

**Problems Related to Development of
the Kaliningrad Region As an Exclave
Territory of the Russian Federation**

Moscow
2002

Attitudes towards the geopolitical situation of the Kaliningrad Region of the Russian Federation have dramatically changed of late, both in Russia and abroad. While retaining its traditional significance in Russia's defense doctrine, that region has come to be seen as a golden opportunity for establishment of closer mutually advantageous cooperation between Russia and the European Union. There is a growing understanding of the fact that thanks to its geographic situation that region can be used as one of the Russian territories to undergo priority integration into Europe's Common Economic Area. In the present study, the possible scenarios of development of that region are examined from the point of view of such integration with advantages and disadvantages of each of those scenarios discussed, as well as such problems as may arise in their implementation.

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Introduction

Specifics of the Kaliningrad Region

The federal authorities have been giving particular attention to the Kaliningrad Region of late. In 2001, issues related to that region's development were discussed at meetings of the Government of the Russian Federation on three occasions (in March, September and October). The Kaliningrad Region is the only region for which a Concept of Federal Socioeconomic Policy has been devised. While there has been a sharp reduction in the number of federal goal-oriented development programs for specific regions (in 2002, there are only six such programs, while in 2001 they numbered 41), the Kaliningrad Region program has been preserved. It is to be noted that apart from that program, the 2002 federal budget only provides for financing of development programs for Tatarstan and the Kuril Islands which belong to the Sakhalin Region.

The purpose of this paper consists in studying of the reasons behind the particular attention the federal authorities have been giving the Kaliningrad Region, analysis of various likely scenarios of that region's future development, assessment of the advantages and faults of each of those scenarios and of such problems as may arise in implementation of those scenarios.

The Kaliningrad Region is the Russian Federation's westernmost region. With an area of 15,100 square kilometers and a population of 946,800 (77 percent urban residents), it is a comparatively small region (by the Russian standard).

The Region has been included in the structure of Russia's North-Western Administrative Area.

As an administrative entity, the Region includes the City of Kaliningrad (regional center, population 421,700), two major ('regional-scale') cities, three smaller urban municipalities and 13 administrative districts. Apart from Kaliningrad, the largest cities (with populations of 20,000 to 50,000) are Sovetsk, Chernyakhovsk, Baltiysk, Gusev and Svetly.

The specifics of the Kaliningrad Region's geopolitical and geoeconomic situation are determined by the following factors:

- **Geographic situation:** The Kaliningrad Region is the Russian Federation's westernmost territory, so it is situated closer to the center of Europe and to most EU countries than any other Russian territory.

Kaliningrad is the Russian Federation's only transportation junction which has unfreezing seaports on the Baltic Sea and services multi-modal transportation.

- **Geographic separateness.** The Kaliningrad Region is the only administrative-territorial entity of the Russian Federation which is separated from the rest of the Russian Federation's territory by land borders of foreign states and international waters. The Russian territory closest to the Kaliningrad Region, the Pskov Region, is 368 kilometers away from it (border to border, as a crow flies).

Every batch of goods produced in the Kaliningrad Region and every batch of imported goods transited through the Kaliningrad Region into Russia has been subjected to full customs control for eight years now, while Russian citizens travelling by land from 'mainland' Russia to the Kaliningrad Region and from the Kaliningrad Region to 'mainland' Russia have been subjected to passport and customs border checks.

- **Openness of the regional economy.** Since the Kaliningrad Region has had the Special Economic Zone (SEZ) status for a number of years, that Region's economy is oriented towards openness, enhancement of foreign economic activities and organization of production of goods which can serve as substitutes for imports.

Even now the Region's economy is similar in its structure to economies of some Eastern European countries: there are many small businesses, services account for around 50 percent of the Region's GRP, and that percentage keeps growing, the Region's per capita volume of export and import operations exceeds analogous indices of many of the Russian Federation's other regions by far.

- **Significance for Russia's national defense.** The Kaliningrad Region is home of naval bases belonging to the Baltic Fleet of the Russian Federation, so it has a major role to play Russia's defense potential and assuring of national and European security. At present, the Baltic Fleet is one of the best forces in the armed forces of the Russian Federation. All the units deployed in the Region belong to the Baltic Fleet.

The Region's significance for Russia's national defense consists in the opportunities it offers for control over the waters and airspace of the Baltic Sea and a considerable portion of Central and Eastern Europe. In the light of NATO's proposed expansion

eastwards, the role played by the Region in assuring Russia's national interests is to grow even more.

- As regards the social and economic indices, the Kaliningrad Region is a 'statistical mean' region. The rather widespread belief that the Kaliningrad Region is a 'poor' region is utterly ungrounded: the per capita gross regional product and residents' monetary incomes are close to the national average.

Specifics of the Kaliningrad Region's Development in Modern Russia

Up till the end of the Year 2000, the Kaliningrad Region had but an insignificant role to play in modern Russia's domestic, foreign and macroeconomic policy, being seen as 'backwater'.

The 1990s economic crisis hit the Kaliningrad Region harder than most other constituent territorial entities of Russia.

That can be explained by the fact that a particularly significant role in the Region's economy was played by such economic branches as suffered the greatest recession as a result of the crisis, namely, engineering (with a large proportion of military-industrial complex industries), fisheries and agriculture. Because of the Region's production isolation from 'mainland' Russia, there were considerable difficulties both in production interaction and in delivery of goods to the Russian national market. As a result, the Region's small and vulnerable economy went into a sharp recession; while in 1990, the Kaliningrad Region's per capita gross regional product (GRP) was 4 percent higher than the national average, in 2000, it was 25 percent below the national average. Transportation and transaction costs of the Region's economic entities grew dramatically.

Throughout the 1990s, the Kaliningrad Region was below the national average both in the principal socioeconomic indices and in its residents' standard of living. In the extent of economic development, the Region lags far behind both the neighboring states and industrialized Western European countries. The GRP dynamic used for characterization of the Kaliningrad Region's economic situation in the Russian Federation and in the North-Western Area of the Russian Federation and for comparison with the neighboring countries' economic development is shown below (that comparison is somewhat notional, though, since the total of GRP values of all the territorial entities of the Russian Federation calculated in accordance with the methodology adopted by the National Statistical Board of the Russian Federation is less than Russia's GDP²).

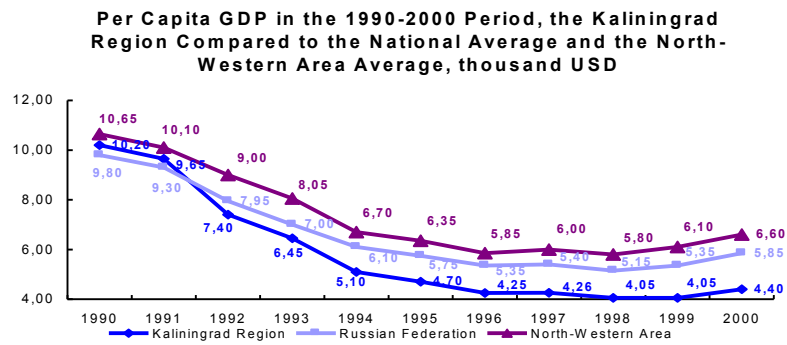


Figure 1

A comparison of GRP dynamic indices for the Kaliningrad Region and the neighboring countries shows that the Region's lag behind the latter is even greater.

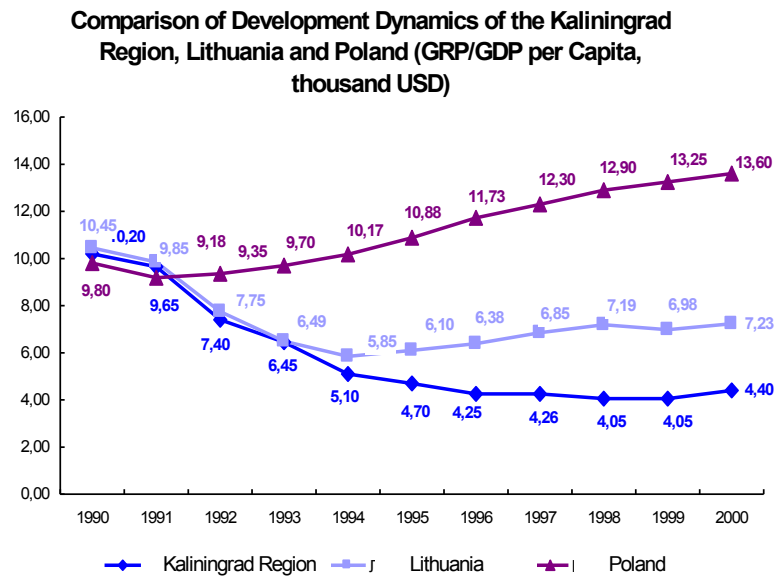


Figure 2.

The Kaliningrad Region's economy has but an insignificant role to play in Russia's national economy. The Region's per capita GRP amounts to a mere 72.5 percent of Russia's national average. In that respect, the Kaliningrad Region lags significantly behind its five industrialized neighbor-countries (its performance is five times worse than that of Germany). As Poland and Lithuania are to join the European Union and henceforth to receive support from united Europe, the gap between them and the Kaliningrad Region is to grow further.

The past eighteen months have seen a significant change in the interpretation, both in Russia and abroad, of the geopolitical situation of the Kaliningrad Region. In addition to the Region's traditional significance in Russia's defense doctrine, it has acquired completely new significance being seen as an extremely favorable opportunity for expansion of mutually advantageous cooperation between the Russian Federation and the European Union. In that connection, new doctrines (the bridge doctrine, the pilot region doctrine, the growth triangle doctrine, the cooperation region doctrine and the like) have been devised and become the subject of broad discussion.

Politicians and experts, both Russian and foreign, have come to understand that that region's geographic situation (see Figure 3) makes possible in principle use of that region as one of the Russian centers of integration in the European economic space. If that opportunity is to be realized, political and economic interests need to be reconciled on the regional, Russian national and international planes within the framework of the geopolitical and geoeconomic approaches in designing of a long-term development strategy for the Kaliningrad Region. That is expected to serve as a foundation for development of specific technical solutions in respect of the Region's specialization in division of labor on the domestic and international markets.

Specifics of the Kaliningrad Region's socioeconomic development in the past decade have largely been determined by its status of a free economic zone (later, since 1996, special economic zone). The future of the Region has also been linked to its special economic zone (SEZ) status, however, since the actual functioning of the SEZ has not been very satisfactory, the SEZ is to be reformed. For that reason, discussed in the present section is firstly, the history of establishment and specific of the free/special economic zone regime in the Kaliningrad Region and, secondly, the results of functioning of the FEZ/SEZ in that region.

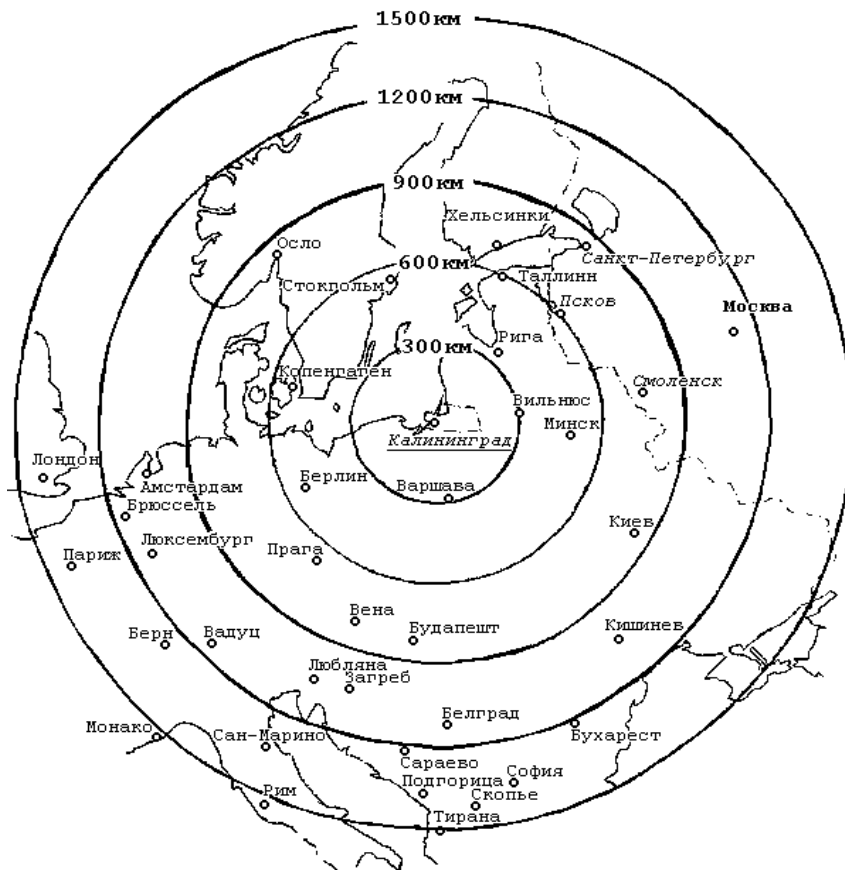


Figure 3 Distances between Kaliningrad and Certain European Capitals and Major Russian Cities

1.1. History of Establishment and Specifics of the Kaliningrad Region Free/Special Economic Zone.

Establishment of a free economic zone (called Yantar [Amber] Free Economic Zone) in the Kaliningrad Region was announced by decision of the Supreme Soviet back in 1991.¹ In the closing months of 1991 and throughout the Year 1992, the process of formation of the FEZ in the Region was extremely slow due to an economic crisis which occurred at that time. For the purpose of enhancement of that process, the President of the Russian Federation and the Government of the Russian Federation issued late in 1992 and in 1993 a number of decrees² providing for the principal mechanisms of the free economic zone's functioning.

In accordance with those decrees, under the regime of the Kaliningrad Region free economic zone a number of benefits were granted, including those in respect of taxation, to both domestic and foreign entrepreneurs. For instance, any such material production businesses (including those with foreign participation) as were registered in the Yantar FEZ were entitled to a tax credit in respect of their profit (four years or five years from the time of declaration of the profit, depending on the nature of the specific businesses). Companies (with any forms of ownership) which were active in the Kaliningrad Region were entitled to exemption from taxation of such portions of their profits as they reinvested in development of production and the social sphere. For businesses in material production, the profit tax rate was reduced by 50 percent if their annual exports exceeded 50 percent of the output. No customs duties were charged at export of products produced in the Kaliningrad Region. No customs duties, VAT or special

¹ On June 3, 1991, the Chairman of the USSR Supreme Soviet issued a Decree on the Economic and Legal Status of the Free Economic Zone in the Kaliningrad Region, and on September 25, 1991 the Council of Ministers of the Russian Federation issued Decree (No. 497) on Primary Measures Towards Development of Free Economic Zones in the Kaliningrad Region and the Chita Region (with a supplement entitled *On the Free Economic Zone in the Kaliningrad Region [FEZ Yantar]*).

² The Decree by the Government of the Russian Federation on Socioeconomic Development in the Kaliningrad Region (Decree No. 573 of August 12, 1992), the Decree by the Presidium of the Supreme Soviet of the Russian Federation on the Kaliningrad Region (Decree No. 3738-1 of October 26, 1992), Decree by the President of the Russian Federation on Assuring of Favorable Foreign Economic Conditions for Development in the Kaliningrad Region (Decree No. 1625 of December 23, 1992) and Decree by the President of the Russian Federation on the Kaliningrad Region (Decree No. 2117 of December 7, 1993).

tax were levied on goods imported into the Kaliningrad Region for local consumption.

However, in the 1995-1996 period, all the above benefits were abolished.³ By way of justification of that measure, it was said that those benefits did not have any favorable effect on development of the Region's economy, and there was no effective control over their use, which resulted in unjustified losses for the budget. Immediately after abolition of the benefits, the Kaliningrad Region went into deep recession, which made the Government to speed up the work to prepare special legislation for the Region.

Since 1996 up till now, the principal document regulating the regime of economic activities in the Kaliningrad Region has been the Federal Law on the Special Economic Zone in the Kaliningrad Region.⁴ The main purpose of adoption of that Law consisted in endeavor to compensate the Region for the disadvantages related to its exclave situation. In accordance with the above Law, the special economic zone status is applied to the entire territory of the Kaliningrad Region with the exception of strategic and defense facilities and the offshore oil- and gas-producing facilities.

The SEZ is an integral part of the state and customs territory of the Russian Federation. At the same time, a special customs regime of a free economic zone is applied to it, which regime consists in:

- Exemption of all such goods as are produced in the SEZ and exported to foreign countries or to the main part of Russia (and the Customs Union) from all customs duties but customs fees and non-application to such goods of economic policy measures (measures related to non-tariff state regulation of foreign economic activities);

³ Decree by the President of the Russian Federation on Nullity and Cancellation of the President's Decisions in Respect of Granting of Customs Privileges (Decree No. 244 of March 6, 1995), Decree by the Government of the Russian Federation on Amendment and Nullity of Certain Decisions by the Government of the Russian Federation (Decree No. 1009 of October 13, 1995, Decree by the President of the Russian Federation on Amendment of the Decree by the President of the Russian Federation of May 18, 1995, No. 495 on Socioeconomic Development in the Kaliningrad Region (Decree No. 191 of February 13, 1996), Decree by the President of the Russian Federation on Nullity and Amendment of Certain Decisions by the President of the Russian Federation (Decree No. 381 of March 14, 1996), and Decree by the President of the Russian Federation on Nullity and Amendment of Certain Decrees by the President of the Russian Federation on Regulation of Foreign Economic Activities (Decree No. 1552 of November 16, 1996).

⁴ Federal Law No. 13-Φ3 of January 22, 1996.

- Exemption of goods imported from foreign countries into the SEZ from all customs duties except customs fees and non-application to certain types of such goods of economic policy measures (measures related to quantitative state regulation of foreign economic activities);
- Non-exemption of goods imported into the SEZ later to be exported to the main part of Russia (except goods processed in the territory of the SEZ) from any of the import customs duties and application to certain types of such goods of economic policy measures (measures related to non-tariff state regulation of foreign economic activities);
- Exemption from all customs duties (both import and export) of such goods as are imported into the SEZ from foreign countries and then exported to foreign countries.

A product is deemed produced in the SEZ if the amount of value added as a result of its processing is at least 30 percent (at least 15 percent for electronics and hi-tech household appliances) and the category of the product (in the customs classification) is changed as a result of such processing. The procedure for certification of goods' origination in the SEZ has been set jointly by the Kaliningrad Region Administration and the State Customs Committee of the Russian Federation.

As can be seen from the above, the free economic zone regime in the Kaliningrad Region means exemption from customs duties of goods imported into the Region, and also such goods produced in the territory of the Region as are exported to the main part of Russia. On goods which are first imported into the Kaliningrad Region later to be carried to 'mainland' Russia, all the customs duties are levied in full.

The SEZ Administration has been empowered to impose (with approval by the Government of the Russian Federation) additional limitations on the free economic zone regime and set exceptions from that regime for the purpose of protection of the local producers of goods/jobs/services, which means that the Administration has vast powers in restriction of SEZ economic activities.

Issues related to currency regulation in the SEZ have been handled in accordance with the procedure set by the laws of the Russian Federation, while currency control issues, in accordance with the procedure set by the Central Bank of the Russian Federation. It is to be noted that the requirement that residents should sell on Russia's domestic market foreign currency received as foreign-currency receipts from export of goods/jobs/services or intellectual property does not apply to the SEZ.

The above customs benefits and non-application of the requirement for sale of foreign currency received as foreign-currency receipts are the only SEZ features actually specified in the Law. The provisions in respect of all the other issues, including those related to investment activities, the investment procedure, the taxation procedure and tax benefits for economic entities, the banking sphere and the guarantees of property rights and safety of investment are of a very general natural nature, and so they do not work in practice. So, in its nature and technical specifics *the SEZ in the Kaliningrad Region is a customs-free zone*.

Insert 1. Types of Free Economic Zones and the Principal Groups of Benefits Available in Free Economic Zones.

There is no such thing as a single generally adopted classification of free economic zones. Under one of the available classifications, FEZes include free-trade zones (or customs-free zones), production or industrial–production zones (which include import-substitution zones, export zones and export-and-import-substitution zones), technical innovation zones (technopolises, technoparks and research parks), service zones and combined zones.

The benefits granted in free economic zones have been classified as follows:

Foreign-economic benefits consisting in a special customs tariff regime (reduction or abolition of export and import dues) and a simplified procedure for transaction of foreign-economic operations.

Fiscal benefits assured by provisions aimed at tax stimulation of specific kinds of activities or practices by entrepreneurs. Those benefits may deal with the tax base (profit or income, value of property and the like) or individual components of the tax base (depreciation charges, payroll costs, R and D costs of transportation costs), the tax rates and entitlement to tax exemption, temporary or permanent.

Financial benefits including various kinds of subsidizing done in the form of setting of low public amenities rates, low rents on leased land and production facilities, and also in the form of allocation of budgetary funds and extension of preferential government loans.

Administrative benefits set by the administration of the zone for the purpose of making easier the procedures for registration of businesses, entry/exit by foreigners and rendering of various kinds of services.

Source: Smorodinskaya N., Kapustin A. *Free Economic Zones: International Experience and Prospects in Russia*. *Voprosy Ekonomiki*, 1994, Issue 12.

In 1998, the Government of the Russian Federation used the opportunity for limitation of the FEZ regime offered by the Law on SEZ and introduced quotas

on import of goods into the Kaliningrad Region.⁵ Those limitations were introduced at the initiative of the Kaliningrad Region's administration. Their purpose consisted in 'protection of local manufacturers'. The essence of that measure consists in the following: it is no longer the entire volume of imported goods that is exempt from taxation, but only such a portion of such goods as corresponds to a quota (with quotas set separately for each type of goods to which customs benefits are applied). Quotas are sold at especially organized auctions and up till the enactment of the Budget Code (under which drawing of purpose-oriented income is prohibited) part of the receipts from sale of quotas was allocated for development purposes in the Kaliningrad Region.

It is to be noted that introduction of import quotas is at variance with the international practices adopted in respect of functioning of free economic zones, the more so since in the Kaliningrad Region the calculation of quotas has been done with the use of rather inaccurate data on the correlation of demand in specific types of goods and the local industries' capacity to produce such goods, while the list and volume of quotas is approved once a year, so subsequent change in the economic situation is not taken into account. As a result, the list of imported goods to which quotas are applied includes some types of products which are not produced in the Kaliningrad Region at all (in particular, gasoline),

⁵ The Decree by the Government of the Russian Federation on Establishment for the Year 1998 of Quantitative Limitations on Import of Certain Types of Goods from Foreign Countries into the Special Economic Zone in the Kaliningrad Region (Decree No. 281 of March 5, 1998). The above Decree was later 'renewed' by other decrees by the Government of the Russian Federation, namely, the Decree by the Government of the Russian Federation on Setting for the 1998-2000 Period of Quantitative Limitations on Certain Kinds of Goods Imported Under the Customs-Free Zone Regime into the Territory of the Special Economic Zone in the Kaliningrad Region (Decree No. 830 of July 24, 1998), the Decree by the Government of the Russian Federation on Extension of the Time-Limits for Realization of Such Quotas on Import into the Special Economic Zone in the Kaliningrad Region of Specific Types of Goods as Were Purchased at an Auction but Were Not Used in 1998 (Decree No. 294 of March 16, 1999), Decree by the Government of the Russian Federation on Amendment of the Decree by the Government of the Russian Federation (Decree No. 830 of July 24, 1998) on Setting for the 1998-2000 Period of Limitations on Certain Kinds of Goods Imported Under the Customs-Free Zone Regime into the Territory of the Special Economic Zone in the Kaliningrad Region (Decree No. 792 of July 12, 1999), and the Decree by the Government of the Russian Federation on Setting for the 2000-2005 Period of Limitations on Certain Kinds of Goods Imported Under the Customs-Free Zone Regime into the Territory of the Special Economic Zone in the Kaliningrad Region (Decree No. 526 of July 14, 2000).

which far from protecting local manufacturers has pushed up their expenses. There are also doubts about fair competition between the companies taking part in quota auctions (though it is hard to prove anything, as it always is in similar situations).

On the whole, **the legislation in respect of the free/special economic zone in the Kaliningrad Region has been extremely unstable.** In the 1990s, over 20 normative documents were issued (mostly Decrees by the President of the Russian Federation and by the Government of the Russian Federation) under which certain benefits were now introduced, now abolished. The very fact that so many documents were adopted is a very negative factor, since stability of legislation is one of the principal factors of a country's (and its individual regions') attractiveness to investors.

Another important problem related to functioning of the SEZ in the Kaliningrad Region consisted in existence of contradictions between provisions of the Federal Law on the Special Economic Zone in the Kaliningrad Region and those of the Tax Code and the Customs Code. The nature of those contradictions is as follows: neither the Tax Code, nor the Customs Code contain any provisions on customs-free zones of the type which is adopted in the Kaliningrad Region. Moreover, neither Code contains any provisions on exemption from taxation of goods manufactured in the SEZ at their import into the main part of the country and into the territory of the Customs Union,⁶ which exemption is provided for by the Federal Law on the Special Economic Zone in the Kaliningrad Region. Under the Tax Code and the Customs Code, at import of goods from the Kaliningrad Region SEZ into the main part of Russia all the usual customs dues should be paid in full.

It is also to be noted that in respect of development of the Special Economic Zone in the Kaliningrad Region a special **Federal Goal-Oriented Program** has been adopted (Decree by the Government of the Russian Federation on the Federal Goal-Oriented Program for Development of the Special Economic Zone in the Kaliningrad Region for the 1998-2005 period (Decree No. 1259 of Septem-

⁶ The specifics of payment of VAT at crossing by goods of the customs border of the Russian Federation are provided for in Article 151 of the Tax Code of the Russian Federation (Section 21. Value-added Tax), the specifics of payment of excises at crossing by goods of the customs border of the Russian Federation, in Article 185 of the Tax Code of the Russian Federation (Section 22. Excises), the specific procedure for payment of customs duties and taxes at import and export of goods from/into the territories of free customs zones, in Article 834 of the Tax Code of the Russian Federation (Section 12. Customs-Free Zone. Free Warehouse).

ber 29, 1997), which, just like most federal goal-oriented programs has not been fully financed (see Insert 2). The reasons behind under-financing of the Kaliningrad goal-oriented program are lack of funds in the budget and also the regional authorities' inability to either find non-budgetary sources of financing or properly utilize the funds actually allocated.

Insert 2. Financing of the 1998-2005 Federal Goal-Oriented Program for Development of the Special Economic Zone

The rate of financing of the Federal Goal-Oriented Program for Development of the Special Economic Zone in the Kaliningrad Region has been much lower than provided for in the law on the federal budget, and this has been telling on the outputs of that program's implementation. For instance, for the 1998-1999 period, allocation from the federal budget of 4,011.9 million rubles was provided for. In reality, just five million rubles was allocated (3.5 million rubles for construction of three apartment houses for servicemen, 1 million rubles for embankment of the Baltic shore and 0.5 million rubles for establishment of the Regional Development Agency), and that only in December 1999.

In 2000, 2,045.8 million rubles was to be allocated under the Program's provisions. In accordance with Annex 4 to the Federal Law on the Federal Budget for the Year 2000, 30.5 million rubles was to be allocated. However, the funds actually allocated only amounted to 24.33 million rubles (22.13 million rubles for construction of housing for servicemen, 1.7 for embankment of the Baltic shore and 0.5 million rubles for financing of the activities by the Regional Development Agency).

All the funds (100 percent) allocated from the federal budget for implementation of the Program were utilized within the set time-limits.

In addition to the above, the Program has provided for financing of projects out of investment tax credit funds. However, in the 1998-2000 period, no such funds were received from the federal budget.

For the purpose ensuring fuller implementation of provisions of the Federal Goal-Oriented Program, articles 51 and 13, respectively were added to the Federal Law on the Federal Budget for the Year 1999 and the Federal Law on the Federal Budget for the Year 2000 (at the initiative of the Region's Administration) which provided for use for financing of the Federal Goal-Oriented Program of 100 percent of the funds yielded by auctioning off of quotas on specific types of goods imported from foreign countries under with the customs-free zone regime into the Special Economic Zone in the Kaliningrad Region; in Decree No. 1442 by the Government of the Russian Federation (of December 31, 1999) the

procedure for accounting of the federal budget's revenues from auctioning off of quotas was specified, while Clause 17 of Decree No. 222 by the Government of the Russian Federation (of March 13, 2000) contained provisions to the effect that the receipts from 1999 quota auctions should be accounted as 2000 federal budget receipts and an order to the Ministry of Economy of the Russian Federation to finance out of the above funds measures taken under the Federal Goal-Oriented Program in accordance with the Procedure set by Decree No. 1442 by the Government of the Russian Federation (of December 12, 1999); the Ministry of Economic Development approved a quota (aggregately amounting to 300 million rubles) for financing in 2000 of Program projects out of receipts from quota auctions.

However, of the above 300 million rubles a mere 61.97 million rubles was actually allocated (51.76 million rubles for construction of housing for servicemen and 10.21 million rubles for medical facilities (modernization of an AIDS hospital and the interregional pediatric center [rehabilitation and diagnosing]). One hundred percent of those funds was utilized.

The Region's Administration proposed that a provision on use for financing of the Federal Goal-Oriented Program of 100 percent of the funds yielded by auctioning off of quotas on specific types of goods imported from foreign countries under with the customs-free zone regime into the Special Economic Zone in the Kaliningrad Region be included in the Law on the Federal Budget for the Year 2001 as it had been in the Law on the Federal Budget for the Year 2000, however, due to adoption in August 2000 of amendments of the Budget Code of the Russian Federation, in particular, of Article 35, such a provision was not included in the Federal Law on the Federal Budget for the Year 2001.

1.2 Outputs of Operation of a Free/Special Economic Zone in the Kaliningrad Region

One of the reasons behind establishment of a free economic zone in the Kaliningrad Region was the federal authorities' desire to compensate that Region for its exclave situation, since as a result of the disintegration of the Soviet Union that Region became separated from the main part of Russia by territories of foreign states and international waters. In the short-term perspective at least, that scheme did work. As is generally acknowledged, the positive effect of introduction in the Kaliningrad Region of a free/special economic zone consisted in curbing of the growth of prices in the Region and saturation of the local consumer market with imported goods.

A comparison of national average and regional consumer goods indices (CGI) shows that the rate of growth of prices in the Kaliningrad Region was, on the whole, lower than the national average, in spite of the Region's high dependence on imports (in 1997, imported foods accounted for 80 percent of the total food consumption in the Region). The rate of growth of prices in the Kaliningrad Region was much higher in 1998 when that Region had the second highest CGI in Russia (after Moscow).

In the above situation, the subsistence minimum in the Kaliningrad Region (which, on the average, amounted to 784 rubles in 1999) remained lower than the national average (908 rubles) and much lower than the subsistence minimums in Moscow (1,251 rubles) and Saint Petersburg (1,223 rubles).

Table 1

**Consumer Goods Indices and the Subsistence Minimum
in the 1991–2001 Period**

Год	Consumer goods indices, December on the December of the previous year, percent, before 1996, times over		Average per capita subsistence minimum, thousand rubles, after 1998, rubles.	
	Russian Federation	Kaliningrad Region	Russian Federation	Kaliningrad Region
1992	26.1	16.6	Data not available	Data not available
1993	9.4	8.4	Data not available	Data not available
1994	3.2	3.2	87	79
1995	2.3	2.4	264	262
1996	121.8	109.6	369	302
1997	111.0	105.5	411	345
1998	184.4	202.5	493	429
1999	136.5	134.5	908	784
2000	120.2	117.5	Data not available	Data not available
2001	118.6	121.0	Data not available	Data not available

There have been no other all-positive outputs of functioning of the FEZ/SEZ. In the 1990s, especially prior to the 1998 crisis, dynamics of many economic indices in the Kaliningrad Region were worse than the national average, moreover, the FEZ/SEZ regime caused some additional problems.

Firstly, the duty-free import made even worse the recession of local industrial and agricultural production (see tables 2 and 3). Local producers' products could not compete with cheap imported goods. The introduction of quotas on import in March 1998 could not change that.

While the national average drop in the volume of production in 1998 on the 1990 figure amounted to 54 percent, in the Kaliningrad Region it amounted to 72 percent, which one of the worst performances among the constituent territorial entities of the Russian Federation. It is to be noted that the pressure exerted upon local producers by imports was not the only reason behind the recession in the Kaliningrad Region being deeper than the national average; another important factor was severing of the traditional economic ties (from which the Region suffered more than any of the other territorial entities being separated from the main part of the country by other states' territories). Yet another reason behind the sharp recession was the specific of specialization of the Region's industry (which had been inherited from the Soviet times): branches of industry which experienced the deepest recession nationwide (engineering, light industry and food industry) accounted for 70 percent of industrial output in the Region in 1992.

Table 2

**Indices of the physical volume of industrial production
In the 1991–2001 period**

Year	Percent on the previous year		Percent on 1990	
	Russian Federation	Kaliningrad Region	Russian Federation	Kaliningrad Region
1991	92	96	92	96
1992	82	83	75	80
1993	86	82	65	65
1994	79	62	51	41
1995	97	89	50	36
1996	96	86	48	31
1997	102	98	49	30
1998	95	91	46	28
1999	111	104	51	29
2000	112	132	57	38
2001	105	113	60	43

The recession in agriculture was also much deeper than the national average, though the gap in that sphere is somewhat smaller. As a result, the Region turned from an area self-sufficient in agricultural produce into a major importer of such

products, even though its agro-climatic conditions are more favorable than those of many other constituent territorial entities of the Russian Federation.

Table 3

**Indices of the Physical Volume of Output of Farm Produce
In the 1993–2001 period.**

Year	Percent on the previous year		Percent on 1992	
	Russian Federation	Kaliningrad Region	Russian Federation	Kaliningrad Region
1993	96	92	96	92
1994	88	85	84	78
1995	92	85	78	66
1996	95	93	74	62
1997	101	102	75	63
1998	87	98	65	62
1999	104	101	67	62
2000	108	105	72	65
2001	107	96	77	62

Secondly, one of the most important goals for which free economic zones are normally established, that is, attraction of large volumes of investment was not attained. The Kaliningrad Region did not become particularly attractive to investors. The amount of investment in fixed assets and the amount of foreign investment per capita of the Region's populace were less than the national average. With the exception of the Year 1993 (when investors were offered a rather wide range of benefits) and post-crisis years (1999-2001) indices of the physical volume of investment in fixed capital in the Kaliningrad Region were lower than the national average (Table 4). In investment in fixed capital per capita the Region even in 2001 (after the amount of investment had grown considerably) only ranked 34th among constituent entities of the Russian Federation, while the value of that index in the Region was 23.1 percent less than the national average.

Table 4

**Indices of Physical Volume of Investment in Fixed Capital
in the 1991–2001 period.**

Year	Percent on the previous year		Percent on 1990	
	Russian Federation	Kaliningrad Region	Russian Federation	Kaliningrad Region
1991	85	83	85	83
1992	60	65	51	54
1993	88	155	45	84
1994	76	71	34	59
1995	90	70	31	42
1996	82	67	25	28
1997	95	94	24	26
1998	88	87	21	23
1999	105	122	22	28
2000	117	140	26	39
2001	109	137	28	54

The influx of foreign investment in the Region's economy was extremely unstable (Table 5), and the lag behind the national average level in respect of indices of volume of foreign investment (both total and, specifically, direct investment) per capita was even greater than the lag in the volume of investment in fixed capital. Moreover, while in Russia as a whole the amount of foreign investment grew in the post-crisis years (1999-2001), in the Kaliningrad Region no such growth was observed.

Table 5

Foreign Investment in the 1995–2001 period

Year	Total foreign investment, per capita, USD		Direct foreign investment, per capita, USD	
	Russian Federation	Kaliningrad Region	Russian Federation	Kaliningrad Region
1995	20	17	14	13
1996	47	25	17	23
1997	84	12	36	11
1998	80	42	23	10
1999	65	19	29	4
2000	75	20	30	7
2001	98	26	27	3

When speaking of the positive effects of establishment of the FEZ, it is often said that the number of registered companies with participation by foreign capital has grown. That index alone is, however, insufficient for adequate assessment of the actual situation since the existing statistics do not offer any data on the number of companies which are really active. Moreover, joint ventures have mostly

been active in commerce, that is, they have been using the customs ‘loop-hole’. That the Kaliningrad Region ‘specializes’ in imports can also be seen from the dynamic of its foreign economic trade turnover: while in 1994, the Region’s foreign-trade balance was still positive, in 1995 it became negative and has remained so ever since.

Emergence of a considerable negative trade turnover balance can be explained not so much by the Region’s dependence on imports as by the fact that the Kaliningrad Region has turned into a ‘customs loophole’. All the figures cited in this respect are but estimates, yet, it is known beyond doubt that illegal import of cars and alcohol from the Kaliningrad Region into the main part of Russia has been taking place, just as illegal export of amber to foreign countries has. And though the ‘dimensions’ of that ‘tax loophole’ have been reduced in the past few years, it still exists.⁷

For that reason (and that was another shortcoming of the FEZ), even the low prices failed to compensate the Region’s households for the recession in the real sector of the regional economy, so, in the 1990s a number of indices characterizing households’ monetary incomes went down. While in the mid-90s the living standard of the Kaliningrad Region’s households was comparable to the national average, by the late 90s the Kaliningrad Region lagged behind in that respect. (See Table 6). In 2000 and 2001, data in respect of the subsistence minimum in the Kaliningrad Region was not published, but judging by the correlation between the cost of staple foods and households’ monetary incomes, the situation in the Kaliningrad Region has not changed for the better in the past two years (for instance, while the national average value of the above ratio amounted to 3.6, in the Kaliningrad Region it was a mere 2.3 percent in November 2001).

Table 6

Households’ Monetary Incomes in the 1994-1999 Period

Year	Relation of households’ monetary incomes to the subsistence minimum, times over		Percentage of households with incomes below the subsistence minimum	
	Russian Federation	Kaliningrad Region	Russian Federation	Kaliningrad Region
1994	2.38	2.13	22.4	21.6
1995	1.95	1.45	24.7	26.6
1996	2.07	1.69	22.1	25.1
1997	2.27	1.73	20.8	24.5
1998	2.03	1.65	23.4	27.2
1999	1.77	1.36	29.9	37.4

⁷ Verlin Y. The Amber Hole Expert 2002. No. 5. P.p. 62-67

As can be seen from the above, the establishment of a free/special economic zone did yield a short-term positive effect, but on the long-term plane its effect was but insignificant. True, it is hard to say what the situation would be like by now if the FEZ/SEZ regime was never introduced, whether it would be better or worse than it actually is.

At the same time, it is obvious that no significant economic success has been achieved after introduction of the customs-free zone. So, it is only natural that propositions have been voiced for abolition or transformation of the current Special Economic Zone regime. With the federal authorities pursuing a policy of the maximum possible extent of abolition of tax and customs privileges, abolition of the SEZ regime in the Kaliningrad Region may be seen as a logical extension of that.

2. The Current Socioeconomic Situation

2.1. Level of Socioeconomic Development

It is rather difficult to assess the current socioeconomic situation in the Kaliningrad Region objectively. Even if such generally adopted indicators are to be used as gross regional product per capita of the region's populace and residents' per capita incomes adjusted to the level of prices, the outputs would still be inaccurate as the role played by the shadow economy (which is very significant indeed in the Kaliningrad Region) would not be taken into account. It is also hard to assess the value of the services rendered in the social sphere. Making of any comparisons in assessment of the dynamic of socioeconomic processes is made difficult by the fact that many phenomena (activities, goods and services) which are currently widespread did not even exist just a few years ago.

For all the above reasons, outputs of different assessments tend to contradict one another. Particularly critical of the situation in the Kaliningrad Region have been the media, both Russian (central and provincial alike) and foreign, so that Region's image in Moscow and abroad has been rather dubious. At the same time, visitors from other regions of Russia find that the Kaliningrad Region has many advantages as compared to most other areas in Russia.

The Pre-Reform Situation

In assessing the dynamic and specifics of development of the Kaliningrad Region, one should bear in mind that after it became a Russian exclave in the 1990s, the Kaliningrad Region was faced with such problems as no other region of Russia ever knew. Simultaneously with the local economy's switchover from the old plan-and-command-based model to a market model, suppliers of input materials, consumers of produce, specialization of production and the like had to be changed.

And that in a situation where the level of the Region's economic development had not been particularly high even before the reforms were launched, while the industries in the Region were highly specialized, had scarce any production ties with each other and did not constitute an economic complex. In the Soviet era, the Kaliningrad Region in spite of its highly advantageous geographic situation (unfreezing harbors, proximity to the Soviet Union's most developed regions and to CMEA countries), favorable climatic conditions, well-developed infra-

structure and a high density of population only had an average level of socioeconomic development as compared to other regions of the Russian Federation.

Development Prior to the 1998 Financial Crisis (1992-1998)

In the situation which emerged after disintegration of the Soviet Union, the structure of specialization of the industries in the Kaliningrad Region was even more inadequate to the new conditions than was the case in most other constituent entities of Russia (the principal reason behind this being the Region's geographic isolation from the main part of Russia). So, the recession in the industries, agriculture, transportation and construction was deeper in the Kaliningrad Region than elsewhere. In most the basic socioeconomic indices, the Kaliningrad Region lagged far behind other regions of the North-Western Federal Area in the 1992-1998 period.

In 1998, industrial output in the Kaliningrad Region only amounted to 29 percent of the 1990 figure (while the national average was 46 percent), output of agricultural produce, to 48 percent (with a national average of 56 percent), while retail trade turnover, to 42 percent. The volume of capital construction was only one-sixth of the 1990 figure.

For the purpose of stimulation of economic development and compensation of the Kaliningrad Region's exclave situation, a Federal Law on a Special Economic Zone in the Kaliningrad Region was passed in 1996 (prior to that, since 1991, there was a free economic zone functioning in that Region, which was introduced by Decree by the Government of the Russian Federation on the Yantar Free Economic Zone. The purpose of establishment of a special/free economic zone in the Kaliningrad Region consisted in formation in the Region of a compensation mechanism in the form of a customs-free zone for stimulation of export-oriented and import-substituting production. However, the regime introduced in the Region was unstable and contradicted federal laws in many ways, so the expected influx of foreign capital did not take place. Moreover, due to the sharp drop in the customs rates local output kept going down because local produce could not compete with imported goods.

For that reason, the differences in rates of socioeconomic development between the Kaliningrad Region and the rest of Russia and the Kaliningrad Region and the neighboring countries increased. While in Poland, economic growth began in 1992 and in the Baltic states in 1994, in Russia a slight growth began only in 1997 (to be interrupted by the 1998 crisis), while in the Kaliningrad Region

recession continued till 1999, after which a certain growth in industrial and agricultural output began there (just like elsewhere in Russia).

Development in the Post-Crisis Period (1999-2001)

The drop in the ruble's exchange rate following the August, 17, 1998 crisis had a mostly favorable effect on the rate of growth of output in the Kaliningrad Region, just like elsewhere in Russia. However, in 1999, the rate of economic growth in the Region was somewhat lower than the national average. While the growth in industrial output amounted to 8.1 percent in Russia as a whole, in the Kaliningrad Region it was 3.9 percent. The national average growth in output of agricultural produce was 2.4 percent, but in the Kaliningrad Region it was a mere one percent. The performance in the transportation and construction sectors was even worse.

In 2000, the rate of growth of industrial output in the Region amounted to 32 percent (as against 9 percent national average). However, per capita growth of industrial output in the Region amounted to a mere 50 percent of the national average. The growth in output of agricultural produce in the Region amounted to 3.5 percent (as against 5 percent national average). The crops were comparatively good, however, the number of livestock was reduced, so there was also a drop in output of animal husbandry produce.

In January 2001, the prospects of the Region's further development were put in question due to enactment of Section II of the Tax Code and levying of VAT on goods imported into the Region. The mechanism of the Special Economic Zone was in jeopardy as was the very chance of successful operation of the Region's numerous companies. The January-February 2001 statistics registered a sharp decline in business activity and a drop in output of goods and services on the December 2000 figure. The volume of retail trade also went down by 33.4 percent.

In February 2001, the pre-2001 the regime of levying of VAT on imported goods was restored (thanks to effort by the Kaliningrad Region's Administration). On February 22, 2001, the Kaliningrad Region Legislature passed a regional law whose purpose was to exempt most economic entities active in the Region from the liability (provided for by Section II of the Tax Code) to pay VAT (through switchover to levying of a single tax in accordance with a simplified taxation procedure). As a result, the rate of economic growth in the Kaliningrad Region by a number of key macroeconomic indices was higher than nationwide (see Table 7).

Table 7

**Comparison of Rates of Growth of Macroeconomic Indices of the
Kaliningrad Region and the Russian Federation in 2001
(percent on the 2000 figure)**

Indices	Russian Federation	<i>Kaliningrad Region</i>	<i>Comparison**</i>
Industrial output	104.9	112.5	+
Output of farm produce	106.8	95.5	-
Investment in fixed capital	108.3	137.1	+
Freight turnover of transportation companies	103.1	107.7	+
Retail trade	110.8	84.7	-
Public catering	108.7	91.8	-
Paid services	101.2	104.1	+
Consumer prices*	118.6	121.0	-
Index of industrial manufacturers' prices	110.7	104.4	+
Foreign trade turnover (goods)	104,3	113.8	+

* December 2001, percent on the December 2000 figure.

** Indices of the Kaliningrad Region as compared to the national average: “+” – more favorable; “-” – less favorable

According to a preliminary estimate, the Region's gross regional product amounted to around 33 billion rubles in 2001, which in comparable prices constitutes a growth of 6.6 percent on the 2000 figure (as against 5 percent national average).

Industrial output in 2001 amounted to 45 percent of the 1990 figure (the national average was 57 percent). On the whole, the difference between the Region's and the national average performance was reduced from 17 points in 1998 to 12 points in 2001. However, in agriculture the Region's lag has even grown. In 2000, the output of agricultural produce in the Kaliningrad Region amounted to a mere 47 percent of the 1990 figure, while the national average amounted to 64 percent, and that gap keeps growing. The situation in the sphere of investment is also unsatisfactory. The Region's share in investment in fixed capital has grown

from 0.3 percent to 0.5 percent, however, in construction work it only amounts to 0.3 percent, while the share of the Region's population in the population of the Russian Federation amounts to 0.65 percent.

Somewhat more impressive has been the Region's performance in servicing of foreign-trade operations. The customs-free zone regime has stimulated import of goods from foreign countries, and the Region's share in Russia's total foreign trade turnover grew to make 1.2 percent in 1998. However, in 1999 that percentage went down to a mere 1 percent, and in 2000, in spite of an absolute growth in the volume of foreign trade (export, through growth of prices), to 0.9 percent.

Unfortunately, the growth in industrial output which has been observed in the past few years has had a negative effect on the environment. Instances of air pollution with dangerous substances have become more frequent, which shows that the level of ecologization of production is still inadequate and that companies continue using obsolete technologies.

Yet, it is to be noted that the actual figures characterizing the state of the Region's economy and the residents' living standard are somewhat better than those registered by the official statistics since some of the informal sector output is not taken into account by the statistical authorities. While in Russia as a whole the shadow economy accounts for up to 40 percent of the GDP, according to TACIS⁸, in the Kaliningrad Region the share of the shadow economy is even higher. Yet, the socioeconomic situation in the Region is still unsatisfactory so far.

Industry. In 2001, industrial output in the Kaliningrad Region amounted to 18,884.5 million rubles, that is, 12.5 percent more than the previous year (in comparable prices). For the sake of comparison, it is to be noted that industrial output growth nationwide amounted to 4.9 percent and in the North-Western Federal Area, to 3.9 percent.

The growth rate was particularly high in the food industry where it amounted to 40 percent. Output of canned meat products, fish and distilled liquors grew by 60 percent, of fish canned products by 40 percent and of confectionery, by 20 percent.

There was also a considerable growth in output of building materials (by 31 percent), which can to a certain extent be seen as a symptom of enhanced economic activity in the Region.

⁸ *Kaliningrad Region: Crisis Diagnosing. Grenoble, Pierre Mendes France University, 1998, 2000.*

Also observed was a sustained growth of 23 percent in engineering and metalworking; output of *Autotor* cars grew by 75 percent, of *Telebalt* TV sets, by 30 percent and of electric welders (Esva company), by 20 percent.

Small businesses only account for around 21 percent of the total industrial output, however, their share in output of light industry products, foods and building materials is much higher (over one-third of the total), which serves to show that the role played by small businesses in the Kaliningrad Region's economy is, in fact, rather significant.

Aggregate investment in fixed capital in the region amounted in 2001 to 7,884.5 million rubles (a growth of 37 percent on the 2000 figure). Such a fast growth in the volume of investment can be explained to a certain extent by improvement of the investment climate in the Region. (For instance, the rating assigned to the Kaliningrad Region by the Expert-RA agency in 2001 was seven points higher than the previous year.)

As of the beginning of this year, the volume of accumulated foreign investment (repayment of loans taken into account) amounted to 50.7 million USD. In 2001, 24.6 million USD was invested in the Region (that figure includes investment in rubles converted for the sake of this calculation at the prevalent exchange rate). However, direct investment only amounted to 3.2 million USD, just over 1 percent of total investment in fixed capital.

There were over 1,600 companies with foreign investments registered in that region. The total amount of foreign investors' interest in companies' authorized funds amounted to nearly 800 million rubles. Investors from over 50 foreign countries had taken part in establishment of businesses. Foreign companies' and joint ventures' aggregate share in total industrial output amounted to around 10 percent.

Transport. Thanks to introduction starting from August 1, 2001 of new railway tariffs (instead of international tariffs, lower domestic tariffs came then to be charged for carriage of goods to Russian ports) the volume of cargo handled at Kaliningrad Region grew sharply in the closing months of the Year 2001. On the whole, the volume of cargo thus handled grew by nearly 33 percent in 2001 to make 5.8 million tons. As a result, the volume of inland carriage by domestic transport grew by 23 percent in 2001 to make 11.9 million tons (carriage by rail accounted for 90.8 percent of that volume, while carriage by road, for the remaining 9.2 percent).

Foreign trade. The foreign-trade turnover (goods and services in combination) grew by 14.6 percent to make 1,541.5 million USD with exports accounting for 507.5 million USD and imports, for 1,034 million USD.

The Kaliningrad Region's principal trade partners are Poland (trade turnover, 281.2 million USD), Germany (268.7 million USD), Lithuania (113.4 million USD) and the US (73.3 million USD).

The rate of development of a market infrastructure has been faster in the Kaliningrad Region than in most other regions of Russia (there are around 1,100 businesses and institutions in the Region which engage in real-estate operations and other market-supporting activities). The public also have been developing a market mentality fast.

