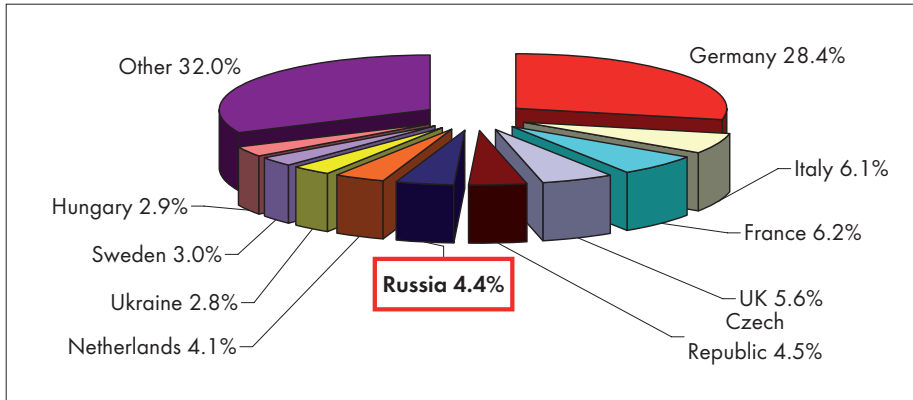
Source: Russian Federal Statistics Service, http://www.gks.ru/free_doc/2006/b06_11/25-07.htm

Russian Imports According to Countries of Origin (2005)



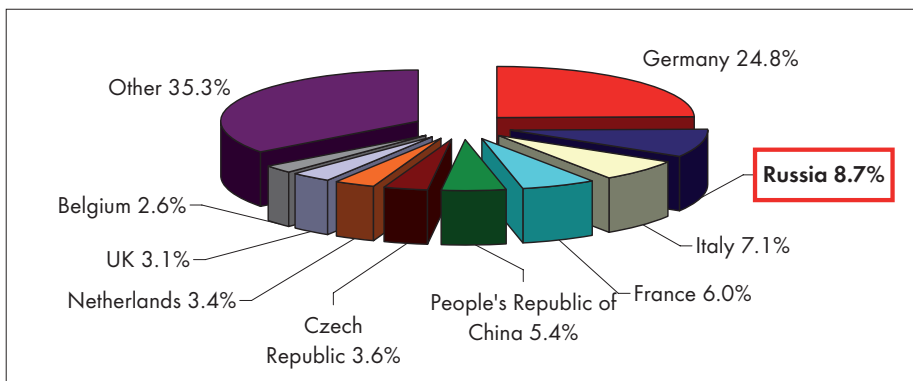
Source: Russian Federal Statistics Service, http://www.gks.ru/free_doc/2006/b06_11/25-07.htm

Polish Exports According to Target Countries (2005)



Source: Polish Statistics Office, http://www.stat.gov.pl/dane_spol-gosp/ceny_handel_uslugi/obroty_handl_zagr/2006/01-11_2006.htm

Polish Imports According to Countries of Origin (2005)



Source: Polish Statistics Office, http://www.stat.gov.pl/dane_spol-gosp/ceny_handel_uslugi/obroty_handl_zagr/2006/01-11_2006.htm

Russia and Poland: Socioeconomic Indicators Compared (2004)

	Russia	Poland	For comparison: Germany
Production			
GDP (bn USD)	581	242	2,741
GDP (bn USD) (PPP)	1,424	495	2,336
GDP per capita (USD) (PPP)	9,902	12,974	28,303
Strategic spending			
Public expenditure on education (as share of GDP)	3.8%	5.8%	4.8%
Public health expenditure (as share of GDP)	3.3%	4.5%	8.7%
R&D expenditures (as share of GDP)	1.3%	0.6%	2.5%
Foreign trade			
Exports (as share of GDP)	35%	39%	38%
Imports (as share of GDP)	22%	41%	33%
FDI (as share of GDP)	2.1%	5.2%	-1.3%
Share in world's arms exports (1998–2002)	22.4%	0.3%	5.4%
Energy & environment			
Share in world's CO ₂ emissions	5.9%	1.2%	3.2%
Electricity consumption per capita (in Kwh)	6,303	3,702	7,258
GDP per unit of energy use (2000 PPP US\$ per kg of oil equivalent)	1.9	4.6	6.1
Social indicators			
Unemployment rate	8.1%	19.0%	9.2%
Population living below 4 USD a day (1990 PPP USD), 1996–99	53%	10%	0%
Share of richest 20% in total consumption	47%	42%	37%
Health			
Life expectancy at birth	65.2	74.6	78.9
Share of population with good access to drugs	50–79%	80–94%	95–100%
Tuberculosis cases – prevalence	0.160%	0.032%	0.006%