Summing up the outputs of analysis of the dynamic of socioeconomic development in the Kaliningrad Region in the past decade, one should note on the one hand the fact that the recession in the period up till 1998 was deeper there than elsewhere in Russia, but on the other hand the fact that clearly positive trends emerged in that region in the 2000-2001 period. The latter can be explained by enhanced restructuring of the regional economy and a general stabilization of the socioeconomic situation in the Russian Federation.

2.2. Assessment of the Current Structure of Kaliningrad Region's Economy

By the beginning of the 1990s, the Kaliningrad Region had an industrial-agrarian economy whose level of development was average as compared to the other regions of the Soviet Union.

In industry, the principal specialization was in fish processing, engineering and pulp-and-paper production. Of considerable significance were also the local extracting industries (amber production and oil production). The agricultural sector mainly specialized in production and processing of milk and meat. There were also developed industrial poultry-breeding facilities and those for breeding of fur-bearing animals. Over 25 percent of the dairy and meat produce produced in the Region was exported to central regions of the Soviet Union or used to cater for the needs of the Armed Forces. At the Region's seaports (the only seaports with unfreezing harbors Russia had on the Baltic Sea) export and import operations were handled (in Kaliningrad), the oceanic fishery vessels berthed (in Kaliningrad, Svetly and Pionerski) and a naval base deployed (in Baltiysk). There was a major oceanographic research and training center in the Region; at the waterfront, numerous health resorts had been established. On the whole, the specialization of that territory corresponded to the natural and economic prerequisites of regional development within such a state as the Soviet Union, though it did require some modernization.

Within the framework of nationwide 'division of labor', the Kaliningrad Region had stable economic links with many regions of the Soviet Union. As much as 70 percent of the produce produced in the Kaliningrad Region was exported to other parts of the country, which, for their part, supplied to the Region raw materials, fuel, semi-finished articles, machines, equipment, consumer goods and foods. Fish products, pulp and engineering products were exported from the Region to 50 foreign countries.

While being, in principle, similar to the structure of employment in the rest of the Russian Federation, the structure of employment of the Kaliningrad Region population had certain peculiarities. The economy in the Kaliningrad Region was less industrialized than elsewhere in the Soviet Union, and the transportation and trade infrastructures were better developed. The structure of specialization of the regional economy was in accordance with the role played by the Region in servicing of the Soviet Union's foreign economic relations, a comparatively high level of development of the agrarian sector and faster advancement towards a postindustrial society. However, the existing prerequisites for development were not used to the full. For instance, even though the local railways and seaports serviced export and import operations, the transportation function was not developed as well as the existing conditions permitted. The local seaside resort facilities were distinctly inferior to those in the neighboring Baltic republics.

In industry, the differences in specialization were even greater. The fuel-and-energy, metallurgical and chemical sectors were underdeveloped. The Region's specialization in the nationwide division of labor was production of foods (mostly sea foods), engineering products and pulp and paper. The share of the building materials industry was insignificant because the building industry itself was underdeveloped and joined to the building industry of the neighboring Lithuania. The extent of development of the light industry was also insufficient, though attempts at stimulating its development were made (for the sake of balancing the numbers of 'male' and 'female' job opportunities in the Region)

The structure of the industries' specialization reflected the high extent of the Region's integration in the national division of labor and at the same time its dependence on supplies of raw materials, fuel and power and stability of the production and cooperation ties, especially in the engineering sector.

Following disintegration of the Soviet Union and the resulting geographic isolation of the Region from the main part of the country and the beginning of transition from the old Soviet system to a market economy, the conditions of development of the Region's leading industries changed dramatically. The old structure of the Region's economy proved inadequate to the new conditions, so

the Region was plunged into an even deeper recession than the nationwide average.

Even the earliest attempts by the Government to assure a balance between prices and costs by means of deregulation of prices abruptly changed the correlations between prices and proportions and rates of profitability of different branches of industry. The parties that benefited by that situation were the 'natural monopolists' which set prices for fuel, power and certain types of raw materials in accordance with the prices on the international markets rather than the domestic price proportions. With state subsidies withdrawn in such a situation, the very existence of many industries was jeopardized (in particular, of the oceanic fisheries with their great fuel costs). At the same time, the situation favored development in the Region of oil production and pulp-and-paper industry.

Another blow on the old structure of the Region's economy fell when the old domestic Soviet market and the international socialist market collapsed. Kaliningrad engineering, pulp-and-paper and fish-processing industries had exported their products to over 50 foreign countries (in particular, around 30 percent of the pulp was exported) and to every region of the Soviet Union. At the launch of reforms, the marketing opportunities shrunk at once since the industries in the Region failed to promptly adjust themselves to the new economic situation, in particular, to competition.

The third factor of undoing of the Kaliningrad Region's economy consisted in cheaper and higher-quality imported goods gaining access to Russian markets (in the Kaliningrad Region due to the specifics of its geographic situation the volumes of imports were even greater than in the other regions of Russia).

All the above factors caused a recession and a decline in the living standard in the Region. The reduction in solvent consumer demand was another factor of recession with many industries based in the Region.

The situation was made worse by the tax policy pursued by the Government (high rate of the corporate profit tax) and also inertia of potential investors, difficulties in drawing of long-term loans and many managers' inability to work in the new market conditions. At the initial stage, such market infrastructure was also wanting as would help establishment of supplies and marketing ties, attraction of investment, dissemination of information, advertising, and the like.

The above considerations in respect of restructuring factors are true to some or another extent of all post-socialist countries, that is, those factors are an objective consequence of the process of transformation. However, Russia is somewhat different from other post-socialist countries: the role played by the domestic market is greater in it, and it has vast natural resources which can serve as an im-

portant source of financing of restructuring, but may also (as they actually do at present) bring about accumulation of vast amounts of funds in USD, which funds do not serve the purpose of stimulation of economic growth due to a multibillion active foreign trade balance (amounting to 25 percent of the exports) and a growth in imports of consumer goods. For that reason, Russia can only partly make use of the experience Czechia and Hungary as countries that have gone further than most along the road of transformation, have attracted large amounts of foreign investment and have been integrated in the European Union at a fast rate. More acceptable, though with the same exceptions, is the Polish experience. For the specific conditions of the Kaliningrad Region as a special economic zone is the experience of Estonia (where customs duties have been abolished) is also of interest.

The issue of priority specialization is a difficult issue in the present situation. To a great extent, the choice of specialization should depend not so much on the specific regional conditions as on the role to be played by Russia in the international division of labor and on whether or not Russia will be able to use its scientific, technological and intellectual potential for transition to a postindustrial stage of development or become a mere raw materials appendage for the West.

Such priority industries as would be able to 'tow' the rest of the Kaliningrad Region's economy have not emerged so far since there has not been sufficient investment. Up till 1998, attempts were mostly made to preserve the existing production capacities and the traditional specialization; the results of a certain restructuring of the Region's economy have only become felt in the past year or two. Modernization of certain industries has been started and the region's external ties have been adjusted to a certain extent. However such change as has been proposed in various programs is to mostly depend on the existing production potential rather than the opportunities opened up by Russia's international integration in the Baltic region. As before, in the regional development forecasts priority is given to capital-intensive projects with long payback terms (seven to ten years).

Such projects are typical, in particular, of the Federal Goal-Oriented Program for Socioeconomic Development in the Kaliningrad Region in the 2002-2010 Period (adopted in December 2001). In addition to the production infrastructure and the social sphere, the largest investments under that program are to be made in the traditional industries, such as engineering and fish processing, which are still seen as the regional priorities. Meanwhile, if the Region's producers are to enter the European market (where tough competition is to be observed) unconventional solutions are probably needed, including those involving deep

processing of raw materials imported from eastern regions of Russia. The role of services in development of the Region's economy should not be overlooked, either.⁹

It is to be noted that stimulation and actual growth of the more promising industries will be accompanied by closure of noncompetitive industries (together, those processes constitute economic restructuring).

The Kaliningrad Region authorities are well aware of the need for further restructuring of the Region's economy with priority development of such industries as embody progress in science and technology and/or turn out quality consumer goods, and have, in fact, offered an assortment of regional development programs for different branches of industry. Implementation of those programs is expected to contribute to formation of such a structure of industrial specialization as would better correspond to the existing internal and external conditions of the Region's development.

2.3. Development of Infrastructure Branches of the Region's Economy

Along with problems related to the relatively ineffective functioning of the Special Economic Zone, the Kaliningrad Region also faces acute problems related to a lack of an adequate infrastructure, particularly, in such spheres as transportation and power supply.

The Fuel and Power Sector

The Region's fuel and power sector includes an electric power sector, central heating sector, oil production and supply of petroleum products, gas sector and coal-mining sector.

The electric power sector is represented primarily by the OAO Yantarenergo, a subsidiary of the RAO UES of Russia, which is a complex enterprise engaged in generation, transportation, distribution and realization of electric power and also of heat. Though there are over 10 thousand energy sources independent from the energy system in the Region, those are mostly low-capacity diesel and petroleum mini-and micro power plants whose single installed capacity varies from 0.5 kW to 5,000 kW and whose aggregate capacity amounts to nearly 70 thousand kW. Such power plants are mainly used as back-

⁹ That has been noted even by Western experts. See: The Kaliningrad Region 2010. *Grenoble-Kaliningrad-Moscow 2000*.

up facilities or contingency resources of electric power and do not play any significant role in the Region's power supply.

A larger portion of the electric power consumed in the Kaliningrad Region is supplied by other power plants of the OAO UES of Russia which are situated outside the Region (mostly by the Leningrad Atomic Power Plant). The share of power produced in the Region and that supplied from the outside amounted to 5.4 percent and 94.6 percent, respectively in 1999, as against 17.2 percent and 82.8 percent in 1990.

In the 1990-1999 period, power generation in the Kaliningrad Region fell by 77.3 percent (that of general use power plants declined by 87.8 percent), while the consumption of power was only reduced by 9.1 percent.

The main problem of the Region's power sector consists in a lack of its own renewable power sources. At present, the Region has three plants belonging to the OAO Yantarenergo: the Svetlovsk State-Run District Power Plant (with an installed capacity of 114.8 MW), the Gusev Thermal Power Plant (15.5 MW) and the Sovetsk Heating and Power Plant (10 MW). It is to be noted that all those plants were built before the Second World War. Power production has been suspended at those plants because their efficiency is rather low, while the installed equipment is in dire need of modernization.

Extensive effort has been taken of late towards tapping of renewable sources of power. Hydroelectric units with an aggregate capacity of 1.7 MW have been put into operation at three power plants. In addition to that, a pilot project dealing with installment of windmill electric generating units (with a capacity of 600 kW) was implemented with participation of Danish partners in 1998, while the first two windmill electric generating units (with a capacity of 225 kW each) of the planned windmill electric generating fleet with a total capacity of 4.5 MW (20 x 225 kW) were put into operation in July 2000. However, those capacities are not sufficient to meet the growing demand in power in the Region.

One of the major drawbacks of the Region's power supply system consists in its having the only one source of power, a substation with a capacity of 330 kV in the city of Sovetsk which is primarily used for transmitting power to the Region from/through Lithuania. So, power supply of the entire Kaliningrad Region depends to a great extent on the transit of power through the territory of a foreign state, namely, the Republic of Lithuania. For that reason, much attention needs to be given to maintenance of good political and economic relations with that eastern neighbor.

An acute problem faced by the power sector consists in a difficult financial situation caused by power consumers having accumulated huge arrears in their

payment for supply of power. As a result, the power sector lacks the required funds to ensure adequate technical maintenance and due functioning of the power system. As of September 2001, such arrears to the power sector in the Kaliningrad Region amounted to 428 mil. rubles. According to the management of the OAO Yantarenergo, the only possible way to resolve that dramatic situation and prevent a chain of 'cut-offs' is imposition of limitations on use of power and cutting off of debtor consumers.

One of the major debtors of the OAO Yantarenergo is the central heating system of the city of Kaliningrad, the Region's largest end-user of power. It accounts for nearly 30 percent of the total consumption of power in the region (such a situation as regards consumption of power is generally typical of Russia). Systems of central heating produce and supply to users over 2.65 mil. Gcal of heat in the Region. That sector mostly includes municipal companies engaged in production and distribution of heat and by the OAO Yantarenergo itself which is also engaged in production of a certain amount of heat in Kaliningrad and Gusev.

The Region's central heating sector's capital assets are extremely worn, especially distribution networks where loss of heat amounts to up to 30 percent. According to experts' estimates, over 100 km of pipelines need to be replaced in Kaliningrad alone. It is to be noted that practically all municipal heat supply companies are in a difficult financial situation and require radical economic reforms.

The Region's oil-refining sector is in a comparatively favorable situation. That can be explained both by the fact that the Region has its own oil resources and that market reforms in that sector have given rise to emergence of competing companies which constantly meet the demand in the Region in different types of liquid and solid fuel. Though, the Region does not have its own oil refining facilities at present and the prospect of building of an oil-refinery remains rather uncertain, the Region's demand in such products is constantly met thanks to deliveries from the outside. Such practices can be continued in the future.

At present, the share of petroleum products in the Region's ultimate consumption of fuel amounts to nearly 30 percent. According to experts' estimates, a certain increase in that index (up to 40 percent) by the year of 2010 would not pose any problems to the Region's economy and would only require some improvements to be made in the seaport and railway facilities and equipment.

The gas supply sector of the Kaliningrad Region consists of subsidiaries of the RAO Gasprom. The Region boasts a high level of provision of gas supply. While the Region's area is comparatively small, the total length of its gas

network amounts to 1,169 km. About 40 km of new pipelines is built every year. However, a major problem of the Region in that sphere consists in its dependence on the capacity of the only pipeline by which gas is currently supplied to the Region from the outside. That is a pipeline laid across the territory of Lithuania with a capacity of 863.4 cubic meters a year (built in 1985).

It is to be noted that gas consumption has a season cycle of its own; larger consumption of gas is observed in winter months. The regime of supply and consumption could be improved through introduction of additional compression and building of an underground gas storage. However, such measures may be insufficient in the long-term prospect and building of additional pipelines would be required. It is also to be noted that like the financial situation of many other companies in the fuel and power sector the financial situation of the Kaliningradgasificatsia enterprise, the principal supplier of gas, is complicated by the non-payments problem.

The share of coal in the energy balance in the Kaliningrad Region has been decreasing (from 30 percent of the total consumption in 1996 to an assessed 9 percent in 2010) because of its replacement with other fuels, mainly gas and liquid fuel. However, measures still need to be taken to ensure more efficient use of coal, including that from local deposits (prospects for development of the Grachev brown coal field are currently being considered).

It is to be noted that pilot projects related to utilization of peat, waste of timber industry and other alternative types of fuel for power generation purposes are also of interest to the Region.

Problems related to functioning and development of the power and energy sector of the Kaliningrad Region are as follows:

1. Supply of a greater portion of fuel and power depends on transit through the territories of neighboring foreign states, which results in considerably higher fuel and power prices than in other regions of the Russian Federation and makes the Region completely dependent on such supplies.
2. The Baltic states are going to withdraw from the Unified Energy System of Russia and switch over to a synchronized operation with the energy system of the European Union.
3. The Region does not have sufficient power-generating facilities of its own, while deposits of some types of energy carriers are non-existent, and of others, underdeveloped.
4. The volume of annual investments in the fuel and energy sector has declined by over 66.7 percent on the 1990 figure (in com-

parative prices). In such a situation, it is impossible to compensate the natural loss of production facilities. Heavily worn capital assets continue to be used. According to some estimates, in 2001 the wear of equipment in the Region's power sector amounted to 62 percent. With that sector being, among other things, highly capital-intensive and slow in attraction of investments, in future it can become a factor hampering the growth of the Region's economy.

5. Distortions in the price policy of the fuel and power sector have resulted in deformation of the structure of demand in energy carriers and have rendered producers of power resources unable to ensure self-financing of their production and pursuit of an active investment policy.
6. Imprudent tax policy has brought about a situation where levied taxes do not correspond to the outputs of financial and economic activity of companies of the fuel and power sector in conditions of fluctuations of prices on energy carriers.
7. The fuel and power sector plays a key role in tariff subsidizing of industries and residents of the Kaliningrad Region. It also acts as a 'sponsor' of many non-competitive industries and performs functions of the state as regards social protection of households (subsidizing of tariffs and rates).
8. All the components of the fuel and power sector lag ever more behind the best international standards. Power equipment used in the gas industry and power sector is not efficient enough; advanced steam gas plants are non-existent in the Region, while unconventional renewable energy sources are not widely used. All those factors cannot but affect the economic indices of power generation. In addition to the above, productivity of labor in the Region remains rather low.
9. Worn capital assets increase a likelihood of emergency situations.
10. Production facilities of the fuel and power sector are in a difficult financial situation which has mostly been caused by consumers' failure to pay for energy carriers, imperfection of the tax system and low economic efficiency of the production processes currently in use.

11. Market-oriented structures and a competitive energy market are still in the fledgling stage of development. The production structure and organizational structure of the fuel and energy sector need to be reformed in such a way as to be oriented towards promotion of real competition. Financial and business activities of many companies of that sector are not transparent, which adversely affects efficiency of regulation by the state of their activities and promotion of competition in that area.
12. The Kaliningrad Region has an extremely energy-intensive economy; its per unit energy consumption is 250 percent higher than in Western industrialized countries. That has caused unjustifiably high costs of power supply and had an adverse effect on competitive capacity of local manufacturers of goods.
13. Despite the decrease in production and consumption of fuel and power resources the fuel and power sector continues to pollute the environment. The sector in question is the largest source of pollution in the Region. It is to be noted that the environmental situation in neighboring Baltic states is much better.

In combination, the negative factors inherent in the fuel and power sector may pose a threat to energy security of the Region and for that reason measures need to be taken to improve the infrastructure of the regional fuel and power sector. A number of projects provided for by the Federal Goal-Oriented Program for Social and Economic Development in the Kaliningrad Region in the 2002-2010 period are also to serve that purpose, particularly, putting into operation of a new heating and power plant (ТЭЦ-2) and building in connection with the that project of another gas pipeline.

The Transport Sector

Having a favorable geographic situation and good logistics opportunities, the transport sector of the Kaliningrad Region is one of the more promising branches of the Region's economy. Use of the territory of the Region for transportation purposes can be advantageous both for the Russian Federation and for third countries. However, the economic recession and unfavorable tariff and customs conditions for freight transit carriage through the territory of Lithuania and Belarus (which had an adverse affect on the economy of the Region) caused a sharp drop in the volumes of cargo and passenger carriage by all means of transport in the 90s. The situation started to change for the better only in 2001.

Nevertheless, a significant growth in the volume of carriage can be expected in the future. Such a growth would facilitate the start of economic recovery in the country, development of the Region within the framework of the 'the region of cooperation' concept, expansion of foreign economic cooperation between Russia and other CIS countries through seaports of the Kaliningrad Region, implementation of the plans for building of international superhighways Via Baltica and Via Hanseatica and full-fledged functioning of the Special Economic Zone in the Kaliningrad Region.

However, success in that area depends to a great extent on tariff policies and transit norms and rules which have been set or may be introduced in future by Baltic states and the Republic of Belarus. Should the Region receive any support in that respect from the Russian Government, that may, have a positive effect on development of the transport sector of the Kaliningrad Region.

Carriage by sea has a special role to play in the transport sector of the Kaliningrad Region.

The seaport complex of the Kaliningrad Region includes:

- The commercial seaport of Kaliningrad;
- The Kaliningrad River Port (with a cargo terminal in Svetly);
- The state fishing seaport in Kaliningrad;
- The port in Pionersky;
- Terminals for transshipment of oil cargo are situated in the following locations:
- in Baltiysk (Vostochny) (ZAO Baltiyskaya Oil-Transshipment Company);
- In Izhevsky (the Lukoil-Kaliningradmorneft);
- In Kaliningrad (the state unitary company Kaliningrad Seaport Oil Terminal) (See Table 8).

Table 8

Design Capacity the of seaports of the Kaliningrad Region in respect of cargo transshipment (in thousand tons)

port	Design capacity
The Kaliningrad Commercial Seaport	8560
The Kaliningrad Fishing Seaport	2600
The Kaliningrad River Port	2050
ZAO BNK (Vostochny)	1500
OOO Lukoil-Kaliningradmorneft (Izhevskoe)	750
GUP Seaport Oil Terminal (Kaliningrad)	600
Port Pionersky	564
Total:	17,188

According to the data available on the first half of 2001, the freight turnover composition was dominated by the following goods and commodities: oil and petroleum products accounted for 27.8 percent, coal and coke, for 16.7 percent, scrap metal, for 10.3 percent, fertilizers, for 9.2 percent, while fishing products for 7.0 percent. It is to be noted that seaports are mostly oriented towards export of goods; for instance, export goods have accounted of late for nearly 87 percent of the total freight turnover.

State regulation of the of operations of the Kaliningrad Commercial Seaport and the Kaliningrad River Port is carried out by the Maritime Administration of the Kaliningrad Seaport, a state-run organization, while transshipment and storage of goods at those seaports, by the ZAO Kaliningrad Commercial Seaport, the ZAO GMB Terminal, the OAO Port Elevator, and the ZAO Kaliningrad River Port.

The seaport of Kaliningrad is open for navigation all the year round (there is no need to use ice-breakers in winter).

As it can be seen from the experience of the seaports of Klaipeda, Riga and St. Petersburg, the volume of cargo shipped over regular transit sea lines accounts for a considerable share in the total volume of the cargo carriage of those ports. Development of such a carriage is also gaining momentum in Kaliningrad. (See Table 9)

Table 9

Regular Sea Lines from Kaliningrad

Ports of destination	Regularity
Seaports of the Netherlands, Great Britain and Belgium (Rotterdam, Fekixstowe and Antwerpen)	Once a week
Gdynia (Poland)	Once a week
Bermerhaven (Germany)	Once a week
Kiel (Germany)	Once a week
Ports of the East Coast of the USA and the Great Lakes	Twice a month

It is to be noted that on lines running from Kaliningrad to the Netherlands, Belgium, Great Britain, Poland and Germany container-carriers are used, while on the lines running to Denmark, the US and Germany (Rostock), vessels of the ro-ro type.

In addition to the above, a sea-ferry service is also expanding. For instance, there is a sea-ferry service operating twice a week (with a capacity of 40 containers per carriage) between the fishing seaport of Kaliningrad and Koge (Denmark). A St.Petersburg-Kaliningrad (Commercial Seaport)-Kiel (Germany) motor-sea-ferry service was opened on August 20, 2001. (The service operates twice a week.) It is also worth mentioning that the specialized federal program

for the 2002-2006 period provides for opening of a Ust-Luga-Baltiysk-ports of Europe railway-motor-sea-ferry service.

It is to be noted that thanks to introduction of new railway tariffs and wider use of berths in Baltiysk the port complex of Kaliningrad Region became more competitive in the 2000-2001 period. For instance, the volume of the cargo handled amounted to 5.8 mil. tons, as against 4.1 mil tons in 1999 (see Table 10).

Table 10

Major Indices of Operation of the Kaliningrad Seaports in the 1999-2001 Period (in mil. tons)

	1999	2000	2001
The volume of cargo handling, the total, including:	4.1	4.4	5.8
The commercial seaport	2.2	2.3	2.7
The fishing seaport	0.97	0.81	0.79
The river port	0.28	0.16	0.21
Other ports	0.65	1.13	2.10

Though the volume of the seaports' freight turnover has grown, it is still far from the 1997 figure (6.2 mil. tons), only 33 percent of those seaports capacity has been used. It is to be noted that such a low volume of freight turnover has had an adverse effect on the financial situation of the ports, their technical development and tax revenues of the Region's budget.

Problems faced by the transport sector, especially the seaport complex, have been examined by responsible ministries and departments, the Government of the Russian Federation and also on an international level. As a result of the measures subsequently taken, the freight turnover has grown and the situation in seaports has been stabilized. However, seaports, particularly the Kaliningrad Commercial Seaport, have not started to operate to full capacity yet, while the per unit weight of the Kaliningrad seaports in the total volume of transshipment of cargo through the former Soviet Union's seaports on the Baltic Sea amounts to less than 5 percent, as against 8.3 percent in 1988.

One of the key factors determining the load of the ports of the Kaliningrad Region is the level of transit carriage tariffs for a number of goods that are specific to Kaliningrad Region seaports and not handled by seaports of the Baltic nations and St. Petersburg.

To step up business activity of the Kaliningrad Region seaports it is crucially important to settle the existing transit problems on a long-term basis and develop mutually beneficial cooperation between seaports in the Kaliningrad Region and the seaport of Klaipeda.

In addition to the above-stated, the seaports in the Kaliningrad Region are less favorably situated for Russian consignors and consignees than the seaports of the Baltic nations and St. Petersburg (the adverse factors include long distance, crossing of two borders, complicated customs control procedure and the like). For those reasons, even lower tariffs on cargo carriage through Kaliningrad seaports fail to attract important customers.

Unfortunately, those specific factors have not been taken into account by the federal authorities in their decisions and statutory acts. For instance, the State Customs Committee of the Russian Federation has not taken a single decision in respect of either making the customs clearance procedure applied to cargos carried to and from the Kaliningrad Region easier and less time-consuming. By way of illustration of that point, the following facts can be cited.

The customs legislation presently in effect does not take into account in some cases the exclave specifics of the Kaliningrad Region. It is to be noted that far from being milder than anywhere in Russia the customs rules in the Kaliningrad Region are even more stringent in some cases. For instance, the customs clearance category of export goods shipped from other parts of Russia through the Kaliningrad seaport is changed from the 'export' to 'transit' on border of the Belarus (that is, the border of the common customs territory). Such a change of customs category takes a lot of paper work (filling in of numerous forms), time and expenses. In addition to the above-mentioned, the transit customs procedure also means changes and complications in the checking procedure and other inconveniences and limitations for cargo owners. Exporters dispatching their goods through Kaliningrad Region seaports cannot obtain relevant confirmation of the fact that their cargo has been exported until it has been shipped beyond the customs territory of Russia (and this happens despite the fact that the export customs procedure has already been performed on the boarder between Belarus and Lithuania). Due to such delays, repayment of the VAT (a benefit to which exporters of goods are entitled under the law) takes quite a lot of time. Such problems do not arise when Russian export goods are shipped through foreign seaports.

It is to be noted that complicated and lengthy customs formalities and checking procedures for exported and imported goods, which are presently in effect in Kaliningrad Region seaports frighten off consignors, consignees and ship owners alike. Customs inspection of all containers and other imported cargo normally results in a serious loss of time and greater expenses despite the fact that a larger portion of imported goods are not certified as 'free circulation' by the seaport customs; instead, such cargo is sent to the end-consignee where a repeated cus-

toms inspection and clearance are to be carried out. Naturally, customers prefer seaports of the Baltic nations and St. Petersburg.

If that situation is not changed, cargo carriage through the Kaliningrad Region will become even more complicated, especially after Lithuania and Poland become members of the European Union.

Another group of problems is related to an inadequate technical standard and poor equipment of Kaliningrad Region seaports.

Since the Kaliningrad seaport was closed to foreign vessels until 1991 and, for that reason its use was rather limited, the state did not allocate adequate capital investments for its development. At the same time, seaports in the former Soviet Baltic republics were developing quite extensively in those days thanks to adequate allocations of capital investments by the state and managed to occupy the most important segments of the transportation services market. For instance, in the Soviet era the Klaipeda seaport specialized in transshipment of high-density metals and oil and for that purpose a railway-sea-ferry service between Klaipeda and Germany was established; the Ventspils Port developed into a large oil terminal and complex for shipment of bulk fertilizer cargoes; the Riga seaport specialized in container carriage and transshipment of coal, while the Muuga port in Estonia was built from scratch for shipment of grain, refrigerated foods and oil.

Because of such an approach to the Kaliningrad Seaport (which approach was formed as early as in Soviet days), the Kaliningrad Seaport had become technically backward as compared to its present-day competitors by the time of the collapse of the Soviet Union.

Nor has priority been given to the Kaliningrad seaports in the federal program for revival of the Russian merchant marine, which mostly focuses on such Baltic Sea seaports as St. Petersburg, Ust-Luga and Primorsk (all in the Gulf of Finland).

According to the data provided by the Ministry of Transport of the Russian Federation, the volume of investment in development of the AO St. Petersburg Seaport alone amounted to 25 mil. rubles (700 mil. USD) in the year 2000, while investments by the three Kaliningrad ports in their own capital funds in the 1997-2000 period amounted to a mere 148.8 mil. rubles, including 71.4 mil. rubles spent on cargo vehicles and other equipment.

Another serious problem consists in a relatively low transit capacity of the Kaliningrad Maritime Channel which links the Kaliningrad Seaport with the high sea. The Channel's total length is 42.1 km of which only the first 4.2 km are 10

meters deep, while the remaining 37.9 km, 9.0 meters deep. It is to be noted that the seaport's water area is only 8.1 meter deep.

The design depth of the berths both in the Kaliningrad Commercial Seaport and the Kaliningrad Fishing Seaport is from 7 m to 8.5-9 m, while in the River port the depth only amounts to four meters. It is also to be noted that berths of the Kaliningrad Fishing Port have a low proof load and badly need repair and reconstruction. Because the Channel is not sufficiently wide and deep and the dimensions of berth walls are inappropriate, while water at berths is not deep enough cargo handling services can only be rendered to vessels with the maximum length, width and tonnage not exceeding 170 m, 25, and 24 thousand tons, respectively, or tankers with the maximum length not exceeding 140 m. To call at the Kaliningrad Seaport, 170 m to 177 m long vessels need to obtain a special permit from the Kaliningrad Seaport Maritime Authority. Vessels over 135 m long have to sail through the Channel only in the day-time. It is to be noted that the Channel only permits one-way traffic and the time of journey is nearly 3 hours.

Because of such limitations caused by the capacity of the Kaliningrad Maritime Channel vessels with a high freight-carrying capacity cannot get to the transshipment terminals for loading of bulk cargo, such as fertilizers, petroleum products, metal, scrap metal and the like. It is for that reason that Kaliningrad seaports fail to be flexible to market changes as regards types of cargo and shipment ratios.

As early as in 1979, in accordance with Resolution № 2028-P of September 3, 1979 by the Council of Ministers of the USSR, reconstruction of the Kaliningrad Maritime Channel began. The project was developed by the Lenmorniiproject, a Leningrad-based maritime research center. The project provided for creation of new dimensions of the Channel; it was planned to make it 9.75 m deep and 80 m wide so that vessels with the length, width and draft of 185 m, 23 m and 8.4 m, respectively, could safely call at the port. Reconstruction was partially done in the 1979-1986 period, but that work had to be suspended because of a lack of state capital investments.

Since the area of the Kaliningrad ports is rather limited any increase in accumulation of cargo volumes is almost impossible. For that reason, cargo owners' requests for accommodation of their cargo have sometimes been denied. The total area of the commercial seaport is 116 hectares, while that of the fishing port, 114 hectares (by way of comparison, it is to be noted that the area of the Klaipeda seaport is 415 hectares).

The seaport railway station has insufficient capacity; though its reconstruction has long been planned, that work has not been started yet. According to experts' estimates, with transshipment of over 7.0 mil tons of cargo through three Kaliningrad ports (the commercial seaport, fishing seaport and river port) the seaport railway switching zone will fail to perform properly its functions as regards provision and removal of rolling stock, which will inevitably make the entire operation of seaports more complicated.

It is to be noted that motorway approaches to ports are overcrowded; they are almost paralyzed in rush-hours. With five railway crossings in Portovaya Street any increase in railway traffic (placement and dispatch of cars from and to the seaport area) would bring the motor traffic to a virtual stand-still.

For solution of the above-mentioned technical problems, large investments are needed. For instance, for completion of the reconstruction of the Kaliningrad Maritime Channel (begun in 1979 for the purpose of making the Channel 80 m wide and 9.75 m deep) 1,277 mil. rubles worth of investments (in prices prevailing in the year 2000) is required. Reconstruction of the Port Railway Switching Zone has been estimated at 8.2 mil. rubles, while building of a grade-crossing elimination structure, at 163 mil. rubles (in prices prevailing in 1984).

Also considered have been the prospects of reconstruction and more extensive use of Baltiysk Seaport facilities where cargo handling services could be rendered to vessels with a high freight-carrying capacity, since to call at that port, they need not sail through a channel. However, there is a problem consisting in Baltiysk being a major base of the Russian Baltic Fleet. Also, any significant increase in cargo-handling volumes would require reconstruction of railway lines for which purpose considerable investments would be needed.

Railway Transport

The Kaliningrad Region has a rather dense railway network of tracks, stations and the required infrastructure facilities (locomotive sheds and car sheds). The locomotive shed is situated in Kaliningrad, while the car shed, in Chernyakhovsk. It is to be noted that the Chernyakhovsk Shed's performance in 2000 was considered to be the best in Russia.

As of 1999, the length of general use railways was 640 km, as against 765 km in 1990. Density of railway tracks was 42.4 km per 1000 square km, which is

by 700 percent higher than the national average. Such a dense railway network has a history of its own. Before 1946, the density of the railway network (including tracks with different gauges) exceeded by 250 percent the present one.

However, the railway network of the Kaliningrad Region lags behind the national average as regards advanced railway lines. For instance, double track lines only account for 24 percent of the total length of the Region's track lines, while the national average is 42.3 percent. The percentage of electrified railways is also insignificant; a mere 14 percent of railway lines is electrified, while the national average is 38.3 percent. It is to be noted that in the Kaliningrad Region only the suburban railway circle running along the coast is electrified. In that electrification scheme, the 3000V system was used, which will have to be discarded in case of unification of the Lithuanian and Kaliningrad railways.

The unique specifics of the Kaliningrad railways consists in existence of some legs of tracks with the European standard gauge (1,435 mm) and terminals for transshipment of cargo situated between railway tracks with different gauges. The length of tracks with the European standard gauge is 131 km, which accounts for 21 percent of the total length of the railways of the Region. The European gauge tracks run beyond the territory of the Region through such border points as Mamonovo, Zheleznodorozhny and Bagrationovsk. A Russian-standard railway line running through Mamonovo leads to the Polish station Branevo. There is also the Derzhinskaya station in uptown of Kaliningrad which has all the necessary facilities for transshipment of cargo between cars running on tracks with different gauges. That station can be used for cargo carriage through Mamonovo and Bagrationovsk. It is also to be noted that the Chernyakhovsk station has considerable advantages because of its situation at the crossing of lines running both from the North to the South and from the West to the East. The transshipment terminal in Chernyakhovsk has 8 pairs of tracks for transshipment of cargo between cars running on tracks with different gauges and a fleet of standard open and roofed goods cars, machines and 40-foot containers.

Carriage of a large portion of cargo between the Kaliningrad Region on the one hand and Lithuania and Russia, on the other hand, is carried out along the main railway line (Kaliningrad –Chernyakhovsk- Nesterov- Kaunas - Minsk – Moscow). However, that line is used only to 30 to 40 percent of its capacity, while the Northern line (Kaliningrad- Sovetsk-Shyaulyai-Riga is currently not used for cargo carriage at all. The same situation can be observed on the railway lines running in the southern direction to Poland to whose railway network those railway lines are joined. However, despite differences in gauges of railway tracks

cargo carriage can be effectively organized both in the South - North direction and the South-East direction.

Table 11

The Principal ('Strategic') Lines of the Kaliningrad Railways

Line	Length, km	Functions
Kaliningrad-Nesterov (Kibartai)	152	The line provides carriage service between Kaliningrad and Russia (the CIS). That line is a shortcut to the Baltic Sea from Minsk and most parts of Belarus.
Kaliningrad-Mamono-vo (Branevo)	50 (55)	The line has tracks both with the European standard gauge (1,435 mm) and the Russian standard gauge (1,520 mm). It provides railway service on the route to Gdansk, Northern Poland and Germany. Transshipment or change-over of railway cars from tracks with the European standard gauge to tracks with the Russian standard gauge and the other way round is carried out at the Dzerzhinskaya-Novaya station or the Branevo station.
Chernyakhovsk-Zheleznodorozhnyi (Skandava)	45	The line is a part of the main railway line running from Central and Eastern Europe. Opportunities for transshipment of a considerable variety of cargo between cars running on tracks with different gauges at the Chernyakhovsk Station.
Kaliningrad-Sovetsk (Pagegyai)	124	The line provides railway service to the western part of Lithuania, Latvia and Estonia.

The largest stations of the Kaliningrad railways as regards volumes of cargo handling are as follows: Kaliningrad (it accounts for nearly 40 percent of the total volume of cargo handling), Chernyakhovsk (15 percent), Sovetsk (10 percent), followed by Znamensk, Gusev, Nesterov, Baltiysky Les and other.

Carriage by rail in the Kaliningrad Region accounts for a large portion both of cargo and passenger carriage. For instance, it accounts for 90 percent of the total volume of all cargo carriage in the Kaliningrad Region (excluding carriage by sea) and nearly 5 percent of the passenger carriage. Carriage by rail accounts for nearly 40 percent of suburban passenger carriage and 87 percent of long-distance passenger carriage. Such a small share of railway carriage in the volume of the suburban passenger carriage can be explained by the leading position in that sphere of passenger motor carriage which accounts for 10 percent of the international carriage, nearly 50 percent of the suburban carriage and 69 percent of the urban carriage. The above figures are rather approximate because large numbers of passengers (including those who travel without buying a ticket and those

who have an entitlement to free carriage) have not been accounted for in the total number of passengers.

Long-distance railway passenger service is maintained with the following Russian cities: Moscow, St. Petersburg, Chelyabinsk (only in summer), Novorossiysk; with the following CIS cities: Gomel, Kharkov, Simferopol, Odessa and Kiev, and also with the Polish city of Gdynia. There also used to be passenger railway service to Berlin, but it has been suspended.

The Kaliningrad Region has a dense suburban railway network. Suburban railways link Kaliningrad with the following towns: Svelogorsk, Zelenogradsk, Baltiysk, Mamonovo, Bagrationovsk, Nesterov, Chernyakhovsk, Sovetsk and the township of Yantarny. In addition to that, there is a railway passenger service between Chernyakhovsk and Sovetsk and Chernyakhovsk and Zheleznodorozhny. Till the mid-1990s, there used to be a railway service to Svetly, and between some of the above-mentioned towns. The drop in the volume of suburban railway carriage, as well as reduction in the number of routes of railway service began in the early 90s due to dramatic cuts in state subsidies for maintenance of such a costly means of transportation as the suburban railways.

The Kaliningrad Region has a dense network of motorways. As regards density of the motorway network per 1000 square km of the territory of the Region (303 km), the Kaliningrad Region rates second in Russia (after the Moscow Region) and exceeds the national average (30 km) by 900 percent.

The total length of motorways (including those which are under jurisdiction of various departments) was 6,760 km as of 1999, as against 6,244 km in 1990. All motorways have rigid pavement, 73 percent of them, of a solid type. At the same time, despite its high density the capacity of the motorways network is not sufficient even with the present-day traffic, to say nothing of the future when the traffic is expected to be considerably expanded since the radii at the populated localities are not large enough. The Region's only four-lane high-speed motorway situated east of Kaliningrad is a mere 20 km long. The network of principal motorways is in dire need of renovation.

The present-day priority consists in improvement of the technical standard of those motorways which are legs of international routes and bringing them gradually in accordance with the relevant standards.

The Trans-European transport corridor has the following two branches in the territory of the Kaliningrad Region: route № 1 «A» [Riga-Kaliningrad-Gdansk] and route № 9 «D» [Kiev-Minsk-Vilnius-Kaliningrad].

The 152 km long branch of Route № 9 «D» is the Kaliningrad Region's main highway (A-229 Federal Motorway [Kaliningrad-Chernyakhovsk-Nesterov-

the Lithuanian border]). It is to be noted that a 53 km leg [Kaliningrad-Talpaki] adjoins route № 1 «A» of the other branch of that corridor. The motorway in question permits cargo carriage to Central and Eastern parts of Russia and links the international border crossing between Russia and Lithuania (Chenyshevskoe-Kibartai) to the regional center, seaports and motorways running to the Polish border. Under the Presidential Program 'Roads of Russia' that motorway has been listed among the most important federal motorways selected for modernization.

At present, the motorway is under reconstruction in conformity with the parameters of the first and second category. Some sections of the motorway have already been put into operation, including the bypass of Gusev, and that of Gvardeisk where the first phase of the scaffold bridge (778 running meters) over the Deima River has been completed.

However, reconstruction of some sections of the Federal Motorway [Kaliningrad-Chernyakhovsk-Nesterov-the Lithuanian border] has been suspended because of a lack of funds, in particular, construction of a bypass of Gvardeisk, two grade-crossing elimination structures and a 60 km to 65 km long leg of the motorway.

Bypasses of Chernyakhovsk (the third largest city in the Region), township Chernyshevskoe on the Lithuanian border, Nesterov and township Talpaki also need to be built.

Development of Kaliningrad as a large transport junction in the Baltic region presupposes establishment in the short-term prospect of a quality air service with some European capitals. For that purpose, it is important to carry out modernization of the existing airports.

The leading airline in the Kaliningrad Region is the GUAP Kaliningradavia, a state-run unitary airline which incorporates the fleet of planes, airport, air traffic control service and other. The GUAP Kaliningradavia experiences serious financial problems and has been under administration since August 14, 2000.

The Khrabrovo Airport is situated 20 km away from Kaliningrad and is linked to the city by a modern highway. From that airport, international, domestic and charter flights are flown.

The airport has only one concrete 2,600 m by 60 m runway which only permits receipt of planes with the maximum aircraft all-up weight of 100 tons.

The airport's radio navigation equipment, including visual aids in the form of lighting and marking ensures landing of planes at least in conformity with the First ICAO Category minimum.

By the 1991 standard, the Khrabrovo Airport was a forth-class airport. At present, the airport has both the international and federal status. By the type of carriage, the Khrabrovo Airport of Kaliningrad can be categorized as a provincial airport.

Passenger and cargo carriage out of the airport is carried out by such planes as Tu-154, Tu-134, Yak-42, An-24, Yak-40, Il-76, An-12, An-26 and smaller planes.

Apart from the GUAP Kaliningradavia Airline, passenger carriage is also carried out by the Airflot, Pulkovo Airlines, Kuban Airlines, SAS and other airlines.

The passenger terminal has a capacity of 400 passengers per hour.

The GUAP Kaliningradavia Airline uses an aircraft fleet of ten Tu-134A planes and two Tu-154M planes. However, the effective operator's certificate only covers five Tu-134A planes and two Tu-154M planes.

It is to be noted that the GUAP Kaliningradavia Airline meets 78 percent of the Kaliningrad Region's demand in air carriage. However, indices of performance of Kaliningradavia's own aircraft fleet tend to decline as the airline cannot increase its volumes of carriage because of the present condition of its aircraft fleet.

The registered aircraft fleet of the GUAP Kaliningradavia Airline consists of twelve planes (two Tu-154M planes and ten Tu-134A planes).

It is to be noted that the aircraft fleet of the GUAP Kaliningradavia Airline (particularly, Tu-134 planes and engines to them) are seriously worn. Seven out of the currently used ten Tu-134A planes will be removed from service by 2006 and written off because of exhaustion of their service life. To ensure uninterrupted air carriage in the near future, it is important to ensure replacement of Tu-134A planes with modern planes.

The *inland waterways* of the Kaliningrad Region include rivers (the Pregolya, the Deima, the Matrosovka, the Nemonin, the Lugovaya and the Neman [a 114 km-long section of the border] and other) and channels (Primorsky, Polessky, Chernyakhovsky and Ozerkovsky). The total length of inland shipping routes was 322 km as of 1999, as against 500 km in 1990.

The inland waterway service of the Kaliningrad Region is carried out by the Gvardeisk Administration of Shipping Inland Routes and Navigation which is a structural unit of the GBU Volgo-Balt.

In the year 2000, maintenance of those shipping routes cost 6,957 thousand rubles. For marking of the left (Russian) portion of the fairway of the border area of the Neman River 60 river buoys were manufactured and installed, while

navigation markings were installed at the beginning of navigation (on April 1, 2000). The agreement concluded with the Lithuanian side in respect of the parameters of the fairway have been complied with.

However, the legal regime of navigation in the waterways adjacent to Lithuania and Poland (primarily in the Vislinsky Lagoon and the Courland Lagoon) has not been agreed upon yet. For that purpose, a special agreement on navigation in the Courland Lagoon and waterways of both the countries need to be concluded between Lithuania and Russia.

Communication and Telecommunications

As regards development of communications, particularly telecommunications, the Kaliningrad Region lags behind the national average. For instance, if density of telephone network in Russia (that is, the number of subscriber lines per 100 residents) is lower than in industrialized countries by 66.7 percent to 80 percent, the Kaliningrad Region, in its turn, lags behind the national average by 16.7 percent though that lag has been narrowed of late (in 1995, the Kaliningrad Region lagged behind the national average by 33.4 percent) It is to be noted that there were a mere 41 telephones per 100 urban households in the Kaliningrad Region in 1999 (while the national average was over 50) and 18 telephones per 100 rural households (while the national average was over 20).(See Table 12).

Table 12

Households with Telephones of the Public Telephone Network or Such as Have an Access to the Public Telephone Network (as of the End of the Year; Units per 100 Households [Permanent Residents])

	1990	1995	1998	1999
Urban population				
Regional total	26.5	30.1	36.7	40.7
Reference: Nation-wide figures	35.7	46.0	50.1	...
Rural population				
Regional total	11.4	14.6	15.5	17.5
Reference: Nation-wide figure	13.9	18.8	20.4	...

Upgrading of communications networks is one of the top priorities in the Special Economic Zone of the Kaliningrad Region. However, though the AO Electrosvyaz planned to increase capacity of the telephone network of the Kaliningrad Region to about 360,000 telephone numbers by the year 2000, it only amounted to 180,000 numbers in 1999 (a mere increase of 5,000 numbers was registered over the one-year period).

The leading communications operator in the Kaliningrad Region is the AO Electrosvyaz. Its telephone and cable exchange in Kaliningrad provides self-dial

international telephone service with nearly 150 countries. However, it is to be noted that another company the ZAO VestBalt Telecom (established in 1992), successfully competes with the AO Electrosvyaz on the market. At present, it operates its own telephone network of over 25 thousand users and is a major Internet provider in Kaliningrad. In 2000, the company built and put into operation a long-distance commercial call office in the center of Kaliningrad. In 2001, an intellectual telephone network, Service 321, was established. It provides residents of Kaliningrad with telecommunication services accessible through use of a special telephone card. It is to be noted that public telephones of the Service 321 telephone network permit residents of the Kaliningrad Region to make calls to any place in the world.

Development of modern types of telecommunication services, particularly, radio paging, cellular mobile communication, ultra-short and medium waves communication, Internet-telephone service and other is also to be observed in the Kaliningrad Region

Kaliningrad is the third city in Russia (after Moscow and St. Petersburg) where the radio paging system has been set up. The main providers of paging communication services are the Kaliningrad Communication Center (KCC) [it emerged on the local communications market in 1993] and the Vesso-Link United Paging (a Kaliningrad branch established in 1996). According to the latest published data, the KCC has about three thousand users.

There are four mobile communication operators in the Kaliningrad Region, namely the Ekstel GSM (GSM-900 standard), the North-West GSM (GSM-1800 standard), a subsidiary of the OOO Svyazinform-Mobile Communication (Bee Line trade mark [the AMPS-800 standard]) and the Kaliningrad Mobile Networks (KMN) (NMT-450i standard). According to the latest published data, the number of users of the Ekstel GSM (the largest of the above-mentioned companies) exceeds 50 thousand users.

Kaliningrad has the highest density of ultra-short and medium wave radio stations among other Russian regions.

The OAO Baltikom Mobile company provides satellite communication services in the Mini-M standard of the Inmarsat system. Telephones of that standard operate through Inmarsat-3 satellites (third generation satellites using a zonal beam technology) which permit communication from any part of the world.

Since December 2000, Kaliningrad-based Poisk-Svyaz has been a member of the IP-Telephone OSS-Net (established by the OSS corporation, a Moscow-

based provider of telecommunication services). Holders of a universal Poisk-Svyaz card have access both to the IP telephone services and to the Internet.

Access to the Internet is also provided by such companies as E-Type (the E-Type hub), the OAO Electrosvyaz (the Balnet.ru hub), the ZAO Gazkomplekttelcom (the GazInter.net hub), VestBalt Telecom (the Bytecity hub), Cityline Kaliningrad, Teleport Yantar, Ray and other.

The leading Internet provider in the Kaliningrad Region is the E-Type company (established in 1992). At present, it renders services to more than 900 companies, institutions and firms, including large banks, insurance companies and the Kaliningrad Mairie.

The Electrosvyaz company has provided access to the Internet through the Balnet.ru hub since May 1997. That company renders services in Kaliningrad, Gvardeisk, Svetly, Sovetsk, Gusev, Chernyakhovsk, Baltiysk, Zelenogradsk and Nesterov.

The GasInter.net hub and network have been operating since February 1998. The following has been accomplished in that period:

- Fiber-optic lines have been laid to such communication operators as the OAO Electrosvyaz and the ZAO WestBalt Telecom;
- Three digital Meridian-1 automatic telephone exchanges of the Nortel company have been installed;
- Two Vympel-3 land-based satellite communication stations with 5 m diameter antennas have been installed;
- A wireless network based on the RadioEthernet equipment for transmission of data has been put into operation;
- Peering (exchange of traffic) has been organized with such Kaliningrad providers as Balnet (Electrosvyaz), Bytecity (WestBalt Telecom), E-type and Ray.

The GasIner.net has at its disposal two independent satellite channels offering access to the Internet, one of which is provided by the Cable and Wireless (Germany), the other, with a capacity of 3.6 Mbits/s by Teleross. Communication between the Kaliningrad Region and other Russian regions is effected through satellite communication stations. In 1995, the ZAO Ramsatkom put into operation a satellite communication station in township of Nivenskoe (the station provides communication service with other regions of Russia). In July 2001, a new space communication station (240 digit channels) was established in Kaliningrad (the ZAO Zond-Holding and the AO Electrosvyaz).

Telecasting is done by the GTRK Yantar, a state-run TV company and some private companies, such as the OOO Kaskad, a television and radio company and the ZAO December, owner of the Premier TV Channel).

Short wave radio broadcasting is done by such companies as Kaskad, the BAS, Baltic Plus, Europe Plus, Baltiyskaya Volna, Radio Modern and other.

It is to be noted that several postal companies rendering express delivery services, such as the United Parcel Service (the UPS), a Kaliningrad-based subsidiary of the DHL International and the Federal Express operate in Kaliningrad.

So, apart from inefficient functioning of the Special Economic Zone the principal problems faced by the Kaliningrad Region are problems of an infrastructure nature which primarily relate to the transport and energy sectors. However, it is to be noted that while in case of functioning of the SEZ and problems related to transport infrastructure underuse of the potential of the Region (that is, its favorable economic and geographic situation because of a close proximity to industrialized Western countries) is a principal factor, in case of infrastructure problems of the energy sector there is a real danger of a crisis breaking out in the near future.

2.4. Factors Impeding Development of the Region

The deep economic recession in the Kaliningrad Region (more dramatic than the national average) has been caused by the following factors:

- The Region's economy had a specific inherited from the Soviet period. The branches of the economy which were worst hit by the recession, namely, engineering (where the military-industrial complex accounted for a large share of production), agriculture, pulp-and-paper industry and fishing industry accounted for over 70 percent of the total industrial output in the early 90s;
- Local industries were highly dependent on import of input materials, fuel, power and accessories from other regions of the Russian Federation;
- Traditional economic ties between the Kaliningrad Region and mainland Russia were severed because of separation of the Region from the rest of Russia by borders of newly independent states which pursued discriminating tariff policies in respect of transit carriage between the Kaliningrad Region and mainland Russia.

The Federal Law on the Special Economic Zone in the Kaliningrad Region (enacted in 1996) helped set off those negative factors to some extent and create prerequisites for stability in the economic and social development of new industries.

However, some factors impeding efficient social and economic development of the Region still remain. They are as follows:

- geographic isolation of the territory of the Kaliningrad Region from the territory of mainland Russia;
- instability regime of transit carriage through the territory of Lithuania;
- imperfection of the legislation regulating functioning of Russia's exclave area;
- underdevelopment of infrastructure branches and their failure to meet the present-day requirements in respect of development of the economy and social sphere of the Kaliningrad Region;
- insufficient funds allocations under the Federal Goal-Oriented Program for Development of the SEZ in the Kaliningrad Region;
- negative image of the Kaliningrad Region in the media, both Russian and foreign.

So, the strategy for development of the Region should be aimed at reduction or compensation of effects of those negative factors.

Geographic Isolation of the Territory of the Kaliningrad Region and Instability of the Regime of Transit Carriage through Lithuania

The Kaliningrad Region is the only territorial entity of the Russian Federation which is completely separated from the rest of the territory of the Russian Federation by land borders of foreign states and international waters. Because of such a situation, the Region has developed the following specifics:

a) any shipment of goods either produced in the Region or being transited (export goods) via the territory of the Region needs to be cleared by the customs before dispatch to mainland Russia. Such a practice has been in effect for eight years. Persons travelling by land to the Kaliningrad Region from mainland Russia and to mainland Russia from the Kaliningrad Region are subjected to passport and customs control. However, expansion of the European Union and the NATO (with Lithuania and Poland, neighbors of the Kaliningrad Region, joining those organizations) will result in limitation of freedom of movement by residents of the Kaliningrad Region, primarily in traveling to and from mainland Russia,

customs, passport control and legal procedures applied at crossing of the border will be changed.

b) Baltic states have pursued for a number of years a stringent policy of tariff protectionism in respect of the Kaliningrad Region (that policy consists in application in respect of cargo carriage to and from Kaliningrad of tariff ratios which are different from those applied on other routes and their own seaports);

c) Tariffs applied at transit carriage through the territory of Lithuania and Belarus are unfavorable to the Kaliningrad Region, and make the Kaliningrad route too costly and insufficiently reliable for long-term and continued cooperation with cargo owners, which results in a decline of volumes of carriage by all means of transport.

With expansion of the European Union to the East, uninterrupted transit carriage can be endangered and the Kaliningrad Region can be threatened with isolation. It is to be noted that without an uninterrupted transit carriage and adequate transport services between the Kaliningrad Region and mainland Russia and between the Kaliningrad Region and European countries the Region's economic and geographic situation cannot be used to full advantage.

Imperfection of the Legislation

Such factors as geographic isolation of the Kaliningrad Region from mainland Russia, vulnerability of its small economy, failure by the state to allocate on the permanent basis sufficient subsidies out of the Federal budget to the Kaliningrad Region have predetermined the need of introduction in the Kaliningrad Region of special compensation mechanisms. The main prerequisites for economic recovery of the Region are, in particular, creation of such legal conditions as would ensure compensation of the disadvantages of the Region's exclave situation) and development of a favorable economic and investment climate in the Kaliningrad Region.

The first attempt ever made to introduce such special economic compensation mechanisms in the Kaliningrad Region consisted in establishment by the Decree of the President of the Russian Federation of the Yantar Free Economic Zone (September 1991). That measure yielded the following results: the consumer market became saturated and regained stability, while many money-losing companies started to change their specialization.

In March 1995, Boris Yeltsin repealed that decree, which resulted in a dramatic decline in the living standard in the Kaliningrad Region. That showed in no time to what extent the economy of the Kaliningrad Region was vulnerable to changes in the legal regime.

Since 1996, the basis for establishment of a favorable business and investment climate in the Kaliningrad region has been constituted by the Federal law on the Special Economic Zone in the Kaliningrad Region. Though of a compromise nature, enactment of that law was a major move in support of development of the economy of the Kaliningrad Region. Unfortunately, the Federal Law in question is not a direct-action law and is in conflict with some other federal statutory acts. As a result, only four articles out of 28 articles of that law have legal force. Even of these, just one (Article 7) is actually applied. In addition to that, that rather imperfect law has repeatedly been attacked by various departments which introduced normative acts contradicting its provisions. It is for that reason that stability required for successful business activity and creation of a favorable investment climate has not been ensured.

Summing up the results of development of the Kaliningrad Region in the past decade, it is to be admitted that at present the Kaliningrad Region's potential in contributing to Russia's development has not been realized in full.

The five-year period the Law has been in effect has revealed inadequacy of half-measures taken by the Government of the Russian Federation in respect of the Kaliningrad Region. Expansion of the NATO and the European Union and development of integration in Europe during the past year and a half have made problems faced by the Kaliningrad Region even worse.

In such a situation, such measures need to be taken on the federal level as would improve efficiency of functioning of the SEZ. Enhancement of the Kaliningrad Region's orientation towards cooperation with the European Union, introduction into the federal legislation of provisions guaranteeing preservation of the SEZ regime for a long period of time and adoption of such amendments of certain federal laws and statutory acts as would permit full implementation of provisions of the Federal Law on the Special Economic Zone in the Kaliningrad Region can constitute the legal base for continuous development of the Kaliningrad Region.

The experience of the social and economic development of the Region during the past decade, inability of the state to make full use of the Region's economic potential and radical changes in geopolitical and economic realities suggest that the Government of the Russian Federation needs to develop and adopt *a special long-term document on the federal policy towards the Kaliningrad Region*, which document would take into account factors of insuring of national interests and security of the Russian Federation in the Kaliningrad Region, and also include a package of proposals on modernization of the legal base regulating functioning of the Kaliningrad Region.

Enactment of such federal laws and statutory acts as would take into account strategic importance of the Kaliningrad Region for national interests of the Russian Federation would create prerequisites required for compensation of the adverse effects caused by the factors related to the special situation of the Region and complete realization of provisions of the Constitution of the Russian Federation which provides for integrity of the economic space of Russia and free movement of goods, services and financial funds throughout the entire territory of the Russian Federation.

Underdevelopment of Infrastructure Branches and Their Inadequacy to Present-Day Conditions

Because of the special geopolitical situation, specific requirements have been made to infrastructure branches of the economy of the Region, such as the transport, energy sector and communication. It is particularly those sectors of the economy that ensure functioning of the Region and determine the prospects of human and business development.

The situation in the energy sector is complicated because the Kaliningrad Region (due to its exclave geopolitical situation and an acute lack of energy resources of its own) fully depends on Baltic states and Belarus through whose territory power, natural gas and a large portion of liquid and solid fuel are transited.

It is to be noted that, transit of power is limited due to the existing technical parameters, while the amount of power transmitted to the Region can any time be reduced due to an increase in domestic power consumption by the Baltic states or reduction in power generation at their own generating facilities. Joining by Lithuania of the Baltic Ring, an energy union of 11 countries and its switching over to the European standard will inevitably result in asynchronization of energy systems of the Baltic states and the RAO UES of Russia (in such a case, transit of power through the territory of those countries will be impossible). As a consequence, the Kaliningrad Region will have to buy power from neighboring states at prices prevailing in Europe (because of such a difference in tariffs, the Kaliningrad Region will lose annually over 3.5 bln. rubles).

In the transport sector, along with the problems related to transit carriage there are some other bottlenecks, in particular:

- traffic capacity and technical standard of such motorways in the Kaliningrad Region as are branches of the Trans-European highway [corridor 1-A and corridor 9-D]) do not comply with modern requirements;

- the main railway lines are both worn and inadequately equipped, while their traffic capacity is rather low.
- The above mentioned drawbacks considerably limit strategic development of the Kaliningrad Region and adversely affect the prospects of its cooperation with businesses in mainland Russian and foreign businesses.

Insufficient Financing of the Federal Goal-Oriented Program for Development of the Special Economic Zone in the Kaliningrad Region

In 1998, the Government of the Russian Federation adopted a Federal Goal-Oriented Program for Development of the Special Economic Zone in the Kaliningrad Region for the period ending in 2005. The program is an instrument of direct support by the Government of the Russian Federation of the Kaliningrad Region. However, implementation of that program in the 1998-2001 period was rather complicated because of lack of funds and irregularity of financing. In accordance with the program, the volume of financing out of the federal budget was to amount to 3,003.2 mil. rubles in the 1998-2000 period. However, the Kaliningrad Region actually received only 91.3 mil. rubles (of which 61.97 mil. rubles was funds received from auctioning off of quotas). That and also enactment of the Fiscal Code of the Russian Federation in 2000 necessitated bringing of the provisions of the document in question in line with new economic and legal realities and development of a new federal goal-oriented program for development of the Kaliningrad Region in the period ending in 2010.¹⁰

The key measures provided for by the new edition of the program consist in strengthening of the regime of the SEZ and establishment of an effective system of its management. Implementation of all those measures whose financing is provided for by the Federal Program for Development of the Special Economic Zone will ensure a favorable taxation climate and customs regime, as well as investment and business climate, and eventually raise the living standard of residents of the Kaliningrad Region.

Future development of the Kaliningrad Region depends to a great extent on the rates of integration of Poland and Lithuania into the European Union and especially on the federal authorities' long-term policy in respect of the

¹⁰ See the annex for the full text of the Federal Goal-Oriented Program for Development of the Kaliningrad Region in the Period Ending in 2010 adopted by the Government of the Russian Federation on December 7, 2001.

Kaliningrad Region. The differences in social and economic development between the Kaliningrad Region and its neighbors has been growing. It is to be noted that Poland and Lithuania are well ahead of the Kaliningrad Region by various indices. That gap is rapidly growing since countries seeking membership in the European Union are entitled to use three powerful financial instruments, namely, the effective PHARE technical assistance program, SAFARD program and ISPA program. If the volume of technical assistance rendered under those three programs is totaled, Poland and Lithuania will receive annually from 850 mil. Euro to 950 mil. Euro and from 115 mil. Euro to 135 mil. Euro, respectively. After Poland becomes full member of the European Union, it will start receive 2,910 mil. Euro worth of aid in the first year of its membership and 8,500 mil. Euro worth of aid by the fifth year of its membership. Rendering of such a large-scale financial support to new members is a part of the purposeful structural and regional policy of the European Union aimed at leveling of living and economic standards throughout territory of the European Union.

For the sake of comparison, the Kaliningrad Region received just over 15 mil. US dollars worth of aid under the TACIS program in the 1994-2000 period. This clearly points to asymmetry between the rates of integration of Poland and Lithuania in the European Union and the rates of resolution of problems of the Kaliningrad Region.

3. Main Guidelines of Development of the Kaliningrad Region in the Period Ending in 2010

3.1. The Strategy for Development of the Kaliningrad Region: a Strategy for Harmonization of Interests

The Russian Federation and the European Union have proclaimed the Kaliningrad Region a priority region in their long-term cooperation. However, for the purpose of actual realization of that intention it is important to develop a realistic concept (on the basis of which a strategy must be drawn) and such a program for social and economic development of the Kaliningrad Region as would provide for harmonization of various interests. The above components of the strategic plan for development of the Kaliningrad Region should be such as to be in harmony with the model of long-term and mutually beneficial cooperation between the Russian Federation and the European Union.

Realization of the ultimate goals of the adopted strategy for development of the Kaliningrad Region should be carried out through formation of specific regional economic mechanisms based on harmonization of domestic and foreign (opposite and common) economic and social interests. It is also crucially important to ensure such economic stability and favorable investment climate as would permit development and implementation of long-term projects. Such a measure would help attract to the Kaliningrad Region investments from different sources.

That strategy should be based on mutually beneficial cooperation. In that context, harmonization needs to be ensured of the following groups of interests:

- national interests (federal and regional) and international interests (those of the European Union, and neighboring states and other foreign countries);
- interest of economic entities and those of various social groups;
- interests of the authorities, population and various non-governmental organizations;
- interests of traditional businesses and those of new branches of the economy.

It is important to select within the framework of prospects of regional development a special category of projects whose implementation would be

advantageous both to the Russian side (including the Kaliningrad Region) and foreign partners.

The Kaliningrad Region's economic importance to the Russian Federation consists in use by the Russian Federation of the advantageous geographic situation of the Region and, to a less extent of its natural potential. However, such an importance of the Kaliningrad Region has not been recognized and justified to such an extent for it to be considered a priority development region on the federal level. For that reason, it is important to develop such regional projects as would meet national interests. Feasibility of such projects (which could deal with use of seaports, amber processing, production of certain agricultural products, development of seaside resorts and formation of a technopolis with a complex of export-oriented industries on the basis of national and foreign scientific and technical potential) needs to be thoroughly studied, including through comparison with prospects of implementation of similar projects in other regions of Russia. This would be a new approach to handling of regional problems on the federal level.

In our view, the Kaliningrad Region as a region with a favorable geographic situation can be of interest to foreign investors not so much from the point of view of starting export-oriented production as from the point of view of logistics, since it offers access to the vast Russian market (the Region being part of the Russia's national economic space, no customs duties are levied on deliveries of goods from Kaliningrad to other regions of Russia). For the purpose of attraction of foreign investors, it is important to form local economic zones (of federal importance) where potential investors could be granted greater privileges (at the same time, economic activities in such zones would be easier to control).

The regional interests proper have different aspects. The Kaliningrad Region is interested in speedy restructuring of its economy, bringing it in line with modern economic and geopolitical realities and making it equally oriented to Russian and foreign markets. It is to be noted that some businesses in the Region have already adapted themselves to new conditions and are successfully developing, while many other are capable of switching over to production of new types of goods and entering new markets. However, many industries whose potential has been completely lost cannot be resuscitated. Some big companies will not be able to achieve such volumes of output as they used to have before. So, along with efforts in respect of attraction of Russian and foreign investments to traditional branches of the regional economy it is important within the framework of the adopted strategy to ensure establishment of industrial facilities

in economic branches which are new to the Region and early development of such branches of the economy as transport, tourism and the sphere of services.

Harmonization of the above three components in the regional strategy will create a basis for sustained development of the regional economy and social entity.

The strategy of harmonization of interests will permit not merely development of new industries or restoration of the existing economic potential, but effective combination of both the approaches. Such a strategy permits businesses to win niches on various regional, Russian and foreign markets. The strategy of harmonization of interests will ensure greater inflow of investments, both Russian and foreign, and implementation of an active, rather than passive (based on macroeconomic trends) scenario of regional development.

For the purpose of implementation of the proposed strategy, the following principal mechanisms have been considered:

- perfection of the federal and regional legislation with taking into account of importance attached to the Kaliningrad Region in the sphere of international cooperation activities of the Russian Federation (amendment of effective laws, enactment of new laws and conclusion of an agreement between the Russian Federation and the European Union on the Kaliningrad Region as a region of co-operation);
- creation of a market environment in the Region;
- implementation of the federal program for development of the Kaliningrad Region;
- development and implementation of a comprehensive medium-term regional program for social and economic development of the Kaliningrad Region.

3.2. Objective and Components of the Socioeconomic Policy

Discussed above, were the circumstances necessitating development and implementation of a specific socioeconomic policy in respect of the Kaliningrad Region. Let us now discuss the more important components of that policy.

The *purpose of the Government's policy* in respect of the Kaliningrad Region consists in assuring of a sustained socioeconomic growth at such a rate as would permit gradual closure of the gap in living standards between the residents in the Region and those of the neighboring countries. Achievement of that objec-

tive will ensure stability of the sociopolitical situation in the Region and preservation of the Region's status as an integral part of the Russian Federation in conditions of expansion of the European Union.

For the purpose of achievement of the above objective, measures need to be taken in a number of interrelated directions.

First. Ensuring of a high and sustained rate of economic growth, such as would permit reduction of the gap in the Kaliningrad Region's standard of economic development and that of countries neighboring on it, primarily Lithuania and Poland. Corresponding change should also take place in the living standard of the Region's populace. That objective is rather an ambitious one. According to estimates, for its achievement a 7-percent to 8-percent growth for ten years running is needed with the annual growth in the volume of investment amounting to about 14 percent throughout that period. Though difficult to achieve, the above objectives are still achievable. Moreover, there have been precedents of such a rate of growth in post-communist Russia, in particular, in Moscow, where it is to be observed even now.

Second. Transformation of the Region's economy aimed at enhancement of its export orientation. That is the fundamental structural problem facing the Kaliningrad Region. The previous model of the Region's development (one which was actually implemented throughout the 1990s) was oriented towards survival in unfavorable external conditions.¹¹ That brought about even greater dependence on imports and the economic activities' shift towards agency operations. Now, a structural maneuver is required to bring about two kinds of change: firstly, enhancement of the role (and share) of local production and other economic activity in the Kaliningrad Region itself; and secondly, reorientation of the Region's economy from sheer importing to manufacture/assembly of export products. That means a radical revision of the strategy of the Region's development.

Third. The Region's development should be such as to contribute to rapprochement between Russia and the European Union. The task at hand consists in creation of a cooperation region. Handling by joint effort of that region's prob-

¹¹ Strictly speaking, that problem was inherited by post-communist Russia from the USSR. Though the Kaliningrad Region was not an exclave region in the Soviet era, it was primarily seen as a frontline in the Soviet Union's military confrontation with the West. So, the Kaliningrad Region was required to focus on achievement of military objectives, while all the other development problems were, in fact, handled by the central government. After disintegration of the Soviet Union, there was no fundamental revision of that model, there was only a change of form: catering for the Region's needs came to depend on imports from neighboring countries.

lems could become one of the ways to develop mechanisms for interaction and interpenetration by Russia and the EU. In that context, two groups of issues need handling: firstly, development of mechanisms of interaction, bilateral and multi-lateral, in solution of specific socioeconomic problems; secondly, elaboration of certain scenarios (legislation, standardization and certification, law enforcement and other) which may ensure institutional and political rapprochement of Russia and the EU for the purpose of establishment of a common economic space.

To the above tasks, one must add such as assistance to the Region in overcoming of the difficulties related to its exclave situation (namely, extra transportation costs, the Region's dependence on deliveries of power, poor efficiency of functioning of the Special Economic Zone and the like). However, those tasks are of a secondary nature, the above-listed ones being much more important. Indeed, a sustained economic growth and harmonization of the relations with the EU would in themselves be factors of energy security and a radical improvement in the living standard and conditions of business activity in the Region.

Are those complex and ambitious objectives achievable? They are, provided the Region's comparative advantages are duly identified and a concerted effort is taken by international organizations, the federal and the regional authorities towards neutralization of the negative factors in the functioning of the Kaliningrad Region and enhancement of the positive ones.

On the one hand, the proposed expansion of the European Union is to increase isolation of the Kaliningrad Region (in addition to the transportation and energy problems which were discussed above, a visa problem has emerged; Poland and Lithuania plan to introduce a visa regime for travelers from the Kaliningrad Region even before joining the EU). However, on the other hand expansion of the EU opens up new opportunities for realization of the Kaliningrad Region's economic potential and the advantages offered by that Region's geographic situation. The Kaliningrad Region has even been referred to as a 'pilot region' of cooperation between Russia and the EU.

In the past decade, negative factors of the Kaliningrad Region's exclave situation and the prospects of its future situation as a region bordering on the EU. Meanwhile, the Region has comparative advantages such as neither regions of Russia nor the neighboring countries seeking membership with the EU have. Below, some of the Kaliningrad Region's advantages are discussed (for a quantitative estimate of the Kaliningrad Region's advantages, see Table 13).

1. Geographic proximity to Europe, one of the power centers in today's global economic system. In some latest economic and political studies dealing with post-communist transformation the opinion

was voiced that there was a correlation between post-communist countries' distance from Brussels and the extent of advancement of reforms in those countries (the closer the country to Brussels, the more profound and efficient the reforms. Well, Kaliningrad is closer to Brussels than Warsaw. Notional as such an analysis is and great as that specific region's limitations are, the Kaliningrad Region's proximity to Western Europe may have a positive role to play in that region's development.¹²

2. Availability of skilled enough workforce and comparatively low cost of hands (lower than in European countries).
3. Availability of comparatively cheap power (cheaper than in other European countries). Even though the gap in power rates will undoubtedly be reduced in future, Russian power rates are not to reach the international level in the near future (at least, not in the period when the above tasks are handled).
4. Russia's new socioeconomic legislation which is currently in the process of formation, in particular, tax, labor and social legislation, is much more attractive to business than legislation in other European countries.¹³

¹² Not to say that the Kaliningrad Region's enclave situation within the EU may permit the Region (provided the Russian authorities' policy is adequate) to take part in regional programs financed by Brussels.

¹³ It is obvious that an important obstacle consists in lack of confidence in the 'rules of conduct' which is currently being adopted and doubt that those 'rules' will remain effective for long. However, provided the Government takes a responsible stance on that matter, that obstacle may in time be overcome.

TABLE 13

Indices Characterizing the Kaliningrad Region's Competitive Advantages as Compared to the Rest of the Territory of the Russian Federation, Neighboring Countries and Industrialized European Countries

indices		Kaliningrad Region	Russia, average	Lithuania	Poland	Germany	Kaliningrad Region-Lithuania relation	Kaliningrad Region-Poland relation	Kaliningrad Region-Germany Relation
Average monthly pay, USD (1999)		55.4	64.3	280.8	429.9	...	0.20	0.13	...
Power rates, US cents per kW/hour (2000)	Households	1.0	0.7	9.0	3.4	11.0	0.11	0.29	0.09
	Industries	1.8	1.1	9.0	3.6	0.0	0.20	0.50	0.60
Number of students per thousand of population (1997)		29.0	37.0	23.0	28.0	26.0	1.26	1.04	1.12

As can be seen, the desire to ensure priority development of the Kaliningrad Region and turn it into an export production zone manufacturing goods both for European and CIS countries is well justified. The Region boasts a number of competitive advantages both as compared to European countries which are full members or candidate members of the EU and as compared to other regions of Russia. It is impossible to weigh all the pros and contras accurately, though, since the results of interaction of so many factors are difficult to predict. The decisive power is always the policy pursued by the authorities, their ability/inability to realize the existing advantages and neutralize the negative factors. What we need to is satisfy ourselves as to existence of certain pros.

If the above objectives are to be achieved, the authorities need to ensure coordinated progress simultaneously in several lines. Firstly, the limited state budget resources need to be concentrated where they are most needed to ensure a base for a socioeconomic breakthrough. Secondly, the mechanism of functioning of the Special Economic Zone should be reformed in such a way as to ensure higher

efficiency. Thirdly, such organizational and legal measures need to be taken as would stimulate investment and business activity in the Region.

Some of the required decision-making falls under the federal jurisdiction, in particular, on the following issues:

- Development of infrastructure branches of the economy which require financing from the federal budget (though those projects do not have to be fully financed out of the budget alone);
- Formation of a favorable legal environment of conduct of business, including adoption of the related legislation (investment legislation, tax legislation and also legislation concerning the SEZ regime);
- Negotiations with the EU and with countries bordering on the Kaliningrad Region on issues related to the Region's development (including in particular transit carriage, transportation and visa regime).

It is hardly surprising that the federal authorities give particular attention to the Kaliningrad Region's problems and have even allocated additional resources, both organizational and financial, for solution of those problems. That can be explained by the Region's geopolitical situation and the role it should play in future in ensuring of Russia's national interests in Europe in general and in the Baltic Region in particular, to say nothing of the considerations of Russia's defense capability.

For their part, the regional authorities should handle such issues as:

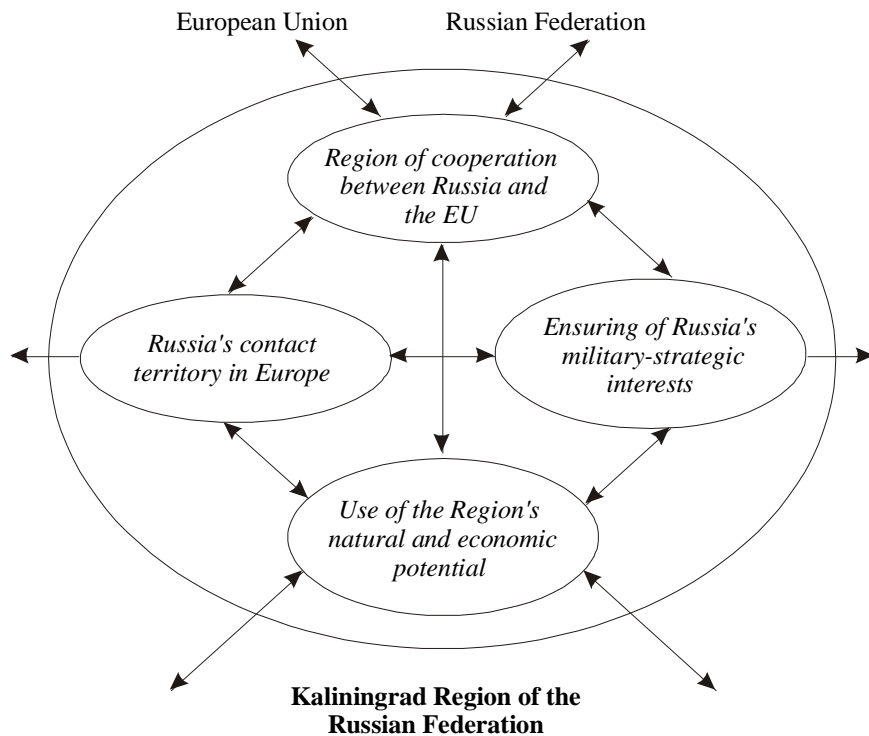
- Social development in the Region (in particular, education and health care);
- Adoption within the regional jurisdiction of such legislation as would be favorable to investors and entrepreneurs;
- Rendering of specific support to major investment projects with the use of understandable and transparent mechanisms and procedures.

3.3. Development of the Kaliningrad Region of Russia in the 21st Century

Taking into account the existing geopolitical significance, location potential and the existing objective prerequisites, it is desirable that development of the Kaliningrad Region in the next decade should proceed along the following lines:

- Region of cooperation between the Russian Federation and the European Union in the 21st century (development of integration and interaction mechanisms);
- Russia's contact territory in Europe;
- Fullest possible use of the Regional natural resources and economic potential;
- Ensuring of Russia's military-strategic interests (the Kaliningrad Region is the area of deployment of Russia's Baltic Fleet).

Those lines are interrelated (see Figure 4) and, as is shown below, they mutually complement each other.



4. The Kaliningrad Region's Role in Changing Europe

4.1. The Kaliningrad Region as a Region of Cooperation between Russia and the EU

The Russian Federation is interested in close and lasting cooperation with the European Union, not only along the present-day lines, but also in more profound and potentially effective spheres such as a common economic space, energy, global transportation projects (building up of the capacity of the Trans-Siberian Railway Mainline) and joint educational and cultural projects.

In the context of the proposed expansion of the EU, Russia should speed up its effort to *create adaptive mechanisms for formation of a new geopolitical reality*, including testing of the required production cooperation mechanisms in a limited expanse of Russian territory.

The Kaliningrad Region of the Russian Federation is particularly well-suited for the role of an experimental region where potentially effective schemes, mechanisms and methods of economic cooperation between Russia and the EU. The Region's specifics (geographic situation, specific customs regime and openness of the economy) will make the regime of testing easier and permit accurate gauging of the economic indices and identification of the emerging trends and effects.

Within the framework of that line in the Kaliningrad Region's development, such *federal and regional legislation* should be adopted as soon as possible as would regulate the Region's liberal economic development, comprehensive cooperation with the European Union and support of the structural reforms carried out in the Region.

Cooperation with the European Union

The need for and practicability of close economic cooperation between Russia and the Economic Union in the 20th centuries are determined by a number of factors, of which the main ones are:

Geopolitical factors:

- Community of geographic space;
- Community of the cultural and historical past;
- Belonging to the same (European) civilization;
- Formation of the open society paradigm;

Macroeconomic factors:

- Market reforms in Russia;
- Traditional functioning of Russian and European economies as mutually complementing systems;
- Globalization of economic relations and liberalization of conditions of international commerce.

In such a situation, it is only logical that the Kaliningrad Region should become a region of cooperation between Russia and the EU; since it offers excellent opportunities for testing by the parties to that cooperation of the principles of organization of a common economic space and search for and adaptation of new forms of mutually advantageous cooperation.

Principal regional projects related to cooperation between Russia and EU:

- Development of new technologies of customs and passport control and of promising schemes for cooperation in the border area;
- Development of a transportation network, establishment of additional border checkpoints and of new air and ship routes to link the Kaliningrad Region with EU countries;
- Educational projects (adaptation of the Russian state educational standard to European educational norms, development of such lines in higher education as are related to international relations, acceptance/nostrification of Russian secondary and higher education diplomas and exchanges in teachers and students);
- Institutional projects (introduction of certification of products in accordance with European standards [ISO 9000 and ISO 14000], adaptation of certain sections of the regional statistics to the EU requirements, testing in a limited Russian territory of a common Russia-EU economic space);
- Ecological projects (reconstruction and modernization of purification works in Kaliningrad and a number of other populated localities in the Region, joint ecological projects in respect of the Baltic Sea basin).

Necessary conditions: a special agreement on the Kaliningrad Region between Russia and the EU, simplified visa regime for residents in and visitors of the Kaliningrad Region, expansion of the sphere of application of EU structural funds to the Kaliningrad Region, full-scale implementation of the Federal Goal-Oriented Program (as amended) and concerted implementation by the parties of a number of regional projects (infrastructure, educational, technological and ecological).

New Economy of a Russian Territory

In the Kaliningrad Region, a new structure of the regional economy should be formed, such as would correspond to specifics of the Region's geographic situation, resource potential, natural conditions (particularly climatic), and opportunities for production cooperation, both with foreign partners and those in other regions of Russia.

Taking into account proximity of the European Union and prospects for organization of multifaceted cooperation in the territory of the Special Economic Zone in the Kaliningrad Region, it is likely that enhancement of business activity in the region can be achieved primarily through development of small and medium-size businesses and the services sphere.

The principal projects in that sphere are as follows:

- Distribution and processing (use of the seaport facilities, formation of logistics in respect to import of goods through the Kaliningrad Region, packaging and finishing of final products and the like);
- Assembly lines (any specialization) to turn out final products for realization on the Russian and international markets;
- Production of souvenirs and jewelry from amber mined in the Region;
- Education, vocational training, organization of exhibition and consulting;
- Tourism and recreation facilities (expansion of the tourist and recreational facilities network currently available in the Kaliningrad Region, expansion of the period of tourists' comfortable stay in the Region, purposeful development of new lines in the tourist business (business tourism, cultural-historical tourism, seaside tourism, countryside tourism and the like).

Necessary conditions: development and implementation of a long-term strategy of the Region's development, making the Region's image more attractive, guarantees of long-term preservation of the SEZ regime in the Region, removal of the existing administrative barriers to development of business activity in the Region, state support to businesses (various forms), implementation of the Federal Goal-Oriented Program for Development of the Kaliningrad Region, absence of political and/or financial upheavals in Russia, nondiscrimination in the setting of transport tariffs for transit carriage of passengers and cargoes across other countries' territories.

Liberal Reforms

In the Kaliningrad Region testing can and should be carried out of promising schemes of liberal reforms and such economic mechanisms as are new to Russia.

The *principal projects* in that sphere are as follows:

- Tax benefits for Russian and foreign investors, major investors' participation in development of the strategy for the territory's development or in implementation of major regional programs (probably, in the form of supervisory council), insurance of investments, interest rate compensations to participants in such projects as are of particular importance to the Region;
- New procedure for taxation of economic entities active in the Region (rent approach);
- Efficient use in the Region's economy of dual-purpose military facilities available in the Region (seaport facilities, military settlements, oil storages, airfields and the like);
- Reformation of the housing and communal services sphere and social benefits to the needy;
- Launch of mass-scale mortgage-based housing construction.
- It is to be noted that with the lack of budgetary funds taken into account, for the sake of compliance with the tax and budgetary legislation tax benefits should be granted in accordance with the set priorities and within the approved quotas and the amount of state debt in the financial year in question. In the granting of such benefits, specific companies' importance in development of the Region needs to be taken into account, as well as financial and budgetary efficiency of the proposed projects and lines of use of the released funds.

Necessary conditions: support of the reforms in the Region by federal ministries and departments, transfer to the regional authorities of most of the powers in legal regulation of economic activity.

4.2. Russia's Contact Territory in Central and Eastern Europe

By virtue of its geographic situation, the Kaliningrad Region is an ideal ground for various contacts between Russia, newly independent states and EU countries. The arguments in favor of the Region's use as such a ground are as follows:

- The territory's world-renowned historical and cultural heritage;
- The Region's being under Russian jurisdiction, opportunities for marketing of the goods and services produced in the Region on the vast market of Russia and other member-states of the Customs Union;
- Simplified visa regime for foreign tourists and businessmen coming to the Region for a stay of over three days;
- Favorable situation (location potential), a developed transportation network, comparatively good transportation communication with Moscow and other major Russian and Belarussian cities.

The Kaliningrad Region's shortcomings in respect of prospects of its use as such a 'contact zone' are:

- Motorist queues at the borders;
- Unattractive looks of the Region's populated localities, the City of Kaliningrad in particular;
- Poor air and boat service on the routes linking the Region with Europe;
- The Region's negative image;
- Insufficient development of such infrastructure as is required for 'contact' activities.

If the Kaliningrad Region is to be used as a contact zone, the following is required (in the very least): making the Region's image attractive and the Region's territory, sufficiently open; further easing of the visa regime; development in the Region of tourist and recreational infrastructure and tourist business.

Discussed below (in order of diminishing probability of implementation) are the proposed projects in that line of the Kaliningrad Region's development.

Business Contacts Between Small and Medium-Sized Businesses

The Kaliningrad Region as a meeting ground for entrepreneurs from Russia, CIS countries, European states and other countries.

The Kaliningrad Region's geographic situation, jurisdiction and the visa regime are such as to make feasible establish in the Region of a contact zone for representatives of small and medium-sized businesses from Russia, member-states of the European Union, CIS countries and other newly-independent states.

Up till now, the functions of the grounds for contacts of major businesses of the East and the West have largely been monopolized by two cities, Moscow and St. Petersburg. To some or other extent, the required infrastructure has already

been created there, including comfortable hotels, expensive restaurants, modern conference centers and permanent exhibition centers. However, the conditions in Moscow and St. Petersburg do not fully meet the requirements of many owners/CEOs of small and medium-sized businesses because it is expensive to stay there, the distances are large and there is an assortment of other problems typical of megalopolises.

In Russia, the niche of grounds of contacts of Russian small and medium-sized businesses with foreign partners has not been occupied yet. It is Kaliningrad, a comparatively small regional center, Russia's westernmost with its unique geopolitical situation may become an international contact business center for contacts between small and medium-sized businesses of the West and the East. In the territory of the Kaliningrad Region, proper conditions can be provided for negotiations, seminars, conferences and representative offices of Western and Russian companies close to Russia's Western borders and convenient Trans-European highways.

Development of that 'contact' line of activities will permit the Kaliningrad Region to develop multiple and most diverse links with other Russian cities and regions. The Region's role in the division of labor in Russia should be *promotion of advancement to Russian regions of news technologies of the small business*, and also the corresponding equipment, accessories and investment, as well as *organization of marketing of Russian-made produce in the West*.

Advancement in that line of specialization will create favorable conditions for openness and versatility of the Region's economy, which, in turn, is expected to attract to the Kaliningrad Region venture capital, active private investors and financial and investment companies from Russia, CIS countries and Europe alike.

Necessary conditions: one or two up-to-date conference centers, such a major permanent exhibition center as would become well-known, both in Russia and abroad, a large number of small inns of different classes, developed recreation and entertainment infrastructure, simplified visa regime and developed banking network.

Production and Technological Contacts

The Kaliningrad Region as a site for transfer of technologies, know-how and advanced experience amassed in contacts between businessmen and industrialists from Russia and the West. That line of development can be seen as complementary to the 'business contacts' line discussed above. In the present situation, the principal task faced by Russia consists in giving domestic small and medium-sized businesses an innovative impulse for development. Entrepreneurs need to

have actual examples of successful production so as they can learn. In Russia, mere adoption of programs for support of private enterprise is insufficient for assuring success in that sphere, a working mechanism needs to be created which would include as its important component demonstration of actually existing up-to-date factories, technologies, equipment, accessories and materials for production of consumer goods and rendering of services.

The Kaliningrad Region is an ideal choice for establishment. In many regions in Russia, people who run small and medium-sized businesses are faced with real difficulties in establishing business contacts and acquainting themselves with foreign technologies. On the one hand, those difficulties are related to the high costs of business trips to European and other foreign countries and the need to get visas. On the other hand, such foreign manufacturers as could supply modern equipment to Russian markets are afraid to travel to Russian provinces after Western media's numerous stories on poor standards of services, high rate of crime, atrocious roads and great distances which are to be found there.

As a Russian province situated in the center of Europe, and one with a simplified visa regime for foreign businessmen, the Kaliningrad Region may become the grounds for business contacts between Russian and Western owners/managers of small and medium-sized businesses and for demonstration of modern production facilities for developing regional markets.

The above has determined the role played by the Kaliningrad Region in the division of labor in Russia and in economic cooperation between Russia and the West; potentially, it can change the Russian and foreign financial institutions' and investors' approach to the Region. Realization of that idea will help all the branches of the Region's economy develop harmoniously, including the tourist business, trade, transport and agriculture.

Necessary conditions: developed small and medium-sized businesses, not only in Kaliningrad, but also in other cities in the Region, good production base of individual production units (modernized or established anew); an exhibition center, many small hotels and a simplified visa regime.

International Political Contacts

The Kaliningrad Region as the grounds for holding of international conferences, meetings and political consultation.

The territory presently occupied by the Kaliningrad Region has been a site of extensive ethnocultural contacts for centuries. Many lessons can be learnt from the changes of state structures and political regimes which took place in that area over the centuries. The Kaliningrad Region of Russia was formed after East Prus-

sia was placed under the jurisdiction of the Soviet Union under the Treaty of Potsdam. After disintegration of the Soviet Union, the Kaliningrad Region is still a symbol of the USSR's victory in the Second World War.

The Kaliningrad Region's convenient geographic situation, historical heritage and simplified visa regime make the Region potentially suitable for holding of international political [working] contacts on a wide range of issues related to the East-West theme.

Necessary conditions: three or four modern conference halls, developed recreation and entertainment infrastructure, good air and boat service on routes to European countries, attractive image of the territory.

Educational Contacts

The Kaliningrad Region as a center of training of Russian students (from Russian provinces) and also students from foreign (mostly CIS) countries, transfer of modern knowledge and educational technologies mostly in the sphere of international relations, European studies and international business.

Necessary conditions: attractive image of the Region, availability in the Region of institutions of higher learning with a high repute and an adequate material base.

Cultural Contacts

Turning of the Kaliningrad Region into grounds for meetings of creative artists.

Necessary conditions: radical improvement of the region's image; engagement in jobs in the Region of persons with creative talents; simplified visa regime, many small hotels of different classes; developed recreation and entertainment infrastructure.

Summing up the outputs of analysis of necessary preconditions for the Kaliningrad Region's development along the 'contact territory line' the following key requirements (the most frequently repeated ones):

- Simplified visa regime for the Region's residents and visitors;
- Availability of up-to-date conference centers;
- Developed recreational and entertainment infrastructure;
- Improvement of the territory's image.

Those factors can potentially (in a medium-term prospect) create prerequisites for turning of the Kaliningrad Region into a territory suitable for accommodation of vast numbers of diverse contacts.

4.3. Efficient Use of the Region's Potential in International Division of Labor

The more important components of the Kaliningrad Region's natural potential (acknowledged by both Russian and foreign experts) are as follows:

- Convenient geographic situation (center of Europe);
- Flat terrain;
- Availability of unfreezing harbors;
- Mild climate;
- Nature preserves, including one of worldwide significance (the Courland Spit);
- Availability of mineral deposits, including an amber deposit of a worldwide significance.

The principal components of the Region's economic potential are as follows:

- Diversified structure of the regional economy (industry, agriculture, transport and services, including in the sphere of tourism and recreation);
- A developed transportation network which can in future be used in the projects for creation of Transeuropean corridors;
- Availability of seaports.

The advantages of the Region's demographic potential and the pattern of distribution of populace are as follows:

- A high educational, labor and research potential;
- Market mentality of the populace;
- Migration into the Region of workers from other regions of Russia and especially from newly-independent countries from among former Soviet provinces;
- A high extent of urbanization, a dense network of cities and towns;
- availability of a major industrial agglomeration (Kaliningrad and its suburbs);
- diversity of functional types of urban localities.

True, each of the above factors has demerits as well as merits. For instance, the flat terrain is highly suitable for construction of housing and industrial facilities. However, polders (lowlands below the sea level) account for a considerable proportion of the Region's territory, and these require costly amelioration work and protection against floods. The other components of the Region's potential (natural, economic and demographic alike) also have disadvantages as well as

advantages. The purpose of the strategy for the Region's development should consist in the maximum use of such advantages and neutralization (where possible) of disadvantages.

The principal lines in the effort to ensure fullest possible use of advantages of the Region's natural, economic and demographic potential are as follows:

- joining of the European transport systems and establishment on that basis of logistics in respect of import into/export from Russia;
- building up of the seaport facilities, both through modernization of the existing ones and through construction of new seaports and terminals (deepwater port in Baltiysk, terminals in the vicinity of the Kaliningrad maritime channel and other);
- development in the Region of the foreign-economic ties potential with the use of the existing transport infrastructure and institutional changes (the SEZ).

Use of the natural resources potential:

- more efficient use of the local fuel resources, especially oil and peat;
- development of production of souvenirs and jewelry from locally-produced amber, turning of the Kaliningrad Region into 'amber capital' of the world;
- development of the tourist and recreation facilities on the Baltic shore and in inland areas, in particular, in the vicinity of the Vyshtanets Lake;
- development of the agrarian sector, primarily for the purpose of ensuring the Region's self-sufficiency in foods.
- *Use of the production and research potential:*
- expansion of output of such engineering products as traditionally constitute the Region's specialization: fish-processing equipment, electric vehicles, electric rocket engines of a new generation, civilian boats and the like);
- switchover from assembly of motorcars to full-cycle manufacture thereof through starting of production of motorcar parts at the Region's engineering industries;
- starting of production of agricultural machines;
- use of the currently unused production facilities for assembly of household electronic appliances, household utensils, computers and the like;

- establishment in suitable locations of export-oriented and import-substitute production and commercial and transport centers, in particular, making use of local free economic zone (LFEZ) mechanisms;
- development of research-intensive branches of the economy (in particular, software development) with the use of the Region's industrial and research potential; establishment of fleets of equipment;
- more extensive use of unique technologies of converted industries, in particular, the Fakel Design Office and the Quartz company, for manufacture of civilian produce, in particular, through establishment of related hi-tech companies (small and medium-sized);
- *Use of the Demographic Potential:*
- establishment of a continuous education system with the leading role played by the Region's institutions of higher learning; integration of the Region's education system (as a Russian subsystem) with the Baltic, European and worldwide education environment;
- enhancement of labor productivity through upgrading of the population's standard of education and rational use of skilled personnel.
- *Improvement of the economy's spatial organization:*
- Enhancement of production efficiency through agglomeration and concentration of production;
- Diversification of the economies of multifunctional cities;
- Speeding up of social development in rural localities through strengthening of the links between cities and the countryside;
- Stimulation of development of centers situated in the vicinity of the Region's railway mainline (Kaliningrad-Chernyshevskoye), in particular, Chernyakhovsk and Gusev;
- Establishment of local free economic zones (export-oriented and import-substitute production) in cities situated on popular motorways in the vicinity of the border (primarily, Bagrationovsk and Sovyetsk).

4.4. Ensuring of Russia's Military-Strategic Interests

The Kaliningrad Region of the Russian Federation has an important role to play in Russia's defense capability and formation of factors of national and European security.

In the Kaliningrad Region, just like in other constituent entities of the Russian Federation, law enforcement authorities of the Russian Federation function, in particular:

- Regional department of the Ministry of the Interior;
- Regional department of the Federal State Security Service;
- Regional department of the Federal Tax Policy;
- Procurator's office of the Kaliningrad Region of the Russian Federation;
- Kaliningrad Region office of the Judicial Department under the Supreme Court of the Russian Federation;
- Special territorial force of the North-Western Tax Department (Kaliningrad Direction).

In addition to that, unlike other constituent entities of the Russian Federation, the Kaliningrad Region is also the area of deployment of:

- Most of the forces of the Baltic Navy (belonging to the Armed Forces of the Russian Federation); and
- The Kaliningrad Region Department of the Federal Border Guards Service of Russia.

The Kaliningrad Region as Area of Deployment of Russia's Baltic Fleet

The Kaliningrad Region is the area of deployment of Russia's Baltic Fleet to which all the military units deployed in the Region belong. The Baltic Fleet is presently one of the best forces in the Armed Forces of the Russian Federation. It numbers around 25 thousand officers and men. The principal forces within the Fleet are naval forces proper, an airforce, ground forces, coastal guards and air defense units. The Baltic Fleet is unique in its structure and composition with no analogues anywhere in the world. The five-year experience of functioning of the Baltic Fleet shows that establishment of such forces in an enclave territory is most advisable.

Also deployed in the Kaliningrad Region are units under the jurisdiction of law enforcement departments, in particular, those of the Federal Border Guards Service of Russia and internal troops of the Ministry of the Interior of Russia.

The average annual passage through the border checkpoints amounts to around 8.5 million persons (the Russian-Polish border accounting for 4.0 million persons of that number) and around three million vehicles (up to 2.0 million of these at the Russian-Polish border). That is the third largest passage in the Federal Border Guards force.

As a part of the reform of the Baltic Fleet, 10.5 thousand officers and 9.8 thousand warrant officers and ensigns have been retired from it since 1992. The number of Baltic Fleet servicemen in need of housing amounted to 6.4 thousand as of July 1, 2001.

Within the framework of that strategic line in reforms, it is necessary to ensure a balanced and adequate development of military and law enforcement forces and their efficient interaction with the social and the economic sphere in the Region.

Deployment of comparatively large military units in the Region has brought the Region the following advantages:

- Jobs for civilian personnel;
- Additional solvent consumer demand;
- Addition to the Region's human resources (retired servicemen).

At the same time, deployment in the Kaliningrad Region of large military units:

- Withdraws from such economic use as creates the gross regional product considerable production facilities (plots of land, buildings and the like);
- Means an additional load on the social infrastructure (which is subsidized from the Regional budget and municipal budgets).

Economic Use of 'Dual-Purpose' Military Property

As the composition and strength of troops deployed in the Kaliningrad Region have been changed, so have been their needs for grounds, military camp facilities, buildings and the like. The currently adopted procedure for auctioning off of property released from military use has often caused delays in transfer of title to property (which sometimes was accompanied by pillage of the property and loss of its attractiveness with consequent reduction of the selling price).

In the Kaliningrad Region, by way of an experiment (if approval by the Government is secured) such property as is of general economic value may be put to civilian economic use without sale and transfer of title (on terms of long-term lease). Under that scheme, the property would remain in the Baltic Fleet's possession, and would be leased off to civilian economic entities. That would mean creation of additional sources of funds for financing of the Baltic Fleet and also of additional jobs, which could be primarily reserved for retired servicemen and members of their families.

Retraining and Social Adaptation of Retired Servicemen

Servicemen retiring from the Armed Forces often do so at a working age (usually, at an age of 38 to 45). Most of them want to earn some money in addition to the small military pension they get.

In the Kaliningrad Region where there are great numbers of servicemen, the issues of retraining and social adaptation of servicemen are particularly acute. The principal objective in that sphere consists in attraction of non-budgetary funds in addition to the funds allocated from the Federal budget for that purpose. Another important task consists in ensuring efficient use of the resources thus amassed through:

- Development of such training curriculums as would be adapted to the proposed lines in the Kaliningrad Region's development;
- Selection of such educational institutions as would offer adequate training under such curriculums;
- Job-placement services to persons who have completed a retraining course;
- Assistance in creation of jobs for such persons and members of their families.

Provision of Servicemen with Housing

Under the effective Russian laws, all servicemen retiring from the Armed Forces should be provided with housing. Unfortunately, the funds allocated for that purpose from the state budget are insufficient, in the Kaliningrad Region in particular. As many as 6.4 thousand Baltic Fleet servicemen are in need of housing there. In 2002, 59.0 million rubles has been allocated for provision of housing to retired servicemen under the Federal Goal-Oriented Program. With that money, around 7 thousand square meters of floor space can be built, or about 100 apartments (which is insufficient, of course, in the present situation).

It is been proposed that by way of an experiment large-scale construction of comparatively small houses for servicemen should be launched in the Kaliningrad Region with the program financed in combination from funds allocated by the state and from mortgages. Taking into account the considerable multiplication effect of large-scale housing programs, the above scheme may also give the Region's economy an additional development impulse.

Proceeding from the general strategy of Russia's development, in the period up till 2010, the Kaliningrad Region's development is expected to be carried out

in accordance with the 'Region of Cooperation between Russia and the EU' model along the following interrelated lines:

- Development of mechanisms of cooperation ('pilot region, testing grounds, contact territory);
- Priority development of the tourist and recreation businesses;
- Upgrading of the mechanisms of interaction between the Region's economy and social sphere with the military units deployed in the Region.

5. Principal Lines in the Kaliningrad Region's Development

Proceeding from our vision of the Kaliningrad Region's development in the period ending in 2010, we discuss below issues pertaining to the required changes in the more important branches of the Region's economy.

5.1. Restructuring of the Region's Economy in Accordance with the New Conditions of the Region's Development

Upgrading of economic branches traditional to the Region and establishment of new ones will ensure improvement of the structure of the Region's economy and bring it in accordance with the new development factors, both endogenous and exogenous. There are plans to form in the territory of the Region a socio-economic complex with the use of the favorable prerequisites for the Region's development (natural, labor and infrastructure prerequisites alike) and the advantages offered by its geographic position and complemented by the Special Economic Zone regime. The existing disadvantages are to be overcome through implementation of the Federal Program for Development of the Kaliningrad Region and the Special Agreement between the Russian Federation and the EU. Within the framework of that same comprehensive approach, interaction between the principal components of the Region's economy is to be ensured, namely, such components as:

Infrastructure (transport, telecommunications, energy sector and environmental protection);

Production (rational use of amber, oil, peat and other minerals; fisheries and agricultural produce, its industrial processing with the use of a wide range ecologically clean products, hi-tech and assembly production based on functioning of SEZ mechanisms in engineering and other industries);

Quality services (trade, banking, management of capital flows, information, consulting and tourism).