Source: UNDP Human Development Report 2006

Kaliningrad in the Context of EU-Russia Relations

Summary

Kaliningrad's economy has been growing in recent years, but it still has a long way to go to catch up to neighboring Poland and Lithuania in productivity terms. As a Russian exclave inside the European Union, Kaliningrad plays a key role in Russia-EU relations. Much of Kaliningrad's economy now depends on the Special Economic Zone, whose benefits will be reduced when Russia joins the World Trade Organization. Accordingly, Kaliningrad needs to find a sustainable economic development model because simply maintaining the status quo only allows for moderate improvements.

The Current Socio-Economic Situation

The Kaliningrad region is one of Russia's smallest federal units, with a total area of 15.1 thousand sq km and population of 950,000 people. The only Russian exclave, it is separated from the country's mainland by EU member states and Belarus. In the 1990s it suffered a major economic decline, but is currently demonstrating one of the highest rates of economic growth in the country. This success is mainly due to the large-scale assembly and processing production spurred by the Free Economic Zone regime established in 1992, which was replaced by the Special Economic Zone (SEZ) regime in 1996, itself modified in 2006.

In particular, the gross regional product (GRP) grew 13 percent in 2005 (compared to 6.4% in Russia as a whole), and, according to preliminary estimates, this gap widened even more in 2006 (see Figure 1 opposite).

However, in terms of GRP/GDP per capita, the Kaliningrad region is still far behind its neighbors Lithuania and Poland, a fact largely explained by the low productivity level of the region's economy (see Figure 2 on p. 24).

The recent economic growth positively affected the real income of the population (which grew by 30.3% in the course of 2005 alone), and contributed to improving the standard of living in the region. The unemployment rate (calculated according to ILO methodology) decreased from 7.1% in 2002 to 6.7% in 2005.

Despite this generally favorable economic background, the demographic situation in Kaliningrad remains difficult. Life expectancy in 2005 was below 62 years, while in Russia as a whole this indicator is above 65 years. The death rate has been double the birth rate for a number of years, with migration only partly compensating for the population loss (the inflow of migrants has in fact diminished in recent years).

The Place and Role of Kaliningrad in the Context of EU-Russia Relations

Kaliningrad has a special role and place in EU-Russia relations and cooperation. Owing to its unique geopolitical location – Russia's "island" in the midst of the EU – the region finds itself in a double dependency, relying simultaneously on decisions made by the Russian federal authorities and the European Union. In other words, conditions determining the region's socioeconomic development are regulated by Russian and EU legal