5.2. Development of Infrastructure

Practically all the proposed lines of development of the Kaliningrad Region presuppose use of the Region's infrastructure, including transport, service lines,

communication and the fuel-and-power sector. Efficiency of functioning of the Region's economy (including establishment of entirely new branches and those related to the traditional ones) largely depends on the extent of development and efficiency of the infrastructure branches. For that reason, issues related to infrastructure are given much attention both in the Concept of Federal Socioeconomic Policy in Respect of the Kaliningrad Region (approved in March 2001 at a meeting of the Government of the Russian Federation) and in the new Federal Goal-Oriented Program for Development of the Kaliningrad Region in the Period Ending in 2010. It is to be noted, though, that construction of infrastructure facilities is to be financed not only from the federal, but also from the regional budget; if possible, private investments will also be used.

Transport (Seaports and Roads)

With the proposed eastwards expansion of the European Union, the Kaliningrad Region is faced with the threat of transportation isolation. If an adequate transport communication between the Region and the main part of Russia and between the Region and European countries is not established, the advantages of the Region's economic and geographic situation cannot be used.

In the period ending in 2010, the Kaliningrad Region's transport industry is to reach such a level of development as to be able to cater for the growing demand in the Region itself for carriage of cargoes and passengers to the main part of the Russian Federation and contribute to servicing of the transport flows from and into Belarus, the Ukraine, Kazakhstan and other states.

At present, the Region's transportation industry is faced with a number of such problems as cannot be resolved without early assistance by the federal authorities.

Application of tariffs unfavorable for the Region at transit cargo carriage through Lithuania and Belarus have made the Kaliningrad direction exceedingly costly and insufficiently reliable for stable work with owners of cargoes, which has resulted in reduction in the volumes of carriage by all the types of transportation. For a number of years, up till November 2001, the Baltic States pursued a tough protectionist tariff policy (for transit carriage to and from the Kaliningrad Region, different tariffs were charged than on other transit highways).

The need to pay for transit carriage across the territories of Lithuania and Belarus has also increased the costs of railway and air passenger carriage and increases isolation of the Kaliningrad Region's populace from the main part of the Russian Federation.

For solution of those problems, the following is required:

- Negotiations with the EU on the general principles of tariff policy in respect of cargo and passenger carriage to/from the Kaliningrad Region from/to the main part of the Russian Federation at admission to the EU of Baltic States (that task should mostly be handled by the ministry of the Interior of the Russian Federation);
- Consideration of the issue of organization of road and railway carriage between the Kaliningrad Region and the rest of Russia via Poland and Belarus;
- Development of a procedure for compensation of persons/companies effecting transit carriage of cargo and/or passengers to and from the Kaliningrad Region through Latvia, Lithuania and Belarus for the additional expenses (though that task has been proclaimed not only by the Regional but also by the Federal authorities, it is still unclear how it is going to be actually handled).

Russia's strategic interests require that such a way from the Kaliningrad Region to Russia be created as would not involve transit through foreign countries (Lithuania, Latvia, Poland or Belarus). This can be achieved if an automobile ferry service Ust-Luga – Baltiysk — German ports is started.

Due to the high transport carriage and neighboring states' purposeful effort aimed at attraction of Russian cargoes to their own seaports and also due to insufficiently developed infrastructure (which is inferior to that available at seaports in other Baltic states), less than one-third of the capacity of seaports in the Kaliningrad Region is being used at present. With most Russian cargoes shipped from Baltic states' ports, the Russian Federation has sustained considerable economic loss.

From the point of view of ensuring Russia's national interests in that sphere, it is important that the Kaliningrad ports' capacities are built up and the volume of cargoes handled there increased, for which the following measures need to be taken (some of the measures listed below have already been provided for in the Federal Goal-Oriented Program, while others may become possible in a more distant future or be financed out of private investment):

- Construction of a new deep-harbor seaport, Vostochny in Baltiysk and the required modernization of the Region's railway network;
- Fundamental modernization of the existing seaport facilities, including deepening and widening of the maritime channel, construction of new container terminals and terminals of the ro-ro type.

Though the Region has a dense network of highways, those highways' parameters do not meet modern requirements. So, development of road carriage in

the region requires development and improvement of the road infrastructure and creation of a skeleton network of international-class motorways (practicability of that project largely depends on availability of financing). It is obvious that in view of the proposed expansion of the EU, the *issue has arisen of integration of the Kaliningrad Region in the system of transeuropean transport corridors, in particular, Via Hanseica and Via Baltica*. In this connection, it is necessary to:

- Modernize the existing motorways leading to the border of the Russian Federation and build new ones in accordance with international standards and build and equip new checkpoint facilities in accordance with the same standards (those measures are provided for in the Federal Goal-Oriented Program);
- Include in the Law on the Special Economic Zone in the Kaliningrad Region provisions to the effect that all vehicles imported into the Kaliningrad Region and registered there in accordance with the customs-free zone regime can be freely used for international carriage of cargo and passengers, including carriage from the Kaliningrad Region into the main part of Russia and from Russia into the Kaliningrad Region. (The prospects of development of the Special Economic Zone are discussed in greater detail below.)

The only company offering air carriage services (both passenger and cargo carriage) in the Kaliningrad Region is the State-Owned Unitary Company Kaliningradavia.

The company is heavily in debt and on the brink of bankruptcy. Should it go bankrupt, that would further increase the Kaliningrad Region's isolation from the rest of Russia.

For that reason, it is advisable that the federal and regional authorities should:

- Develop a plan for restructuring of Kaliningradavia and take measures to provide it with more efficient personnel;
- Have the runway and the airport building modernized and the air navigation equipment brought up to date;
- Consider the proposition on use of the runway of the Chkalovsk airfield for landing of civilian airplanes.

Fuel and Power

The Kaliningrad Region's fuel-and-energy complex is one of the Achilles' heels of the Region's infrastructure.

At least theoretically, there are four ways of solving the Kaliningrad Region's energy problems.

The first one consists in construction in the Region of another (second) thermal power plant to burn gas. With that scheme implemented, the Kaliningrad Region would no longer depend on deliveries of power but its dependence on gas deliveries would still be preserved (and the gas would still have to be transited across foreign countries' territories). Implementation of that scheme is probably the most costly measures requiring financing from the federal budget, however, if that scheme is ever to be realized, the Kaliningrad Region would subsequently be able to export power (the power plant is expected to pay off in around eight years after its commissioning).

The second way consists in construction in the Kaliningrad Region of a nuclear power plant. If that scheme is realized, the Kaliningrad Region would become fully independent in terms of power supply. Disadvantages of that scheme primarily consist in high costs of the construction (even higher than costs of the above thermal power plant) and an extremely negative stance taken upon that issue by other countries (out of ecological considerations).

The third way consists in installation at the border between Lithuania and mainland Russia and the border between Lithuania and the Kaliningrad Region of transformers to transform the transmitted power from the Russian frequency standard to the European at the entry by the transmission line of the Lithuanian territory and back to the Russian frequency standard at the border between Lithuania and the Kaliningrad Region. Some experts believe that such an arrangement would increase the Kaliningrad Region's dependence on its relations with Lithuania and the EU. (It is believed that Lithuania is more interested in transit of gas across its territory than it is in transit of power.)

The fourth way consists in the Kaliningrad Region switching over to the European standards, in other words, preservation of the Region's dependence on deliveries of power and reliance on other countries' willingness to deliver power to the Kaliningrad Region. That scheme's principal advantage consists in its comparative low costs, however, there are no quantitative assessment. As has already been noted above, the power rates in Europe are higher than in Russia and the possible losses to be sustained by consumers in the Kaliningrad Region due to difference of tariffs at switching off of Lithuania from the RAO United Energy Systems of Russia network may amount to 135 million USD. Another disadvantage of that scheme consists in the need to achieve an agreement with Lithuania on deliveries of power to the Kaliningrad Region at reduced rates in exchange for power supplies.

Since construction of the thermal power plant has already been approved and even started, in spite of the considerable investments and remaining dependence on natural gas deliveries that seems to be the most acceptable way to handle the Kaliningrad Region's energy problems (and also the way provided for in the Federal Goal-Oriented Program for Development of the Kaliningrad Region).

In addition to construction of the basic power source, that is, the second thermal power plant in the Kaliningrad Region with an installed capacity of 900 MW (whose first phase with a capacity of 450 MW is to be commissioned in 2003) it is necessary to carry out the following measures (with participation to some or other extent by the Federal budget):

- Modernization of the existing Vilnius – Kaliningrad gas pipeline;
- Construction of another gas pipeline and an underground gas storage for catering for the Region's needs;
- Modernization of the four thermal power plants and district power plants;
- Switchover of small and medium-sized boilers to burning of locally-produced fuels;
- Development of power generation with the use of renewable sources of energy (windmills and minor hydropower plants);
- Implementation of the regional energy-saving program (for the 2002—2005 period).

Communications

The Region's economy cannot adequately develop to achieve an up-to-date technological level without formation in the Region of an efficient multifunctional system of modern communications. Under the adopted plans, the Region's communication complex is to be transformed in the period ending in 2010 in such a way as to fully meet the requirements in the Region's viability and the ever growing needs of the economy and the populace.

Thanks to its geographic position, the Kaliningrad Region boasts ample prerequisites for turning into a major junction of the communications and telecommunications linking Russia and Europe. Implementation of that strategic line in the Region's development would considerably improve the investment climate in the Region and ensure the Region's reliable communication with the rest of Russia and greater efficiency of command of the military units deployed in the Kaliningrad Region.

For actual achievement of the above objective, it is necessary to:

- Integrate the Kaliningrad Region's electric communication systems with Russian national systems by means of laying of Kaliningrad – Saint Petersburg optic fiber communication lines across the bottom of the Baltic Sea or by means of connection of the Kaliningrad Region's networks to the Trans-European optic fiber line belonging to Links Telecom (that line is currently under construction);
- Expand the capacity of the telephone network of the city of Kaliningrad and the Region as a whole through introduction of new technologies, construction of optic fiber communication lines to link all the district centers and regional-jurisdiction cities with the Region's capital, use high-capacity modern optic fiber communication lines and digital telephone exchanges whose number capacity can be gradually built up;
- Establishment of an air-and-cable television network through further upgrading of the cable television system and construction of a new TV station.

The *Communication and Telecommunications* section, just like sections related to other aspects of infrastructure, has been included in the Federal Goal-Oriented Program for Development of the Kaliningrad Region. Yet, in addition to allocation of budgetary funds private investment is required for adequate development of telecommunications.

5.3. The Agrarian Sector

The 1990s saw a considerable drop in agricultural production in the Region, greater than the national average. The Region's exclave situation had a role to play in that. Also, the agrarian sector was exposed to competitive pressure on the part of imported foods (which were imported duty-free) and that also was one of the factors that brought about the greater-than-the-average recession in that sector.

In 2000, the gross volume of agricultural production in the Region amounted to 3.8 billion rubles (less than 150 million USD), 0.4 percent of the total volume of agricultural production in the Russian Federation (while in 1990 the Region accounted for 0.65 percent of the output of agricultural produce in Russia). In the same period, the Region's share in the Russian Federation's population grew from 0.59 percent to 0.65 percent, so in per capita output of agricultural produce the Region which used to have one of the best showings in the country is now below the average.

In the 1990s, there was a dramatic decrease in the livestock population and reduction in acreage of farmland used for growing of grain and fodder crops. Output of both animal husbandry produce and grain dropped. Output of vegetables and rape has been increased, however. In 2000, there was a bumper crop of potatoes. There was a slight growth in agricultural output in 1999 (by 1 percent) and in 2000 (by 3.5 percent). However, that growth is hardly of a sustained nature and there has not been sufficient investment.

Availability of technical equipment in agriculture has gone down by over 50 percent. While in 1990, 9.8 thousand tractors were in use in the Region's agricultural sector, early in 2001 they only numbered 3.3 thousand; the number of grain harvesters dropped in that period from over 1.5 thousand to 710. In the past few years, practically the entire infrastructure of the agrarian-industrial complex (agrochemistry, maintenance of agricultural machinery, amelioration services and rural construction) has disintegrated.

The drop in output of animal husbandry products (the Region's principal agricultural specialization) has resulted in many farms finding themselves in a difficult financial situation (around one-third of these are presently on the verge of bankruptcy). While crop farming has been profitable, production of each and every kind of animal husbandry produce was unprofitable as of 2000.

As a consequence of the above, in spite of favorable natural conditions and availability of hands (the Region's rural populace has been growing, though the number of persons actually doing farm work has been diminishing) output of farm produce in the Kaliningrad Region is insufficient and much of the food which could be produced locally has to be imported.

Some of the farms have managed to adapt to the new conditions and market reforms, but the situation of most has been getting ever worse. If the situation is to be stabilized, nationwide measures for solution of the agrarian sector's problems are needed. However, in the Kaliningrad Region's case, a comprehensive federal program for development of agriculture is needed and also a regional program based on it.

Unlike infrastructure issues, handling of the agrarian sector problems is mostly the responsibility of the regional authorities. The Region's Administration has prepared a Comprehensive Regional Program for Stabilization and Development of the Agrarian Sector in the Kaliningrad Region in the 2002-2005 period, which is to be seen as progress in itself. That program provides for investment in the amount of 5 billion rubles, which is primarily to be used for technical re-equipment of the agrarian sector, introduction of new technologies, subsidizing of certain types of produce and amelioration work. The program has not been

adopted yet and the measures provided therein have not been financed to a full extent.

Allocations from the regional budget for of the agrarian sector have been increased. In the 2002 budget, 203 million rubles has been allocated for that purpose, 120 percent more than in 2001. Under the Federal Goal-Oriented Program for Socioeconomic Development of the Kaliningrad Region in the 2002-2005 period, allocations from the Federal Budget are to amount to 476 million rubles.

However, the focus is going to be not so much on budgetary financing of the agrarian sector as reformation thereof. Development of agriculture should enter a fundamentally new stage which will include formation of effective proprietors, introduction of new technologies and taking into account of ecological considerations.

The more important measures that need to be taken in that direction are:

- rehabilitation of unprofitable companies;
- starting of a land cadastre;
- establishment of a secondary land fund, including through ejection of unused land and unclaimed land shares in accordance with the effective legislation;
- upgrading of land relations and creation of favorable conditions for market capitalization of land;
- establishment of a network of agricultural advisory centers to offer advice to both commercial and non-commercial (household) farmers, in particular, on advanced know-how, new machines, technologies, prices and the like;
- organization of training and retraining of personnel with partial financing from the Region's budget (such training is to be compulsory for experts and CEOs of collective farms).

The above measures need to be worked out on the regional level.

5.4. The Industrial Sector

In the period up till 2010, industrial development in the Kaliningrad Region is to be of a self-regulating nature, though certain ecological and social restrictions are to be complied with. Measures for state (mostly regional, just like in the case of the agrarian sector) support to the industrial sector should be applied on a limited scale and only in cases where solution of social problems and high budgetary efficiency are observed.

Support to and development of business activities in the region require such legal, organizational and economic conditions for entrepreneurs as would stimulate enhancement of production, investment and innovation activities by all economic entities.

For achievement of the above objective, the infrastructure for support of private enterprise should be strengthened organizationally, financially, methodologically and in terms of personnel, for which the following measures are required:

- establishment of a system of state guaranties (warranties) to be granted at financing of priority private-enterprise projects through the Region's development budget;
- training and retraining of industrial personnel;
- establishment of a regional innovation and technology center (technopark);
- development, implementation and support of integration programs within the framework of interregional and international cooperation (rendering to businesses of specialized services, establishment for that purpose of information-analytical, expert and consulting structures).

In this connection, the normative base of state regulation needs to be updated and the new variation, tested along the following lines:

- reduction of the existing barriers for entry on the market;
- introduction of new systems for registration of businesses and monitoring of business activities;
- removal of such technical barriers as may hamper production or commerce and enhancement of efficiency of the existing certification system;
- discontinuation of redundant and inefficient administrative regulation of business activities;
- reduction of investors' costs related to authorization and implementation of investment projects.

Most of the above issues need to be handled at submission at the regional level of the existing draft laws, in particular, the Law of the Kaliningrad Region on Industrial Policy and the Law of the Kaliningrad Region on the Kaliningrad Region's Development Budget and also in development of the [regional] Program for Support of Private Enterprise in the Kaliningrad Region in the 2002-2006 period.

The regional policy of support of industries could be accompanied with:

- development of a system of state orders, that is, annual procurement of produce from industries under regional orders and long-term contracts with guaranteed terms of financing on condition of competitiveness of locally-produced products;
- granting by the regional authorities of guaranties in respect of schemes for attraction of investment in the priority branches of the Region's economy, branches of industry and specific industries with the industry's controlling interest assigned to the Region for management for the period the investment is being used;
- privileged regional crediting and insurance of investment projects implemented by such industries as are of a strategic significance for the Region.

5.5. Transformation of the Special Economic Zone Regime

One of the principal lines in the federal policy in respect of the Kaliningrad Region should consist in transformation of the Special Economic Zone regime. As has been shown above, in its current state the Special Economic Zone cannot ensure the Region's adequate development. The problems in need of development can be categorized as follows:

Customs benefits

Since several customs benefits are the only aspect of the Special Economic Zone regime which does actually work, the prospects of the SEZ functioning are mostly related to these. In spite of the limited nature of the existing benefits (as compared both to provisions of the Law on the Special Economic Zone in the Kaliningrad Region and to the list of goods to which benefits are applied) those benefits still exert a considerable influence on the Region's development. For that reason, that issue has been the subject of heated debates.

There are at least three possible ways of handling the problems related to the existing customs duty benefits. The first one could consist in withdrawal of those benefits in the near future, the second one, in preservation of the SEZ regime in its present form and the third one, in transformation of the SEZ regime with gradual withdrawal of the customs benefits (this process could be spread, say, over a ten-year period) or gradual replacement of the existing tax benefits with new ones within the framework of the SEZ regime.

Withdrawal of the customs benefits in the near future is hardly possible. On the one hand, an instant radical change of the existing situation would bring about an abrupt worsening of the socioeconomic situation in the Region whose economy has been adapted to the customs-free zone regime (this applies only to trading companies, but also industries). Consequently, additional allocations from the federal budget would be required.¹⁴ On the other hand, abolition of the SEZ regime would meet with a negative response on the part of investors and would be seen as another manifestation of instability of Russian legislation. Yet, that scheme has advantages of its own: its implementation would be a move towards unification of Russia's economic space and reduce motivation for smuggling.

Preservation of the SEZ regime in its present form is the simplest solution from the point of view of the federal authorities. It has but one advantage: with that approach implemented there would hardly be any radical worsening of the socioeconomic situation in the Kaliningrad Region. At the same time, no radical improvement is to be expected, either, and the Region's development potential would remain untapped.

Transformation of the SEZ regime could be an optimum solution. There are different ways of doing it, though. One matter to be decided upon in respect of the SEZ is whether or not the existing customs benefits need to be fully withdrawn in a few years, say, in ten years. It is to be remembered that those benefits are presently enjoyed by two different types of taxpayers, namely, trading companies and manufacturers.

Withdrawal of customs benefits currently granted to trading companies may in a long-term prospect bring about price rises in the Region and also loss of a large number of jobs in that branch of the Region's economy (that is, have a detrimental effect on the current sociopolitical situation, as has been pointed out above). In a medium- and long-term prospect, negative consequences of withdrawal of benefits to trading company could be compensated by a general improvement of the economic situation in the Region (with new investments attracted, new jobs could be created in production, industries providing the

¹⁴ The point was corroborated early in 2001 when Section II of the Tax Code was enacted. Tax benefits were withdrawn in accordance with provisions thereof and the situation in the Region became critical. the State Customs Committee of the Russian Federation issued Decree No. 01-99/1405 of December 27, 2000 on Application of Provisions of Section II of the Tax Code of the Russian Federation in Respect of Customs Regimes, under which the customs privileges formerly granted at import of goods produced in the Kaliningrad Region into mainland Russia were withdrawn, as a consequence, production at many industries in the Region was very nearly stopped.

Region with consumer goods could be developed). This means that withdrawal of customs benefits granted to trading companies is, in principle, feasible.

Feasibility of withdrawal of customs benefits granted to manufacturers is far less obvious. Thanks to those benefits, a number of new industries have emerged in the Kaliningrad Region (in particular, furniture industry). Many of these cannot survive without customs benefits. Even if additional measures to stimulate investment activities are introduced in the Region, that is hardly going to improve those industries' situation. So, there is every reason to believe that the customs-free zone regime for manufacturers should be preserved. For the sake of stimulation of influx of investment into the Region, the customs-free zone regime for manufacturers could also apply to newly-established industries. It would be unreasonable, though, to grant customs benefits to manufacturers whose produce is in high demand on Russian and international markets even without these (industries in power generation, fuel production, iron-and-steel industries, nonferrous industries, excise goods production and production of arms and military equipment).

Speaking about customs benefits, it is to be noted that the Kaliningrad Region's being separated from the rest of Russia gives it an advantage in respect of functioning of the customs-free zone there. Since there is a customs border, it has been possible to apply the customs-free zone regime to the entire territory of the Region, something which cannot be done in any of the other constituent members of the Russian Federation, with the exception of the Sakhalin Region.

Administrative Privileges

Past experience in functioning of the Special Economic Zone in the Kaliningrad Region has shown that customs benefits are not enough for attraction into the Region of investment. So, additional measures for encouragement of investment need to be taken. Those may include administrative measures alone or administrative measures in combination with economic (tax) stimuli.

It is yet difficult to say whether or not the measures currently taken nationwide to improve the investment climate in Russia in general (such as adoption of the new Law on Registration, the Land Code and the section of the Tax Code on taxation of profit) will be sufficient in the Kaliningrad Region's case. So, it seems reasonable that a number of additional measures to encourage private enterprise and remove administrative barriers should be taken in the Region.

First and foremost, this concerns more purposeful and consistent implementation of the following measures:

- introduction of a simplified procedure for authorization and approval of design documentation prior to beginning of implementation of the project;
- discontinuation or further simplification of licensing;
- limitation of the number of checks of businesses by various state control authorities (for instance, a regulation could be set to the effect that only one check a year [necessarily a comprehensive one] can be held at a company and that that check cannot last over two weeks;
- introduction of a simplified visa regime for foreign investors and persons working in the Region;
- permission for foreign banks to establish their branches.
- Federal administrative measures to encourage investment should be complemented with measures taken on the regional level. It is necessary that regional normative acts be adopted on:
 - such licensing as is under the regional authorities' jurisdiction;
 - expansion of opportunities for participation in privatization of regional property (for foreigners among others);
 - establishment of a regional advisory (supervisory) council from among investors;
 - establishment of a transparent system of 'individual monitoring' of major investment projects effected in the Region (for that, adoption of a regional law providing for the monitoring procedure may be advisable).

Limitation of economic measures with political ones has its merits and demerits. On the one hand, administrative measures do not affect the budget (they neither increase the spending, nor reduce the revenues). On the other hand, administrative privileges may be insufficient for a radical improvement of the investment climate in the Region, so granting to investment of tax benefits (with introduction of the related provisions in legislation) may also be needed. Tax benefits may be instrumental in stimulation of influx of capital into the Region, however, there is the danger of use of tax benefits for purposes other than the legally provided for, a repetition of the ZATO syndrome.

Tax Benefits

In respect of tax benefits, just like in respect of customs benefits, three different solutions are possible. The first one could consist in absence of any

special tax benefits (merits and demerits of such a solution were discussed above). The second one could consist in granting of tax benefits as provided for by the federal legislation, for instance, in accordance with the already drafted Federal Law on Free Economic Zones and the corresponding draft amendments of the Tax Code and the Customs Code. The third solution could consist in turning of the Kaliningrad Region into an offshore.

The latter scheme presupposes non-levying of any of the federal taxes and duties (in such case, a special tax regime should apply to companies registered and active in the Kaliningrad Region and also to individuals permanently resident in the Kaliningrad Region), setting of a special procedure for registration of taxpayers, introduction of a customs border between the Kaliningrad Region and the rest of Russia and treatment of supplies of goods/jobs/services from and into the Kaliningrad Region as import/export from abroad, adoption of such decisions as would radically facilitate conduct of business in the Region and change in the criteria of residency for both corporations and individuals.

Turning of the Kaliningrad Region into an offshore may bring about a considerable economic growth in the Region. However, such a scenario of development of the Special Economic Zone also has many disadvantages, such as extreme difficulty of realization from the legal point of view (it is not improbable that amendment of the Constitution of the Russian Federation may be required¹⁵), negative international attitude to offshores and unpredictability of economic consequences such a development might have for other regions of Russia. And, last but not least, such an individualization of the relationship between the federal authorities and the Region may create a dangerous precedent: many others will be willing to have the Constitution of the Russian Federation rewritten and special statuses granted also to other regions (each constituent entity of the Russian Federation is unique in some way or another, and that may be seen as a pretext for requiring of special privileges).

At present, particularly popular is the idea that for the sake of attraction of investment the Kaliningrad Region should be granted additional tax privileges, however, of such a kind as to preclude turning of the Region into an offshore. That scheme is also provided for in the Concept of Federal Socioeconomic Policy towards the Kaliningrad Region. However, there are still differences as to the nature of such tax privileges.

¹⁵ In our opinion, any amendment of the Constitution of the Russian Federation in the near future is very undesirable for political considerations and hardly practicable.

One of the possible choices could be the set of privileges provided for by the above-mentioned package of draft laws on free economic zones. It includes:

- exemption from payment of the profit tax to budgets on every level for five years from the beginning of implementation of the investment project and in the subsequent two years, levying of that tax at a 50-percent rate;
- for companies exporting 80 percent or more of their output, non-levying of the profit tax to the regional and local budgets (throughout the time of functioning of the Special Economic Zone).

Other schemes of tax benefits may also be possible, especially if the Law on Free Economic Zones and the corresponding amendments of the Tax Code and the Customs Code are not passed. In that case, at least two ways of granting of tax benefits may be possible. Either the federal legislation (the Tax Code) may permit an exception in respect of regional portions of the benefit tax (granting the region the power to reduce its portion of that tax down to a zero rate) or the Region's authorities may be empowered to take a decision on returning of the collected tax amount to investors (other than the officially permitted reduction of the rate of a regional portion of the tax rate from 14.5 percent to 10.5 percent).

Simultaneously, the federal authorities could pass a decision on compensation from the federal budget to the regional budget of the amount of revenues thus lost. There are two ways of doing that. Such compensation could be done either through granting to the Kaliningrad Region of subventions or through a certain modification of the mechanism of inter-budgetary relations, in particular, through treatment of the profit tax revenues as zero in calculation of the gross tax revenues for the purpose of distribution of transfers from the Fund of Financial Support to Constituent Entities of the Russian Federation (under such a scheme, the volume of additional financial aid would exceed the regional budget's actual loss of revenues from the profit tax).

Privileges in respect of the profit tax should be complemented with privileges in respect of the regional tax on corporate property and the road tax.

At the same time, introduction of tax benefits is a difficult measure which requires efficient state administration and, more important still, efficient tax administration. Before any tax benefits can be introduced, a number of rather difficult problems need to be solved.

Firstly, granting of tax benefits could turn the Kaliningrad Region into another offshore, and not an offshore of the type discussed above (one formed and supervised by the authorities) but such an offshore as would emerge sporadically due to the authorities weakness and inability to exercise due control

over economic activities in the country's territory. In such a case companies that are granted privileges would merely be registered in the Region but would actually do business outside it. To prevent such a situation, an adequate system of administration needs to be established, one which would permit monitoring of the actual flow of goods (corporations could also be required to carry out their activities only in the territory of the Kaliningrad Region). There is also another question (though closely intertwined with the above one): should entitlement to privileges be based on a territorial or on a functional principle, that is, should tax benefits be granted in specific areas or should they be granted to investors based in any part of the Region provided those investors meet certain criteria (in particular, those related to the amount of investment)? From the point of view of administration, the former scheme is much simpler, but under the latter scheme investors would enjoy a freedom of choice in optimum location of the business.

Secondly, granting of tax privileges in the Kaliningrad Region would artificially increase Kaliningrad businesses competitiveness as compared to that of businesses situated elsewhere in Russia. Considering that the share of manufactured products in Russian exports is rather low, that problem would not be so acute if produce of Kaliningrad industries were to be exported abroad. However, if such goods are to be delivered to other regions of the Russian Federation, Kaliningrad manufacturers should have no tax privileges. Since the currently adopted accounting methods do not permit drawing of any distinction between profit drawn abroad and that drawn on the domestic market (so, levying of tax on part of the profit is impossible), requirements should be set in respect of the share of output the industry should export abroad (or market in the Kaliningrad Region itself) to be entitled to benefits in respect of the profit tax.

Thirdly, the range of industries that can be entitled to profit tax benefits should be limited. Obviously, power-generating industries, fuel-producing industries, iron-and-steel and non-ferrous industries, industries producing excise products and manufacturers of arms and military equipment should not be entitled to preferential treatment in taxation. The exact list of types of industries which may be established in the Kaliningrad Region in future can hardly be drawn.

Fourthly, the optimum quantitative parameters of tax benefits need to be set. If the benefits are insufficient, no investors would be attracted to the SEZ, if they are excessive, there would be unjustified loss. Taking into account that stability of legislation is an essential prerequisite for successful functioning of the SEZ (the legislation in respect of the SEZ should remain stable for at least a decade), opportunities for experiments in that area are but limited.

5.6. The Public Sector of the Region's Economy

In conditions of insufficient revenues from taxes, of particular importance to the credit side of the Region's budget are non-tax-related revenues whose amount depends among other things on *efficiency of management of regional property*.

It is important that work on a register of regional property is completed. The next move could be analysis of efficiency of utilization of state property by state-run unitary companies domiciled in the Region. On the basis of the outputs of such analysis, decisions could further be taken on whether or not each of such companies should be allowed to remain in its present form.

From the point of view of budgetary revenues and hence efficiency of management of state property, the issue of reformation of state-run unitary companies (SRUC), both those under federal and those under regional jurisdiction, and enhancement of their efficiency is of great importance in the Kaliningrad Region.

If some of the companies in the Kaliningrad Region should remain within the public sector the Region's authorities need to work out clear-cut criteria in respect of establishment and operation of such companies and also in respect of advisability of assignment to them of certain standard duties:

- use of such property as cannot be privatized under the law, including such property as is required for ensuring of national security, functioning of certain means of transportation or all of these or for realization of other strategic interests of the Russian Federation or the Region;
- activities related to handling of important social issues, in particular, sale of certain goods and services to the Region's residents at social prices;
- manufacture of produce which has been removed from general use or whose use has been subject to limitations;
- conduct of subsidized types of business, inevitably loss-making production.

Similar measures should be taken in respect of the Region's *shares in joint-stock companies' capital*. On the basis of outputs of analysis of efficiency of economic activities by companies owned by the Region, decisions should be taken on:

- retention of the company's shares in the Region's possession;
- assignment of title to the shares to a sub-federal or municipal level;
- privatization of the company; or
- liquidation of the company.

Should it be decided that the shares should be retained in the Region's possession, the authorities should formulate in respect of each object of management/group of objects of management the purpose of such retention, which should subsequently be seen as guidelines by the persons engaged as managers. The way for attainment of that objective should be defined in the course of the adopted procedure for selection of the manager (with such selection mostly done on a competitive basis) and specified in the contract.

To ensure effective control of the activities of companies and institutions remaining under the regional authorities' control, uniform mechanisms and forms of monitoring of such companies' activities need to be developed and the related database created before the end of 2002; also, analysis of performance and efficiency of the public sector needs to be carried out on a regular basis.

Should such companies' activities be incompatible with the duties assigned thereto, such companies can be transformed into joint-stock companies (or the related public property can be privatized), restructured, assigned to municipalities or liquidated.

Separately, a scheme can be considered for placement of real estate of health care and educational institutions (on a commercial basis) in trust with specialized firms/funds. (International experience shows that such schemes are quite effective.)

Also important for enhancement of efficiency of management of regional property is development of uniform approaches to various forms of transformation of forms of ownership (privatization, nationalization/municipalization and bankruptcy in the form of assignment by debtors of their shares to the Region.) Privatization and bankruptcy should necessarily be accompanied with reformation of the bankrupt companies.

Priority objectives in transformation of ownership are: stimulation of economic growth in the Region, accumulation of investment resources for the real sector of the economy and harmonization of the interests of the Region/the state, private capital and residents in the Region.

Whichever transformation option is chosen, all those willing to take part in privatization should have access to capital/property, including private persons and the companies' personnel. Protecting current and strategic interests of workers and owners of private capital, the regional authorities gain an access to such real financial resources as are in their hands.

There may be the following reasons for transfer of title to private businesses/joint-stock companies to the Region:

- strategic importance of facilities owned by such businesses for functioning of life support systems in the region/district/city;
- potential opportunities for a considerable increase in the local budget's revenues through the facility's becoming state property;
- use of property for purposes other than provided for;
- inefficient management of businesses which are of much importance to the region;
- high social significance of the business (it having a status of a city-forming company or budget-forming company in the municipality).

The many major companies in the Region are presently heavily in debt to the budget. The authorities' attempts to use compulsion in collection of such debts through unconditional debiting of tax arrears and institution of bankruptcy procedures against debtors have been unsuccessful since the recovery is usually against debtors' property, which is in low demand, if any. A solution to that problem may consist in rendering of state support to companies with the use of mechanisms of capitalization and conversion of their debts. The mechanism of restructuring of companies' debts (accounts payable) permits conversion of part of that debt into the Region's shares and re-accounting of the rest as debt proper. Under such an approach, instead of deferral of repayment of debts or introduction of an installment plan for such repayment, the debt is converted/capitalized into public property with the corresponding amount of accounts receivable written off simultaneously.

5.7. Financial Institutions

Another task the Region's authorities currently face consists in ensuring proper financial and investment support for development in the Kaliningrad Region. Such a support is financed out of the budget and non-budgetary sources available in the Region, investors' own funds and borrowed resources.

The more important sources of investment in the real sector of the Region's economy are:

- private citizens' funds borrowed through placement by the Region's authorities of special issues of bonds (housing bonds, industrial bonds, construction bonds, health care bonds and the like);
- international organizations funds allocated for financing of specific programs (ecological, cultural health care and the like);
- funds of private investors, including foreign ones.

If the borrowing effort in the Kaliningrad Region is to be a success, such financial institutions (of different types) need to be established as would specialize in accumulation and purposeful use of funds in the interests of development of the Region's economy.

For the purpose of attraction of long-term investment, a *regional collateral mechanism* needs to be created. Such a mechanism could function:

- in the form of pledging of such pieces of property as are either owned by companies or managed by them (provided the actual owner's consent has been secured);
- in the form of pledging of property belonging to the Region or to municipalities (in place of or in addition to pledging of companies) as a guaranty of performance by the company of obligations assumed by it at drawing of a loan or receiving of investment;
- on the basis of economic use of land (issue of land bonds).

In this connection, the Region could establish a *Regional Collateral Fund* which would include all the units of regional property, parts thereof and property values which the regional authorities would be in a position to assign on certain terms as a pledge to such companies as are of a strategic significance to the Region.

In addition to that, for the sake of attraction of non-budgetary investments to the Region it is advisable that the mechanism of a *Fund for Insurance of Investments and Compensation of Interest Rates* be developed and introduced no later than in 2003. That would permit reduction of the risks borne by investors, both domestic and foreign, and launching in the near future of a number of priority regional projects whose commercial efficiency is going to be comparatively low.

The regional *Development Budget* which is going to be formed in the regional budget starting from 2003, is also expected to be an important financial mechanism to ensure multiplication effect in increment of investment. Introduction of such a budget would permit a switchover from direct financing of capital projects within the framework of the regional goal-oriented investment program to lending of funds at an interest, with the term of loan specified (on the local levels) for financing of socially significant projects and also introduction of a methodologically new mechanism of budget guaranties.

On the whole, the infrastructure and principal branches of the Region's economy correspond to the objectives set for development of the Kaliningrad Region. The required alterations in their organization and operation can be secured through market activities and regulation on the part of federal and regional authorities.

6. The Required Mechanisms and Institutional Reforms

6.1. Federal Goal-Oriented Program

The federal policy in respect of the Kaliningrad Region is aimed at ensuring of the status of the Kaliningrad Region as an integral part of the Russian Federation, development of integration ties of the Kaliningrad Region with other Russian regions, making use of the advantages of the enclave situation of the Kaliningrad Region within in the Common European Economic Area and transformation of the Region into a zone of export-oriented production.

The principal mechanism for implementation of the federal policy is provided by the Federal Goal-Oriented Program for Development in the Kaliningrad Region for the Period Ending in 2010.

Purposeful implementation of measures provided for by the Program will reduce the influence of domestic and foreign social, political and economic factors related to the exclave situation of the Kaliningrad Region.

The *principal purpose* of the Federal Goal-Oriented Program consists in creation of adequate conditions for sustained social and economic development in the Kaliningrad Region on the basis of expansion of export-oriented industries and raising of the living standard in the Kaliningrad Region to a level comparable to that in the neighboring countries.

The principal objectives of the Program are as follows:

1. Ensuring of geostrategic interests of Russia in the Baltic region (that is, implementation of 28 projects worth 61.6 bln. rubles, which account for 66.4 percent of the total volume of financing), including:

- development of Kaliningrad as a major transport junction of Russia through modernization of transport infrastructure (six investment projects worth 13.9 bln. rubles account for 15 percent of the total financing provided for by the Program);
- ensuring of energy security through modernization of the existing power resources and putting into operation of new ones (15 projects worth 44.3 bln rubles, or 47.8 percent of the total volume of financing);
- improvement of the ecological situation to such a level as would meet the normative standards applicable to the more important

components of the environment (7 projects worth 3.4 bln. rubles, or 3.7 percent);

- establishment of partnership relations with Baltic region countries and member-states of the European Union;

2. Tasks of the national importance (49 projects worth 16.7 bln. rubles accounting for 18 percent of the total volume of financing provided for by the Program), including:

- creation in the Region of conditions for sustained social and economic development and ensuring by the year 2010 of an increase in the gross regional product (GRP) by 100 percent to 120 percent (with the average annual growth rate of 7 percent to 8 percent);
- transformation of the structure of the Region's economy in such a way as would enhance its export orientation (28 projects worth 8.8 bln. rubles, or 9.5 percent);
- perfection of the mechanisms of the SEZ as a major factor of economic development of the Region and integration of the Region into the world economic space; establishment with participation of the federal and regional authorities of an effective system of management of the SEZ (5 projects worth 0.4 bln. rubles, or 0.4 percent);
- raising of the living standard and bringing of the per capita income to a level comparable to that in the neighboring countries (that is, bringing of the average monthly per capita income to 270 USD to 330 USD);
- development of the telecommunications infrastructure (four projects worth 4.4 bln. rubles, or 4.7 percent);
- development of the tourism and recreation facilities (10 projects worth 2.7 bln. rubles, or 2.9 percent);
- restructuring of the amber industry (two projects worth 0.4 bln. rubles, or 0.4 percent);

3. Regional tasks for whose implementation support by the state is needed (33 projects worth 14.4 bln. rubles, 15.5 percent), including:

comprehensive development of agriculture, meeting of the population's demand in staple foods through technical modernization and introduction of modern technologies in all sectors of agriculture (3 projects worth 3.1 bln. rubles, or 3.3 percent);

- development of fisheries (2 projects worth 0.4 bln. rubles, 0.5 percent);

- development of the social sphere (28 projects worth 10.9 bln. rubles, or 11.8 percent).

The Program is to be implemented in the 2002—2010 period in two stages. At the first stage (which is to be implemented in the 2002-2005 period), such measures are to be taken as are required for overcoming of the crisis in the economy and the social sphere and introduction of an effective mechanism of functioning of the Special Economic Zone, including such projects as would serve as a basis for strategic development of the Region.

In the 2006-2010 period, implementation of investment projects and social measures aimed at furthering of economic and social achievements of the first stage of realization of the Program is to be carried out.

The total volume of financing provided for by the Program for the 2002-2010 period amounts to about 90.0 bln. rubles.

Funds are expected from the following sources:

- own funds of the participants in the Program, 26.28 bln. rubles (26.55 percent);
- funds to be allocated from the federal budget, 4.37 bln rubles (4.71 percent);
- loans to be extended by commercial banks, 3.87 bln. rubles (4.17 percent);
- foreign loans and funds to be allocated by international organizations, 11.60 bln rubles (12.4 percent);
- funds to be allocated from the regional budget, 4.01 bln. rubles (4.32 percent);
- other sources, 34.78 bln rubles (37.49 percent).

The Program is expected to create such a favorable investment and business climate in the Kaliningrad Region as would help attract investments, develop export-oriented and import-substitution production, raise local manufacturers' competitiveness and ensure a considerable increase in the living standards of the Region's households to a level comparable to that in the neighboring states.

6.2. Amendment of Federal Legislation on the Special Economic Zone

The economic strategy for development of the Region in the 2001-2010 period is aimed at perfection of the SEZ and presupposes acceleration of the social and economic development of the Region, raising of the living standard through promotion of commercial, economic and scientific cooperation with oth-

er countries, creation of favorable conditions for attraction of foreign investment and technologies, accumulation of management experience, and ensuring of growth in Russian businesses' potential and an increase in the Region's export capacities.

The mechanisms provided for by the Federal Law on the SEZ in the Kaliningrad Region ensure harmonization of national and regional interests and create conditions for macroeconomic stability and improvement of the investment climate (through gradual reduction of the tax burden). Rather than be a mere declaration, such a climate needs to be ensured through implementation of a policy aimed at prevention of any instances of worsening of conditions for investors.

However, there is a number of contradictions between provisions of federal statutory acts and those of laws regulating the regime of the Kaliningrad Region as the exclave territory of the Russian Federation. Those contradictions are as follows:

- The Law on the SEZ in the Kaliningrad Region contains some equivocal provisions. For instance, in accordance with provisions of that law (Article 10) Russian and foreign investors and entrepreneurs can be granted tax privileges only in conformity with the tax legislation of the Russian Federation. However, under the Tax Code tax privileges can be granted only in accordance with the Law on the Taxes and Duties with which the Law on the SEZ has not been duly harmonized;
- Though the Law on the SEZ also provides for exemption from customs duties and other payments levied at customs clearance (except customs dues), the list of such payments has not been duly specified;
- Federal legislation provides for establishment of a common economic space, free movement of goods, services and financial funds, support of competition and free enterprise and unacceptability of any barriers to free movement of goods, services and financial funds on the territory of the Russian Federation. However, the fact of separation of the Kaliningrad Region from mainland Russia by borders of foreign states (due to the exclave situation of the Region) has not been taken into account in federal legislation.

For the purpose of improvement of the Federal Legislation on the SEZ, it is important to do the following:

- Guarantee preservation of the SEZ regime for a long period of time, say, for the period ending in 2010;

- Inventory statutory and normative acts of the Russian Federation and the Kaliningrad Region for the purpose of preclusion of any such contradictions as may arise in application of provisions of the Federal Law on the SEZ in the Kaliningrad Region. Also, amendment of the Law on the SEZ is needed (which was discussed in the previous section).

Conclusion of agreements between the Russian Federation and the European Union on *development of the Kaliningrad Region as a region of cooperation* could also have a favorable effect on development of the Region. It would create prerequisites for resolution of the following acute problems:

- provision of international guarantees in respect of stability of legislation regulating the regime of the SEZ in the Kaliningrad Region;
- application on the territory of the Region of European Union standards in respect of certain types of activity and goods;
- introduction of a special simplified procedure for issuing of visas to nationals of the member-countries of the Schengen Agreement, and to residents of the Kaliningrad Region by the Schengen countries.

6.3. Perfection of the Regional Legislation

For the purpose of early creation of a favorable business climate in the Kaliningrad Region, it is important to enact a number of statutory acts, namely:

- Law of the Kaliningrad Region on Stimulation of Investments into Production on the Territory of the Kaliningrad Region;
- Law of the Kaliningrad Region on the Specifics of the Tax Regime in the Kaliningrad Region;
- Amendment of the Law of the Kaliningrad Region on the Science and Innovation Policy in the Kaliningrad Region;
- Law of the Kaliningrad Region on Industrial Policy;
- Law of the Kaliningrad Region on Fisheries and Fish-Breeding in the Kaliningrad Region;
- Amendment of the Law of the Kaliningrad Region on Land;
- Law of the Kaliningrad Region on Payment for Settlement of Forest Lands for Purposes Other than Forestry Activities and Use of Forest Resources and/or Appropriation of Forest Lands.

It is also advisable that the following regional programs are adopted:

- program for energy saving in the Kaliningrad Region in the 2002-2005 period;

- program for development of the tourism and recreation facilities in the period ending in 2010;
- program for utilization of household garbage and industrial waste in the Kaliningrad Region.

Need for early introduction in the Kaliningrad Region of modern European standards is worth special mention. Such standards will help create export-oriented production in the Kaliningrad Region, reduce the differences in the rates of development within the Region and the gap between the Kaliningrad Region and the neighboring states. For that reason, it is important that such legislation is adopted as would be instrumental in switch over of the economy of the Kaliningrad Region to such modern European standards as ISO 9000-9003.

The ISO standartization will help the economy of the Region become a platform of the Kaliningrad Region's economic and political security. Such a measure is much needed. Should the regional authorities take adequate measures towards adoption of such legislation as would be instrumental in switching over of the real economy to the ISO 9000-9003 standards, that would create prerequisites for attraction to the Region of Russian investments for development of export-oriented production. Subsequently, the entire spectrum of industries able to compete with other industries in the Baltic region could be formed in the Kaliningrad Region.

Should the switch-over to the ISO 9000-9003 standard be accomplished successfully, the economy of the Kaliningrad Region will undergo qualitative changes in the right direction (from the extensive industrialization model to the post-industrial model). Experience of the Kaliningrad Region as regards switch-over to the ISO standards will be of use for the rest of Russia.

It is to be noted that ISO standards apply not only to the sphere of material production and services, but also to optimization of the entire machine of state administration. Switchover to the ISO standards would bring about structural modernization of the entire economy of the Kaliningrad Region which would ensure resolution of most problems related to the Region's foreign economic activities.

6.4. International Agreements

At present, one of the factors impeding development of the Kaliningrad Region and attraction of foreign investments is the uncertain stance taken by the federal authorities in respect of the Kaliningrad Region and its geopolitical specifics.

The common practice in ensuring of functioning and development of such areas consists in conclusion of an international agreement. So, conclusion of an international agreement between Russia and the European Union in respect of the Kaliningrad Region would signal Russia's interest in concerted effort towards development of that territorial entity of the Russian Federation.

At conclusion of the above international agreement and in the course of its implementation the Russian side could assume the following obligations:

- introduction of a simplified procedure for issuing of visas to foreign investors/nationals;
- ensuring of a gradual switch-over of the Kaliningrad Region (starting from export-oriented industries) to European standards as regards product quality and ecology;
- guaranteed stability of the terms for investors.

The Russian side may also assume such other obligations as would be of interest to European countries (such intentions of the Russian side can probably manifest themselves in the course of negotiations).

The issues to be discussed during negotiations between Russia and the European Union should include the following:

- simplification of the procedure for issuing of visas to residents of the Kaliningrad Region (that issue can be considered in conjunction with simplification of the procedure for issue of visas to nationals of European countries for visits to the Kaliningrad Region);
- inclusion of the Kaliningrad Region into the zone of operation of the European Investment Bank;
- provision by the European Union of aid in handling of ecological problems of the Kaliningrad Region (development of joint projects);
- technical assistance by the European Union in unification of the standardization and certification systems applied in the Region to individual types of goods and services (with subsequent use of the experience thus amassed in mainland Russia);
- provision of assistance in handling of energy problems of the Region (such assistance could be rendered under the environmental protection program);
- provision of assistance in handling of transport-related problems (development of the motorway network in the Region and its integration into the common European infrastructure of road transport);

- provision of assistance in development of telecommunications in the Kaliningrad Region;
- inclusion of the Kaliningrad Region in regional cooperation programs (primarily Baltic regional programs).

In future, the issue of simplified access of goods produced in the Kaliningrad Region to the EU markets can also be considered (this will mean actual implementation of the concept of the European Common Economic Area).

6.5. Support by the European Union and the International Community

The principal goal of development of the Kaliningrad Region in the period ending in 2010 consists in prevention of such isolation of the Region (because of its exclave situation) as may result from expansion of the European Union. However, that goal cannot be attained without bilateral cooperation (with financing under the Special Federal Program and rendering by the EU and the international community of technical assistance). It is to be noted that international assistance is currently rendered in the form of consulting and advice in respect of working out of a strategy for development of the Region. Such assistance is provided through the Russian-European Center for Economic Policy and the European Expert Service. The above consulting and advice services are important instruments in development of short-term political decisions and recommendations for decision-making at different levels.

The common priority lines of cooperation between the Kaliningrad Region, member-states of the European Union and other countries can be as follows:

- Bringing of Russian and regional legislation more in accordance with the legislation of the EU. This primarily concerns customs norms, harmonization of regulation and certification, as well as the policy in respect of competition and protection of the environment;
- formation of real market economy through liquidation of factors impeding development of commerce and attraction of investments.

Particularly important for development of the Region are such international projects as help form common vision of the future of the Region and define its role in the Baltic region. It is impossible to ensure sustained growth in the Region, such economic stability and flexibility as would permit the Region to take advantage of economic integration, development of new types of the economic activity and neutralization of the process of social segregation of the

Kaliningrad Region without making use of the experience amassed by the international community on those and other matters.

Speaking of the international cooperation in the financial and investment sphere, cooperation could be started, in particular, with the European Investment Bank (EIB) whose activities include among other things preparation for integration and strengthening of cooperation with countries which are not members of the EU (it is to be noted that Russia has not been included in the list of countries in respect of which the mandate of the EIB [which mandate has been granted to the EIB by the EU] can be applied, so this matter should be negotiated with the EU on the federal level). The Bank extends loans to countries in Eastern and Central Europe, Asia, Africa and Latin America. Loans extended by the Bank are guaranteed for 65 percent from the political risk by member-countries of the EU. To countries seeking membership in the EU, loans are mostly granted for development of infrastructure branches (including transport, seaports and communications) and environment protection projects, while to third countries (Asian and Latin American), for development of joint ventures in infrastructure branches (including road building, mobile communication and gas and power sector) for support of small and medium-sized businesses (through intermediary banks). For instance, the EIB has granted the following loans to the Baltic states: to Estonia, 12 mil. Euro for protection of the environment and 30 mil. Euro for support and development of small businesses; to Latvia, 10 mil. Euro for building of a passenger terminal of the Riga Airport; to Lithuania, 10 mil. Euro for modernization of the Klaipeda seaport.