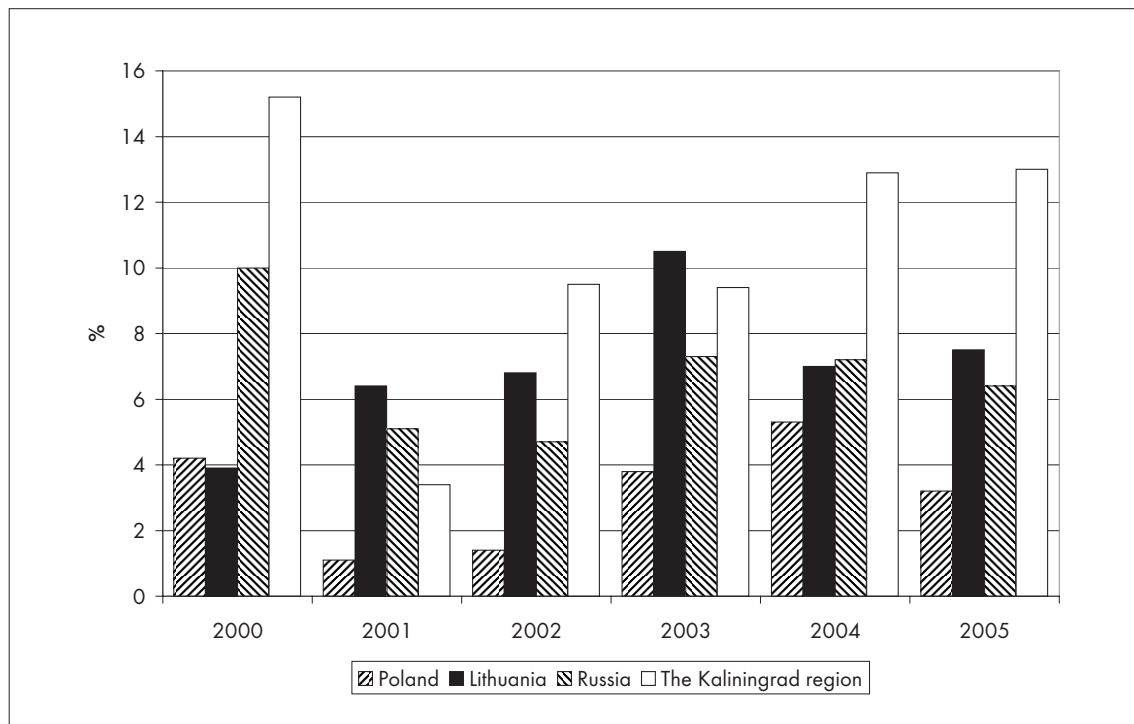
acts. These acts primarily affect such vital areas as passenger and freight transit, trade, ecology, fisheries and power supplies. Kaliningrad-based businesses are in a less favorable competitive position than companies from other Russian regions (due to increased transit costs) and companies within the adjacent EU border areas, which enjoy direct access to EU markets and substantial development aid from EU funds. Were this disparity to widen or if currently functioning factories shut down, potentially dangerous conflicts could develop.

In Russia's mid-term strategy towards the EU (2000–2010) adopted in 1999, Kaliningrad is designated as a pilot region for bilateral cooperation and dialogue. At the Hague summit held in November 2004, the parties agreed to establish a standing working group on Kaliningrad that would serve as a negotiation mechanism; unfortunately, that group has yet to be established. Currently, high-level discussions are being held on a regular basis between Sergey Yastrzhembsky, the Russian president's special envoy for relations with the EU, and Benita Ferrero-Waldner, EU Commissioner for External Relations and European Neighborhood Policy. However, the dialogue so far has mostly focused on policy issues, rather than specific joint actions and programs.

Overall, progress in solving Kaliningrad-related problems depends heavily on the level of EU-Russia relations and cooperation. Due to its special geopolitical location and the problems the region has faced in the aftermath of EU enlargement, Kaliningrad reflects the essence of EU-Russia cooperation: both its potential for further development and all of its current difficulties.

Kaliningrad is a testing ground for cross-border cooperation between Russian regions and EU member states. The region has already actively participated in a number of EU initiatives designed to promote cooperation on the common EU-Russia border, such as

Figure 1. GDP (GRP) growth rate in Kaliningrad, Poland, Lithuania and Russia, 2000–2005



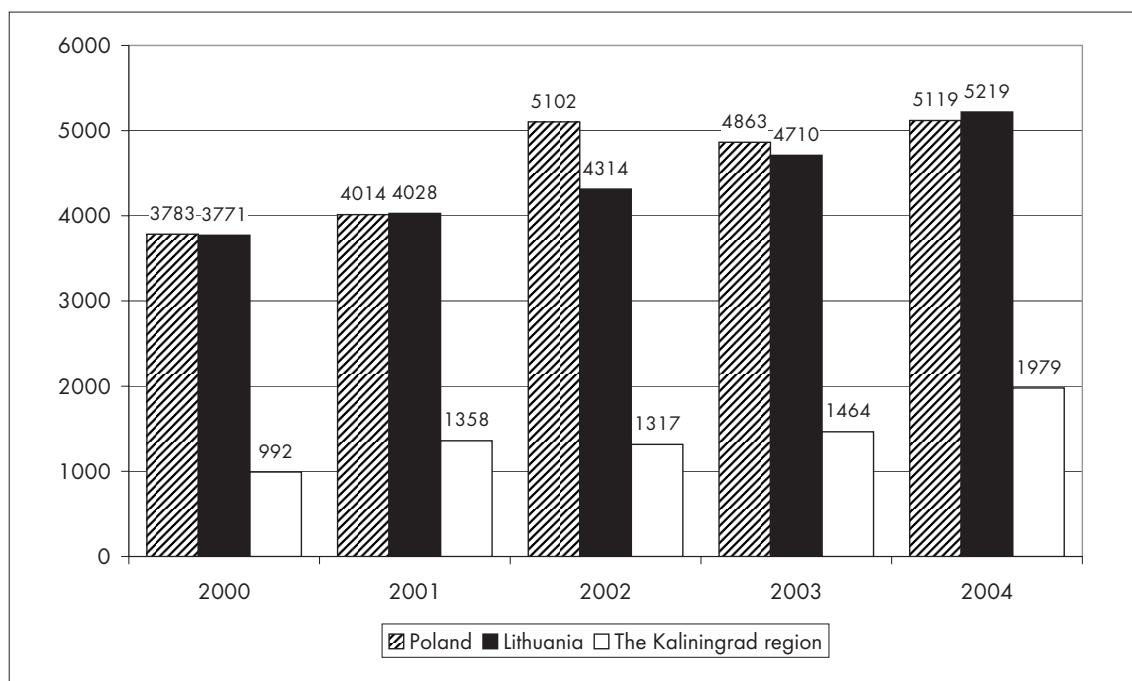
Source: Kaliningrad Region Government official website: <http://www.gov.kaliningrad.ru>.

the Northern Dimension, Euroregions, Interreg and others. It is the only Russian region which in 2003 received a grant of € 25 million from the EU in the framework of a special funding scheme to support regional development. The newly launched EU cross-border cooperation program reserves around 135 mln. euros for the coordinated development of selected Polish and Lithuanian regions and Kaliningrad.

At the same time it should be noted that Moscow and the European Union pursue different interests as far as Kaliningrad is concerned. While Russia stresses the issues of sovereignty and hard security (namely, the loss of sovereignty over Kaliningrad in light of recent EU and NATO enlargements), the EU is more concerned with matters of soft security (illegal migration, cross-border crime, smuggling, pollution, the spread of diseases, and trafficking in people).

EU members Poland and Lithuania, as Kaliningrad's neighbors, have their own interests in this Russian region. Kaliningrad's passenger and cargo trains reach mainland Russia through Lithuanian territory, and Lithuania is keen to use this fact to strengthen its position in the EU, in general, and in EU-Russian relations, in particular. Lithuania currently plays the role of being a "Kaliningrad expert body" in Brussels, which means that EU representatives consult about the key issues related to Kaliningrad with Lithuanian representatives and experts in advance. Moreover, in many respects, Lithuania plays the role of a pilot EU country in EU-Russian relations. In particular, Lithuania was the first EU member state which signed and ratified a readmission agreement with Russia. So Lithuania, along with Kaliningrad, are like prototypes in the larger process of European integration. Lithuanian business is very active in Kaliningrad and uses the region as a launch pad for penetrating the huge Russian market. This market is so large that Hansabank, which is the Russian subsidiary of a Scandinavian bank, recently opened a branch in Kaliningrad to serve EU (mostly Lithuanian) and local clients.

Figure 2. GDP (GRP) per capita (calculated according to purchasing power parity) in Kaliningrad, Poland and Lithuania, 2000–2004



Source: Kaliningrad Region Government official website: <http://www.gov.kaliningrad.ru>.

In contrast to the Lithuanian case, the Kaliningrad aspect of Polish-Russian relations is not burdened with the issue of transit and has never been overly politicized. The Polish business community treats the Kaliningrad region mainly as a growing market for its products. There are currently over 500 companies with predominantly or entirely Polish capital in the region, plus a large number of companies doing business through their Russian counterparts.

Kaliningrad-Poland business cooperation is developing in the fields of energy, construction, agriculture, furniture manufacturing, and food processing, among others. A number of joint projects in the field of shipbuilding, marine transportation and energy are being considered.

Poland is among Kaliningrad's leading trade partners. Relations have developed dynamically during the last few years and the ongoing dispute over exports of Polish meat to Russia has not had any significant effect on Kaliningrad-Polish trade (see Table 1 on p. 21).

Different priorities are reflected in how the parties treat Kaliningrad, and in their approaches to problem solving. However, all parties acknowledge the importance of the socioeconomic development of the region. And this is where their efforts may and should be joined, as a prosperous Kaliningrad may then more easily become an integral part of the Baltic Sea region, which will undoubtedly bring benefits to the overall partnership-building process.