Loans can also be extended by the EIB directly to specific projects worth over 25 mil. Euro in the amount of 50 percent of the total investment for the term of up to 12 years (in respect of infrastructure projects, for the term of up to 20 years). The so-called 'global' loans are extended through a system of intermediary banks to local authorities and private businesses for carrying out of projects worth less than 25 mil. Euro for terms of 5 to 12 years. Applications for such loans can be submitted either through the European Commission or directly to the Bank.

Speaking of cooperation with other international organizations, it is important to look into what has been done and what can be done in the framework of the OECD Baltic Region Program which handles among other things problems faced by north-west regions of Russia.

One of the likely activities aimed at rapprochement between the EU and the Kaliningrad Region are transformations in specific areas where requirements are made in respect of standards. In the EU, the principal source of financing of

specific branches of the economy for specific purposes are structural funds which carry out their activity exclusively within the EU and countries seeking membership in the EU. However, at present such European structures cannot be used for financing of projects in the territory of the Russian Federation in general, and in the Kaliningrad Region in particular. At the same time, there is a number of various grants and loans which can be extended directly by the General Directorate of the European Commission.

In the Kaliningrad region, money of the EU structural funds and the international community could be used in the following spheres:

Agriculture. Within the framework of cooperation measures can be taken in such spheres as veterinary and phytosanitary. The EU has recommended establishment in that sphere of an integrated system of administration and control (a single system of registration and identification of animals, particularly, cattle). That requirement is applied (as part of the program for improvement of the quality of the veterinary control) to countries seeking membership of the EU. It is also important to inspect compliance of the meat and dairy produce produced in the Region with the relevant hygienic standards of the EU. With crop farming, centralized registration of producers can be considered. Such issues as equipment of border check-points in accordance with European standards in respect of control over inter-state movement of agricultural produce also need to be studied. On the EU side, the instrument of financing of such measures could be the special fund.

Fisheries. Russia and the EU have concluded a bilateral agreement on fishing. In conformity with the EU requirements in respect of control over fishing vessels introduction of a satellite system of control over such vessels can be considered, since absence of such a system in the Baltic states is seen by the EU as a factor impeding their integration in the EU. One of the lines of cooperation could consist in inspection of quality of fish products. The EU considers any progress in that area to be particularly important: «More financial aid should be granted to developing countries, especially those with which special agreements have been concluded so that such countries could comply with the basic requirements in respect of food safety». The EU has developed a strategy for establishment of an integrated system of control over the coastal area. EU efforts are mainly focused on introduction of fishing quotas, reduction of the navy and ensuring of an access to resources of the economic zones of third countries. In the EU, a special instrument for financing of fisheries has been established.

Transport. In the sphere of road transport, establishment of a system of control over dangerous cargo carriage can be considered. It is also important to

consider the prospect of introduction of EU limitations in respect of the maximum weight of freight transport. As regards shipping services, the Kaliningrad Region can introduce regulations corresponding to the EU regulations in respect of control and identification of vessels. Generally speaking, the seaport infrastructure is an important and interesting issue. The policy of the EU in that area is aimed at transformation of seaports from state-run entities (which are financed out of the state budget) into commercial ones. Apart from the EIB, issues related to financing of transport are handled by the European Fund of the Regional Development and the Unification Fund. In countries seeking membership in the EU, such financing is provided by special funds. However, at present Russia has no entitlement to such financing.

Telecommunications. In the sphere of telecommunications the only aspect in respect of which EU regulations are applied is competition. Such regulations primarily concern licensing of both land-based and mobile communication operators (It is desirable that there are at least three GSM standard operators). Mobile communications are among major borrowers of the EIB in third countries (Brazil, Mozambique). Considering Europe's gradual switchover from analogue to digital TV, such a switchover could also be carried out in the Kaliningrad Region's regional telecasting. The European Commission lobbies adoption of the DVB-T (terrestrial) standard whenever a specific country decides to choose a system of telecasting for itself.

Environmental protection. In the sphere of environmental protection, application of the EU standards in respect of protection of water resources can be considered. That concerns agriculture (requirements in respect of content of nitrates in waste water) and the urban system of potable water supply. As regards protection of the water area of the Baltic Sea Russia has already become a member of the HELCOM Commission (which has been established within the framework of the Helsinki Convention). Issues related to handling of problems of industrial waste, air pollution, traffic noise and the like can also be considered. In the Kaliningrad Region, particular attention should be paid to pulp-and-paper plants. The issue of establishment of control over the environmental pollution caused by the transport is also of great importance. The EU has adopted special standards in respect of both heavy lorries and passenger cars. In addition to that, limitations on the content of sulfur in diesel and aviation fuel have been imposed. It is to be noted that activity in that area can be most extensive in the Region. The EU has also adopted the LIFE program (whose budget for the 2000-2004 period amounts to 640 mil. Euro). That program provides for allocation of grants to countries which are not members of the EU, but have access either to the

Mediterranean Sea or the Baltic Sea. Decision-making on allocation of funds to those countries for the purpose of environmental protection is done exclusively by the European Commission (it is to be noted that in addition to the LIFE program the EU has adopted another program). An International Environment Protection Center has already been established in Kaliningrad for the purpose of ensuring harmonization between continued economic development of the Region and international ecological standards. Environmental protection effort in Kaliningrad is supported by the European Union, the city of Alborg (Denmark) and the city of Bremerhaven (Germany). It is to be noted that at present that line of cooperation has been the most successful one.

Cooperation programs in the sphere of fishing, environmental protection and agriculture are difficult in preparation, but potentially efficient.

6.6. Public Consensus (Non-Governmental Organizations in the Region)

Significant changes in cooperation between all branches of authority and non-governmental organizations in the Kaliningrad Region have taken place of late (with openness and transparency becoming the fundamental principles of their activity). Those principles ensure public consensus in the Region and the beginning of formation of the modern civil society. However, it is to be noted that such a switch-over to openness and transparency is a complicated process accompanied by information wars and clashes of interests.

A vivid example of constructive cooperation between the Administration of the Region, the Region's Duma (Legislature) and non-governmental organizations is establishment of the Public Chamber of the Kaliningrad Region which includes representatives of political, public and non-governmental organizations of the Region registered with the Department of Justice of the Administration of the Kaliningrad Region. At present, the Public Chamber has 13 divisions, namely, the economy division, the political division, the cultural division, the social division, the ethnic division, the business division, and other.

6.7. Strategic Planning and Indicative Plans

In modern world, it is impossible to ensure development of a region in respect of domestic and international division of labor without organization of comprehensive long-term and current planning at the local, regional, national and international level. At present, it is crucially important for the Kaliningrad Region to set priorities in the Region's development (such priorities as are to

beset after identification of goals of the social and economic development policy taking into account, among other aspects, the potential effect of EU expansion).

A market economy normally ensures stability of social and economic development, but harmonization of social, economic and ecological development, depends to a great extent on the correct selection of priorities. For that purpose, such strategic and space planning is required as would constitute the basis for rational development and creation in the Region of such production and other facilities as would best suit various goals and requirements of various populated localities, social strata and economic entities.

The procedure for comprehensive planning of development in the Kaliningrad Region (pls. refer to *Figure 5*) is based on cooperation of economic entities, with account taken of interests of various interest groups, public movements, local self-government organs and state institutions of the Kaliningrad Region, mainland Russia and adjacent territories of neighboring states. Such a procedure will permit narrowing of gaps in the rates of development, remove barriers impeding transnational cooperation and development and ensure effective integration of the Kaliningrad Region of the Russian Federation in the common economic space of Baltic countries.

In planning of development in the Kaliningrad Region, the international aspect needs to be taken into account not only because of the geographic situation of the Region, but also because of existence of such other factors as globalization of trade, knowledge, information and culture and reduction of the role of borders as barriers in the expanded EU and elsewhere, reduction of the role of the tariff barrier in transportation and the like.

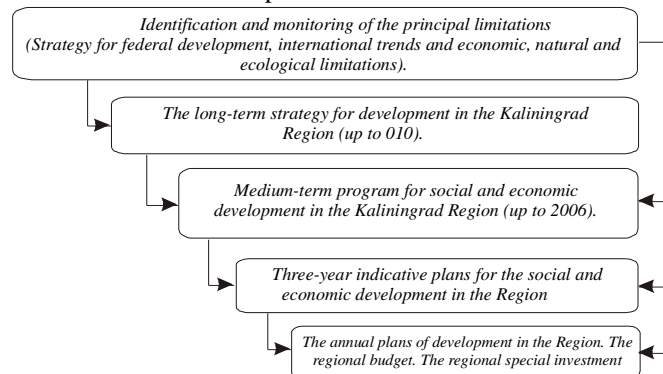


Figure 5. System of Long-term and Current Planning of the Social and Economic Development in the Kaliningrad Region.

6.8. Inter-Regional Cooperation

It is quite obvious that all new lines in development in the Kaliningrad Region in the framework of the 'region of cooperation' model depend to a certain extent on inter-regional ties with other territorial entities of the Russian Federation. The Administration of the Region should give due consideration to establishment and development of such ties at the initial stage of implementation of the strategic plan for development of the Kaliningrad Region. Work is to be carried out within the framework of systematic marketing of the Kaliningrad Region in the sphere of Russian regions, large domestic corporations and small and medium-sized business.

For the purpose of promotion of inter-regional economic integration and creation of such a competitive environment as would influence the level of prices of products essential to the needs of the Region establishment in the Kaliningrad Region of inter-regional businesses using progressive technologies should be encouraged.

7. Local Economic Development Strategies for Kaliningrad Oblast: Lessons from Northern Ontario Initiatives

7.1 Introduction

«When the Baltic States became independent in 1991, the Kaliningrad Region (oblast in Russian), suddenly became an exclave separated from the rest of Russia» (Joenniemi & Prawitz 1998, 1). Since then its socio-economic future has been the topic of many discussions, particularly directed towards the region's role as a Special Economic Zone (SEZ) and the process of military disarmament, conversion and modernization of the existent industries (Krickus 2002). Often Kaliningrad Oblast has been interestingly envisioned as either «the forward military bastion of Russia, as a 'second Cuba' menacing its neighbors, or [...] a free trade area, a 'Baltic Hong Kong' contributing to peace and prosperity» (Joenniemi & Parawitz 1998, 1).

Another interesting element with respect to the economic development of the Kaliningrad region is the similarity of the contextual paradigms to that of Northern Ontario. The two regions exhibit the characteristics of peripherality from both, major markets and central governing agencies. The literature further exemplifies the well-known characteristics of core-periphery relationships including the 'death in the distance', dependency, and exploitation» (Douglas 1989, 28). However, the similarity between the two regions does not end with the comparative obstacles that the regions must face. Comparisons can also be made with respect to the dynamic trends within the labor force, a reduced dependency on both the extraction of natural resources as well as the military establishments in the economies. The fact that Kaliningrad Region shares many of the economic characteristics with the region of Northern Ontario, implies that the latter one can serve as a learning plateau for Kaliningrad's successful economic development.

In light of the above, the purpose of this paper is four fold:

1. To provide an evolutionary perspective on past Canadian programs and initiatives aimed at facilitating economic development in disadvantaged areas; special mention is given to Northern Ontario.
2. To define the concept of Systemic Competitiveness as a viable framework for assessing the current economic development initiatives.

3. To demonstrate that the similarity between the two regions is sufficient for comparison and hence that the economic development strategies and experiences from Northern Ontario are applicable to Kaliningrad Region.
4. To present those strategies and experiences through the framework of systemic competitiveness; special emphasis will be placed on the FedNor experience.
5. To derive recommendations on potential strategies of fostering small medium enterprise (SME) growth in the region

7.2 Outline & Methodology

The first chapter following the methodology will begin by providing the reader with a brief yet detailed synopsis of Canada's past and present government programs and initiatives aimed at fostering economic development in 'disadvantaged areas'. This subsection is particularly important in illustrating the shift from a top-down to a bottom-up development approach in Canada, the latter being grounded in endogenous growth theory and entrepreneurial activity. In light of the above paradigm shift, this section proposes systemic competitiveness as a viable framework for economic development initiatives. This multi dimensional framework is rooted in Michael Porter's (1998) paradigms of *Competitive Advantage and Cluster Analysis* and the *City Business Environment Diamond*. Both paradigms have received recognition in economic development literature as well as management and entrepreneurial studies. The systemic competitiveness framework comprises of four determinants: 1) meta level 2) macro level 3) meso level 4) micro level; all of which will be discussed in the following subsections with specific references to Northern Ontario's initiatives.

***** done up to here

The following section of this paper will be further subdivided into two subsections. The first subsection attempts to demonstrate Northern Ontario's economic performance. Emphasis will be placed on the changing labor trends and the shift from a resource based economy to a more diversified economy reliant on various services and the tourism industry. Furthermore, a discussion of FedNor's initiatives and programs (the federal agency responsible for northern Ontario) will assess their role in fostering competitive endogenous growth (i. e. entrepreneurial activity), as well as capital investments into connectivity. In light of the findings from the first part, the following subsection will assess Kaliningrad's economic performance since the break-up of the Soviet Union.

Issues arising from the disarmament and conversion of the military industry and the implementation of the Special Economic Zone (SEZ) will be discussed. An evaluation of the SEZ will be conducted and will be juxtaposed against the EU expansion into the Baltic States. Furthermore, both the relative and absolute attributes of Kaliningrad's location will be evaluated with respect to their competitive advantage. The last two components mentioned will be added to this research project as Part II and III. The final section of this paper will conclude the paper with a number of recommendations for Kaliningrad oblast. Potential problems and prospects will be identified.

7.3 Canada's Economic Development Strategies: An Evolutionary Perspective

The purpose of this section is threefold. The first part will describe three decades of Canada's attempts to mitigate the persistent regional economic imbalances exemplifying the shift from a top-down to a bottom approach to economic development. The second part is to provide the backdrop to Canadian economic development illustrating the struggles that disadvantaged communities face within an ever changing economic environment. And the third section will stress importance of fostering entrepreneurial activity as a viable objective to economic development. We want to introduce the concept of systemic competitiveness as a viable framework for comparing the existing and potential economic development strategies for both Northern Ontario and Kaliningrad Region.

7.3.1 The Dissonant Symphony of Acronyms & the Top-Down Approach

The department of Regional Economic Expansion (DREE) was established in 1969 by the Canadian Federal government (Lander & Hecht, 1980). Its purpose was to counteract the perceived widening gap among the metropolised, more affluent areas and the disadvantaged 'black holes' (pervasively concentrated in the Atlantic Provinces, northern regions and to a large extent in the rural landscape). Essentially, the objectives set by the program's initiators reflected three basic assumptions and/or tendencies of the policy initiatives of that time including a top-down approach to regional economic development, the application of growth-pole theory and later adoption of comparative theory (Carvalho & Smith 1992, 6). That was the theoretical basis, which directed the policy formulation, and shaped the process for implementation for the regeneration of deprived regions. In total, 23 projects were under the wing of the DREE (Carvalho & Smith 1992, 6). The DREE agenda was predominantly focused towards the pro-

vision of 'adequate infrastructure' believed as being the focal element of a surging economy (ex. PEI's Confederation Bridge) and the deployment of various federal transfer payments (predominantly by means of grants and tax incentives) facilitated by centralized policy initiatives. Both strategies acted as incentives, for the «re-location and expansion of dynamic firms in dominant industries in designated growth centers in less developed regions» (Carvalho, 2001). The perception was that this centralized strategy would «permit regions to maintain their population levels, [by providing jobs], and raise their per capita income levels closer to the national average» (Lazar 1996, 54). This predominant approach to economic development was in part directed towards expansion of branch plants. The strategy implied that firms operating on a large scale would be responsible for driving prices down, increasing demand and output, hence gaining a competitive position in the market share. Simultaneously, branch plants were believed to exhibit rapid rates of innovation and formulation of backward and forwards linkages with the local economy. Optimally, by fostering these economic linkages, the intent was to create local spin-offs and hence replicate the metropolitan model of economic growth. The effects, however, were different. The policy makers often failed to identify 'the propulsive firms in key industries'¹⁶. Paradoxically, they tarnished the central and dependent element of growth-pole economic theory. The result was disastrous as indicated by the considerable literature critiquing the policies of the DREE. To be fair to the federal government this was their first try at regional development in Canada at the department level and most provinces rejected this intrusion of the central government into affairs which they thought were actually theirs. Intergovernmental bickering marked DREE's existence.

Another downfall of DREE policies was the failure to create endogenous jobs and more importantly, create them incrementally. The failure can be attributed to three main reasons: 1) Endogenous jobs were not created because «the [subsidized] plant was often in direct competition with an endogenous plant [which was not subsidized] » resulting in a relative decline in the local labor force (Bradfield 1988, 172). 2) The skills sought by the newly subsidized plants were not available locally, forcing the plant to import a skilled/educated labor force consequently having little impact on the local job market 3) The global shift towards a more versatile economy. The inherited nature of branch plants persuaded them to relocate upon finding a more profitable region.

¹⁶ Partially because they underestimated the assumptions of perfect information, perfect resource mobility and factor price flexibility (as prescribed by neo-classical theory)

Rarely did the branch plants rely on the social capital of the community since they depended upon their interior network for information. Consequently, these firms never did form backward and forward linkages with endogenous business, often widening the disparity gap.

7.3.2 Comparative Advantage theory – Policy in Transition

«With the growth pole concept losing acceptance, comparative advantage formed the basis for the top down approach»¹⁷ (Carvalho & Smith 1992, 5). Essentially, the comparative advantage approach acknowledged the fact that different regions have unique attributes and that «the export sector experiences growth in response to [the unique] regional specialisation to markets outside of the region» (Carvalho & Smith 1992,6). However, «support was [consistently] granted to firms showing no link to the region's comparative advantage» (Carvalho & Smith 1992, 6).

In retrospective past government policies have failed in promoting and rewarding the growth and success of competitive Canadian companies. The wrong incentive mechanisms were used, the wrong programs were implemented; «hundreds of billion of dollars in government spending were wasted and resources were dissipated in a futile effort to ensure an equitable distribution of opportunities across Canada» (Lazar 1996, 120). By the early 90's it was evident that the fundamental factor attributing to failure was not the theory used but rather the hierarchical top-down approach implemented by a centralized governing agency. Essentially it was the detachment of the decision-making body from the endogenous economic reality (of the disadvantaged area), which inhibited the ability to identify firms that not only were key in growing industries but more importantly, firms that were innovative, self-reliant and compatible to the region. Hence the birth and adoption of the new, bottom-up approach, and the conceptual shift towards endogenous economic theory.

7.3.3 Community Based Economic Development

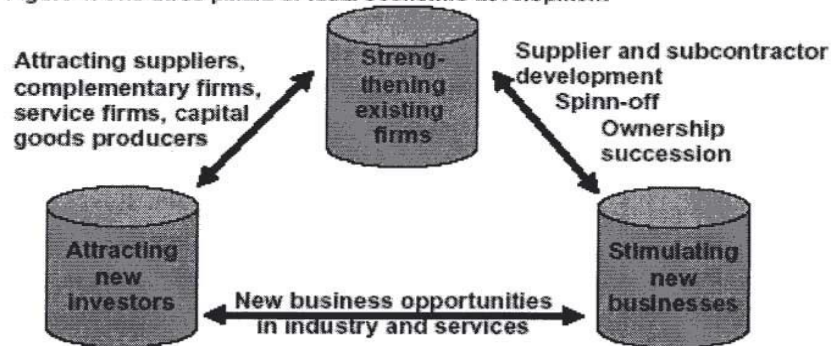
«Community based economic development involves non-directive, decentralized efforts that increasingly depend on private initiatives» (Carvalho & Smith 1992, 6). Hence community economic development is primarily geared towards grass-root development exemplified by endogenous entrepreneurial activity.

¹⁷ Examples of these programs include the Atlantic Canada Opportunities Agency (ACOA), FORDQ directed towards projects in Quebec, FEDNOR towards projects in Northern Ontario and Western Economic Diversification (WD)

However, as we have seen in the previous subsections, economic development policies have been predominantly occupied with attracting large industrial and commercial branch plants from outside the local community. The numerous benefits of this economic development strategy include 'new employment opportunities, an enhanced tax base, and potential spin-offs through linkages that develop with other businesses in the community' « (Bryant 1988, 7).

However, it can be argued that large commercial and/or industrial firms might bring various negative attributes with them when they relocate to a small economically weak community. The inherited threat of becoming dependant on a single sector is augmented by global economic pressures, which often translate in high mobility of outside investments (Malecki 1994, 126). «If some unforeseen change in circumstances eliminates the industry, or cause it to move elsewhere, this can play havoc on a community» (Waterhouse 1978, 67). In light of the above it is important to note that a comprehensive approach to local economic development must focus on business retention, new business formation and business attraction from outside the community. Even more importantly it just evolve in that order. Figure 1 depicts the complementarities between the three aims. The relative importance of these aims differs between places but essentially all three aims should be pursued in any given place.

Figure 1: The three pillars of local economic development



7.3.4 Modern Attempts to Facilitate Endogenous Growth

Today, all level of governments appear to be moving toward a policy framework that encourages and reinforces cultivating entrepreneurial activity at the local level and the private sector's pursuit of competitiveness on a national

and international level. The fundamental element of economic growth and welfare within this approach is that of innovation – a dynamic force of ‘creative destruction’, «embodied in new products, new production processes, new markets, new sources of raw materials and new forms of organization’ (Malecki 1994, 121). «Entrepreneurship and the entrepreneur then are instruments of innovation in the Shumpeterian view – the means by which the economy (and society) is transformed and improved» (Greenfield & Strickon 1979, 5). In fact it is only through this element of innovation that a «resilient regional economy has the ability to respond to fundamental changes and threats to stability from outside...» hence becoming economically sustainable (Malecki 1994, 119).

Today’s economic development policies acknowledge the importance of innovation and more importantly they acknowledge the role of innovation in the information economy transformed by unprecedented rates of technological change. It is widely believed that the facilitated transfer of information fosters innovation, which directly translates into the competitiveness of the entrepreneurial base. Almost all, current government initiatives of local economic development, revolve around information transfer and innovation. Industry Canada presently manages 12 programs with countless initiatives geared towards Small-Medium Enterprise (SME’s) development and connectivity projects for disadvantaged areas.

The Case for FedNor

«Launched in 1987, the Federal Economic Development Initiative in Northern Ontario (FedNor), has experienced steady growth in the development of new programs, new partners and enhanced funding for communities across the north» (Industry Canada, 2000). Together with the Community Futures Program (sponsored by the Strategies Initiative under Industry Canada), FedNor invested \$63 million in 2000. The capital is divided according to 5 major types of initiatives, which include: trade, innovation, investment, connectedness and community partnerships. **Table 1** illustrates the wide range of activities associated with the 5 types of initiatives.

The summary of FedNor’s programs portrays an accurate representation of Canada’s attempt at fostering entrepreneurial activity through grass-root initiatives, in contrast to previous capital spending on infrastructure and luring firms by offering tax incentives.

Trade	Expansion of export and domestic markets Networking through export clubs Export and trade related skills development
-------	--

Innovation	Technological innovation Applied R&D and commercialization of research activities
Investment	Repayable loans, loan guarantees or equity positions for local private businesses Establishment of community based investment funds Financing for business start-ups and/or expansion
Connectivity	Telecommunication infrastructure & networks Information and communication applications technology (e. g. E-commerce)
Community Partnerships	Job creation, economic development and diversification Strategic community economic infrastructure Work experience for Northern youth in the areas of business development Broad-based regional co-operative tourism marketing initiatives

The summary of FedNor's programs portrays an accurate representation of Canada's attempt at fostering entrepreneurial activity through grass-root initiatives, in contrast to previous capital spending on infrastructure and luring firms by offering tax incentives. Interestingly, FedNor's adoption of the current framework reflects Michael Porter's two underlining principles: 1) *Competitive Advantage & Cluster Analysis* and 2) *The City Business Environment Diamond*

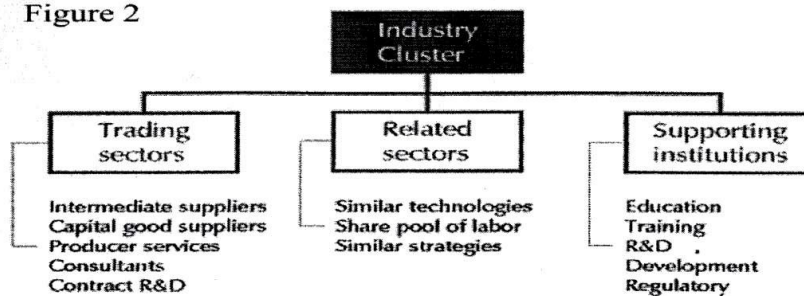
The following subsection elaborates on these two principles and introduces the systemic framework for economic development. This framework is later used in to better illustrate Northern Ontario's strategies for economic development. The framework also will facilitate the identification of potential opportunities for economic development in Kaliningrad oblast.

7.3.5 Systemic Competitiveness

As was mentioned in the previous subsections, there is an increasing awareness of the necessity to formulate and implement economic development strategies at the local and regional level. This is a departure from traditional approaches to industrial, structural, and regional policy. Probably the most important

difference compared to traditional approaches, is that the modern framework is no longer about creating production capacity but about competitive advantage. Competitiveness is the key issue in all these activities. Michael Porter coined the term competitive advantage in his work on firm-level factors (1986) and clusters of firms (1990). It marks a departure from traditional economic thinking, which was focusing on comparative advantage. Essentially, comparative advantage is inherited (availability of basic factors of production, like cheap labor or energy, or natural resources) whereas competitive advantage is created, or rather, initiated through the «polarization of critical masses – in one place – of unusual competitive and innovative success in one or more propulsive industry» (Sternberg 1996, 529). Consequently the competitive advantage of a region can be identified through a cluster model. «Clusters are geographic concentrations of interconnected companies and institutions in a particular field» (Porter 1990, 78). Clusters encompass an array of linked industries and other entities important to competition, productivity, innovation and other complementary elements (Refer to **Figure 2**).

Figure 2



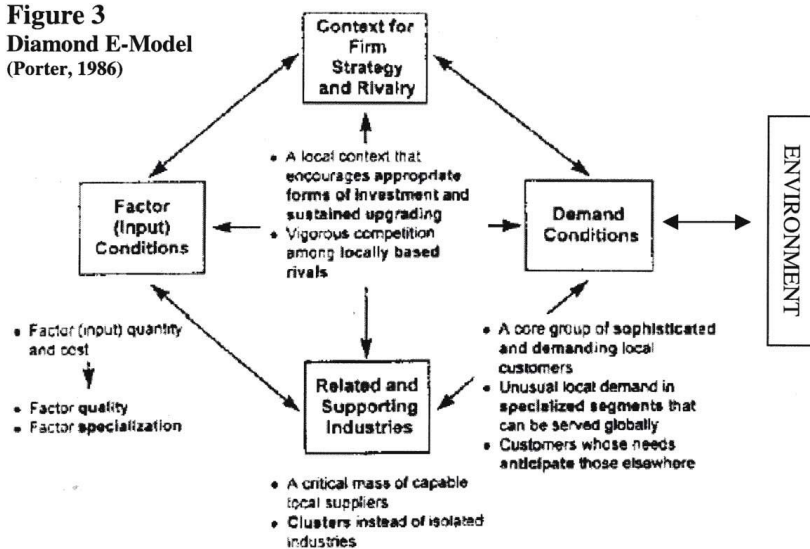
Industry Cluster: Interdependent firms and institutions (Porter, 1990)

This innovative milieu is a result of a «collective dynamic process involving many agents within a region which together form a network of synergy-producing interconnections» (Sternberg, 1996, 530). These interconnections, derived from a common process of cooperative learning, in the form of face-to-face contact, facilitated by spatial proximity, «reduce uncertainties during changes in technological paradigms» (Sternberg 1996, 530). Hence the presence or development of a dynamic technological cluster can be directly translated into a region's competitive advantage. Furthermore, cluster analysis can provide «valuable insights on the possibility of having cooperation and competition at the same time

(‘coopetition’) [...] it has also demonstrated that SMEs have an enormous potential in globalized markets provided they stick together» (Meyer-Stamer 1999, 20). An illustration of Porter’s ‘coopetitions’ — also known as *Porter’s Diamond of Advantage* — is demonstrated in **Figure 3**.

Derived from both the *Industrial Cluster Model* and the *E-Diamond of Advantage*, the concept of systemic competitiveness tries to capture both the political and the economic and societal actors that are deliberately creating the conditions for successful industrial

Figure 3
Diamond E-Model
(Porter, 1986)



3.6 The concept of Systemic Competitiveness

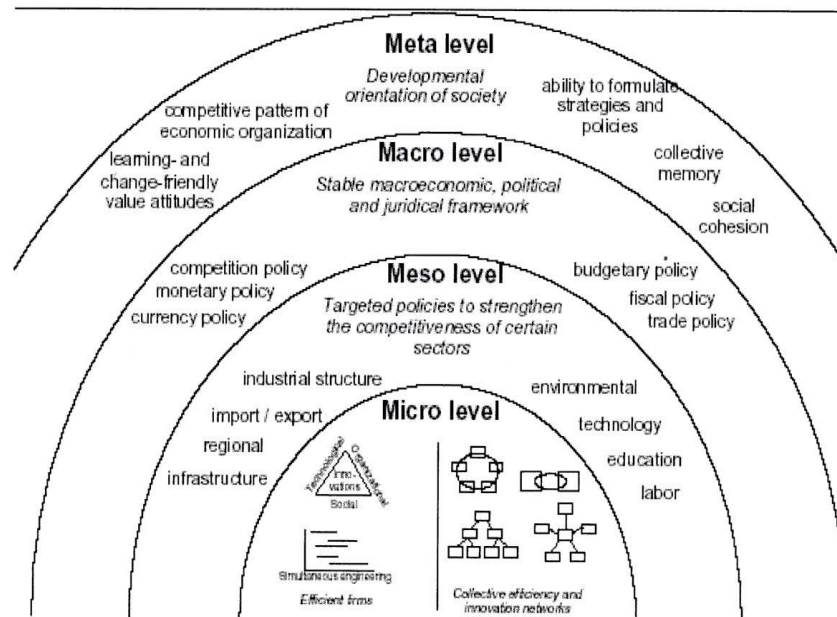
Cluster development. It refers to a pattern where state development as systemic competitiveness. The main objective is the «structural adjustment of programs from a state-led industrialization [...], towards the creation of a stable macroeconomic framework» (Meyer-Stamer 1999, 23). Furthermore, the concept of systemic competitiveness refers to nations, regions and industrial sectors rather than individual companies. «It should be noted that that the notion of competitiveness applied to such aggregates is not synonymous to the concept of competitiveness of companies — [comparatively speaking] — the loss of competitive-

ness of a region does not lead to its elimination as in the case of a firm, but rather deteriorating welfare conditions» (Meyer-Stamer 1999, 24).

Another point that should be noted is the ‘systemic’ characteristic of the framework – that is – a firm does not become competitive on its own but rather through interaction, and more importantly through learning-by-interaction. «Feedback loops between firms and supporting institutions are crucial in order to establish dynamic competitive advantages» (Porter 1990, 81). Finally, the framework is systemic since it can be facilitated through the states role in industrial development and restructuring. Moreover, the interaction between state, the local agencies and individual firms is most beneficial if it takes place in horizontal rather than hierarchical networks.

The concept of systemic competitiveness distinguishes between four levels: The micro-level of the firm and inter-firm networks, the meso-level of specific policies and

Figure 4: The Concept of Systemic Competitiveness, (Meyer-Stamer, 1999)



institutions, the macro-level of generic economic conditions, and the meta-level of slow variables like socio-cultural structures, and the capacity of societal actors to formulate strategies. Hence, it is not meant as a blueprint but rather tries, to give an orientation for both research and advisory work. **Figure 4** provides an illustration of the systemic competitiveness framework.

The Key Determinants of Systemic Competitiveness

The framework of systemic competitiveness as proposed by Meyer-Stamer (1999) is based on four key levels, each comprising of specific ingredients. **Table 2** summarizes Meyer-Stamer's identification of these ingredients (pg. 23):

The Four Levels	<i>Key Ingredients</i>
<i>Meta</i>	<ul style="list-style-type: none"> – Development oriented cultural values – Basic consensus on the necessity of industrial development and competitive integration into world markets – Ability of stakeholders to jointly formulate cohesive visions and strategies and implement policies
Macro	<ul style="list-style-type: none"> – A stable a predictable macro economic framework – Realistic exchange-rate policy – General foreign trade policy that stimulates local industry
Meso	<ul style="list-style-type: none"> – Specific policies and institutions to create competitive advantage (eg. Technology institutes, training centers, non-profit business development corporations, business incubators, etc.) – Industrial competitiveness initiatives to strengthen the firms' environment
Micro	<ul style="list-style-type: none"> – Capable and continuously improving firms – Formal and informal networks – Cluster formation – 'coopetition'

In light of the above, the framework for systemic competitiveness of a region can effectively portray its current political and economic situation as well as it can identify potential prospects and weaknesses. Hence, our justification for the framework as a viable tool to assess and compare the current economic development initiatives in Northern Ontario and Kaliningrad Region. However, before that is done it is important to assess if the similarity between the two regions is

sufficient to allow for the transfer of economic development strategies and experiences from Northern Ontario to Kaliningrad Region.

7.4. Socio-Economic Trends: Northern Ontario vs. Kaliningrad Oblast

The purpose of this section is to demonstrate the socio-economic similarities between the two regions. Although, the regions are drastically different with respect to area coverage, and population density (refer to **Table 3**), most of the population, in both regions is situated in the main 5 urban centres. Furthermore, the economic trends (i. e. labour force and major industry sectors) are also comparable.

	Northern Ontario		Kaliningrad	
Total area coverage	1,000,000 sq. km		15,100 sq. km	
Total population	798,000		947,000	
Population density	1.3 inhabitants/sq. km		61.2 inhabitants/sq. km	
Major Urban Centres	Thunder Bay	117,662	Kaliningrad	424,300
	Sudbury	95,059	Sovietski	43,200
	Sault Ste. Marie	83,054	Cherniakhvsk	42,900
	North Bay	57,332	Baltiysk	31,100
	Timmins	49,499	Gusev	27,800
	Urban Pop. Of Top 5	402,606	Urban Pop. Of Top 5	569,300
	% of Total Pop.	50.4 %	% of Total Pop.	60.2 %

Sources: Stats Canada (www.statscan.ca), Kaliningrad Regional Administration (http://www.gov.kaliningrad.ru/en_region.php3)

Both regions have faced (in the case of Northern Ontario) and still face today (in the case of Kaliningrad oblast), numerous obstacles to economic development, partly because of their isolation from major market centres and partly due to their respective distances from their central authoritative bodies. However, Northern Ontario's economic development initiatives (especially with respect to fostering entrepreneurial activity), have dramatically improved the persistent high unemployment rates, and hence, the social cohesion of the region. In light of the above, this section of the paper will illustrate these initiatives through the framework of systemic competitiveness as outlined in the previous sub-sections. It is the intent of the authors to assess Northern Ontario's road to recovery (after the dramatic decline of economic activity of the 1980's) and see if it is useful as a

potential comprehensive map of development initiatives for Kaliningrad. Prospects and limitations of this approach will be discussed in the last sub-section of this chapter.

7.4.1. The Changing Industrial and Labour Structure of Northern Ontario

Dadgostar, Janokowski and Moazami (1992) and Jankowski and Moazzami (1996) describe a significant shift in the industrial structure of Northern Ontario's labour force and its industrial mix. Both studies concluded that there were major job losses within the resource based and manufacturing industries between 1981 and 1991. In 1998 a study published by FedNor, *The State of Small Business and Entrepreneurship in Northern Ontario*, further concluded that the decline in both industry sectors continued until 1995. **Figure 5** illustrates, the sectored distribution of North-western Ontario's labour force and the change of employment from the years 1989—1993.

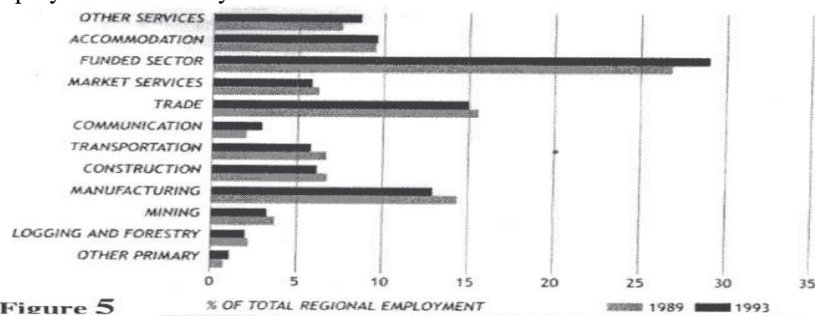


Figure 5 Employment Distribution by Industry, Northwestern Ontario, 1989 and 1993

An important observation is the high percentage of employment in the 'funded' sector (which includes government services, educational services and the health and social services sector), of the total regional employment. This is a reflection of past federal government strategies to increase employment. The changes in employment by industry are more clearly illustrated in **Figure 6**. The significant negative change of employment is in the transportation, construction, manufacturing, mining, and lodging & forestry sectors during the years 1989-1993. It is important to note that **Figure 6** only illustrates the changes in North-western Ontario.

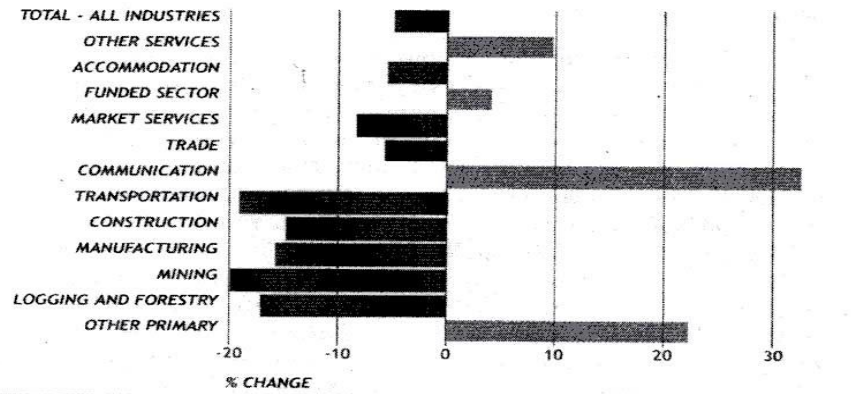


Figure 6 Changes in Employment by Industry, Northwestern Ontario, 1989-1993

Source: SABAL 1996 - Revenue Canada Business Administrative Data.

However, the major trends of decline in the manufacturing and resource-based sectors illustrated by the graph are representative of the entire region. The two major factors, often cited as contributing to the decline of employment in the resource-based and manufacturing sector in Northern Ontario, are the globalizations of the market forces and what is known as the *productivity paradox*. The former exhibiting increased mobility of branch plants in search of cheaper labour force in less developed countries, and the latter one propelled by technological innovation which although increases productivity output, decreases the dependency of human labour, thus requiring less employees. Both factors are especially pervasive in a small resource-based exporting region. For it to be successful, economic management is «contingent upon locational advantages or the region's resources, productivity growth, production costs, export demand, resource selling price and new resource discoveries» (Dadgostar et al. 1992, 7). Unquestionably, «declines in the resource based sectors had unfavourable effects on the income-generating capacity of the regional economy, since these sectors were integral parts of the base economy» (FedNor 1998, 9).

Furthermore, the decline of employment in these sectors can be compared to Kaliningrad's economic performance. In a study conducted by Fyodorov in Joeniemmi and Prawitz (1998), the author assess the industrial and agricultural productivity of the Kaliningrad oblast since the disintegration of the Soviet Union in 1991. «Distant sources of raw materials and semi-products as well as broken ties with suppliers made it difficult for industrial development» (Fyodorov 1998,

35). An example of these broken ties is the «considerable fall that occurred in the production of cellulose, which was based on the usage of timber, delivered from Russia's Northern regions» (Fyodorov 1998, 35).



As **Figure 7** indicates, for the period of 1990-1995, production in both industrial and agricultural sectors sharply declined and the rates of recession became higher as compared with the rates in the RF as a whole. «According to official statistics, industrial production fell by 61 % and agricultural production by 50 % compared to 51 % and 29 % respectively in Russia as a whole (Fyodorov 1998, 35). «At present the structures of industry do not comply with the new economic conditions of the region's geopolitical situation.» (Fyodorov 1998, 35).

Change in employment distribution, a good indicator of the economic stability of a region further indicates a decline in the resource-based and manufacturing sectors. More interestingly, by using this indicator, the similarity in the economic performance between the Northern Ontario region and the Kaliningrad oblast is even more apparent. As illustrated in **Figure 8**, when comparing North-western Ontario's mining, manufacturing, construction and forestry sectors to Kaliningrad's fuel & power supply, machinery & light industry, building materials, and the forestry and timber production sectors the trends are pervasively similar.

FIGURE 8: % Change in Employment: Northern Ontario vs. Kaliningrad (1989-1993/5)

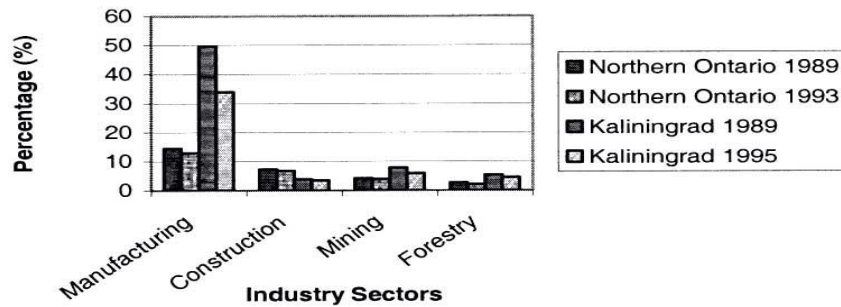


Figure 8

However it is important to also mention a cautionary note with respect to the limitations of the comparison. Primarily, the comparison of both regions is not for the exact same year interval. The statistics gathered for Kaliningrad are based on the interval between 1989-1995 while the year interval for Northern Ontario is from 1989-1993. Secondly, and more importantly, the industry sectors are not classified according to the same description (ex – the equivalent of Kaliningrad’s machinery and light industry classification for Northern Canada is simply manufacturing). Nevertheless, both regions experienced very similar trends with respect to the change in the labour force and the role of the resource-based and manufacturing sectors in their economies.

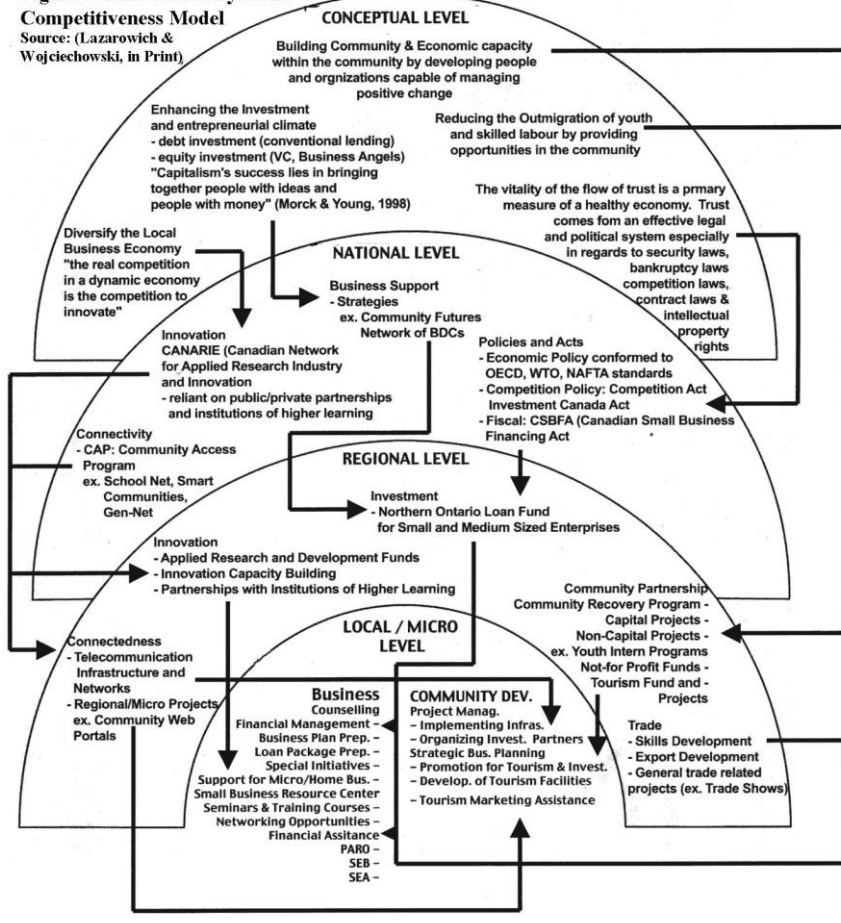
The following sub-sections will portray Northern Ontario’s ‘road to recovery’ by applying the model of systemic competitiveness. This section is particularly important because it demonstrates, Northern Ontario’s success at diversifying the local economy by fostering the growth of small and medium sized enterprises.

7.4.2 The Road to Recovery: FedNor’s Paradigm Shift

As mentioned earlier in this paper, the economic development initiatives directed at ‘disadvantaged regions’ have undergone a drastic shift from a centralized delivery program towards a more localized strategy. The current framework is rooted in economic theories of endogenous growth, competitiveness and innovation. FedNor’s programs and initiatives reflect this attitude. **Figure 9**, illustrates FedNor’s operational structure through the systemic competitiveness model. As mentioned earlier the model illustrates FedNor’s delivery of economic

development programs by breaking them down into four major levels of applicability including Meta, National, Regional and Local/Micro.

Figure 9: FED NOR's Systemic Competitiveness Model
 Source: (Lazarowich & Wojciechowski, in Print)



It is important to note that the individual components in the model of systemic competitiveness interact among the four levels. Perhaps one of the most important characteristics of FedNor's operational framework is the evident horizontal and vertical integration among the model's components. Furthermore, the model is successful at illustrating the consistency of the program beginning with the conceptual mission statement and theoretical direction and ending with the

delivery of services aimed at fostering dynamic local economic and community activity. The consistency is illustrated in the diagram through the arrows; at the same time the illustration of the consistency among the various initiatives also suggests FedNor's third important characteristic — transparency – an important element for gaining wide-spread acceptance by the businesses and communities of Northern Ontario. **Figure 10**, portrays the perceptions of northern Ontario's businesses with respect to government programs that were most favourable to economic success.

PROGRAM	NUMBER
Small Business Loans Act	12
Futures	28
New Ventures	7
Self-employment Assistance Program/Wage Subsidy	13
FedNor	31
Youth Training	9

Figure 10 Government Assistance Programs Identified

FedNor was cited 31 times or 1/3 of all respondents considered FedNor to be a beneficial program. Community Futures, an initiative funded by FedNor and Industry Canada, was cited 28 times. Another important observation is that economic development initiatives cannot be implemented successfully unless they are accompanied by community development strategies. Finally the model clearly illustrates FedNor's programs and initiatives as being directed towards both the economic and social realm of Ontario's northern regions.

Since FedNor's paradigm shift towards entrepreneurial growth, innovation and competition, Northern Ontario's economy has diversified drastically. A good indicator of the increased local economic activity is the growth of small and medium sized business in the region. Figure 11, demonstrates that 87.9 % of businesses in Northern Ontario have less than 20 employees compared to 4.1 % of businesses with more than 100 employees. In addition, the growth rate of small businesses over the four-year span (1991-1995) was of an additional 6.6 %. «Only a diversified business landscape can be translated into sustainable economic development [and even more so] in rural areas which are considerably more susceptible to mobility of multinational corporations» (Cecora, 1999, 76).

Figure 11

NUMBER OF EMPLOYEES	NORTHEASTERN ONTARIO			NORTHWESTERN ONTARIO		
	NUMBER	%	FOUR-YEAR GROWTH RATE %	NUMBER	%	FOUR-YEAR GROWTH RATE %
1-4	10,065	59.1	7.5	4,191	54.6	5.3
5-9	3,105	18.2	-0.5	1,450	18.9	9.0
10-19	1,969	11.6	14.1	1,036	13.5	29.7
SMALL	15,139	88.9	6.6	6,677	87.0	9.6
20-49	1,214	7.1	26.2	663	8.6	19.9
MEDIUM	1,214	7.1	26.2	663	8.6	19.9
50-199	565	3.3	11.0	264	3.4	14.3
200+	117	0.7	5.4	69	0.9	4.6
LARGE	682	4.0	10.0	333	4.3	12.1
Total - All Sizes	17,035	100	7.9	7,673	100	10.2

Number and Distribution of Businesses by Size in Northeastern and Northwestern Ontario for 1995 and Four-year Growth Rates 1991-1995

Source: SABAL 1996 - Business Register.

7.5. Potential Lessons for Kaliningrad

The FedNor example, accurately portrays four vital components which result in successful economic development strategies and initiatives including:

1. Horizontal and Vertical Integration
2. Conceptual Consistency
3. Transparency
4. Collaboration among the three levels of government

Although the authors of this paper acknowledges the pervasiveness of many obstacles that Kaliningrad faces in incorporating a similar economic development program (i. e. the lack of political support and adequate funding from the central development agency as is the case in Canada and the Department of Industry) the authors believes that the model extrapolates four guiding principles which can form the base for similar Kaliningrad-directed programs.

7.5.1 Recommendations for Kaliningrad: Fulfilling the Supply-Demand Relationship

This section will build upon the economic development experiences in Northern Ontario particularly emphasizing the provision of resources (both in terms of financial assistance and business development services) for the purpose of facilitating growth of Small and Medium Sized Enterprises – the supply side of the relationship. This section can only be completed if a preceding analysis of the current SME landscape in Kaliningrad is provided – the demand side of the relationship.

The SME Landscape in Kaliningrad

The dynamism of the growth of the service activities in Kaliningrad relies mainly on small and medium enterprises (SME). The following data describes the current economic activity generated by SME in the Kaliningrad Oblast (Fedorov & Samson 1998):

- Today about 60 000 to 90 000 people are engaged in the small business sector in the region;
- The number of small enterprises registered has gone up to 6 400 among the 23 188 registered enterprises 1 January, 1998;
- Around 34 000 registered small firms are working in cash;
- Among the 40 000 SME of the region, 80 % are individual private businesses;
- the overall contribution of small enterprises to GDP (Gross Domestic Product) of the region exceeds 20 %;
- 96 % of SME in the region are private, while 4 % are joint state and private ones. The majority of small enterprises are public catering and commercial ones (59 %), industrial (13,8 %) and construction (12 %). According to the data provided by the Regional Statistics Agency, «12 % of all the people employed work in small enterprises which produce 19 % of the total volume of production, carry out 27 % of construction work and provide 17 % of wholesale turnover and 77 % of retail sale turnover» (Fedorov & Samson 1998, 14).

The presence of SME in Kaliningrad is above Russian average; this reflects both the entrepreneurship spirit of the population and the opportunities provided by the exclave situation close to other Baltic Countries. Added to the fact that SME are the main carriers of growth and employment in a local economy, it makes *the SME sector a strategic sector for economic development*

and a top priority for policy makers. In light of the above the recommendations are:

- Create a regional development agency that would, similarly to FedNor, administer projects for local community and economic development, as well as conduct studies on strategies for best/sustainable economic development strategies directed towards the fostering of SME growth
- Establish a network of Business Development Offices (non-profit organizations) that would administer locally the loans/grants to local entrepreneurs. The local administration of grants would increase the flow of trust and accountability thus reducing the risk of investment (on behalf of the lender) and risk of late repayment (on behalf of the entrepreneur) and at the same time it would guarantee the provision of financial assistance to local entrepreneurs
- The Business Development Offices should also provide counselling services for business development, business plan writing, financial management, trade related initiatives and legal aspects of owning a private business. All of the above logistical components, have been noted in the literature as being major obstacles to the entrepreneurial climate because of the information gap that prevails on these subjects.
- Furthermore, the provision of the above business development services should specialize in certain industry sectors which are most likely to be penetrated by SME including: tourism, light manufacturing, construction and food catering.
- The Business Development Offices together with the regional development agency should enact a network for local entrepreneurs with various workshops, training courses, trade shows and exhibitions. The networking component is vital for SME growth, and is often more effective if it is through informal networks rather than institutionalized formal network structures. Most importantly, informal networks have the potential to increase trust (during economic transactions), decrease red tape, increase local accountability and strengthen community ties – all vital elements of a sustainable economic development strategy.

7.6 Final Remarks

The purpose of this paper was to illustrate FedNor's economic development initiatives through the model of systemic competitiveness, entailing the essence of industrial cluster development, networking and interaction among three levels of government. The preceding comparative analysis of both Northern Ontario's economic performance and that of Kaliningrad complimented the model. The comparative study was essential to demonstrate that both regions have undergone similar changes with respect to the economic performance of their primary and manufacturing economic sectors and hence identifying the vital role that SME can have in the road to economic recovery and stability. In fact, it is only through the development of the small business sector that both regions can hope to achieve sustainable community and economic development.

Appendix

PPROVED
by the Goernment of the Russian
Federation in its Resolution
dated December 7, 2001

FEDERAL SPECIAL PURPOSE PROGRAM

DEVELOPMENT OF KALININGRAD OBLAST

FOR THE PERIOD UP TO 2010

Passport¹

Federal Special Purpose Program

Development of Kaliningrad Oblast for the Period prior to 2010

Program Designation	- Federal Special Purpose Program <i>Development of Kaliningrad Oblast in the Period of up to 2010</i>
Legal Grounds for Program Development	- Minutes of Decision # 11 made by the Government of the Russian Federation at its session on 22 March, 2001
Contracting Party, on the part of the RF Government	- Ministry of Economic Development and Trade, Russian Federation
Entities / Organizations Contracted to Design the Program	- Administration of Kaliningrad Oblast, Institute of Economy in Transition
Primary Goal of the Program	- To ensure that favorable conditions are set for a sustainable development of Kaliningrad Oblast in the social and economic areas, along the lines commensurable with those of neighboring states and also to create an investor-friendly environment in the region, thus bringing Russia and the European Union closer together.
Major Tasks to be Accomplished under the Program	- a) to secure Russia's geo-strategic interests in the Baltic Region by: further developing the city of Kaliningrad as a large transportation and communications hub in Russia; seeing to it that power is uninterruptedly supplied to the Oblast; improving the environment and ensuring proper protection thereof, in keeping with Russia's commitments under international agreements; b) federal tasks: to transform the Region's economic structure into a predominantly export oriented economy; to improve performance of the Special Economic Zone in Kaliningrad Oblast; to improve and further develop the telecommunications infrastructure; to develop tourism and recreational business; c) Regional tasks requiring government support include: to further integrated development of the agricultural sector;

¹ Literal from Russian; *Program Description* or even *Terms of Reference* might be a better way to render it in English (trans.'s note)

- to develop the fishing and seafood-processing sector industry;
to upgrade the social sphere
- Time Frameworks - The Program shall be implemented in the time span between 2002 and 2010 in 2 phases:
Phase I, 2002 through 2005, includes activities and measures aimed at addressing the most critical issues of economic and social nature, improving the performance and increasing the efficiency of the Special Economic Zone in Kaliningrad Oblast, including certain projects designed to set the ground for the implementation of the region development strategy.
Phase II, 2006 through 2010, provides for further implementation of investment projects and social sphere related activities, with a view to consolidating the progress and positive changes in the economic and social spheres achieved during Phase I of the Program.
- Entities to be Contracted to Implement the Program - Enterprises and organizations of Kaliningrad Oblast. Contracts shall be awarded through a bidding process, in conformity with the Federal Law *On Tenders to Award Contracts for Delivery of Goods, Performance of Works, Provision of Services for Government Needs*
- Volumes and Source of Finance - The total volume of funding for the Program is RUR 93,049.74 M 2001 prices.

Sources of Finance (M, RUR):

Indicators/Years	Grand total in 2002 through 2010	Of which:					% of Total Funds
		2002	2003	2004	2005	2006-2010	
Funding under the Program, Total	93,049.74	9,126.34	11,916.16	12,955.2	12,917.05	46,143.99	100
Federal funds *	7,827.85	802	872.35	849.1	912.80	4,391.60	8.41
Kaliningrad Oblast's funds **	2,868.19	257.86	324.56	386.25	497.17	1,402.35	3.08
Organizations' and Businesses' Own Funds	20,658.4	1,868.8	2,276.8	2,551	2,570.4	11,391.4	22.2
Loans Advanced by Commercial Banks	6,732.8	657.2	1 394	719.5	677.3	3 284.8	7.24
Foreign Loans	13,168,5	1,423	1,295.6	1,797.4	1,806.4	6,846.1	14.15
Other sources of Finance	41,794	4,117.48	5,752.85	6,651.95	6,452.98	18,818.74	44.92

* Subject to update and adjustment on a yearly basis, every time the laws on the Federal Budget and the Federal Targeted Investment Programs are drafted, contingent on federal resources available.

** Subject to update and adjustment on a yearly basis, every time the Budget of Kaliningrad Oblast is designed, contingent on regional resources available.

- | | |
|--|---|
| Program Implementation Supervision and Monitoring System | - The State Contractor and the Administration of Kaliningrad Oblast shall see to it that all Program related activities and projects are carried out in a timely and complete manner. Day-to-day financial supervision over how federal and regional funds are used under the Program shall be exercised by the authorized bodies of government. The State Committee for Statistics of the Russian Federation shall keep records, on a regular basis, of how the Program is being carried out. |
| Results Expected from the Program | - An investor- and entrepreneur-friendly climate to be created in Kaliningrad Oblast, with a view to attracting investments, stimulating export-oriented and import-substituting industries, increasing competitiveness of domestic manufacturers; The living standards in Kaliningrad Oblast, to be brought in line with those in neighboring states; The per capita gross regional product, to grow by 2.4 times, compared to the 2001 figure; Revenues accruing to all levels of government, to grow by more than 2.7 times, or by over RUR 19 bn, including those accruing to the federal budget to go up by over 3.8 times, or by over RUR 12 bn; The amount of per capita budget share, to nearly double and reach almost RUR 7,000; All the existing 17,155 jobs, to be preserved and 15,012 new jobs created. |

1. Kaliningrad Oblast: Social and Economic Situation and Development Strategy

Kaliningrad Oblast: Social and Economic Situation

Kaliningrad Oblast is the westernmost region in the Russian Federation. Its territory is 15,100 sq. km, the population is 948,700 people, of whom nearly 80% live in towns/urban areas.

The Oblast is completely separated from the rest of Russia's territory by land boundaries with foreign states – Poland and Lithuania – and international

waters. Geographic location of Kaliningrad Oblast and its economic situation feature the following advantages:

- close vicinity to the markets in Western and Eastern Europe;
- close vicinity to trans-European transportation routes and other European communications networks;
- tourism-friendly nature and climate;
- availability of never freezing port facilities/compounds.

The region is abundant in most substantial natural resources, including the only deposit in the world of commercially extractable amber with over 90% of world reserves of amber; also, there are prospected reserves of high-quality low sulphur oil, brown coal, peat, rock-salt, construction materials, and mineral waters with the mineral contents of up to 50 g per liter.

Given its unique geopolitical position, Kaliningrad Oblast plays a special role in securing Russia's national interests in the Baltic region and Europe as a whole.

Manufacturing industries make the foundation of the oblast's economy, or 30.5% of its gross regional product (data as of 1998). Next in line is trade with its 16.3 % share in the Region's economy, followed by transportation business – 10.7 %, agriculture – 6.7%, and construction – 5%. In 2000 the average per capita gross regional product was USD 4,400.00, or 75 % of the RF average, 65% of that in the Baltic region, half the amount in Poland, and 5 – 8 times lower than in the rest of Europe.

Table 1

Gross Regional Product			
	1998	1999	2000 (preliminary estimate)
Gross Regional Product, M RUR	8659.3	15,662.7	21,780
Index of Gross Regional Product Physical Volume, as % of preceding year	90.5	106.8	115
Per Capita Gross Regional Product, RUR	9,140	16,500	22,900

Over the last decade industrial output in the region has declined to a larger extent than in the whole of Russia on the average: industrial output in 2000 was less than 40 % of the 1990 level, whereas the RF average figure was 54%. Table 2 reflects the above dynamics.

Table 2

Industrial Output Figures			
	1998	1999	2000
Volumes of industrial output (large and medium-sized companies), M RUR	4,031	8,801.2	12,965.6
Physical volume of industrial output index (all companies), as % of preceding year	91	104	132,4

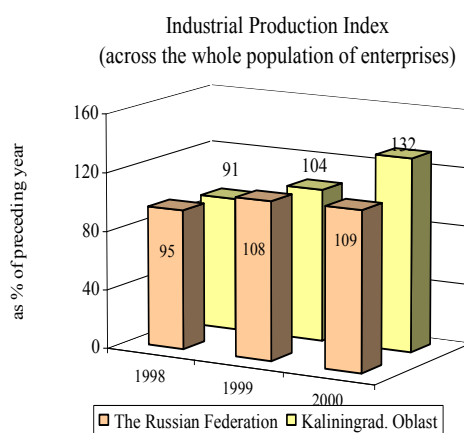


Chart 1

The reasons why industrial output in Kaliningrad Oblast took a deeper dive than the Russia's average are as follows:

- the region's industries are highly dependent on raw materials, fuel, power and components supplied from outside;
- specific cross-industry structure of the region's economy: experienced the deepest plunge in the early 90's (that is mechanical engineering with a strong tilt towards military production, wood-working and paper-pulp industry and fishery) accounted for over 70 % of industrial output in the region;
- break-off of traditional economic ties caused by separation of the region from Russia's mainland by borders of newly independent states which pursue a discriminatory tariffs policy with respect to transit shipments between Kaliningrad oblast and the rest of Russia.

The fuel sector prevails in the cross-industry structure of the region's economy with its 28.3 % (Table 3); it is followed by food-processing industry, primarily seafood-processing industry, with its 23.3 %; mechanical engineering and metalwork (19.1%); the share of woodworking and paper-pulp industry is 13 percent, while power engineering accounts for 10.2% of the economy.

Table 3

Cross-Industry Breakdown of Large and Medium-Sized Companies (% to total output)

	1998	1999	2000
Total of industrial output	100	100	100
Including:			
Electric Power Engineering	21.2	10.7	10.2
Fuel Sector	10.3	22.4	28.3
Iron and Steel Industry	0.9	0.4	0.3
Chemical and Petrochemical Engineering	0.4	0.12	0.1
Mechanical Engineering and Metalwork Industries	13.2	17.6	19.1
Wood, Woodworking and Paper-Pulp Industry	9.7	11	13
Production of Construction Materials	1.1	1	1.2
Light Industry	1.4	5.2	1.5
Food-Processing Industry	37.8	28.4	23.3
Grist-, Grain- and Feed-Milling Industry	1.8	1.5	1.6

Fishery has traditionally been one of the leading industries in the region. In 1990-2000 the yield of fish and other sea products dropped nearly threefold, with the share of the sector plummeting from 30 down to a mere 15% of regional industrial output. The number of jobs shrank by half, thus giving rise to social unrest.

The leading industries in the farming sector are dairy-farming and beef / pig breeding, the growing of potatoes and other vegetables, and also aviculture and fur farming.

In 2000 the Oblast produced a RUR 3.8 bn worth of farming produce (Table 4). As of 1999, more than 80 % of all farming output was produced by farming (cooperative) organizations, 19 % fell on farms, with a mere 0.2% produced by individual farmers.

Table 4

Agricultural Production (across the sector, all types of enterprises)

	1998	1999	2000
Total Farming Output, RUR M	1462.3	2648.9	3841.2
Farming Products Physical Volume Indices, in comparable prices, as % of preceding year	98	101	104

Farming Products: Physical Volume Indices

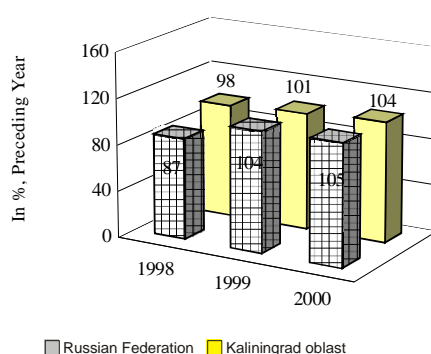


Chart 2

The farming sector has been experiencing a sharp decrease in cattle stock over the last years, against the backdrop of contracting land under cultivation of cereals, forage crop and vegetables. Productivity rate has taken a nose-dive in cattle breeding and farming. See Table 5 for detailed data about major farm products.

Table 5

Most Important Farm Products (produced by all types of farming organizations across the sector) (thous. tons)

	1998	1999	2000
Vegetable Growing			
Bread grain (as weighed after processing)	173.5	152.2	194.6
Rape	3.1	6.5	13.6
Potato	167.1	144.5	221.3
Stock Raising			
Meat – ready to sell (live weight)	50.5	44.4	36.8
Milk	238.5	224.4	219.7
Eggs	230.7	215.3	201.7

Due to financial hardships the farming sector did not make it through the crisis and lost the momentum. This, the fleet of tractors and other farming machinery is now half the size of what it used to be, with the remaining hardware being worn out by over 70 %, production premises must undergo a thorough overhaul, the auxiliary infrastructure has been severely impaired.

Agrochemical support to farmers and land reclamation works have practically stopped. Land reclamation systems are in bad need of repair, as their conditions fall way behind the established standards.

As regards the transportation sector in Kaliningrad oblast, one of the main concerns is under-utilization of its ports. Across most types of cargoes, ports are utilized at less than 30 % of their rated capacity, which is particularly true of the terminals that specialize in transshipment of mineral fertilizers, oil products, refrigerated cargoes, metals and coal.

The ports' capacities are under-utilized due to the following reasons: freight and delivery costs have gone up considerably with the need to transit cargoes through territories of foreign states, the port infrastructure is underdeveloped, the sea canal is too narrow to allow for the needed throughput, and the waters in Kaliningrad ports are not deep enough, which limits their ability to accommodate deep-drawing vessels.

Table 6

Goods and passenger traffic, common carriers				
	1994	1998	1999	2000
Total goods carried, M tons	16.7	8.8	7.9	8.04
Total passengers carried, M people	287.7	233.5	219.4	222

Given the new political and economic environment, foreign trade began to play an increasingly more important role in the region's economy. In 2000, the volume of foreign trade grew 15.5 % against 1999 coming to USD 1,340.3 M (Table 7), with export amounting to USD 452.5 M (1.6 times growth), and import making up USD 887.8 M (1 % growth).

Table 7

Foreign Trade Statistics (in actual prices, USD, M)			
	1998	1999	2000
Total of Exported Goods	327.9	287.7	452.5
Including:			
into CIS countries	11.3	9.7	8.8
into other countries	316.6	278	443.7
Total of Imported Goods	1231.2	872.5	887.8
Including:			
from CIS countries	33.1	23.1	44.8
from other countries	1198.1	849.4	843

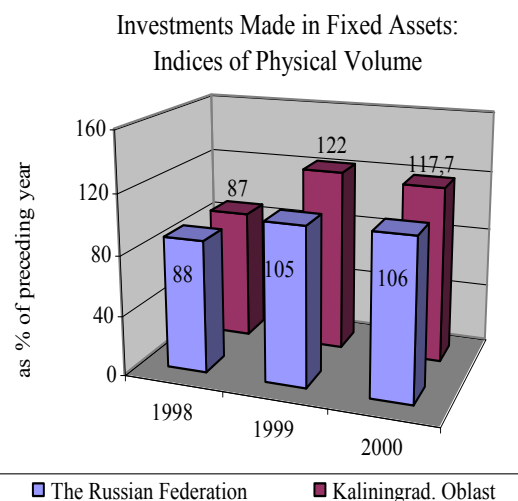


Chart 3

Table 8

Retail Trade Turnover Figures

	1998	1999	2000
Retail trade turnover, RUR M	4973	8903	13970
Index of Physical Volume of Retail Trade Turnover, % of preceding year	96	95	105

Table 9

Prices (Tariffs) Index (Dec. 2000 to Dec. 1999, in %)

	1998	1999	2000
Consumer Price Index – TOTAL	202.5	134.5	117.5
Including:			
Foodstuffs	206.8	133.1	115.3
Other than food stuffs	216.8	127.4	115.0
Manufacturing Industries Price Index	153.4	151.9	127.7
Sold Farm Products Manufacturers Price Index	123.7	209.7	110.9
Cargo Transportation Tariffs Index	147.8	125.2	247.2

The average number of those employed in the economy of Kaliningrad Oblast fell from 435,300 people in 1990 down to 401,100 in 2000 (Table 10).

The total number of those qualifying as the unemployed under the International Labor Organization standards was 75,600 people, while the number of those officially registered with the employment agency was 6,600. The level of statistically controllable unemployment came to 1.4%, or 1.2 times higher than in 1992. At the same time, over the last four years the registered unemployment levels have been decreasing, with the peak of 5.1% reached in 1995.

Table 10

Basic Employment and Unemployment Indicators (thousand people)			
	1998	1999	2000
Total of Economically Active Population, thous. People	480.9	476.6	476.7
Including:			
Employed	399.6	401.1	401.1
Unemployed	81.3	75.5	75.6
Officially registered unemployed	13.4	7.1	6.6
General Unemployment Level, %	16.9	15.8	15.9
Registered Unemployment Level, %	2.8	1.5	1.4

As regards the level of development of small businesses, Kaliningrad Oblast is one the leading regions in Russia, surpassed only by Moscow and St.-Petersburg (see Table 11).

Table 11

Main Small Business Development Indicators in Kaliningrad Oblast and Russian Federation as a whole in 1999

	Kaliningrad Oblast	Russian Federation
Number of registered small businesses per 10,000 people as of 1 January, 2000	103.3	61
Share of active population employed in small businesses, without secondary employment, %	18.7	12.8

As of 1 January, 2000 the population of small businesses (SE's) registered in Kaliningrad Oblast was 9,800, of which 60% were trading companies. This figure is substantially higher than the share of SE's in Russia's economy as a

whole. As few as 17 % of SE's operate in the manufacturing sector, while a mere 13% is engaged in the construction business. All this has to do with the specific environment of the SEZ operating in the region.

Table 12 reflects households' living standards in Kaliningrad Oblast.

The ongoing decline in real incomes in the hands of elderly people remains a serious source of concern. Separation from family members living in the main territory of Russia forces senior citizens to rely fully on the welfare system provided by the state.

Table 12

Households' Incomes			
	1998	1999	2000
Per capita monthly cash income, RUR	708.6	1063	1670.4
Real cash incomes, % of preceding year	89	82	128
Average nominal monthly salary accrued, RUR	834.7	1 241,6	1985,2
Real monthly salary accrued, % of preceding year	86	81	112
Average nominal monthly pensions, RUR	377.5	487.9	416
Real monthly pensions, % of preceding year	55	96	...
Minimum of subsistence, RUR	428.7	783.9	919.3

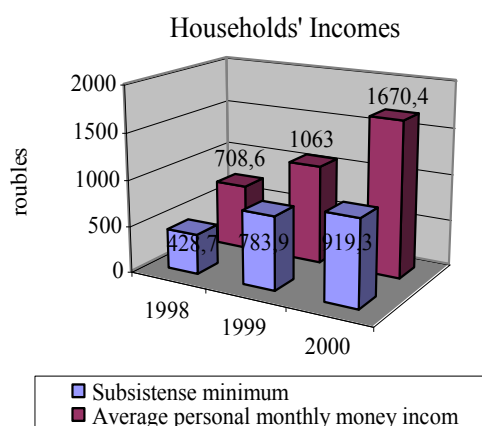


Chart 4

The demographic situation in Kaliningrad oblast has been characterized by a higher death rate and irregular birth rate lately, with the resulting replacement level going up and reaching as many as 6,100 people in 2000 (Table 13). The death rate in working age remains very high.

A high immigration induced increment in population is characteristic of the demographic situation in Kaliningrad Oblast. The ratio of immigration induced population growth was a mere 3.8 people per 1,000 of population in 1999 (the RF average was 1.1), whereas in 2000 the ratio grew 39.5%. The peak of immigration induced population growth fell on 1994 with as many as 20 people per 1,000 of population.

Table 13

Basic Demographic Indicators			
	1998	1999	2000
Resident population (as of year end), thous. people	951.3	948.5	946.7
Born, thous. people	7.6	8.4	7.9
Deceased, thous. people	12.6	15.7	14
Natural population growth, thous. people	-5	-7.3	-6.1
Natural population growth rate, people per 1,000	-5.3	-6.8	-7.3
Immigration induced population growth rate, people per 1,000	13.7	3.8	5.3

Kaliningrad oblast holds the 45th position among the other regions of the Russian Federation with 49.5% of children covered by pre-school institutions, and the 66th position in terms of provision of children with seats in those institutions.

The number of physicians per 10,000 inhabitants dropped from 37.7 doctors in 1992 down to 34 in 1999 (57th place in Russia), the paramedic staff fell from 109.1 down to 101.1 specialist per 10,000 inhabitants, leaving Kaliningrad oblast with the 69th position, the number of hospital bed decreased from 135.9 to 119.9, or the 45th position in Russia.

Disease incidence figures in Kaliningrad Oblast are way in excess of those in Russia on the average and in neighboring countries, Lithuania and Poland, across a wide range of diseases. Incidence of Tuberculosis has been on the rise, with the region's statistics exceeding the RF average and amounting to 91.5 people per 100,000 of population; infantile disease incidence is registered at the level of 69.6 children per 100,000. HIV-infection has reached epidemic proportions in the region. Cancer cases are on the rise, too. Drug addicts are also growing in number. All these factors make it necessary to improve the health care system from the material and logistical point of view.

Per capita share of public expenditures, reckoning in the cost of living, is still lower than the RF average. Also below average figures are the shares of public expenditures spent on education, culture and arts, health care and physical training, mass media, social policy, and also the housing sector. The per capita share of capital investments in the region hardly reaches 26 % of Russia's average.

Table 14

**Regional Consolidated Budget of Kaliningrad Oblast:
Revenues and Expenditures (M, RUR)**

	1998	1999	2000
Own revenues	658.9	936.1	1373
Shared revenues	720.7	1310.9	1910.4
Including:			
Corporate Profits Tax	234.9	626.8	817.6
Personal Income Tax	322.6	421.2	644.2
VAT	140.3	194.0	258.1
Excise taxes	22.9	68.9	190.5
Government-to-government transfers (under fiscal federalism arrangements)	164.8	284.7	532.2
Expenditures	1627.8	2531.6	3859.5

Table 15

**Consolidated Budget of Kaliningrad Oblast: Revenues and
Expenditures (as % of Grand Total)**

	1998	1999	2000
TOTAL Revenues	100	100	100
including:			
Tax revenues, of which:	75.5	78.9	78.6
Corporate Profits Tax	20.1	30.8	27.3
Personal Income Tax	27.7	20.7	21.5
VAT	12	9.5	8.6
Excise taxes	2	3.4	6.4
Other than tax revenues of which:	13.8	8.2	7.5
Proceeds from lease	15.7	25.8	25
Proceeds from sale of assets (property)	2.3	6.5	1.6
Government-to-government transfers (under fiscal federalism arrangements)	10.7	11	13.9
Expenditures	100	100	100
Including:			
Management	10.5	8.6	9.1
Manufacturing industries, fuel and power production, construction sector	1.2	0.9	0.9
farming and fishery	2.7	2.6	3.1
Transport and communications	2.8	2.3	1.8
Housing	25.9	29.9	33.0
Social and Cultural Sphere Including:	47	46.1	45
Health Care and Physical Training (Sports)	14.4	14.5	15.8
Education	23.0	22.3	20.2
Culture	2.1	2	2.5
Social Policy	7.5	7.3	6.5
Servicing of the state debt	0.0	0.0	0.2
Budget-to-budget aid ²	24.9	13.2	16.7
Other expenses	7.5	6.2	3.8

The amount of housing in the region is 17.4 M sq. m, of which nearly 80% of all housing estate and street mains were built prior to 1971.

² Material assistance provided by Kaliningrad Oblast to higher (federal) or lower (local) budgets (trans.'s note)

In terms of sewage water bio-purification systems, towns and communities in Kaliningrad Oblast are ill-equipped, with a mere 5-8 % of their present needs met.

Wear and tear on the fixed assets of public utilities is growing, reliability and robustness of sanitary and civil engineering systems get weaker and weaker at an increasingly fast pace.

Even though a series of nature conserving measures have been taken lately in combination with a reduction in discharges of pollutants, the environmental situation in Kaliningrad Oblast remains alarming. There no adequately developed infrastructure for the recycling and salvaging of solid municipal and industrial waste, including waste-processing mills (wasteplexes); the issue of recovery and disposition of armaments and ammunitions remains unsolved.

Current Measures Aimed at Improving Social and Economic Situation in Kaliningrad Oblast

In 1996 the Federal Law *On The Special Economic Zone in Kaliningrad Oblast* was passed, with a view to bringing conditions for the economic development in Kaliningrad Oblast in line with those in the other regions of the Russian Federation.

As a consequence of the new Law, and introduction, by the State Customs Committee of the Russian Federation and the Administration of Kaliningrad Oblast on 31 December, 1998, of the new procedure for the determination of origin of goods in the Special Economic Zone in Kaliningrad Oblast, foreign trade has become a substantial element of the oblast's economy.

Introduction of the new law made it possible to expand the range of goods produced in the Special Economic Zone (FEZ) in Kaliningrad Oblast, to create additional jobs, to attract foreign investors.

In 1999, the mechanism of FEZ enabled the economy of Kaliningrad oblast to produce and deliver to Russia a \$ 270 M worth of goods, or over 70 % of the total industrial output, in 2000 the figure exceeded \$ 430 M, or 80% of the total industrial output in the region.

Registered in Kaliningrad Oblast are over 1,800 companies with foreign interest, subsidiaries and representation offices of foreign companies. Investors from over 50 countries set up these companies.

Between 1993 and 2000 the volume of foreign investments accumulated in the economy of Kaliningrad Oblast came to \$ 62 M, 65 % of which fell on direct investments. 2000 saw \$ 19.1 M worth of foreign investments come into the economy, or by 104.8 pp more than in 1999.

Analysis of laws and regulations determining the legal status and functioning of the Special Economic Zone in Kaliningrad Oblast shows that not all the advantages provided for by the FEZ regime in Kaliningrad Oblast were fully put to use.

Industrial and agricultural production figures dropped even faster as goods were imported on a customs duty free basis; the industrial sector did not start to pick up until after the 1998 financial crisis at a pace no different from that throughout mainland Russia, though. A certain positive effect was achieved with the imposition of quantitative restrictions on the use of customs free zone.

Both foreign and domestic investors keep a relatively low profile in the region, with foreign investments steadily falling in late 90's.

Even low prices did not make for the recession in the real sector of the regional economy, which was followed in the 90's by a further worsening of a number of indicators, including those capturing households' incomes in cash; certain signs of recovery did not come into view until after the crisis.

The fact that foreign trade went up was attributable to imports rather than exports, hampered by transportation problems with Lithuania and Belarus. Even though it is the only region in Russia with never-freezing ports, Kaliningrad Oblast failed to become the much-spoken-about "window to Europe" for Russia.

Thus, Kaliningrad Oblast is lagging behind the rest of Russia in terms of the per capita gross product by over 1.5 times, as concerns capital investments in fixed assets, the level is half the level in the entire economy, with the living standards falling behind 1.4 times.

Kaliningrad Oblast: Development Strategy

The policy vis-à-vis Kaliningrad Oblast pursued by the Federal Government of the Russian Federation consists in securing its status as an integral part of the Russian Federation, developing its integration with the rest of Russia, making the most of its position as an enclave in the European economic space as a whole, directing the region's economy towards a fuller use of its export capabilities.

As the Program is implemented, it will be possible to ease the pressure that a variety of internal and external factors of social, political and economic nature

put on Kaliningrad region, given its unique characteristic as an exclave/enclave in the Russian Federation.

The Region's economic development strategy hinges on the concept of a successful Special Economic Zone, which provides for an accelerated development of the region in social and economic spheres, raising its living standards by promoting trade and economic cooperation with foreign states, including cooperation in the sphere of science and technology, ensuring investor-friendly climate in Kaliningrad Oblast, using Russian companies' best management expertise, expanding region's export capabilities.

The Federal Law *On the Special Economic Zone in Kaliningrad Oblast* establishes a sound balance between national and regional interests, thus setting the ground for stability at the macroeconomic level.

In order for the legal framework to be improved and the aforesaid law to be enforced, the following tasks should be accomplished:

- long-term guarantees be provided for stability and sustainable development in the Special Economic Zone in Kaliningrad oblast;
- full analysis be made of all existing legislative and normative acts of the Russian Federation and Kaliningrad Oblast, with a view to eliminating inconsistencies as regards the implementation and enforcement of the Federal Law *On the Special Economic Zone in Kaliningrad Oblast*, and necessary amendments be made to the respective laws and regulations.

One of the key preconditions necessary to successful performance of the Special Economic Zone in Kaliningrad Oblast lies through a flexible management system, making it possible for informed decisions to be made on a timely basis. Hence, the task to set up such a body that would fully concentrate on the development of the Special Economic Zone in Kaliningrad Oblast, through the use of a wide spectrum of competencies and decision-making power to do its job in the best possible manner. Its decision-making authority should be determined legislatively.

Another positive change could be brought about if the Russian Federation and the European Union agreed among themselves to view Kaliningrad Oblast as a field for multilateral cooperation; Russia and EU could mutually agree on the following issues:

- using international legal mechanisms, to guarantee legislative stability in the Special Economic Zone in Kaliningrad Oblast;

- to apply EU standards in the Special Economic Zone in Kaliningrad oblast with respect to certain types of activities and certain categories of goods;
- to introduce a special simplified regime allowing citizens of Shengen states to visit Kaliningrad oblast and for citizens of Kaliningrad oblast to visit Shengen countries.

The Program envisions the principle of selective concentration of resources for high priority vectors, from the point of view of compensating for the region's separation from the main territory of the Russian Federation and of turning Kaliningrad oblast into a zone producing for export

1. One of the prerequisites for a better investment climate in Kaliningrad oblast is a modern transportation system that must be put in place, along with a large international multi-purpose transportation and communications hub; also, measures are needed to improve the tariff policy as regards transit movement of goods and passengers.

As the European Union expands, Kaliningrad oblast is faced with a threat of its isolation from main transportation routes. The region will not be able to fully benefit from its unique geographic position, unless an effective transportation and communications system is put in place to link Kaliningrad oblast with the main territory of Russia and the EU.

Once the transportation issue has been properly solved, Kaliningrad oblast will enjoy a steady and uninterrupted communication with the other regions of Russia, enabling Russian manufacturers to access the most important international transportation routes, thus reducing the hard currency component in their transportation costs. In order for this goal to be achieved, it is necessary:

- to agree on the tariffs for transit transportation of goods to and from Kaliningrad oblast given Lithuania's switchover to the EU norms and procedures;
- see to it that the rates for rail transportation of goods from Russia to Kaliningrad and back to Russia are not higher than those used in the main territory of Russia;
- find ways to compensate for additional costs associated with transit of goods and passengers to (from) Kaliningrad oblast via foreign countries; and
- build motorways and integrate them into the European network of transport routes.

2. To ensure an effective and efficient performance of fuel and power sectors in the region's economy.

Kaliningrad oblast relies almost fully on energy and power supplies from outside the region.

Kaliningrad oblasts' energy security is seriously affected by the fact that the region is not directly connected with the Russian fuel and power supply system and the Baltic states intend to synchronize their power plants with the power grid of the European Union as they become eventually full members thereof.

The situation is further aggravated by the fact that no long-term agreements have been reached between Kaliningrad oblast and Lithuania and Belarus concerning the transit of power for consumers in Kaliningrad oblast, which circumstance can lead to complete isolation of the region from the power supply system of the rest of Russia.

To solve the aforesaid problem, it is necessary to build and put into operation *Kaliningrad TETs-2*, or a base steam power plant (the first line including a 450 MWtt power generating unit is scheduled for commissioning in 2005, while the time frame for the commissioning of the second unit is yet to be decided), to upgrade *Kaliningrad TETs-1* and other operating power supply units, to modernize the operating gas pipeline and, if necessary, to build a new gas pipeline in Kaliningrad oblast.

It is also advisable to define the tariff policy vis-à-vis fuel and power delivery to the oblast and the procedure for reimbursement of supplementary costs resulting from the region's being an enclave.

3. Further improvement of communications and telecommunications systems in Kaliningrad oblast.

Thanks to its specific geographic position, Kaliningrad has all the chances become a large communications and telecommunications center that will connect not only Russia and Europe but also a number of Baltic countries. In order for this to happen, sufficiently powerful communications systems with high throughput capacity must be put in place here, thus ensuring provision of high quality services using a full range of the most advanced technological solutions.

The Program envisages a series of top priority measures, including the laying of fiber-optic communications lines, the building of a modern radio and television transmission station, and also development of telephone communications facilities.

4. Promoting further development of tourism and recreational sector shall be one of the most powerful tools to be used in bringing structural changes to the region's economy.

In its policy regarding tourism and recreation in Kaliningrad oblast, the state shall aim at creating and developing a competitive tourist and recreational sector.

This goal can be achieved by:

- Improving the legal framework regulating the tourist and recreational sector;
- Developing interregional and international cooperation in the field;
- Promoting further development and improvement of the infrastructure for tourism;
- Putting in place a modern information support system for the needs of the tourist and recreational sector, including by introducing, on a large scale, new information technologies, by conducting an aggressive advertisement campaign in order to promote Kaliningrad oblast's tourist products both domestically and internationally;
- Further improving the training, retraining and professional development / rehabilitation system in the region to meet the staff requirements in the sector.

When implemented, the above measure will make it possible to switch from a fragmentary approach over to an integrated approach to the issue of tourism and recreational sector development in the region.

A sustainably growing sector of tourism and recreation will stimulate trade, construction business, transport, manufacturing sector, farming, as well as cultural development. All this will help inject new financial resources into the region's economy, provide jobs for most of the population, and also boost up demand for passenger transportation services and goods produced by local manufacturers.

5. Environmental issues.

Realization of all necessary activities related to Russia's commitments under international conventions (the Helsinki Convention on the Protection of the Marine Environment of the Baltic Sea Area and Creation of the Baltic Coast Protection System) and international agreements relevant to the issue of environmental protection.

With a view to improving the ecological situation and meeting international standards in relation to indicators characterizing the state of the environment, it is necessary to build, within the shortest possible time, water purification facilities, water supply and sewage systems in towns around the oblast, industrial and domestic wastes salvaging and recycling centers, to set up in town and villages modern protection systems against floods and inundations, and to reinforce the coast of the Baltic sea.

Creation of a recycling and renovation center for special hardware and man-made wastes will also contribute to the improvement of the ecological situation in Kaliningrad oblast and reduce the likelihood of emergencies.

In order to raise funds necessary for implementation of the above environmental protection measures it will be necessary to include Kaliningrad oblast in the relevant international Programs, particularly those being conducted under the aegis of the European Union, considering the impact made by cross-border transfer of pollutants from Western Europe to Kaliningrad oblast.

6. Social Issues.

Living conditions, state of health, population's educational, professional and cultural levels, the overall demographic situation and the state of the social welfare system – all these factors have a direct bearing on political stability in the region and local consumers' sentiments, and therefore have a direct impact on how Russia's interests are promoted in the region.

Social unrest in Kaliningrad oblast is caused mainly by the region's remoteness and isolation.

Starting from 2002 onward, the issue of providing participants in recovery operations following the disaster at the Chernobyl NPP, and also some other categories of citizens who are subject to the Federal Law On Social Protection of Citizens who were Exposed to Radiation Following the Chernobyl NPP Disaster with housing, will be addressed under "Provision of Housing for Participants in Radiation Accidents and Disasters Recovery Operations" program which is a sub-Program to the Federal Special Purpose Program "Housing".

One of the still unresolved issues is the housing of military service people on active duty and military retirees. The crisis in this area has a negative effect on combat readiness of the Armed Forces of the Russian Federation, and causes qualified personnel to quit the military service.

To gradually provide military service people with housing and to defuse social tension in the region, over 5 thousand flats must be commissioned every year.

7. Science and innovative technologies.

The policy in the area of science and innovative technologies is centered around a system that needs to be put in place to make it possible, within the shortest period of time, to most effectively use the region's intellectual and scientific potential for production purposes.

Further development of science and innovative technologies is aimed at putting to a maximum use the existing personnel and production capabilities and to increase employment figures in the region. Below are the top priority tasks in this field:

- To set necessary conditions for the development of a modern innovative infrastructure to make a full use of research and development activities and their fruits;
- To establish proper mechanisms and incentive for a rapid growth of innovative firms operating on the area of commercialization of new technologies;
- To train managers with an innovative thinking for the sphere of science, technology and high-tech industries;
- To set up a well-balanced and innovation-assimilating economy in Kaliningrad oblast with a view to raising competitiveness of its products and technological level of production facilities, ensuring substitution of imports with domestic products;
- To encourage scientific and technological innovations, to stimulate production of socially important and export-oriented goods;
- To develop a Program for organizational restructuring, rehabilitation and reorientation of existing companies in keeping with the requirements and priority tasks set forth in this Program;
- To increase competitiveness of domestic manufacturers, with a special focus made on the industries with a high share of value added;
- To develop proposals aimed at improving performance of industrial organizations through the use of new technologies and science-intensive productions;
- To upgrade fishing and seafood-processing companies;
- To further develop integration processes in the scientific, academic and educational spheres;
- To expand the range of information related services, to develop new manufacturing technologies.

8. Improvement of investment climate and business environment.

In order to secure her state and federal interests in the region, Russia must use all the positive opportunities for a mutually beneficial cooperation between Russia and the European Union. In order for the Special Economic Zone in Kaliningrad Oblast to perform efficiently against the background of the EU expansion, the following preconditions should be met:

a) the region's investment climate be improved.

The following measures need to be taken:

- Favorable conditions be created for entrepreneurial activities;

- Infrastructure and town-planning related issues be addressed: transportation systems, fuel and power supply systems, social insurance and protection systems;
- Performance of the Special Economic Zone be improved;
- A friendly visa regime be set up for residents of Kaliningrad Oblast and foreigners alike;
- A special insurance policy be underwritten by an internationally acknowledged insurance company ready to underwrite insurance for the risks of investors operating in the Special Economic Zone;
- The above tasks can be solved through international negotiations.

b) Favorable conditions be established for economic active entities to make use of their spirit of free enterprise and operate successfully.

The task of stimulating small businesses requires that measures be taken to set all necessary legal, organizational and economic preconditions and to offer the maximum of stimuli for SME's to grow and intensify their manufacturing, investment and innovation activities.

In order for this goal to be attained, the following measures are being proposed:

- Setting up a monitoring system to keep track of all SME's and their performance;
- Seeing to it that necessary personnel is trained and retrained for small businesses;
- Creating and developing a regional innovation and technology center (*Technopark*);
- Developing, implementing and supporting a series of integration initiatives as part of interregional and international cooperation Programs by means of providing specialized services to SME's through a network of information-processing and analysis centers, think tanks, expert teams, and consulting firms.

To this end, it is necessary to create and field-test a new legislative and normative framework allowing the state to regulate the market in relation to the following issues:

- Lowering barriers to the market entry;
- Introducing a new registration system for juridical persons and setting up a monitoring system for all entrepreneurial activities;

- Removing technical obstacles to manufacturing processes and trade, increasing efficiency and performance of the existing certification system;
- Easing inefficient and excessive administrative regulation of entrepreneurial activities;
- Lowering investors' compliance costs when their investment projects are agreed upon and carried out.
- In order for the above issued to be adequately addressed, well-coordinated efforts are needed on the side of federal and regional bodies of government;
- c) A special focus be made on exploiting export capabilities and insuring import substitution.

To this end, it is necessary to make the region appealing to investors who will be interested in setting up new start-ups and expanding existing businesses, with their products being sold both domestically and internationally. The availability of production facilities and highly qualified labor resources makes it advisable to encourage competitive businesses that are not typical of the region. The following two vectors are seen as the most promising ones in this respect:

- setting up and developing assembly lines for automobiles and motorcycles, personal computers, modern sophisticated home appliances and other hi-tech intensive goods through the use of foreign components, outsourced raw materials and semi-manufactures; and
- setting up enterprises to fine-tune and prepare for consecutive export the goods produced in other regions of the RF.

Such measures will help to structurally reform the region's economic system, strengthen its economic potential, increase its robustness vis-à-vis externalities;

d) The infrastructure for foreign trade be upgraded and developed.

The customs duty free zone regime effective in the territory of the Special Economic Zone in Kaliningrad Oblast has provided stimuli particularly for further development of foreign trade related sectors of the region's economy. In order to ensure its further growth it is imperative to put in place an adequate infrastructure, including modern banking and insurance systems, warehouses facilities, so that the flows of goods that move currently through other countries are drawn in to Kaliningrad oblast, thus bringing in Russian and foreign investors;

e) Town planning programs in Kaliningrad Oblast.

Given the fact that Kaliningrad Oblast is an unevenly populated enclave, with productive forces centered around certain towns (localities and communi-

ties), it is necessary to develop an integrated town-planning concept for the region as a whole and its individual parts, with elements of consolidated designs.

9. Improving performance of the manufacturing sector as the primary building block in the oblast's economic system.

To this end, priority should be given to the following vectors:

- Introduction of modern technologies, upgrade and creation of new, export-oriented and import-substituting, processing capacities;
- further development of the mechanical engineering (machine-building) industry and production of competitive products;
- further development of the pulp and paper and furniture-making industries;
- further development of light industry by upgrading the machinery, introducing modern technologies developed by the world leading firms, expanding and renewing the range of its products offered to the marketplace;
- revival of amber producing industry. As it is underfunded, the state unitary enterprise *Kaliningradski Yantarny Kombinat* is not able to qualitatively upgrade its production facilities and introduce new technologies. Successful restoration of the industry and effective operation of the world's unique natural reserves of amber would guarantee the region a steady flow of revenues in hard currency;
- further development of fishing and seafood processing industry through restoration of the existing fleet of fishing vessels, thus making it possible to better use the rich waters of the Baltic Sea, to preserve access to biological resources in the fishing territories of foreign states, to substantially increase delivery of fish and other seafood products to the Russian and international markets, to utilize the existing capacities of fish-processing enterprises, ship-building and auxiliary companies, to prevent the industry from losing its cadres and scientific potential.

2. Main Goals, Objectives, Dates and Stages of the Program

The main goal of the Program is to create conditions for stable social and economic development of Kaliningrad oblast based on a balanced industrial policy, to raise the population's living standards to a level comparable to that in neighboring states.

Translating this goal into reality requires that the following objectives be achieved:

a) to ensure Russia's geostrategic interests in the Baltic region (42 projects worth 61.9 bn rubles, i.e. 66.6 percent of the total Program budget), including:

- to develop Kaliningrad as Russia's major transportation hub by modernizing its transport infrastructure (14 projects worth RUR 14.7 bn, i.e. 15.8 percent);
- to ensure stable energy supply in the oblast by renovating existing and commissioning new sources of energy (19 projects worth RUR 43.8 bn, i.e. 47.1 percent);
- to improve the environment, to attain statutory environmental indicators (9 projects worth RUR 3.4 bn, i.e. 3.7 percent);
- to establish partnerships with the Baltic states and European Union nations;

b) federal-level objectives (59 projects worth RUR 16.3 bn, i.e. 17.5 percent), including:

- to create conditions for sustainable social and economic development of the region, to increase gross regional product 3.5 times by 2010;
- to transform the region's economic structure in order to develop export potential (32 projects worth RUR 9.2 bn, i.e. 9.8 percent);
- to improve the mechanism of the Free (Special) Economic Zone and to integrate it into the world economic space, to create an effective system of administering the Free (Special) Economic Zone (13 projects worth RUR 0.3 bn, i.e. 0.3 percent);
- to improve the quality of life and to attain a level of household incomes comparable to the that in neighboring states;
- to develop the telecoms infrastructure (4 projects worth RUR 4.4 bn, i.e. 4.8 percent);
- to develop the tourism and recreation sector (10 projects worth RUR 2.4 bn, i.e. 2.6 percent);

c) regional-level objectives requiring state support (48 projects worth RUR 14.8 bn, i.e. 15.9 percent), including:

- to achieve integrated development of agriculture, to supply population with essential foodstuffs by replacing outdated machinery and adopting state-of-the-art technologies in all sectors of agricultural production (4 projects worth RUR 3.3. bn, i.e. 3.5 percent);

- to develop fisheries (3 projects worth RUR 0.4 bn, i.e. 0.5 percent);
- to develop sectors of the social sphere (41 projects worth RUR 11.1 bn, i.e. 11.9 percent).

As the program unfolds conditions will be created in the oblast to improve the investment climate. The most important ones are the development of the transportation and telecoms systems, the tourism and recreation infrastructure, attainment of stable electricity supply, and improvement of the environment.

A high-speed freight and passenger sea line Kaliningrad – Leningrad oblast ports will be instituted, a deep-water port complex in Baltiysk and a container terminal in the Kaliningrad trade sea port will be built to improve the functioning of the oblast's transport complex.

To improve the investment climate Kaliningrad oblast needs to be connected to the European automobile road networks, primarily the Via Baltica transportation corridor along the Baltic sea coast (Berlin – Gdansk – Baltic states – St. Petersburg – Scandinavia), and the telecoms infrastructure should be developed. The set of activities designed to turn Kaliningrad into a major transportation and telecoms hub connecting not only Russia and Europe but also the Baltic nations, includes:

- construction of a fiber-optical line between Kaliningrad and St. Petersburg;
- implementation of an area digital network based on optical fiber links;
- upgrading of the telephone network (introduction of digital technologies, implementation of a new cable link, upgrading of local exchanges);
- construction of a retransmission station (outside Kaliningrad) to increase the number of transmission channels and to provide reliable broadcasting of local programs and retransmission of central Russia broadcasts.

Development of the tourism and recreation sector can become an effective tool in restructuring the oblast's economy and can help:

- boost the demand of domestic and foreign consumers for all types of tourism products and services;
- preserve and rationally use the rich cultural and natural heritage of the oblast.

Energy supply is of tremendous importance for the functioning of the oblast's economy. Construction of a base energy source – a Kaliningrad heat-power plant TEC-2 is planned (the first 450 MWt unit to be commissioned in 2005) to

resolve the problem. It is also necessary to consider construction of a second unit of the TEC-2, and of a second gas pipeline with underground gas storage.

The environment is another factor determining the oblast's investment attraction. To improve the environment and to attain the prescribed status of its components it is necessary:

- to commission waste disposal plants, to modernize the sewage and water supply networks;
- to adopt environmentally safe technologies in industry;
- to build an industrial and household waste recovery site and a waste recycling plant;
- to adopt gas and local fuels at power generating plants and boiler installations.

The priority industries that ensure the oblast's competitiveness and strategic advantages are the amber industry, fisheries and the agro-industrial complex.

At a time when Kaliningrad oblast accounts for some 90 percent of the world market of unprocessed amber and only a few percent of processed amber, it is the main task of the amber industry to restructure its production processes, to coordinate flows of raw material, financial and other inputs.

Modernization of the fleet, as a means of developing the fisheries sector, will help extend the scale of fishing and create a favorable environment for related industries. The main task here is to ensure effective use of financial leasing.

To improve agriculture measures should be taken to maintain land reclamation systems to prevent complete degradation of lands, to develop the instruments of the finance and credit system, to modernize agriculture by replacing outdated machinery and adopting state-of-the-art technologies in all sectors to achieve higher productivity of lands and cattle breeding.

One of the program's main tasks is to improve the population's quality of life which is characterized not so much by income and cost of living as by housing conditions, the environment, the functioning of the public transportation system, personal safety, etc. The program defines specific tasks of bringing income into line with the minimal consumer budget rather than the subsistence minimum.

Projects and activities have been included in the program based on the following criteria:

investment projects:

- significance of a project from the perspective of the Russian Federation and Kaliningrad oblast with regard to its ability to consolidate inter-regional ties and cooperation with the EC countries, export

- potential, development of import-substituting industries, improvement of the industry structure;
- the magnitude of the budget effect for the federal and oblast budgets;
- the commercial effect, the debt repayment period;
- the presence of a project team;
- non-commercial activities:
 - how acute is the problem to be resolved by a given measure;
 - whether the prescribed social indices of the population's living standards can be achieved.

The Program will be implemented in 2002-2010 in two stages: Stage 1 – 2002-2005, Stage 2 – 2006-2010.

The Program will start with activities required to resolve the most pressing economic and social problems:

- implementation of a set of priority investment projects characterized by high commercial and budget effectiveness;
- creation of a foundation for implementing strategic activities to develop cooperation with EU countries (energy, transport, telecoms infrastructures);
- reform of export-oriented amber businesses and fisheries that used to form the oblast's budget;
- formation of the oblast's investment potential to renew its economic growth;
- implementation of new mechanisms to finance investment projects and activities by combining own and investor funds, and support from the federal and oblast budgets.

Investment and social activities that consolidate positive economic and social results achieved during Stage 1 of the Program will continue into 2006-2010. By using the balance of funds available to organizations after the preceding stage of the Program Kaliningrad oblast will acquire an additional instrument for implementing the rest of the projects.

In conjunction with the Program, it will be necessary to formulate new laws and review a number of oblast laws, normative acts and methodology documents now in effect, to organize information and analysis support in order to monitor parameters of the oblast's social and economic development, to ensure management of the Program.