The "Kaliningrad factor" in EU-Russia relations acquired a new dimension in 2005 with the adoption of the EU-Russia road maps for the common policy spaces: the Common Economic Space; the Common Space of Freedom, Security and Justice; the Common Space of Research, Education and Culture; and the Common Space of Cooperation in the Field of External Security. The Kaliningrad region can and should play a key role in establishing these spaces, although it may hamper these processes if its own problems are politicized.

Challenges and Opportunities for Kaliningrad in the Aftermath of EU Enlargement

Kaliningrad's current model of economic growth is artificial and may well prove unsustainable in the long run. One factor that may undermine the attractiveness of the Kaliningrad economy in the eyes of investors is Russia's upcoming accession to the World Trade Organization, which will erode the core of customs benefits currently provided in Kaliningrad. The risks related to the possible complication of transit procedures via EU territory (Lithuania) should not be ignored either, considering the strong dependence of the local economy on freight links with mainland Russia – a major market for local goods and the main source of raw material supply. The consequent closure of many of local import-substituting factories would inevitably result in higher unemployment and entail new economic problems.

Another issue is the new Law on the SEZ in the Kaliningrad region introduced in April 2006 and designed to attract large companies at the expense of small and medium-sized businesses, as it provides benefits to companies investing not less than 150 million rubles (about \$5.5 million). Thus the major challenge for Kaliningrad now is to build a sustainable economy (i.e. one based on small and medium sized business and export-oriented companies) and to reduce the socioeconomic divide between the region and adjacent bor-

der areas of EU member states, which may widen further if Kaliningrad's fragile economic model fails.

Kaliningrad and the Schengen Zone Enlargement

With some 1.5 million people traveling between Kaliningrad and the rest of Russia every year, the issue of Kaliningrad passenger transit has long been a priority for the Russia-EU agenda. In light of the pending entry of Poland and Lithuania into the Schengen zone, many are concerned about the possible impact on established transit procedures, which were last revisited right before these two countries joined the EU in May 2003.

Then cargo transit through Lithuania became more complicated and costly due to a number of factors (increased fees for and frequency of veterinary and other controls; introduction of obligatory financial guarantees, etc.). For passenger transit, the authorities adopted a special scheme based on the introduction of no-cost visas and the so-called Facilitated Transit Document and Facilitated Railway Transit Document. This document is relatively easy to obtain and is free of charge. The scheme was a compromise acceptable for all parties concerned and proved its viability over time. But the fact that Lithuanian authorities may reject issuing such documents to a Russian citizen moving from one part of Russia to another shows that Russian concerns over the issues of state sovereignty were not fully taken into account.

The agreement on the visa regime and readmission between Russia and the EU is expected to come into force in the coming months, and will ensure easier procedures for Russian citizens seeking to visit new EU members states after they join the Schengen zone later this year.

Although not all details concerning possible implications of Schengen zone enlargement for Kaliningrad are clear, it is obvious that it will cause mixed feelings among Kaliningrad citizens. On the one hand, a Schengen visa entitles its holder to free movement in the majority of European countries, which is why a large number of Kaliningrad tourists and businessmen applied for it in the past. In a few months time, they will no longer need to apply for a Polish or a Lithuanian visa in addition to the Schengen visa already in their passport to visit these countries. Another piece of good news is that there will be several consulates issuing Schengen visas in Kaliningrad (up until recently, this was done only in the General Consulate of Sweden), which will presumably result in shorter processing times.

On the other hand, many of those who regularly visit Poland and Lithuania have no intention of going elsewhere in Europe. Given the fact that a Schengen visa will cost 35 euros for Russian citizens (no exception envisaged for Kaliningrad residents in this case), and that the requirements for obtaining such a visa are stricter than those for getting a Polish or a Lithuanian one, some people will now face greater hurdles (as an illustration, more than 170,000 visas were issued by the General Consulate of Poland in Kaliningrad in 2005).