Para 33 of the Procedure for the Development and Implementation of Federal Task Programs and Inter-state Task Programs in which the Russian Federa-

tion is a participant, and which was approved by the Russian Government Resolution No. 594 of 26 June 1995 *On the Implementation of the Federal Law On Supplies of Products for Federal State Needs*, provides for annual review of target indicators and costs of programmed activities, the mechanism of the Program's implementation, and the implementers.

3. Program Activities

It is envisaged that the program will be implemented in a number of interrelated complexes within which similar activities involving various Program participants will be coordinated and funded.

The main criterion is the targeted nature of all investment projects and activities enunciated in the Program. Based on this criterion, investment projects will be grouped in accordance with the main tasks of Kaliningrad oblast's social and economic development.

60 investment projects and 89 non-commercial activities are to be implemented under the Program until 2010.

The Program activities will be subject to state environmental and town-planning assessment in line with effective legislation.

The list of Program projects and activities, their scope and sources of funding is contained in Annexes 1 and 2. Information on other federal and regional programs in Kaliningrad oblast is in Appendix 3.

Implementers of program activities and equipment suppliers will be selected through a tender in accordance with the Federal Law *On Tenders for Orders to Supply Goods, Perform Works and Provide Services for State Needs*.

The program also includes activities designed to improve the mechanisms of instituting a Free (Special) Economic Zone in Kaliningrad oblast, these are contained in Annex 4. Measures to improve the regulatory and legal framework will create conditions for installing a favorable taxation and customs regimes, an attractive investment and business climate, and for resolving infrastructure and environmental problems in Kaliningrad oblast.

The Program provides, among other things, for adoption of a number of regulations and laws at the federal and regional levels, formulation of a new version of the Federal Law *On the Free (Special) Economic Zone in Kaliningrad oblast*, and proposals on amendments and additions in other federal laws.

Improvement of the federal regulatory and legal framework will focus on activities related to the transport, fuel and energy sectors, the investment climate in Kaliningrad oblast, and activities impacting on the financial sphere, institutional environment, market and social infrastructure, and international cooperation. The

legislative process will also be concerned with the formulation of inter-state and intergovernmental agreements with the European Union, Belarus, Lithuania and Poland.

The regulatory and legal framework at the regional level needs to be improved through adoption of normative acts and laws that will regulate the spheres of culture, health care, housing and utilities, the environment and use of natural resources, and resolve a number of issues related to the functioning of the fuel and energy complex, and the tourism and recreation complex in Kaliningrad oblast that affect the investment climate.

Programmed projects and activities to support and develop health care facilities in Kaliningrad oblast are designed primarily to complete, renovate and refit such facilities. These projects include the construction of an oblast cancer clinic, a surgery department of the oblast children's hospital, a treatment center of the oblast TB clinic, a regional perinatal center and so on.

Implementation of projects and activities to support and develop educational facilities will help strengthen the material and technical base of such facilities in the oblast, elevate education of the younger generation to a modern level, train highly qualified specialists, improve the research, methodological and organizational foundation of the teaching process. Special attention is paid to improving the scientific and material/technical base of higher educational establishments.

Urban Development and Town Planning in Kaliningrad Oblast

Pursuant to effective legislation the development strategy in Kaliningrad oblast is defined, in particular, through the development of urban development documentation, i.e. an Integrated Territorial Scheme of Town Planning in Kaliningrad oblast and its sections (a master plan for the oblast), as well as master plans for towns and other settlements.

The latest master plan for the oblast was approved in 1979. Because some territories in Kaliningrad oblast are federal zones subject to special regulation and given the enclave nature of the oblast, it is increasingly necessary to formulate an Integrated Territorial Scheme of Town Planning in Kaliningrad oblast and its sections, containing elements of consolidated schemes. Under the Town-Planning Code of the Russian Federation, regulation of urban development and supervision of the development of schemes and projects for the engineering, transport and social infrastructures are the responsibility of the Federal Government.

To ensure planned development of the oblast under the Program, an Integrated Territorial Scheme of Town Planning in Kaliningrad oblast and its sec-

tions, including urban development documentation for federal territories subject to special regulation, will be prepared. Development of infrastructure in the recreation zones of the federal cities of Svetlogorsk and Zelenogorsk will also be based on the cities' master plans that will be formulated within the framework of the above-mentioned activity.

It is essential to prepare a state urban development cadastre of Kaliningrad oblast required under the Town Planning Code of the Russian Federation and Federal Government Resolution No. 271 of 11 March 1999 *On the Approval of the Regulation on the Introduction of the State Urban Development Cadastre and Monitoring of Urban Development Projects in the Russian Federation*. A constantly updated cadastre will provide various agencies and the public with reliable information on the habitat, proposed changes, including restrictions on the use of territories and properties, and other information required for urban development, investment, land management and other activities, valuation and taxation of properties.

4. Program Resources

Financial resources required for the program amount in total to RUR 93.05 bn. The sources of funding of Program projects and activities are shown in Table 16.

The total costing and cost structure for the Program are contained in Table 17.

Table 16

**Volumes and Costs Itemization under the Program
Costs Breakdown under the Program M RUR, 2001 prices**

	Funds TOTAL	Including:				
		2002	2003	2004	2005	2006-2010
Total Amounts of Funds Earmarked						
Federal Budget	7,827.85	802	872.35	849.1	912.80	4,391.6
Kaliningrad Oblast Budget	2,868.19	257.86	324.56	386.25	497.17	1,402.35
Organizations' and Businesses' Own Funds	20,658.4	1 868.8	2,276.8	2,551	2,570.4	11,391.4
Other Sources	61,695.30	6,197.68	8,442.45	9,168.85	8,936.68	28,949.64
Grand Total under the Program including: Capital Investments	93,049.74	9,126.34	11,916.16	12,955.2	12,917.05,	46,134.99

	Funds TOTAL	Including:				
		2002	2003	2004	2005	2006-2010
Federal Budget	4,208.35	310	526.55	507	518.5	2,346.3
Kaliningrad Oblast Budget	858.45	91.02	129.96	167.55	186.17	283.75
Organizations' and Businesses' Own Funds	19,615.1	1,713.3	2,124.5	2,355.4	2,375.4	11,046.5
Other Sources	51,302	4,863.18	7,125.45	7,661.6	7,223.93	24,427.84
Grand Total	75,983.9	6,977.5	9,906.46	10,691.55	10,304	38,104.39
Other						
Federal Budget	3,583.3	490	331.3	327.9	388.8	2,045.3
Kaliningrad Oblast Budget	2,009.74	166.84	194.6	218.7	311	1,118.6
Organizations' and Businesses' Own Funds	1,043.3	155.5	152.3	195.6	195	344.9
Other Sources	10,393.3	1,334.5	1,317	1,507.25	1,712.75	4,521.8
Grand Total	17,029.64	2,146.84	1,995.20	2,249.45	2,607.55	8,030.6
R&D						
Federal Budget	36.2	2	14.5	14.2	5.5	-
Kaliningrad Oblast Budget	-	-	-	-	-	-
Participants' Own Funds	-	-	-	-	-	-
Other Sources	-	-	-	-	-	-
Grand Total	36,2	2	14,5	14,2	5,5	-

Notes:

1. Federal funds being earmarked are subject to update and adjustment on a yearly basis, every time the Federal Budget is drafted, contingent on federal resources available.
2. Regional funds being earmarked under the Program are subject to update and adjustment on a yearly basis, every time the Budget of Kaliningrad Oblast is designed, contingent on regional resources available.
3. In 2002 RUR 310 M worth of capital investments are allocated under the *Energy-Effective Economy* Federal Special Purpose Program – RUR 300 M, and *Increasing the Yield of Russia's Soil* Federal Special Purpose Program – RUR 10 M.

Table 17.

**Funds Allocated under the Program: Total
Amounts and Cross-Sector Breakdown M RUR, 2001 prices**

	Sums ear- marked SUM	Including:								
		Federal Budget				Alloca- tions Out of the Budget of Kali- nin. Oblast	Enter- prises Own Funds	Loans Ad- vanced by Com- mercial Banks	Loans Ad- vanced by Foreign Lenders	Other Sources of Fi- nance
		TOTAL	Capital Invest- ments	Other Needs	R&D					
Grand Total under the Pro- gram	93,049	7,827.8	4,208.3	3,583.3	36.2	2,868.1	20,658.4	6,732.8	13,168.5	41,794
As % of: SUM TOTAL of all appropriations	100	100	100	100	100	100	100	100	100	100
Total of funds allocated in this particular year 2002	100	8.41	4.52	3.85	0.04	3.08	22.2	7.24	14.15	44.92
as % of: SUM TOTAL of all appropriations	126.3	802	310	490	2	257.8	868.8	657.2	423	117.4
Total of funds allocated in this particular year 2003	9.81	10.25	7.37	13.67	5.52	8.99	9.05	9.76	10.81	9.85
as % of: SUM TOTAL of all appropriations	100	8.79	3.4	5.37	0.02	2.83	20.48	7.2	15.59	45.12
Total of funds allocated in this particular year 2004	1,916.	872.3	526.5	331.3	14.5	324.5	276.8	394	295.6	752.8
as % of: SUM TOTAL of all appropriations	12.81	11.14	12.51	9.25	40.06	11.32	11.02	20.7	9.84	13.76
Total of funds allocated in this particular year 2005	100	7.32	4.42	2.78	0.12	2.72	19.1	11.69	10.87	48.26
as % of: SUM TOTAL of all appropriations	1,955	849	50	327	14	386.2	55	719	797	651.9,
Total of funds allocated in this particular year 2004	13.92	10.85	12.05	9.15	39.23	13.47	12.35	10.69	13.65	15.92
as % of: SUM TOTAL of all appropriations	100	6.55	3.91	2.53	0.11	2.98	19.7	5.56	13.88	51.36
Total of funds allocated in this particular year 2005	1,917. 0	912.8	518.5	388.8	5.5	497.1	570.4	677.3	806.4	452.9,
as % of: SUM TOTAL of all appropriations	13.88	11.66	12.32	10.85	15.19	17.33	12.44	10.06	13.72	15.44
Total of funds allocated in this particular year	100	7.07	4.02	3.01	0.04	3.85	19.94	5.25	14.01	50.05

	Sums ear-marked SUM	Including:								
		Federal Budget				Alloca-tions Out of the Budget of Kali-nin. Oblast	Enter-prises Own Funds	Loans Ad-vanced by Com-mercial Banks	Loans Ad-vanced by Foreign Lenders	Other Sources of Fi-nance
		TOTAL	Capital Invest-ments	Other Needs	R&D					
2006-2010	4,134.9	391.6	346.3	045.3	-	402.3	1,391.4	284.8	846.1	1,818.7,
as % of:										
SUM TOTAL of all appropriations	49.58	56.1	55.75	57.08	0	48.89	55.14	48.79	51.99	45.03
Total of funds allocated in this particular year	100	9.52	5.08	4.43	0	3.04	24.68	7.12	14.83	40.77
Transportation System										
2002	507	138	-	138	-	-	40	-	-	329
2003	650	183	183	-	-	3	89	50	-	325
2004	396	230	230	-	-	-	37,	50	371	370
2005	978	243	243	-	-	-	529	50	541	615
2006-2010	1,176.1	010	010	-	-	-	192	50.1	138	786
Grand Total	1,707.1	804	666	138	-	3	225	200.1	050	425
as % of:										
SUM TOTAL of all appropriations	15.81	35.82	63.35	3.85	0	0	15.61	2.97	23.16	12.98
Export-Oriented and Import-Substituting Industries										
2002	486.5	10	-	10	-	6	379.7	221.8	867	2
2003	084.2	33	33	-	-	6	498	807.6	739.6	-
2004	838.3	16.5	16.5	-	-	6	520.3	425.1	870.4	-
2005	899.6	15	15	-	-	6	504.6	364.6	009.4	-
2006-2010	856.1	-	-	-	-	-	792.8	860.3	203	-
Grand Total	164.7	74.5	64.5	10	-	24	695.4	679.4	689.4	2
as % of:										
SUM TOTAL of all appropriations	9,849	0.95	1.53	0.28	0	0.84	13.05	39.80	28.02	0
Communications and Telecommunications										
2002	895	20	-	20	-	10	186	-	300	379
2003	946.3	20	20	-	-	10	206.3	-	300	410
2004	980	20	20	-	-	10	220	-	300	430
2005	210	20	20	-	-	10	70	-	-	110
2006-2010	391.2	150	150	-	-	50	467.1	-	279.1	445
Grand Total	422.5	230	210	20	-	90	149.4	-	179.1	774
as % of:										
SUM TOTAL of all appropriations	4.753	2.94	4.99	0.56	0	3.14	5.56	0	8.95	4.24
Fuel Sector and Power Engineering										
2002	065.9	358	300	58	-	103.9	914.6	118	-	571.3
2003	557.7	302	280	22	-	115.0	150.5	198	-	792.2
2004	981.0	248.9	230	18.9	-	171.5	131.5	-	-	429.1

	Sums ear-marked SUM TO-TAL	Including:									
		Federal Budget				R&D	Allocations Out of the Budget of Kalinin Oblast	Enterprises Own Funds	Loans Advanced by Commercial Banks	Loans Advanced by Foreign Lenders	Other Sources of Finance
		TOTAL	Capital Investments	Other Needs							
2005	680.8	250	230	20	-	191.1	119.5	-	-	120.1	
2006-2010	2,526.5	66	-	66	-	207	209	580	962	1,502.3,	
Grand Total	4,812.1	224.9	040	184.9	-	788.7	1,525.3	896	962	2,415.2	
as % of:											
SUM TOTAL of all appropriations	47.08	15.65	24.71	5.16	0	27.50	55.79	13.31	30.09	60.81	
Fishery and Seafood Processing Industry											
2002	-	-	-	-	-	-	-	-	-	-	
2003	182.5	-	-	-	-	-	38.5	144	-	-	
2004	130	-	-	-	-	-	28	102	-	-	
2005	130	-	-	-	-	-	28	102	-	-	
2006-2010	-	-	-	-	-	-	-	-	-	-	
Grand Total	442.5	-	-	-	-	-	94.5	348	-	-	
as % of:											
SUM TOTAL of all appropriations	0.48	0	0	0	0	0	0.46	5.17	0	0.0	
Agrarian and Industrial Complex											
2002	422	50	-	50	-	8	96	18	250	-	
2003	496	55	-	55	-	16	125	50	250	-	
2004	535	50	-	50	-	20	155	60	250	-	
2005	545	50	-	50	-	20	160	65	250	-	
2006-2010	272.5	370	100	270	-	54	278.5	320	250	-	
Grand Total	270.5	575	100	475	-	118	814.5	513	250	-	
as % of:											
SUM TOTAL of all appropriations	3.51	7.35	2.38	13.26	0	4.11	3.94	7.62	9.49	0	
Tourism and Recreational Sector											
2002	555	32	-	32	-	16	202	299.4	-	5.6	
2003	263.2	32	-	32	-	16	85.2	124.4	-	5.6	
2004	67.6	30	-	30	-	16	2.6	13.4	-	5.6	
2005	172.1	30	-	30	-	16	64.8	55.7	-	5.6	
2006-2010	321	146	-	146	-	80	150	917.4	-	27.6	
Grand Total	378.9	270	-	270	-	144	504.6	410.3	-	50	
as % of:											
SUM TOTAL of all appropriations	2.557	3.45	0	7.53	0	5.02	2.44	20.95	0	0.12	
Environmental Protection and Nature Conservation											
2002	218.7	36	10	26	-	20.7	15	-	-	147	
2003	294.5	35.5	10.5	25	-	42.9	5	-	-	211	
2004	415.5	40.5	10.5	30	-	50	26	39	-	260	
2005	408.5	45.5	10.5	35	-	57	5	-	-	301	
2006-2010	108.4	601.8	86.3	515.5	-	183.7	113.9	226	-	983	
Grand Total	445.7	759.3	127.8	631.5	-	354.4	164.9	265	-	902	

	Sums ear- marked SUM	Including:								
		Federal Budget				Alloca- tions Out of the Budget of Kali- nin. Oblast	Enter- prises Own Funds	Loans Ad- vanced by Com- mercial Banks	Loans Ad- vanced by Foreign Lenders	Other Sources of Fi- nance
		TOTAL	Capital Invest- ments	Other Needs	R&D					
as % of:										
SUM TOTAL of all appropriations	3.7	9.7	3.04	17.62	0	12.36	0.80	3.94	0	4.55
Social Sphere										
2002	275.1	73	-	73	-	64.1	32	-	6	100
2003	318.2	82.8	-	82.8	-	55.1	74.3	-	6	100
2004	319.5	79.7	-	79.7	-	46.2	87.6	-	6	100
2005	324.1	113.1	-	113.1	-	105.5	84.5	-	6	15
2006-2010	933.1	394.8	-	394.8	-	356.6	126.9	-	14	40.8
Grand Total	170.0	743.4	-	743	-	627.5	405.3	-	38	355.8
as % of:										
SUM TOTAL of all appropriations	2.33	9.50	0	20.75	0	21.88	1.96	0	0.29	0.85
Housing Sector										
2002	683	83	-	83	-	25	-	-	-	575
2003	087	114	-	114	-	56	-	20	-	897
2004	232	113	-	113	-	59	-	30	-	030
2005	522	133	-	133	-	84	-	40	-	265
2006-2010	420	632	-	632	-	446	36	331	-	975
Grand Total	944	075	-	075	-	670	36	421	-	742
as % of:										
SUM TOTAL of all appropriations	9.61	13.73	0	30	0	23.36	0.17	6.25	0	16.13
Development of Market Infrastructure										
2002	16	-	-	-	-	4	3.5	-	-	8.5
2003	22	0.5	-	0.5	-	4.5	5	-	-	12
2004	46.0	6.3	-	6.3	-	7.5	5	-	-	27.2,
2005	41.4	7.7	-	7.7	-	7.5	5	-	-	21.2,
2006-2010	130	21	-	21	-	25	2,	-	-	59
Grand Total	255.5	35.5	-	35.5	-	48.5	43.5	-	-	128
as % of:										
SUM TOTAL of all appropriations	0.275	0.45	0	0.99	0	1.69	0.21	0	0	0.31
R&D										
2002	2	2	-	-	2	-	-	-	-	-
2003	14.5	14.5	-	-	14.5	-	-	-	-	-
2004	14.2	14.2	-	-	14.2	-	-	-	-	-
2005	5.5	5.5	-	-	5.5	-	-	-	-	-
2006-2010	-	-	-	-	-	-	-	-	-	-
Grand Total	36.2	36.2	-	-	36.2	-	-	-	-	-
as % of:										
SUM TOTAL of all appropriations	0.039	0.46	0	0	100	0	0	0	0	0

* Funds distributed by federal ministries and agencies, RAO UES Russia, RAO Gazprom, municipalities

Notes:

1. Federal funds being earmarked are subject to update and adjustment on a yearly basis, every time the Federal Budget is drafted, contingent on federal resources available.
2. Regional funds being earmarked under the Program are subject to update and adjustment on a yearly basis, every time the Budget of Kaliningrad Oblast is designed, contingent on regional resources available.
3. In 2002 RUR 310 M worth of capital investments are allocated under the *Energy-Effective Economy* Federal Special Purpose Program – RUR 300 M, and *Increasing the Yield of Russia's Soil* Federal Special Purpose Program – RUR 10 M.

Cost Structure by Program Activities:

- Capital Investments- 82.46 percent;
- Others- 17.50 percent.
- R&D- 0.04 percent;

Main sources of funding for the Program:

Own funds of Program participants — 20.66 bn rubles (22.2 percent);
Funds from the federal budget (subject to annual review during preparation of draft federal budget and federal target investment program, based on availability of funds in federal budget) — 7.83 bn rubles (8.41 percent)
funds from oblast budget (subject to annual review during preparation of draft oblast budget, based on availability of funds in oblast budget) — 2.87 bn rubles (3.08 percent);
funds from foreign lenders and loans from domestic commercial banks — 19.9 bn rubles (21.39 percent);
funds from other sources (funds allocated by federal executive authorities, RAO UES Rossii, RAO Gazprom, municipalities, households) — 41.79 bn rubles (44.92 percent).

The Program will be funded from the federal budget upon submission of a budget request for a coming financial year by the state contractor, based on availability of funds in the budget, Program requirements and the need to continue commenced activities.

The basic proposal for funding Program activities from the federal budget is shown in Tables 16 and 17. If the country's social and economic situation develops favorably, funding of Program activities from the federal budget may be increased to 12.1 bn rubles.

5. Program Implementation Mechanism

Program implementation is based on effective legislation, presidential decrees, federal government resolutions, and resolution of topical problems of Russia's social and economic development.

The program implementation mechanism contains the following elements:

- strategic planning and forecasting (identification of strategies, speed and proportions of development of the oblast's economy as a whole, its major sectors and cross-sector complexes);
- economic and legal levers regulating relationships among federal, regional and sectoral agencies, customers and implementers during the implementation of program projects and activities;
- program management organizational structure (definition of administrative and economic players, their functions and coordination).

The loans and funding mechanism, the state system of contracts for procurement and supplies, tax legislation, leasing will be used to implement the Program.

The main program implementation prerequisite is to attract sufficient finances to Kaliningrad oblast's economy and social sphere. To resolve the oblast's social and economic problems the Program provides for funding based on grants from the federal budget. The federal budget law for each year stipulates the amount of funding allocated for specific expenditures under the Program for the *Development of Kaliningrad oblast for the Period Until 2010*.

At the same time it is proposed to resort to loans to fund the Program's investment part. Implementers of a number of program activities will be selected through a bidding process, as stipulated in the Federal Law *On Tenders for Orders to Supply Goods, Perform Works and Provide Services for State Needs*.

The role of federal funding will increase against the background of financial support provided by the European Union to the oblast's neighbors Poland and Lithuania.

In addition to financial support activities, the Program enunciates a number of organizational measures to promote business and investment activity in Kaliningrad oblast. To this end, the following agencies may be instituted:

- an insurance company to mobilize long-term financial resources of the public and organizations for the purpose of funding investment projects;
- a management company to manage an investment risk insurance fund.

Leasing and insurance companies will be set up, with no funds from the federal budget, as an important element for the formation of the oblast's investment infrastructure.

The list of activities to improve the Program's regulatory and legal framework is shown in Annex 4.

6. Organizing Program Management and Implementation Oversight

Overall management of the Program will be entrusted to the state customer who will:

- define the most effective forms and procedures to implement the Program;
- coordinate the work of implementers of program activities and projects;
- obtain approvals for allocations for a coming financial year and the entire program implementation period;
- approve allocation of federal grants among projects, activities and expenditures (capital investment, R&D, other expenditures). If funding of the Program is decreased it will adjust the list of activities and projects for a coming year, set priorities, take measures to attract funds from non-budget sources to finance the Program;
- oversee the implementation of the Program, including effective and targeted use of allocations, the quality of activities, compliance with deadlines, implementation of agreements and contracts;
- collect data on the implementation of program activities, prepare and submit, in accordance with the established procedure, to the Federal Government and the State Statistics Committee program status reports and information on tenders for program activities, and reports on effective use of funds to the Ministry of Finance.

The state customer shall be governed by the Civil Code of the Russian Federation, federal laws On Supplies of Products for Federal State Needs, On State Forecasting and Programs of Social and Economic Development of the Russian Federation, On Environmental Assessment, On Tenders for Orders to Supply Goods, Perform Works and Provide Services for State Needs, government resolutions No. 594 of 26 June 1995 On the Implementation of the Federal Law On Supplies for Federal State Needs, No. 928 of 3 August 1996 On the Implementation of the Integrated Program for the Creation and Preservation of Jobs for the

Years of 1996-2000, and other normative acts and laws of the Russian Federation.

The state customer will cede some its program management functions, on the basis of a contract, to the Kaliningrad oblast government on terms and conditions stipulated by the federal government; this will make the Kaliningrad oblast government more responsible for the organization of timely and quality implementation of program activities.

The state customer and the Kaliningrad oblast government will prepare:

- draft normative acts on relevant matters;
- draft decisions of legislative and executive bodies on Kaliningrad oblast on the implementation of the Program;
- proposals to amend target indicators, dates, implementers, and resources of the Program.

This organizational structure for the management of the Program will help allocate responsibility for the adoption and implementation of decisions and effectively combine federal, regional, territorial and sectoral development objectives.

The oversight exercised by the state customer and the Kaliningrad oblast government will ensure timely and complete implementation of program activities and projects, as well as effective and targeted use of financial resources.

Whenever necessary, the Ministry of Economic Development and Trade, the Ministry of Finance, concerned bodies of state power of the Russian Federation and the oblast may assess the Program's progress. Proposals related to the implementation of the Program may be sent to the federal government based on such assessments.

7. Assessment of the Program's Effectiveness, Social and Economic and Environmental Results

7.1. Expectations in Social and Economic Spheres

The program period will see the establishment of a foundation for implementing the oblast's development strategies, which will enable the oblast to attain a level of social and economic development comparable to that of neighboring states.

The results of the Program will include:

- creation in the Free (Special) Economic Zone of a favorable investment and entrepreneurship climate will help attract investment, develop export-oriented and import-substituting industries, boost competitiveness of locally manufactured products;
- creation of state-of-the-art telecommunications infrastructure (underwater optical fiber telecom line Kaliningrad – St. Petersburg, development of an area digital network based on optical fiber circuits, modernization of the telephone system through introduction of digital technologies) will provide the oblast with reliable and quality communications;
- stable energy supply in the region. Construction of the TEC-2 will help prevent potential losses amounting to US \$135 M suffered by Kaliningrad oblast consumers from changes in the tariffs when Lithuania separates itself from the RAO UES Rossii grid. The renovation of existing gas lines, the construction of the second gas pipeline will help supply the region with electricity and heat, liquidate the region's dependence on electricity supplies, replace worn and obsolete equipment with environmentally safe technologies, export electricity from Kaliningrad oblast;
- improved performance of amber businesses will offset the damage caused by contraband export of raw material valued at millions of US dollars;
- substantial improvement of the environment in the oblast and the adjacent waters of the Baltic sea will help implement Russia's international commitments.

The oblast's dynamic economy will ensure in the future substantial growth of the population's living standards, including:

- general availability and higher quality of social services, including, above all, health care and general education;
- alleviation of poverty as monetary incomes grow thanks to economic growth and reduced differentiation of incomes through targeted social support measures and redistribution of income in favor of low-income sections of the population;
- improved demographic situation thanks to reduced mortality, creation of preconditions for stabilized natality and subsequent demographic growth;
- creation of economic conditions enabling able-bodied population to use own income to increase consumption, including purchase and

maintenance of comfortable housing, access to better education and health care services, and a fitting life style after retirement;

- adaptation of vocational training and the structure of professional training to labor market requirements;
- differentiated and personalized education through the development of education programs suited to different groups – from gifted children to the handicapped;
- integrated renovation of facilities and laboratories of educational establishments, introduction of computer-assisted education;
- real access to health care for broad sections of the population;
- optimized spending on health care from the oblast budget, more effective use of resources through the restructuring of treatment and preventive medicine establishments;
- refurbishment and construction of cultural and arts establishments.

The main indicators of changes in the oblast's social and economic situation brought about by the Program are:

- gross regional product;
- industrial production;
- taxes and other mandatory payments collected in the oblast, and related budgetary effect (Tables 19 and 20);
- revenues of organizations showing the program's commercial effectiveness (Table 21);
- number of jobs and related social effect (Table 18).
- An effect computed for a given point in time is called a current effect, relevant integral effects are defined as a sum total of current effects over a certain program period.

Table 18

Effectiveness Indicators of Program Activities

	Number of jobs		Payments to budget		Profit	Social effect
	total	new	federal	oblast		
	persons		mn rubles (2001 prices)			
Total	32,167	15,012	12,564.2	7,321.9	17,527.8	3,781.4

The per capita gross regional product in Kaliningrad oblast in 2000 adjusted for the purchasing power parity index was 3,800 US dollars, the indicator in Poland was 6,600 US dollars. Assuming the continued 4 percent annual growth of the GDP in Poland (with the purchasing parity power growing annually at 5 percent), this indicator will amount to 9,000 US dollars in 2010. In 2000, the indica-

tor in Lithuania was 5,600 US dollars, and given the average growth rates and purchasing power growth over the last five years, it will reach 7,000 US dollars within the coming 10 years.

Assuming that the Program is fully implemented, the per capita gross regional product in Kaliningrad oblast will grow 2.4 times over ten years, and the per capita gross regional product adjusted for the growth of the purchasing power parity will increase 1.9 times, to 7200 US dollars. It follows that Kaliningrad oblast will get markedly closer to Poland and catch up with Lithuania in terms of economic development.

During the program period budget revenue at all levels will increase more than 2.7 times and will amount to over RUR 19 bn (in 2001 prices), including revenue of the federal budget – over 3.8 time (more than RUR 12 bn).

Per capita budget allocation will increase almost two-fold and will amount to some 7,000 rubles. The regional budget will cease to receive subsidies from the federal budget as early as 2004.

Table 19

Tax Revenues Generated in Kaliningrad oblast (RUR M, 2001 prices)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Current Payments to the Federal Budget	1526	3117	3863	4732	6853	7721	9433	11071	12064	12564
Integral Payments to the Federal Budget	1526	4643	8506	13238	20091	27812	37245	48316	60380	72944
Current Payments to the Oblast Budget	1137	2064	2618	3561	4725	5518	6210	6891	7091	7322
Integral Payments to the Oblast Budget	1137	3201	5819	9380	14105	19623	25833	32724	39815	47137

Table 20

Revenue Generating Effect from the Program (RUR M, 2001 prices)

	2002	2003	2004	2005	2006-2010
Current Federal Budget Effect	1,904.9	396.6	1,230.5	3,567.3	46,569.5
Integral Federal Budget Effect	1,904.9	2,301.5	3,532	7,099.3	53,668.8
Current Oblast Budget Effect	1,452.69	1,739.75	2,655.6	3,853.43	31,702.83
Integral Oblast Budget Effect	1,452.69	3,192.44	5,848.04	9,701.47	41,404.3

Table 21

Business Stimulating Effect from the Program (RUR M, 2001 prices)

	2002	2003	2004	2005	2006	2007	2008	2009	2010
Current	-5884,32	-11089,2	-9208,83	-4370,66	6849,22	9237,599	11522,74	12908,06	13605,6

Effect									
Integral	-5884,32	-16973,5	-26182,3	-30553	-23703,8	-14466,2	-2943,45	9964,61	23570,21
Effect									

Environmental Implications of the Program

The Program will stabilize the sanitary and epidemiological situation in Kaliningrad oblast, improve health indicators in the region, and reduce the damage caused to the environment.

Completion of construction (reconstruction) of water purification systems, water supply and sewage systems in townships and communities in Kaliningrad oblast will improve the environmental situation in the Baltic Sea and the rivers that flow into it, as well as the bays. It is also planned to upgrade the quality of potable water to the corresponding standards.

Upon completion of the measures under the Program aimed at recycling and salvaging of solid municipal and industrial waste, over 400,000 metric tons of waste will have been recycled, detoxicated, and isolated from the environment, including:

- 141,500 tons of 1st class hazard industrial waste,
- 1,500 tons of 2nd class hazard industrial waste,
- 31,400 tons of 3rd class hazard industrial waste,
- 94,800 tons of 4th class hazard industrial waste,
- up to 40,000 tons of un Hazardous waste (recycled, -able resources), and
- 23,200 tons of solid municipal waste.

Introduction of modern low-waste technologies, waste recycling, detoxication and collection installations will make it possible to significantly reduce waste disposal areas, to keep down transportation of waste to dumping grounds (by 40,000 tons of un Hazardous waste per year, and by 20,000 tons of hazardous waste per year), which ought to drastically lower the likelihood of emergency contamination of surface and underground waters.

Development and introduction of a Program for integrated monitoring of the Kaliningrad Oblast ecosystem will make it possible to keep track of changes to the environment, the degree of contamination of the soil and plants with heavy metals and radio-nuclide, quality of water along the coastal area and to forecast oil contamination hazards.

Chief of Staff,

Government, Russian Federation
Minister, Russian Federation

I. Shuvalov

APPENDICES

Appendix 1

Program activities

Item No.	Activity	Size of financing (mln rubles)	Term (years)	Expected results
Transportation complex				
Port complexes and facilities				
1.	Establishment of a high-speed cargo-and-passenger sea line Kaliningrad – ports of the Leningrad Oblast with the use of high-speed automobile-and-passenger ferryboats developed by the Almaz design office, city of Baltiysk (Vostochny)	1400	2005-2010	Annual maritime traffic: 100,000 passengers, 25,000 tons of cargo, 2000 cars, 2000 trucks.
2.	Reconstruction of a container terminal at the Commercial Seaport, city of Kaliningrad	255.1	2004-2006	Transshipment volume: 70,000 containers, 20,000 rolltrailers, 200,000 tons of general cargo per year.
3.	Construction of a deep-sea port in Baltiysk (Vostochny)	5200	2003-2009	Annual transshipment volume: 2,000,000 tons of cargo.
4.	Dredging operations in the southern channel of the Neman river	6	2003	To allow the passage of Russian ships from Sovietsk to Kaliningrad without crossing the Russian-Lithuanian border.
Roads				
5.	Construction of a motor road Gusev-Olkhovatka-Gosgranitsa (Gusev-Goldap)	1 320	2006-2008	Increase in traffic capacity.
6.	Construction of a motor road Kaliningrad – Dolgorukovo (Bagrationovsk relief road)	680	2002-2005	Increase in traffic capacity.
7.	Construction of a motor road Kaliningrad - Svetlogorsk	1430	2005-2010	Increase in traffic capacity.
8.	Construction of a motor road "Kaliningrad Southern Relief Road"	1950	2002-2010	Increase in traffic capacity.

Item No.	Activity	Size of financing (mln rubles)	Term (years)	Expected results
9.	Completion of construction of a bridge crossing in Kaliningrad	890	2006-2010	To provide a free exit toward the national border for motor vehicles.
Rail transportation				
10.	Reconstruction of the railroad Kaliningrad - Baltiysk	148	2007-2009	Increase in the railroad traffic capacity.
11.	Construction of a seaport railroad station in Baltiysk	300	2008-2009	Increase in rail freight traffic.
12.	Construction of a border railroad station Chernyshevskoye	478	2002-2005	Increase in rail freight traffic and improved quality of passenger services.
13.	Reconstruction of the railroad terminal in Kaliningrad	140	2005-2010	Increase in the annual traffic volume up to 500,000 passengers.
Air transportation and facilities				
14.	Further development of the Khrabrovo Airport, including reconstruction of the paved runway, modernization of the air traffic control systems	510	2003-2010	Increase in the traffic volume up to 230,000 passengers and 2,000 tons of cargo per year.
Development of export-oriented and import-substituting production plants				
Mechanical Engineering (Machine-building)				
15.	Reconstruction of the automobile assembling and repairing plant, ZAO Avtotor, Kaliningrad	2 168	2002-2007	Production of 67,000 cars and microbuses per year.
16.	Construction of facilities to produce agricultural machinery, ZAO Avtotor, Kaliningrad	923.5	2003-2008	Annual production of 10,000 units of agricultural machinery.
17.	Production of equipment for packaging, ZAO Karat, Cherniakhovsk	6.3	2002	Improved quality of packaging.
18.	Construction of a complete automobile plant, AO KIA-Baltika, Kaliningrad	1 234	2002-2005	Annual production of 55,000 cars.
19.	Mastering of new products, OAO Microdvigatel, Gusev	8.5	2004	Production of new low-power electric motors.
20.	Modernization and reconstruction of a civil ship production plant, OAO PSZ Yantar, Kaliningrad	976	2002-2010	Reconstruction and modernization of up to 10 sea ships per year.
21.	Reconstruction and expansion of production, OAO Sistema, Kaliningrad	180.4	2003	Annual production of up to 90,000,000 units of equipment for banks, heat engineering.

Item No.	Activity	Size of financing (mln rubles)	Term (years)	Expected results
22.	Expansion of production of electronic equipment, industrial computers, electronic and household appliances, OAO Kvartz, Kaliningrad	341	2003-2004	Increase in annual production of electronic equipment and household appliances.
23.	Assembly of buses, OAO Stroimash, Kaliningrad	193	2002-2004	Production of up to 350 city buses per year.
24.	Mastering of new products, OAO Kaliningrad Wagon Works, Kaliningrad	243	2003-2005	Production of up to 380 dump-cars and 520 units of floor transportation per year.
25.	Re-equipment of a printing plant, FGUIPP Yantamy Skaz, Kaliningrad	120	2003	Printing production of up to 35,000,000 inked impressions.
26.	Reconstruction of ship-building and ship-repairing production plant facilities, OOO Svetly Ship-Repairing Company, Svetly	158	2004-2006	Improved quality of ship-repairing, ship-building and ship-disposal services.
27.	Expansion of production of spark plugs, OOO Brisk, Ozersk	18.2	2003	Production of 72,000 spark plugs for motor vehicles.
Woodworking and pulp-and-paper industries				
28.	Expansion of production of glued furniture boards, OOO MAP-Expressles, Kaliningrad	42.7	2002-2004	Production of 2500 m ³ of glued furniture boards per year.
29.	Construction of a plant to produce toilet paper (Tissue), ZAO Cetruss, Kaliningrad	592.7	2002-2003	Production of 21,000 tons of toilet paper per year.
30.	Establishment of a deep wood-processing production plant, OOO STD Novy Vek, Svetly, OOO DNK, Kaliningrad	34.4	2002	Processing of 5400 m ³ of wood per year.
Light industry				
31.	Re-equipment of the Chaika knitting factory, OOO Spodvizhnik, Gusev	76	2003	Production of 5,000,000 m of knitted cloth and 27,000,000 pcs. of knitted outerwear per year.
Food-processing Industry				
32.	Expansion of domestic production of cigarettes and organization of production of tobacco blending, ZAO Kaliningrad-BT, Kaliningrad	130.4	2003	Production of 110,000,000 packs of cigarettes per year.

Item No.	Activity	Size of financing (mln rubles)	Term (years)	Expected results
33.	Construction of a modern complex to store cooled and frozen foodstuffs, OOO Anfrostr Trading House, Kaliningrad	40	2004	Improved storage of foodstuffs (total area of the complex – 23 m ²)
34.	Development of canned fruits production in Kaliningrad Oblast, OAO Sovietsk Canned Fruit Plant, Sovietsk	237.5	2004-2005	Production of 15 mln cans of canned fruit and vegetables per year.
35.	Modernization of a milk-processing factory, OOO Agroneman, village of Michurinskiy, the Neman District	211.2	2004-2005	Production of 18,000 packs of milk, 1000 tons of dairy butter, 1500 tons of desiccated milk per year.
36.	Organization of meat-processing production, MDM group, Kaliningrad	87	2002	Production of 6,500,000 tons of sausage products per year.
37.	Organization of production of foodstuffs, OOO Kaliningradprom-DMB, Sovietsk	153.8	2002	Production of 2,000,000 liters of foodstuffs per year.
Diamond and amber industry				
38.	Development of the diamond and amber industry in Kaliningrad Oblast, ZAO Almazholding Management Company	267.6	2002-2006	Diamond cutting to the amount of 1.7 billion rubles per year.
39.	Development of amber production and processing, Kaliningrad Amber Integrated Plant, village of Yantarny	107.5	2002-2005	Production of 450 tons of amber, production of jewelry to the amount of 120,000,000 rubles per year.
Construction Sector				
40.	Establishment of grinding facilities for production of portland cement clinker, OOO Baltmosbelstroj	88	2005	Production of 150,000 tons of construction materials per year.
41.	Organization of production of dry mixes, OOO StrojZapadInform, Kaliningrad	17	2003	Production of 5900 m ³ of construction materials per year.
42.	Establishment of facilities to produce pre-insulated pipes	45	2004	Production of 40 km of pipes per year.
43.	Production of bricks and clay tiles, OOO Kaliningrad Industrial Company, village of Kamenka, the Zelenograd District	275	2006-2008	Increase in production of bricks and clay tiles.

Item No.	Activity	Size of financing (mln rubles)	Term (years)	Expected results
44.	Mastering of production of mechanically activated cement, dry mixes, architectural concrete, OAO ZhBI-2 Factory, Kaliningrad	64	2002	Production of 100,000 tons of cement and dry mixes per year.
45.	Organization of production of wood-filled plastic, Kaliningrad DOZ-7 of the MoD of the RF, Kaliningrad	30	2003	Production of 3600 tons of construction materials per year.
46.	Organization of production of a wide range of products for public utilities and facilities, 212 KZHI State Company, Kaliningrad	95	2003-2005	Increase in production of products for public utilities and facilities.
Communications and Telecommunications				
47.	Construction of a fiber-optic link Kaliningrad – Saint-Petersburg	2 451.3	2002-2004	Construction of communication circuits with total length of 2000 km, provision of reliable long-distance telephone services in the region.
48.	Construction of a radio and television transmitting station, Kaliningrad	1 580	2002-2010	Reliable broadcasting of local and central Russian TV programs.
49.	Development of an intrazonal digital communications network with the use of fiber-optic links, OAO Electrosviaz, Kaliningrad	209.6	2006-2010	Provision of reliable and high-quality communications in the region.
50.	Development of telephone communication facilities in Kaliningrad Oblast	181.6	2006-2010	
Fuel and Power Sector				
51.	Reconstruction of the existing gas pipeline with the aim to increase the capacity to 1050 million m ³ , ZAO Gas-Oil	722.9	2002-2005	Reconstruction of the gas pipeline to increase its capacity to 1050 million m ³
52.	Construction of a trunk gas pipeline, ZAO Gas-Oil	6 100	2006-2010	Will allow to commission the 2 nd power-generating unit of the Thermal Power Station-2 and to satisfy local people demand for gas supply.
53.	Construction of an underground gas storage facility, ZAO Gas-Oil	3 061.8	2002-2010	Will allow to store 80,000,000 m ³ of gas.
54.	Provision of gas supply in the cities, towns and areas of Kaliningrad Oblast	538	2002-2010	Will satisfy local people demand for gas supply.

Item No.	Activity	Size of financing (mln rubles)	Term (years)	Expected results
55.	Construction of gas pipeline branches in Sovietsk, Neman, Cherniakhovsk, Svetly	845.3	2002-2010	Construction of gas pipeline branches in Sovietsk, Neman, Cherniakhovsk, Svetly.
56	Construction of the Thermal Power Station-2 (the 1 st power-generating unit – 2002-2005), OAO Kaliningrad Thermal Power Station-2, Kaliningrad	13 100	2002-2010	Commissioning of the 1 st power-generating unit of the Thermal Power Station-2 with the installed electric power capacity of 450 MW.
57	Reconstruction of the Thermal Power Station-1, Kaliningrad	684	2004-2005	Will allow to increase electric power capacity of the Thermal Power Station-1 to 40.6 MW and its thermal power capacity – to 208 Gcal/hour.
58.	Reconstruction of the District Power Station-2, Svetly	1 682	2004-2006	Will allow to increase electric power capacity of the District Power Station-2 to 160 MW and its thermal power capacity – to 100 Gcal/hour.
59.	Reconstruction of the Thermal Power Station, Gusev	422	2007-2009	The reconstruction will allow to increase electric power capacity of the Thermal Power Station to 20 MW and its thermal power capacity – to 80 Gcal/hour.
60.	Construction of the Hydroelectric Power Station-3, Pravdinsk	90.1	2008	Will allow to increase electric power capacity of the Hydroelectric Power Station-3 to 7.44 MW.
61.	Construction of the Hydroelectric Power Station-4, Pravdinsk	29.8	2009	Will allow to increase electric power capacity of the Hydroelectric Power Station-4 to 2.1 MW.
62.	Construction of a wind power station, 4.5 MW, village of Kulikovo, the Zelenograd District	19.1	2002	Provision of electric power supply for people.
63.	Implementation of the energy-saving program in Kaliningrad Oblast	839.5	2002-2005	Saving of fuel resources – up to 5,714,000 tons.
64.	Boiler plant transition to the local fuels.	55.6	2002-2005	Saving of thermal power – up to 207,400 Gcal.

Item No.	Activity	Size of financing (mln rubles)	Term (years)	Expected results
65.	Construction of a seaport oil tank farm, OAO Lukoil-Kaliningradmorneft, village of Izhevskoye, the Svetly Urban District	774	2007-2009	Transshipment of petroleum products – up to 1,500,000 tons per year.
66.	Construction of a gas-filling station with an automobile gas-filling station, OAO Lukoil-Kaliningradmorneft, village of Nivenskoye, the Guriev District	148	2002	Sale of 10,000 tons of liquid gas per year.
67.	Construction of the D-6 offshore oil field in the Baltic Sea, OAO Lukoil-Kaliningradmorneft	7071	2002-2010	Production of up to 1,200,000 tons of oil per year.
68.	Construction of a gas condensate processing plant, Svetly	271	2003	Production of polyethylene feedstock – up to 1,100,000 tons per year.
69.	Construction of a plant to produce polyethylene, ethylene and to process the broad fraction of light hydrocarbons, Svetly	7358	2006-2010	Production of polyethylene – up to 100,000 tons per year.
Fishery				
70.	Construction of an eel-raising factory	49.5	2003	Production of up to 40 tons of cooled eel per year.
71.	Modernization of 7 tuna boats, Morskaya Zvezda Fishery Complex, Kaliningrad	390	2003-2005	Production of up to 5000 tons of frozen tuna per year.
72.	Reconstruction of a boiler plant at the <i>Za Rodinu</i> collective farm, village of Vzmorie, the Zelenograd District	3	2003	Provision of the own thermal power supply for the enterprise which will allow to reduce its product costs.
Agro-Industrial complex				
73.	Technical reequipment of the agricultural sector	1 305	2002-2005	Production of up to 360,000 tons of grain per year.
74.	Establishment of a malt-producing plant, OOO Neman Malt, Kaliningrad	1 500	2002-2006	Production of 80,000 tons of malt per year.

Item No.	Activity	Size of financing (mln rubles)	Term (years)	Expected results
75.	Integrated development of the system of high-producing livestock farming in Kaliningrad Oblast, Kaliningradskoye Federal State Enterprise, village of Maloye Isakovo, the Guriev District	252.5	2006-2010	Increase in the breeding livestock numbers and quality.
76.	Organization of grain and bean cropping, ZAO Kuleshovskoye, village of Khlebnikovo, the Krasnoznamensk District	213	2006-2010	Production of 3000 tons of seeds per year.
Tourism and recreational sector				
77.	Reconstruction of the Zelenogradsk sanatorium, Zelenogradsk	11.6	2004	Improved quality of sanatorium and resort treatment.
78.	Construction of the 2 nd stage of the Rus Hotel Complex, Svetlogorsk	150	2002-2003	Number of beds will be increased to 250.
79.	Reconstruction of the Baltika pension, Svetlogorsk	86.5	2005	Reconstructed 250-bed Baltika pension.
80.	Reconstruction of the Volna pension, Svetlogorsk	29.6	2005	Reconstructed 150-bed Volna pension.
81.	Construction of a hotel-and-rehabilitation complex, Svetlogorsk	72	2002	Enabling the provision of high-quality medical treatment.
82.	Development of the infrastructure and recreational zone in the federal resort city of Svetlogorsk	180	2002-2010	Establishment of a competitive touristic complex capable of satisfying wide demands of Russian and foreign citizens for various touristic services.
83.	Development of the infrastructure and recreational zone in the federal resort city of Zelenogradsk	180	2002-2010	-"
84.	Implementation of environmental measures, development of tourism and recreational potential of the Baltic sand bar	144	2002-2010	Establishment of an ecology center of the Russian Animal Protection League, as well as improvement of the ecological situation, establishment of a touristic complex.
85.	Construction of a business and industry zone of ZAO P&K Corporation in the village of Bolshoye Isakovo, the Guriev District	1 045	2006-2010	Improved quality of commodity goods and services.

Item No.	Activity	Size of financing (mln rubles)	Term (years)	Expected results
86.	Construction of an international exhibition center, OAO Baltic-Expo, Kaliningrad	480.2	2002-2003	Construction of an international exhibition center with total area of 120,000 m ² .
Environmental Protection and Nature Conservation				
87.	Baltic Sea shore protection	500.5	2002-2010	Prevention of a seashore destruction.
88.	Flood protection of the city of Kaliningrad and localities of Kaliningrad Oblast	2 006	2002-2009	Construction of dams and dikes with total length of 1800 km.
89.	Reclamation work	150	2002-2010	Construction of 47.1-km dams and drainage of 197 hectares of land.
90.	Establishment of an ecology center for recovery and renovation at OAO Pregol Shipyard, Kaliningrad	103	2007-2008	Disposal of all types of waste.
91.	Disposal of special equipment and man-made waste	103	2007-2009	Disposal of all types of waste.
92.	Salvage and disposal of ships, vessels and other objects sunk in the coastal waters of the Baltic Sea	50.2	2006-2010	Disposal of up to 15,000 tons of waste per year.
93.	Production and processing of peat by OOO Torfo, village of Krasnopoljanskoye, the Cherniakhovsk District	60	2004	Annual production of 500,000 m ³ of peat.
94.	Improvement of the resource base of the forestry service	293	2002-2010	Arrangement of conditions for the conservancy and restoration of forest resources in the area of 20,000 hectares.
95.	Construction of an industrial and household waste disposal cell with a waste-sorting plant	180	2006-2007	Improvement of the sanitary-epidemiological situation in the city.
Housing Sector				
96.	Development of a comprehensive territorial plan of Kaliningrad Oblast city-building design, including the city-building drawings of specially-controlled federal areas	20	2002-2003	Arrangement of conditions for a planned development of Kaliningrad Oblast.
97.	Preparation and keeping of the state city-planning inventory	49	2004-2007	Regulation of the city-building activity.

Item No.	Activity	Size of financing (mln rubles)	Term (years)	Expected results
98.	Construction of residential buildings for retired officers	2 600	2002-2010	Construction of residential buildings with total area of 1,660,000 m ² .
99.	Commissioning of the 1 st stage of integrated treatment facilities with sewage systems and facilities	1 720	2002-2005	Construction of integrated treatment facilities with total area of 150 m ³ .
100.	Commissioning of the 2 nd stage of integrated treatment facilities with sewage systems and facilities	3 875	2002-2010	Ensuring a normal sanitary-epidemiological situation in the city.
101.	Construction and reconstruction of sewage and treatment facilities in Kaliningrad Oblast	500	2002-2010	Ensuring a normal sanitary-epidemiological situation in Kaliningrad Oblast.
102.	Construction and reconstruction of water intake works and water supply facilities in Kaliningrad Oblast	180	2006-2010	Ensuring a normal sanitary-epidemiological situation in Kaliningrad Oblast.
Social sphere				
Education				
103.	Modernization of scientific and material-and-technical base of Kaliningrad State Technical University, Kaliningrad	90.9	2002-2010	Improvement in education conditions and life of students, additions to the library stock, state-of-the-art equipment in the laboratories, etc.
104.	Reconstruction of educational buildings and modernization of scientific-and-technical base of Kaliningrad State University, Kaliningrad	141.4	2002-2010	Improvement in education conditions of students, additions to the library stock, state-of-the-art equipment in the laboratories, etc.
105.	Reconstruction of an educational building of Baltic State Academy, Kaliningrad	69.6	2003-2005	Improvement in education conditions of students.
106.	Construction of a Russian language and Slavic culture regional center of Kaliningrad State University, Kaliningrad	66	2006-2010	Improvement in education conditions of students.
107.	Construction of a school, village of Melnikovo, the Zelenograd District	26.4	2006-2010	Increase in the number of pupil vacancies in the Zelenogradsk District (200 pupil vacancies).