Scenarios for Kaliningrad's socio-economic development

At the moment, the regional mid-term and long-term Kaliningrad Region Strategy for Socio-Economic Development, adopted by the regional government and approved by the federal authorities, envisages four possible scenarios for the region's development:

Scenario 1 – “Status Quo”. This scenario is based upon local business securing, and moderately improving, its current status in the Russian market. It implies that the issue of the region’s development will be discussed more in political than economic terms. Even though the scenario is far from being appealing, it is likely to become a reality if no projects capable of changing the current socio-economic trends emerge. In this case, the leaders of transit-dependent economy will remain unchanged. The same moderate pace for infrastructure development in the transport and energy sectors will be maintained with no breakthrough allowing for the implementation of large projects. If the situation in the Baltic region remains stable, this model foresees moderate economic growth of 5–7 percent for the coming 3–5 years.

Scenario 2 – “Competition in the Russian North-West”. This scenario envisages local business being able to achieve a “strong” position in the Russian market, where Kalinin-grad’s participation is determined by the specialization it achieved during the 1990s. In the current circumstances, this is the least probable scenario, as it implies intense competition with other Russian regions in existing or newly emerging internal markets. At the same time, in the long run, promoting Russian interests in the Baltic area is a much better outcome than competition between Russian regions for limited internal investment funds.

At the moment, Kaliningrad is the undisputed leader in terms of the manufacturing and distribution of canned good and electronic consumer products on the Russian market. However, despite this advantage, which is largely conditioned by customs and tax benefits granted under the SEZ regime, these firms make up an insignificant part of the local economy.

Scenario 3 – “European Outsourcing”. This scenario envisages the integration of traditional and new types of products and services into EU-based supply chains. It is realistic and moderately positive for the socio-economic development of the region.

This scenario ensures sustainable growth for Kaliningrad-based contributors to the supply chains, at least in the midterm. Moreover, European quality factories will move to Kaliningrad, improving local labor skills to international levels and developing sustainable distribution channels. Under this scenario, the economy will be oriented toward foreign markets, and the region will become integrated into the socio-economic processes determining the situation in the Baltic region and in the North-West of Russia.

Most relevant will be economic sectors and fields of activity which cannot be developed in the EU because of environmental reasons, a lack of necessary skills, or other reasons. These are, first and foremost, energy-consuming production (some types of metal processing, assembling, shipbuilding), and some types of agriculture. The envisaged GRP growth will be 7–8 percent per annum and will gradually decline as the competitive advantages (cheap labor and energy resources) wane by 2016.

Scenario 4 – “Macroregional Lead”. This scenario will require not just the implementation of a pool of infrastructural projects, but also a rather aggressive expansion on European markets. The success of this scenario is directly linked to the revision of Kaliningrad’s status within the Baltic region. This outcome will only be possible with the establishment and implementation of a conceptually new set of initiatives and projects with the objective of shaping a new “portfolio of resources”.

Under this scenario, a cluster policy would be most promising. Clusters may be developed on the basis of the traditional production specialization of the region: sea transport, some segments of the food industry (fishing and fish processing), production of certain types of

consumer goods (furniture, textiles), retail trade, and tourism and the hospitality industry.

An alternative to cluster development could be the launch and implementation of large projects allowing the further enhancement of regional specialization by means of shifting the focus onto specific activities that are in demand in the macroregional context.

If this scenario becomes a reality, Kaliningrad's GRP may grow at an annual rate of 7–10% for an extended time period (until 2025), in part through institutional changes and the attraction of large investments.

Considering the current conditions and the long-term interests of Russia in the Baltic region, Government experts believe that the most expedient scenario for socio-economic development of the region would be scenario No. 4 "Macroregional Lead," complemented with certain elements of scenario No. 3 "European Outsourcing".

The Program of Socio-Economic Development of the Kaliningrad region for 2007–2016, based on the above strategy, was approved in the form of Kaliningrad Region Law no. 115 on December 28, 2006.

Table 1: Kaliningrad – Poland Volume of Trade in 2003–2005

	2003		2004		2005	
	mln. USD	Change from the previous period	mln. USD	Change from the previous period	mln. USD	Change from the previous period
Volume of trade	387.9	105.0%	486.6	125.4%	569.7	117.1%
Polish exports to the Kaliningrad region	44.0	37.2%	64.7	147.0%	59.4	84.8%
Imports from the Kaliningrad region	343.9	137.1%	421.9	122.7%	514.8	122.0%

Source: Economic Department of the General Consulate of the Republic of Poland in Kaliningrad

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