Item No.	Activity	Size of financing (mln rubles)	Term (years)	Expected results
108.	Construction of a day-care center for paraphasia-affected children, the Leningrad District, Kaliningrad	29	2006-2010	Increase in the number of places available for paraphasia-affected children (280 places), the Leningrad District, Kaliningrad.
109.	Construction of a day-care center for low-mentality children, the Moscow District, Kaliningrad	29	2006-2010	Increase in the number of places available for low-mentality children (280 places), the Moscow District, Kaliningrad.
110.	Reconstruction of the special closed vocational school on the basis of the vocational school No.18, Neman	11.6	2006-2010	Improved education conditions.
Culture				
111.	Construction of a multifunctional educational-and-dwelling complex for Kaliningrad Oblast Music College, Kaliningrad	40	2005-2010	Improvement in education conditions and life of students and professors (200 places).
112.	Reconstruction of Kaliningrad Drama Theater, Kaliningrad	20.7	2006-2010	Reconstructed 800-seat Kaliningrad Drama Theater.
113.	Reconstruction of Kaliningrad Oblast <i>Molodezhny</i> Youth People's Theater, Sovietsk	9.2	2006-2010	Reconstructed 295-seat Kaliningrad Oblast <i>Molodezhny</i> Youth People's Theater.
114.	Reconstruction and technical reequipment of Kaliningrad Oblast Philharmonic, Kaliningrad	9.1	2006-2010	Reconstructed and technically re-equipped 425-seat Kaliningrad Oblast Philharmonic, Kaliningrad.
115.	Reconstruction of Kaliningrad Oblast Universal Scientific Library, Kaliningrad	14	2006-2010	Reconstructed Kaliningrad Oblast Universal Scientific Library capable of receiving 140 visits/day, Kaliningrad.
116.	Reconstruction of the educational building and student hostel of Kaliningrad Oblast College of Culture and Art, Sovietsk	8	2006-2010	Reconstruction of the educational building and student hostel of Kaliningrad Oblast College of Culture and Art.
117.	Reconstruction of the administrative building of the Cultural-and-Business Center, Kaliningrad	88	2006-2010	Reconstruction of the administrative building of the Cultural-and-Business Center.
118.	Completion of the construction of the Saviour Church, Kaliningrad	200	2002-2010	Provision of orthodox church services for people.
119.	Technical equipment of the public archives, Kaliningrad	18	2006-2010	Expanded access of people to the information resources of archives.

Item No.	Activity	Size of financing (mln rubles)	Term (years)	Expected results
Restoration of Cultural and Architectural Heritage				
120.	Restoration of the Cathedral, a 14 th century monument of history and architecture, Kaliningrad	52	2006-2010	Restoration of the historical appearance.
121.	Restoration of the arch of Queen Louise's Bridge in Sovietsk	15	2006-2010	Restoration of the historical appearance.
122.	Restoration of the Wrangel Tower, a 19 th century monument of history and culture, Kaliningrad	18.8	2006-2010	Restoration of the historical appearance.
123.	Restoration of the Don Tower, a monument of architecture, Kaliningrad	12.9	2005-2010	Restoration of the historical appearance.
124.	Repair and restoration of the tombs of Soviet soldiers, installation of memorial stones on the common graves in cities and rural areas of Kaliningrad Oblast.	13.6	2002-2005	Restoration of the historical appearance.
125.	Reconstruction of the Amber Museum, Kaliningrad	6.9	2006-2010	Provision of a possibility to hold amber exhibitions.
Health Care				
126.	Construction of a rest home for chronically ill psychotics, Cherniakhovsk	38.5	2006-2010	Increased number of places for chronically ill psychotics (200 beds).
127.	Construction of Kaliningrad Oblast Cancer Detection Center, Kaliningrad	180	2005-2010	Construction of Kaliningrad Oblast Cancer Detection Center of 450-bed capacity.
128.	Construction of a treatment building for Kaliningrad Oblast Tuberculosis Dispensary, Kaliningrad	80	2002-2005	Construction of a 200-bed treatment building for Kaliningrad Oblast Tuberculosis Dispensary.
129.	Construction of a regional perinatal center, Kaliningrad	40	2002-2003	Construction of a 150-bed regional perinatal center.
130.	Construction of children's tuberculosis sanatorium, Svetlogorsk	60	2004-2006	Construction of 100-bed children's tuberculosis sanatorium.
131.	Construction of a 200-bed surgical treatment building for Kaliningrad Oblast Children's Hospital, Kaliningrad	120	2005-2010	Construction of a 200-bed surgical treatment building.

Item No.	Activity	Size of financing (mln rubles)	Term (years)	Expected results
132.	Reconstruction of the operating block and surgical ward of Kaliningrad Oblast Hospital, Kaliningrad	48	2002-2003	Reconstruction of the 60-person-capacity operating block.
133.	Reconstruction of the educational building at Kaliningrad Technical Aviation Academy for its use as a health and diagnosis center of the Baltic Fleet of the Ministry of Defense of the Russian Federation, Kaliningrad	385.44	2002-2004	Improved quality of medical services.
Sports and physical culture				
134.	Reconstruction of stadiums in Kaliningrad Oblast	169	2002-2008	Arrangement of conditions for people to go in for sports and physical training.
Penitentiary system				
135.	Construction of penal institutions in Kaliningrad Oblast	53	2005-2007	Arrangement of required custodial conditions for prisoners and condemned that meet the appropriate standards.
136.	Construction of buildings at the penal institution OM OM 216/13, village of Slavianovka	6	2003	
Development of market infrastructure				
137.	Development of Kaliningrad Technological Innovation Center, Kaliningrad	178.6	2002-2010	Improved quality of innovation services and promotion of scientific-and-technical and innovation activities.
138.	Establishment of a specialized educating center, using the international educational standards, on the basis of Kaliningrad State University, Kaliningrad	70.9	2004-2007	Up to 3000 students completing the courses yearly.
139.	Regional Economic Development Agency, Kaliningrad	6	2003-2010	Channelization of investments into the local economy.
Research and development				
140.	Improvement of the legal mechanism of the Special Economic Zone	5.5	2002-2004	Amendment and modification of certain articles in the Federal Law "On the Special Economic Zone in Kaliningrad Oblast".

Item No.	Activity	Size of financing (mln rubles)	Term (years)	Expected results
141.	Development of economic and organizational measures to attract investments and improve the investment climate in Kaliningrad Oblast	5	2003-2004	Improvement of the investment climate in Kaliningrad Oblast, arrangement of conditions to obtain additional off-budget funds for financing the Program projects.
142.	Examination of lines of development of Kaliningrad Oblast as an area of cooperation between the Russian Federation and European Union	6	2002-2004	Adjustment of a mechanism of cooperation between Kaliningrad Oblast and European Union, with the acquired experience being spread to the other entities of the Russian Federation.
143.	Development of Kaliningrad Oblast development forecasts with consideration for the geopolitical situation	4	2003-2004	Arrangement of conditions for reducing possible negative effects of the enclave position of Kaliningrad Oblast.
144.	Comparative analysis and assessment of alternative transport corridors between Kaliningrad Oblast and the rest of Russia	3	2003	Arrangement of conditions to eliminate effects of the discriminating tariff practices of the Baltic States and Poland in respect of cargo and passenger traffic to (from) Kaliningrad Oblast through the development of alternative transport corridors.
145.	Comparative analysis of the trends of energy economy of Kaliningrad Oblast.	4	2003-2004	Arrangement of conditions to reduce complete dependence of Kaliningrad Oblast economic performance on deliveries of energy carriers from the rest of Russia.
146.	Analysis of development of small business in Kaliningrad Oblast and elaboration of mechanisms establishing favorable conditions for its further development	3	2004-2005	Arrangement of conditions for the long-term development of small business in Kaliningrad Oblast.
147.	Establishment of an information-and-analysis, research-and-consulting center	3	2004	Provision of information and consulting services in such areas as the search for information and investors, preparation of business plans, marketing research.

Item No.	Activity	Size of financing (mln rubles)	Term (years)	Expected results
148.	Development and implementation of energy-saving technologies	1.5	2003-2005	Arrangement of conditions to reduce electric loss in Kaliningrad power network and to use nonconventional power sources.
149.	Development of a hardware-software system to simulate vessel movement in the harbors and navigation canal of Kaliningrad region	1.2	2004	Arrangement of conditions to ensure ship traffic safety and increase the carrying capacity of the navigation canal.

Chief of Staff,
Government, Russian Federation
Minister, Russian Federation

I. Shuvalov

Appendix 2

Scheduled Program Activities: Volumes and Sources of Funding (M RUR in prices of 2001)

Measures, Timing	TOTAL Funds	Source itemization								
		Federal Budget*				Budget of Kalinin-grad Oblast**	Firms' Own Funds	Loans granted by Commercial Banks	Foreign Loans	Other sources of Finance***
		TO-TAL	Capital investments	Current needs						
				Other needs	R&D					
Transportation System										
2002	507	138	-	138	-	-	40	-	-	329
2003	650	183	183	-	-	3	89	50	-	325
2004	1396	230	230	-	-	-	375	50	371	370
2005	1978	243	243	-	-	-	529	50	541	615
2006-2010	10176,1	2010	2010	-	-	-	2192	50,1	2138	3786
Grand Total	14707,1	2804	2666	138	-	3	3225	200,1	3050	5425
Including:										
Port Compounds and Facilities										
2003	70	3	3	-	-	3	14	50	-	-
2004	806	100	100	-	-	-	285	50	371	-
2005	1115	100	100	-	-	-	424	50	541	-
2006-2010	4870	650	650	-	-	-	2032	50,1	2138	-
Grand Total	6861,1	853	853	-	-	3	2755	200,1	3050	-
Creation of a high speed maritime line of communication for passengers and cargoes between Kaliningrad and ports of Leningrad oblast using high speed automobile and passenger ferries designed by <i>Almaz</i> design office, t. of Baltiisk (<i>Vostochny</i>)										
2005	310	-	-	-	-	-	140	-	170	-
2006-2010	1090	250	250	-	-	-	560	-	280	-
Grand Total	1400	250	250	-	-	-	700	-	450	-
Reconstruction of the container terminal at the trade seaport, city of Kaliningrad										
2003	64	-	-	-	-	-	14	50	-	-
2004	64	-	-	-	-	-	14	50	-	-
2005	63	-	-	-	-	-	13	50	-	-
2006-2010	64,1	-	-	-	-	-	14	50,1	-	-
Grand Total	255,1	-	-	-	-	-	55	200,1	-	-

Measures, Timing	TOTAL Funds	Source itemization								
		Federal Budget*				Budget of Kalinin- grad Ob- last**	Fir- ms', Own Fun- ds	Loans granted by Com- mercial Banks	For- eign Loans	Other source s of Fi- nance ***
		TO- TAL	Capi- tal in- vest- ments	Current needs						
				Other needs	R&D					
Construction of a deep water port in Baltiisk (<i>Vostochny</i>)										
2004	742	100	100	-	-	-	271	-	371	-
2005	742	100	100	-	-	-	271	-	371	-
2006-2010	3716	400	400	-	-	-	1458	-	1858	-
Grand Total	5200	600	600	-	-	-	2000	-	2600	-
Performance of bottom-deepening works along the Southern ana- branch of the river of Nieman										
2003	6	3	3	-	-	3	-	-	-	-
Grand Total	6	3	3	-	-	3	-	-	-	-
Road Building and Road Maintenance										
2002	397	120	-	120	-	-	-	-	-	277
2003	400	125	125	-	-	-	-	-	-	275
2004	400	80	80	-	-	-	-	-	-	320
2005	645	80	80	-	-	-	-	-	-	565
2006-2010	4428	970	970	-	-	-	-	-	-	3458
Grand Total	6270	1375	1255	120	-	-	-	-	-	4895
Construction of Motorway Gusev - Olkhovatka – State Border (Gusev – Goldup)										
2006-2010	1320	322	322	-	-	-	-	-	-	998
Grand Total	1320	322	322	-	-	-	-	-	-	998
Construction of Motorway Kali- ningrad – Dolgorukov (detour of Bagrationovsk)										
2002	170	60	-	60	-	-	-	-	-	110
2003	170	60	60	-	-	-	-	-	-	110
2004	170	40	40	-	-	-	-	-	-	130
2005	170	40	40	-	-	-	-	-	-	130
Grand Total	680	200	140	60	-	-	-	-	-	480
Construction of Motorway Kali- ningrad – Svetlogorsk										
2005	245	-	-	-	-	-	-	-	-	245
2006-2010	1185	350	350	-	-	-	-	-	-	835
Grand Total	1430	350	350	-	-	-	-	-	-	1080

Measures, Timing	TOTAL Funds	Source itemization								
		Federal Budget*				Budget of Kalinin- grad Ob- last**	Firms', Own Funds	Loans granted by Com- mercial Banks	For- eign Loans	Other source s of Fi- nance ***
		TO- TAL	Capi- tal in- vest- ments	Current needs						
				Other needs	R&D					
Construction of Motorway for a Bypass to the south of Kaliningrad										
2002	227	60	-	60	-	-	-	-	-	167
2003	230	65	65	-	-	-	-	-	-	165
2004	230	40	40	-	-	-	-	-	-	190
2005	230	40	40	-	-	-	-	-	-	190
2006-2010	1033	253	253	-	-	-	-	-	-	780
Grand Total	1950	458	398	60	-	-	-	-	-	1 492
Completion of construction of bridge crossover in the city of Kaliningrad										
2006-2010	890	45	45	-	-	-	-	-	-	845
Grand Total	890	45	45	-	-	-	-	-	-	845
Rail Transport										
2002	110	18	-	18	-	-	40	-	-	52
2003	115	25	25	-	-	-	40	-	-	50
2004	125	20	20	-	-	-	55	-	-	50
2005	153	33	33	-	-	-	70	-	-	50
2006-2010	563	175	175	-	-	-	60	-	-	328
Grand Total	1066	271	253	18	-	-	265	-	-	530
10. Reconstruction of the railroad Kaliningrad – Baltiisk										
2006-2010	148	-	-	-	-	-	20	-	-	128
Grand Total	148	-	-	-	-	-	20	-	-	128
11. Construction of a train station near the port in Baltiisk										
2006-2010	300	95	95	-	-	-	5	-	-	200
Grand Total	300	95	95	-	-	-	5	-	-	200
12. Construction of a train station near the state border Chernyshevskoye										
2002	110	18	-	18	-	-	40	-	-	52
2003	115	25	25	-	-	-	40	-	-	50
2004	125	20	20	-	-	-	55	-	-	50
2005	128	18	18	-	-	-	60	-	-	50
Grand Total	478	81	63	18	-	-	195	-	-	202
13. Reconstruction of the Central Train Station in the city of Kaliningrad										
2005	25	15	15	-	-	-	10	-	-	-
2006-2010	115	80	80	-	-	-	35	-	-	-
Grand Total	140	95	95	-	-	-	45	-	-	-

Measures, Timing	TOTAL Funds	Source itemization								
		Federal Budget*				Budget of Kalinin- grad Ob- last**	Fir- ms', Ow- n Fun- ds	Loans granted by Com- mercial Banks	For- eign Loans	Other source s of Fi- nance ***
		TO- TAL	Capi- tal in- vest- ments	Current needs						
				Other needs	R&D					
Air Transport and Airport Ground-Based Facilities										
Improvement of the Khrabrovo										
14. Airport, including reconstruction										
of the runway, upgrade of air										
traffic control system facilities										
2003	65	30	30	-	-	-	35	-	-	
2004	65	30	30	-	-	-	35	-	-	
2005	65	30	30	-	-	-	35	-	-	
2006-2010	315	215	215	-	-	-	100	-	-	
Grand Total	510	305	305	-	-	-	205	-	-	
Export-Oriented and Import-Substituting Industries										
2002	1486,5	10	-	10	-	6	379,7	221,8	867	
2003	2084,2	33	33	-	-	6	498	807,6	739,6	
2004	1838,3	16,5	16,5	-	-	6	520,3	425,1	870,4	
2005	1899,6	15	15	-	-	6	504,6	364,6	1009	
2006-2010	1856,1	-	-	-	-	-	792,8	860,3	203	
Grand Total	9164,7	74,5	64,5	10	-	24	2695,4	2679,4	3689,2	
Including:										
Mechanical Engineering										
2002	775	-	-	-	-	-	243,8	153,2	378	
2003	1417,4	15	15	-	-	-	361,8	646,6	394	
2004	1336,2	-	-	-	-	-	410,1	317,1	609	
2005	1514,5	-	-	-	-	-	401,9	301,6	811	
2006-2010	1526,8	-	-	-	-	-	723,5	600,3	203	
Grand Total	6569,9	15	15	-	-	-	2141	2018,8	2395	
Reconstruction of Automobile										
assembly and repairs plant, ZAO										
<i>Avtotor</i> , Kaliningrad										
2002	265	-	-	-	-	-	120	-	145	
2003	265	-	-	-	-	-	120	-	145	
2004	496	-	-	-	-	-	120	-	376	
2005	697	-	-	-	-	-	121	-	576	
2006-2010	445	-	-	-	-	-	242	-	203	
Grand Total	2168	-	-	-	-	-	723	-	1445	
Setting up production facilities to										
produce machinery for farmers,										
ZAO <i>Avtotor</i> , Kaliningrad										
2003	153	-	-	-	-	-	44	109	-	
2004	154	-	-	-	-	-	44	110	-	
2005	154	-	-	-	-	-	44	110	-	
2006-2010	462,5	-	-	-	-	-	131,8	330,7	-	
Grand Total	923,5	-	-	-	-	-	263,8	659,7	-	
Production of packaging equip-										
ment, ZAO <i>Karat</i> , Chernyakhovsk										
2002	6,3	-	-	-	-	-	1,4	4,9	-	
Grand Total	6,3	-	-	-	-	-	1,4	4,9	-	

Measures, Timing	TOTAL Funds	Source itemization								
		Federal Budget*				Budget of Kalinin- grad Ob- last**	Firms', Own Funds	Loans granted by Com- mercial Banks	For- eign Loans	Other source s of Fi- nance ***
		TO- TAL	Capi- tal in- vest- ments	Current needs						
				Other needs	R&D					
18. Construction of a full-line auto- making plant, AO <i>KIA-Baltika</i> , Kaliningrad										
2002	308	-	-	-	-	75	-	233	-	
2003	308	-	-	-	-	75	-	233	-	
2004	308	-	-	-	-	75	-	233	-	
2005	310	-	-	-	-	75	-	235	-	
Grand Total	1234	-	-	-	-	300	-	934	-	
19. Launching of a new product line, <i>OAO Mikrodivigatel</i> , Gusev										
2004	8,5	-	-	-	-	2	6,5	-	-	
Grand Total	8,5	-	-	-	-	2	6,5	-	-	
Upgrading and reconstructing general ship-building facilities, <i>OAO Yantar</i> , Kaliningrad										
2002	86,7	-	-	-	-	25,4	61,3	-	-	
2003	88,4	-	-	-	-	19,4	69	-	-	
2004	97,4	-	-	-	-	62,4	35	-	-	
2005	131,5	-	-	-	-	62,5	69	-	-	
2006-201	572	-	-	-	-	318,3	253,7	-	-	
Grand Total	976	-	-	-	-	488	488	-	-	
21. Production reconstruction and expansion, <i>OAO Sistema</i> , Kali- ningrad										
2003	180,4	-	-	-	-	37,2	143,2	-	-	
Grand Total	180,4	-	-	-	-	37,2	143,2	-	-	
Expanding production of electron- ic hardware, mainframe comput- ers, electric home appliances, <i>OAO Kwarts</i> , Kaliningrad										
2003	186,9	-	-	-	-	30	156,9	-	-	
2004	154,1	-	-	-	-	40	114,1	-	-	
Grand Total	341	-	-	-	-	70	271	-	-	
23. Assembly production of buses, <i>OAO Stroйдormash</i> , Kaliningrad										
2002	109	-	-	-	-	22	87	-	-	
2003	48	-	-	-	-	9	39	-	-	
2004	36	-	-	-	-	8	28	-	-	
Grand Total	193	-	-	-	-	39	154	-	-	
24. Launching of a new product line, <i>OAO Kaliningradski vagonos- troitelny zavod</i> (Kaliningrad Train Carriage Building Plant), Kalinin- grad										
2003	41	-	-	-	-	8	33	-	-	
2004	82	-	-	-	-	52	30	-	-	

Measures, Timing	TOTAL Funds	Source itemization								
		Federal Budget*				Budget of Kalinin- grad Ob- last**	Fir- ms', Ow- n Fun- ds	Loans granted by Com- mercial Banks	For- eign Loans	Other source s of Fi- nance ***
		TO- TAL	Capi- tal in- vest- ments	Current needs						
				Other needs	R&D					
2005	120	-	-	-	-	-	80	40	-	-
Grand Total	243	-	-	-	-	-	140	103	-	-
25. Upgrading the <i>Iantarny Skaz</i> Printers, Kaliningrad										
2003	120	15	15	-	-	-	15	90	-	-
Grand Total	120	15	15	-	-	-	15	90	-	-
26. Reconstruction of dockyards and shipbuilding facilities, OOO <i>Svetlovskaiia Sudoremontnaya</i> <i>Kompania</i> , Svetly										
2004	8,7	-	-	-	-	-	8,7	-	-	-
2005	102	-	-	-	-	-	19,4	82,6	-	-
2006-2010	47,3	-	-	-	-	-	31,4	15,9	-	-
Grand Total	158	-	-	-	-	-	59,5	98,5	-	-
27. Increasing production volumes of sparkling plugs, OOO <i>Brisk</i> , Ozersk										
2003	18,2	-	-	-	-	-	2,2	-	16	-
Grand Total	18,2	-	-	-	-	-	2,2	-	16	-
Woodworking and Pulp-and-Paper Industry										
2002	330,7	-	-	-	-	-	50,2	28,6	251,9	-
2003	296,4	-	-	-	-	-	44,5	-	251,9	-
2004	42,7	-	-	-	-	-	32,7	10	-	-
Grand Total	669,8	-	-	-	-	-	127,4	38,6	503,8	-
28. Expanding production of adhesive furniture boards, OOO MAP- Expressles, Kaliningrad										
2004	42,7	-	-	-	-	-	32,7	10	-	-
Grand Total	42,7	-	-	-	-	-	32,7	10	-	-
29. Construction of a hygienic paper producing factory <i>Tissue</i> , ZAO "Tsepruss", Kaliningrad										
2002	296,3	-	-	-	-	-	44,4	-	251,9	-
2003	296,4	-	-	-	-	-	44,5	-	251,9	-
Grand Total	592,7	-	-	-	-	-	88,9	-	503,8	-
30. Setting up a wood-working mill for deep processing of wood, OOO <i>STD Novy Vek</i> , Svetly; OOO <i>DNK Kaliningrad</i>										
2002	34,4	-	-	-	-	-	5,8	28,6	-	-
Grand Total	34,4	-	-	-	-	-	5,8	28,6	-	-
Light Industry										
2003	76	-	-	-	-	-	16	60	-	-

Measures, Timing	TOTAL Funds	Source itemization								
		Federal Budget*				Budget of Kalinin- grad Ob- last**	Firms', Own Funds	Loans granted by Com- mercial Banks	For- eign Loans	Other source s of Fi- nance ***
		TO- TAL	Capi- tal in- vest- ments	Current needs						
				Other needs	R&D					
Grand Total	76	-	-	-	-	-	16	60	-	-
31. Technological upgrade of hosiery factory <i>Chaika</i> , OOO Spodvizh- nik, Gusev										
2003	76	-	-	-	-	-	16	60	-	-
Grand Total	76	-	-	-	-	-	16	60	-	-
Food Processing Industry										
2002	240,8	-	-	-	-	-	53,7	-	187,1	-
2003	130,4	-	-	-	-	-	36,7	-	93,7	-
2004	303,9	-	-	-	-	-	42,5	-	261,4	-
2005	184,8	-	-	-	-	-	56,1	-	128,7	-
Grand Total	859,9	-	-	-	-	-	189	-	670,9	-
32. Expanding production of domestic cigarettes brands, setting up a tobacco blending factory, ZAO Kaliningrad – BT, Kaliningrad										
2003	130,4	-	-	-	-	-	36,7	-	93,7	-
Grand Total	130,4	-	-	-	-	-	36,7	-	93,7	-
33. Construction of a modern ware- house compound for frozen and deep-frozen food, OOO <i>Torgovy</i> <i>Dom Anfrozt</i> , the City of Kalinin- grad										
2004	40	-	-	-	-	-	8	-	32	-
Grand Total	40	-	-	-	-	-	8	-	32	-
34. Develop a fruit-preserving plant in Kaliningrad Oblast, OAO Sovi- etski Plodokonservny Zavod, Sovetsk										
2004	147,5	-	-	-	-	-	14,5	-	133	-
2005	90	-	-	-	-	-	33	-	57	-
Grand Total	237,5	-	-	-	-	-	47,5	-	190	-
35. Upgrade a milk- and dairy prod- ucts-processing factory, OOO <i>Agroneman</i> , v. of Michurinski, Neman district										
2004	116,4	-	-	-	-	-	20	-	96,4	-
2005	94,8	-	-	-	-	-	23,1	-	71,7	-
Grand Total	211,2	-	-	-	-	-	43,1	-	168,1	-
36. Setting up a meat-processing factory, MDM Group of compa- nies, Kaliningrad										
2002	87	-	-	-	-	-	28	-	59	-
Grand Total	87	-	-	-	-	-	28	-	59	-

Measures, Timing	TOTAL Funds	Source itemization								
		Federal Budget*				Budget of Kalinin- grad Ob- last**	Firms', Own Funds	Loans granted by Com- mercial Banks	For- eign Loans	Other source s of Fi- nance ***
		TO- TAL	Capi- tal in- vest- ments	Current needs						
				Other needs	R&D					
Set up a food-processing factory,										
37. OOO Kaliningradprom - DMB, Sovetsk										
2002	153,8	-	-	-	-	-	25,7	-	128,1	-
Grand Total	153,8	-	-	-	-	-	25,7	-	128,1	-
Diamonds and Amber Production										
2002	76	10	-	10	-	6	18	40	-	2
2003	82	18	18	-	-	6	18	40	-	-
2004	80,5	16,5	16,5	-	-	6	18	40	-	-
2005	82,3	15	15	-	-	6	21,3	40	-	-
2006-2010	54,3	-	-	-	-	-	14,3	40	-	-
Grand Total	375,1	59,5	49,5	10	-	24	89,6	200	-	2
Develop the diamond and amber industry in Kaliningrad Oblast, ZAO <i>Almazholding</i> Managing Company										
2002	53	-	-	-	-	-	13	40	-	-
2003	53	-	-	-	-	-	13	40	-	-
2004	53	-	-	-	-	-	13	40	-	-
2005	54,3	-	-	-	-	-	14,3	40	-	-
2006-2010	54,3	-	-	-	-	-	14,3	40	-	-
Grand Total	267,6	-	-	-	-	-	67,6	200	-	-
Further development of Produc- tion and Processing of Amber,										
39. Kaliningrad Amber Processing Combine State Unitary Enterprise, Yantarny										
2002	23	10	-	10	-	6	5	-	-	2
2003	29	18	18	-	-	6	5	-	-	-
2004	27,5	16,5	16,5	-	-	6	5	-	-	-
2005	28	15	15	-	-	6	7	-	-	-
Grand Total	107,5	59,5	49,5	10	-	24	22	-	-	2
Construction										
2002	64	-	-	-	-	-	14	-	50	-
2003	82	-	-	-	-	-	21	61	-	-
2004	75	-	-	-	-	-	17	58	-	-
2005	118	-	-	-	-	-	25,3	23	69,7	-
2006-2010	275	-	-	-	-	-	55	220	-	-
Grand Total	614	-	-	-	-	-	132,3	362	119,7	-
Portlandcement and brick grind- ing, Baltmosbelstroi OOO										
2005	88	-	-	-	-	-	18,3	-	69,7	-
Grand Total	88	-	-	-	-	-	18,3	-	69,7	-
Set up a production line of dry poor concrete, OOO StroiZapa- dInform, Kaliningrad										
41.										

Measures, Timing	TOTAL Funds	Source itemization								
		Federal Budget*				Budget of Kaliningrad Oblast**	Firms' Own Funds	Loans granted by Commercial Banks	Foreign Loans	Other sources of Finance***
		TOTAL	Capital investments	Current needs						
				Other needs	R&D					
2003	17	-	-	-	-	-	7	10	-	-
Grand Total	17	-	-	-	-	-	7	10	-	-
42. Set up a production line of pre-insulated pipes										
2004	45	-	-	-	-	-	10	35	-	-
Grand Total	45	-	-	-	-	-	10	35	-	-
43. Production of bricks and ceramic tiles, OOO <i>Kaliningrad Promushlennaya Kompania</i> , v. of Kamenska, Zelenograd district										
2006-2010	275	-	-	-	-	-	55	220	-	-
Grand Total	275	-	-	-	-	-	55	220	-	-
44. Launch production of mechanically activated cement, dry poor concrete, plain concrete, OAO <i>Zavod ZhBI-2</i> , Kaliningrad										
2002	64	-	-	-	-	-	14	-	50	-
Grand Total	64	-	-	-	-	-	14	-	50	-
45. Launch production of wood-filled plastic, SUE (GUP) <i>Kaliningradski DOZ-7</i> , MinDef, RF, Kaliningrad										
2003	30	-	-	-	-	-	8	22	-	-
Grand Total	30	-	-	-	-	-	8	22	-	-
46. Launch production of a wide range of products for street mains and utilities infrastructure, GUP <i>212 KZH</i> , Kaliningrad										
2003	35	-	-	-	-	-	6	29	-	-
2004	30	-	-	-	-	-	7	23	-	-
2005	30	-	-	-	-	-	7	23	-	-
Grand Total	95	-	-	-	-	-	20	75	-	-
Communications and Telecommunications										
2002	895	20	-	20	-	10	186	-	300	379
2003	946,3	20	20	-	-	10	206,3	-	300	410
2004	980	20	20	-	-	10	220	-	300	430
2005	210	20	20	-	-	10	70	-	-	110
2006-2010	1391,2	150	150	-	-	50	467,1	-	279,1	445
Grand Total	4422,5	230	210	20	-	90	149,4	-	1179	1774
47. Construction of a fiber optical line of communication Kaliningrad - St.-Petersburg										
2002	815	-	-	-	-	-	165	-	300	350
2003	816,3	-	-	-	-	-	166,3	-	300	350

Measures, Timing	TOTAL Funds	Source itemization								
		Federal Budget*				Budget of Kalinin-grad Oblast**	Firms' Own Funds	Loans granted by Commercial Banks	Foreign Loans	Other sources of Finance***
		TOTAL	Capital investments	Current needs						
				Other needs	R&D					
2004	820	-	-	-	-	-	170	-	300	350
Grand Total	2451,3	-	-	-	-	-	501,3	-	900	1050
48. Construction of radio and television transmitting station, Kaliningrad										
2002	80	20	-	20	-	10	21	-	-	29
2003	130	20	20	-	-	10	40	-	-	60
2004	160	20	20	-	-	10	50	-	-	80
2005	210	20	20	-	-	10	70	-	-	110
2006-2010	1000	150	150	-	-	50	355	-	-	445
Grand Total	1580	230	210	20	-	90	536	-	-	724
49. Development of intra-zonal digital communications network with the use of fiber-optics, OAO Elektrosvyaz, Kaliningrad										
2006-2010	209,6	-	-	-	-	-	62,9	-	146,7	-
Grand Total	209,6	-	-	-	-	-	62,9	-	146,7	-
50. Development of telephone communications systems in Kaliningrad Oblast										
2006-2010	181,6	-	-	-	-	-	49,2	-	132,4	-
GRAND TOTAL	181,6	-	-	-	-	-	49,2	-	132,4	-
Fuel and Power										
2002	4065,95	358	300	58	-	103,9	914,6	118	-	2571
2003	5557,76	302	280	22	-	115,0	1150,	198	-	3792,
2004	5981,05	248,9	230	18,9	-	171,5	1131	-	-	4429,
2005	5680,8	250	230	20	-	191,1	1119	-	-	4120
2006-2010	22526,5	66	-	66	-	207	7209,	580	3962	10502
GRAND TOTAL	43812,1	1224	1040	184,9	-	788,7	11525	896	3962	25415

Measures, Timing	TOTAL Funds	Source itemization								
		Federal Budget*				Budget of Kalinin- grad Ob- last**	Fir- ms', Ow- n Fun- ds	Loans granted by Com- mercial Banks	For- eign Loans	Other source s of Fi- nance ***
		TO- TAL	Capi- tal in- vest- ments	Current needs						
				Other needs	R&D					
51	Reconstruction of the existing gas-pipeline with a view to increasing its throughput capacity up to 1,050 M cubic m, ZAO <i>Gaz-Oil</i>									
	2002	130	30	-	30	-	-	-	-	100
	2003	230	30	30	-	-	-	-	-	200
	2004	230	30	30	-	-	-	-	-	200
	2005	132,9	30	30	-	-	-	-	-	102,9
	Grand Total	722,9	120	90	30	-	-	-	-	602,9
52	Construction of the trunk gas-pipeline, ZAO <i>Gaz-Oil</i>									
	2006-2010	6100	-	-	-	-	-	-	-	6100
	Grand Total	6100	-	-	-	-	-	-	-	6100
53	Construction of underground gas storage facility, ZAO <i>Gaz-Oil</i>									
	2002	304	-	-	-	-	200	-	-	104
	2003	966,3	-	-	-	-	300	-	-	666,3
	2004	667,6	-	-	-	-	100	-	-	567,6
	2005	581	-	-	-	-	34,5	-	-	546,5
	2006-2010	542,9	-	-	-	-	354,8	-	-	188,1
	Grand Total	3061,8	-	-	-	-	989,3	-	-	2072,5
54	Gasification of towns and districts in Kaliningrad Oblast									
	2002	84	24	-	24	-	19	4	-	37
	2003	81	20	-	20	-	19	4	-	38
	2004	64	16	-	16	-	33	4	-	11
	2005	69	17	-	17	-	34	1,5	-	16,5
	2006-2010	240	66	-	66	-	92	6	-	76
	Grand Total	538	143	-	143	-	197	19,5	-	178,5
55	Construction of branches of gas pipelines in the towns of Sovietsk, Neman, Chernyakhovsk and Svetly									
	2002	120,8	-	-	-	-	60,4	-	-	60,4
	2003	181	-	-	-	-	90,5	-	-	90,5
	2004	181	-	-	-	-	90,5	-	-	90,5
	2005	181,5	-	-	-	-	90,5	-	-	91
	2006-2010	181	-	-	-	-	90,5	-	-	90,5
	Grand Total	845,3	-	-	-	-	422,4	-	-	422,9
56	Construction of TETs-2 steam power plant: the 1 st power unit by 2002-2005, OAO <i>Kaliningradskaya TETs-2</i> , Kaliningrad****									
	2002	2262,85	300	300	-	-	48,27	151	-	1763,5

Measures, Timing	TOTAL Funds	Source itemization								
		Federal Budget*				Budget of Kalinin-grad Oblast**	Firms' Own Funds	Loans granted by Commercial Banks	Foreign Loans	Other sources of Finance***
		TOTAL	Capital investments	Current needs						
				Other needs	R&D					
2003	2800,46	250	250	-	-	55,01	250	-	-	2245,4
2004	3241,55	200	200	-	-	59,55	349	-	-	2633
2005	2949,4	200	200	-	-	72,17	404	-	-	2273,2
2006-2010	1845,74	-	-	-	-	-	767	-	-	1078,7
Grand Total	13100	950	950	-	-	235	1 921	-	-	9 994
57	Reconstruction of TETs-1, Kaliningrad									
2004	171	-	-	-	-	19	62	-	-	90
2005	171	-	-	-	-	19	62	-	-	90
2006-2010	342	-	-	-	-	38	124	-	-	180
Grand Total	684	-	-	-	-	76	248	-	-	360
58	Reconstruction of GRES-2 state district power plant, Svetly									
2004	393	-	-	-	-	15	93	-	-	285
2005	559	-	-	-	-	18	93	-	-	448
2006-2010	730	-	-	-	-	55	186	-	-	489
Grand Total	1682	-	-	-	-	88	372	-	-	1222
59	Reconstruction TETs steam power plant, Gusev									
2006-2010	422	-	-	-	-	22	200	-	-	200
Grand Total	422	-	-	-	-	22	200	-	-	200
60	Construction of GES-3 Hydro Power Plant, Pravdinsk									
2006-2010	90,1	-	-	-	-	-	90,1	-	-	-
Grand Total	90,1	-	-	-	-	-	90,1	-	-	-
61	Construction GES-3 Hydro Power Plant, Pravdinsk									
2006-2010	29,8	-	-	-	-	-	29,8	-	-	-
Grand Total	29,8	-	-	-	-	-	29,8	-	-	-
62	Construction of a 4.5 MWtt VES power generating windmill VES, v. Of Kulikovo, Zelenogradski district									
2002	19,1	-	-	-	-	-	19,1	-	-	-
Grand Total	19,1	-	-	-	-	-	19,1	-	-	-
63	Implementation of the energy-saving Program in Kaliningrad Oblast									
2002	183,5	-	-	-	-	27	50,1	-	-	106,4
2003	218	-	-	-	-	33	33	-	-	152
2004	218	-	-	-	-	33	33	-	-	152
2005	220	-	-	-	-	34	34	-	-	152
Grand Total	839,5	-	-	-	-	127	150,1	-	-	562,4
64	Conversion of boiler-plants to local fuel									
2002	13,7	4	-	4	-	9,7	-	-	-	-

Measures, Timing	TOTAL Funds	Source itemization								
		Federal Budget*				Budget of Kalinin- grad Ob- last**	Firms', Own Funds	Loans granted by Com- mercial Banks	For- eign Loans	Other sources of Fi- nance ***
		TO- TAL	Capi- tal in- vest- ments	Current needs						
				Other needs	R&D					
2003	10	2	-	2	-	8	-	-	-	-
2004	14,9	2,9	-	2,9	-	12	-	-	-	-
2005	17	3	-	3	-	14	-	-	-	-
Grand Total	55,6	11,9	-	11,9	-	43,7	-	-	-	-
65	Construction of a port oil depot, OAO <i>Lukoil-Kaliningradmorneft</i> , v. of Izhevskoye, district of Svetly									
2006-2010	774	-	-	-	-	-	194	580	-	-
Grand Total	774	-	-	-	-	-	194	580	-	-
66	Set up a gas-filling station with a gasoline station, OAO <i>Lukoil-</i> <i>Kaliningradmorneft</i> , v. of Niv- enskoye, Guryev district									
2002	148	-	-	-	-	-	30	118	-	-
2003	-	-	-	-	-	-	-	-	-	-
2004	-	-	-	-	-	-	-	-	-	-
2005	-	-	-	-	-	-	-	-	-	-
2006-2010	-	-	-	-	-	-	-	-	-	-
Grand Total	148	-	-	-	-	-	30	118	-	-
67	Preparatory works at the D-6 off- shore oil field in the Baltic Sea, OAO <i>Lukoil-Kaliningradmorneft</i>									
2002	800	-	-	-	-	-	400	-	-	400
2003	800	-	-	-	-	-	400	-	-	400
2004	800	-	-	-	-	-	400	-	-	400
2005	800	-	-	-	-	-	400	-	-	400
2006-2010	3871	-	-	-	-	-	1771	-	-	2100
Grand Total	7071	-	-	-	-	-	3371	-	-	3700
68	Construction of a gas condensate refinery, Svetly									
2003	271	-	-	-	-	-	73	198	-	-
Grand Total	271	-	-	-	-	-	73	198	-	-
69	Construction of a plant for pro- ducing polyethylene and ethylene and for processing light hydrocar- bons, Svetly									
2006-2010	7358	-	-	-	-	-	3396	-	3962	-
Grand Total	7358	-	-	-	-	-	3396	-	3962	-
Fishing and Sea-Food Processing Industry										
2003	182,5	-	-	-	-	-	38,5	144	-	-
2004	130	-	-	-	-	-	28	102	-	-
2005	130	-	-	-	-	-	28	102	-	-
Grand Total	442,5	-	-	-	-	-	94,5	348	-	-
70	Construction of an eel-breeding plant									

Measures, Timing	TOTAL Funds	Source itemization								
		Federal Budget*				Budget of Kaliningrad Oblast**	Firms' Own Funds	Loans granted by Commercial Banks	Foreign Loans	Other sources of Finance***
		TOTAL	Capital investments	Current needs						
				Other needs	R&D					
2003	49,5	-	-	-	-	-	10	39,5	-	-
Grand Total	49,5	-	-	-	-	-	10	39,5	-	-
71 Upgrade of 7 tuna fishers, RPK <i>Morskaja Zvezda</i> , Kaliningrad										
2003	130	-	-	-	-	-	28	102	-	-
2004	130	-	-	-	-	-	28	102	-	-
2005	130	-	-	-	-	-	28	102	-	-
Grand Total	390	-	-	-	-	-	84	306	-	-
72 Reconstruction of the boiler plant at the fishing cooperative <i>Za Rodinu</i> , v. Of Vzmorye, Zelenogradski district										
2003	3	-	-	-	-	-	0,5	2,5	-	-
Grand Total	3	-	-	-	-	-	0,5	2,5	-	-
Agrarian and Industrial Complex										
2002	422	50	-	50	8	96	18	250	-	-
2003	496	55	-	55	16	125	50	250	-	-
2004	535	50	-	50	20	155	60	250	-	-
2005	545	50	-	50	20	160	65	250	-	-
2006-2010	1272,5	370	100	270	54	278,5	320	250	-	-
Grand Total	3270,5	575	100	475	118	814,5	513	1250	-	-
73 Technological upgrade of agriculture										
2002	122	50	-	50	8	46	18	-	-	-
2003	196	55	-	55	16	75	50	-	-	-
2004	235	50	-	50	20	105	60	-	-	-
2005	245	50	-	50	20	110	65	-	-	-
2006-2010	507	270	-	270	54	133	50	-	-	-
Grand Total	1305	475	-	475	118	469	243	-	-	-
74 Set up a malt-processing plant, OOO <i>Nemanski Solod</i> , Kaliningrad										
2002	300	-	-	-	-	50	-	250	-	-
2003	300	-	-	-	-	50	-	250	-	-
2004	300	-	-	-	-	50	-	250	-	-
2005	300	-	-	-	-	50	-	250	-	-
2006-2010	300	-	-	-	-	50	-	250	-	-
Grand Total	1500	-	-	-	-	250	-	1250	-	-
75 Integrated development of high productivity stock raising systems in Kaliningrad Oblast, FGUP <i>Kaliningradskoie</i> , v. of Maloie Isakovo, Guryev district										
2006-2010	252,5	100	100	-	-	-	52,5	100	-	-
Grand Total	252,5	100	100	-	-	-	52,5	100	-	-

Measures, Timing	TOTAL Funds	Source itemization									
		Federal Budget*				Budget of Kalinin- grad Ob- last**	Fir- ms', Ow- n Fun- ds	Loans granted by Com- mercial Banks	For- eign Loans	Other source s of Fi- nance ***	
		TO- TAL	Capi- tal in- vest- ments	Current needs							
				Other needs	R&D						
88	Protection of Kaliningrad and other town of the oblast from floods and inundations using special engineering solutions										
	2002	147	16	-	16	-	15	10	-	-	106
	2003	200	15	-	15	-	30	-	-	-	155
	2004	249	15	-	15	-	35	-	-	-	199
	2005	300	20	-	20	-	40	-	-	-	240
	2006-2010	1110	270	-	270	-	120	-	-	-	720
	Grand Total	2006	336	-	336	-	240	10	-	-	1420
89	Meliorative (reclamation) works*****										
	2002	12,75	10	10	-	-	2,75	-	-	-	-
	2003	18,5	10,55	10,55	-	-	7,95	-	-	-	-
	2004	18,5	10,5	10,5	-	-	8	-	-	-	-
	2005	18,5	10,5	10,5	-	-	8	-	-	-	-
	2006-2010	81,75	60	60	-	-	21,75	-	-	-	-
	Grand Total	150	101,5	101,5	-	-	48,45	-	-	-	-
90	Creation of an Environmental Center for Recovery and renovation using the assets of OAO Shipyard <i>Pregol</i> , Kaliningrad										
	2006-2010	103	-	-	-	-	-	20	83	-	-
	Grand Total	103	-	-	-	-	-	20	83	-	-
91	Recovery (recycling) of special hardware and man-made waste										
	2006-2010	103	-	-	-	-	-	20	83	-	-
	Grand Total	103	-	-	-	-	-	20	83	-	-
92	Lifting and recovery of ships, vessels and other objects sunk along the coastal area of the Baltic Sea										
	2006-2010	50,2	26,3	26,3	-	-	-	23,9	-	-	-
	Grand Total	50,2	26,3	26,3	-	-	-	23,9	-	-	-
93	Production and processing of peat, OOO <i>Torfo</i> , v. of Krasnopolyanskoye, Cherniakhovski district										
	2004	60	-	-	-	-	-	21	39	-	-
	Grand Total	60	-	-	-	-	-	21	39	-	-
94	Improve material and logistical support to forestry										
	2002	29	-	-	-	-	3	5	-	-	21
	2003	31	-	-	-	-	5	5	-	-	21
	2004	33	-	-	-	-	7	5	-	-	21
	2005	35	-	-	-	-	9	5	-	-	21
	2006-2010	165	-	-	-	-	42	20	-	-	103

Measures, Timing	TOTAL Funds	Source itemization								
		Federal Budget*				Budget of Kaliningrad Oblast**	Firms' Own Funds	Loans granted by Commercial Banks	Foreign Loans	Other sources of Finance***
		TOTAL	Capital investments	Current needs						
				Other needs	R&D					
Grand Total	293	-	-	-	-	66	40	-	-	187
95 Construction of a plant for recovery, recycling and separation of domestic and industrial waste										
2006-2010	180	90	-	90	-	-	30	60	-	-
Grand Total	180	90	-	90	-	-	30	60	-	-
Housing Construction Sector										
2002	683	83	-	83	-	25	-	-	-	575
2003	1087	114	-	114	-	56	-	20	-	897
2004	1232	113	-	113	-	59	-	30	-	1030
2005	1522	133	-	133	-	84	-	40	-	1265
2006-2010	4420	632	-	632	-	446	36	331	-	2975
Grand Total	8944	1075	-	107	-	670	36	421	-	6742
96 Develop an integrated town-planning system for the territory of Kaliningrad Oblast, including town-planning activities for specific territories subject to federal regulation										
2002	10	5	-	5	-	5	-	-	-	-
2003	10	5	-	5	-	5	-	-	-	-
Grand Total	20	10	-	10	-	10	-	-	-	-
97 Drawing up and maintaining the state town planning cadastre										
2004	7	3	-	3	-	4	-	-	-	-
2005	7	3	-	3	-	4	-	-	-	-
2006-2010	35	15	-	15	-	20	-	-	-	-
Grand Total	49	21	-	21	-	28	-	-	-	-
98 Construction of housing for former military personnel retired into reserves or retirement										
2002	8	8	-	8	-	-	-	-	-	-
2003	192	39	-	39	-	31	-	20	-	102
2004	300	40	-	40	-	35	-	30	-	195
2005	400	50	-	50	-	40	-	40	-	270
2006-2010	1700	250	-	250	-	94	-	331	-	1025
Grand Total	2600	387	-	387	-	200	-	421	-	1592
99 Putting into operation the first line of unified sewage and street mains purification facilities and networks										
2002	290	50	-	50	-	20	-	-	-	220
2003	470	50	-	50	-	20	-	-	-	400
2004	470	50	-	50	-	20	-	-	-	400
2005	490	50	-	50	-	40	-	-	-	400
Grand Total	1720	200	-	200	-	100	-	-	-	1420

Measures, Timing	TOTAL Funds	Source itemization								
		Federal Budget*				Budget of Kalinin-grad Ob-last**	Firms' Own Funds	Loans granted by Commercial Banks	Foreign Loans	Other sources of Finance***
		TO-TAL	Capital investments	Current needs						
				Other needs	R&D					
Putting into operation the second line of unified sewage and street mains purification facilities and networks										
100	2002	325	-	-	-	-	-	-	-	325
	2003	365	-	-	-	-	-	-	-	365
	2004	405	-	-	-	-	-	-	-	405
	2005	555	-	-	-	-	-	-	-	555
	2006-2010	2225	165	-	165	-	260	-	-	1800
	Grand Total	3875	165	-	165	-	260	-	-	3 450
Construction and reconstruction of sewage and water purification systems in Kaliningrad Oblast										
101	2002	50	20	-	20	-	-	-	-	30
	2003	50	20	-	20	-	-	-	-	30
	2004	50	20	-	20	-	-	-	-	30
	2005	70	30	-	30	-	-	-	-	40
	2006-2010	280	130	-	130	-	-	-	-	150
	Grand Total	500	220	-	220	-	-	-	-	280
Construction and reconstruction of water intake facilities and water supply systems in Kaliningrad Oblast										
102	2006-2010	180	72	-	72	-	72	36	-	-
	Grand Total	180	72	-	72	-	72	36	-	-
Social Sphere										
	2002	275,14	73	-	73	-	64,14	32	-	6
	2003	318,2	82,8	-	82,8	-	55,1	74,3	-	6
	2004	319,5	79,7	-	79,7	-	46,2	87,6	-	6
	2005	324,1	113,1	-	113	-	105,5	84,5	-	6
	2006-2010	933,1	394,8	-	394	-	356,6	126,9	-	14
	Grand Total	2170,04	743,4	-	743	-	627,5	405,3	-	38
Education										
	2002	31,3	2,3	-	2,3	-	3	26	-	-
	2003	73,3	15,5	-	15,5	-	9,5	48,3	-	-
	2004	84,5	17	-	17	-	10,9	56,6	-	-
	2005	82,9	23,8	-	23,8	-	10,6	48,5	-	-
	2006-2010	191,9	45,7	-	45,7	-	61,3	84,9	-	-
	Grand Total	463,9	104,3	-	104,	-	95,3	264,3	-	-
Upgrade training and logistic facilities of the Kaliningrad State Technical University, Kaliningrad										
103	2002	11	-	-	-	-	-	11	-	-
	2003	21	5	-	5	-	5	11	-	-
	2004	21,9	4,9	-	4,9	-	6	11	-	-

Measures, Timing	TOTAL Funds	Source itemization								
		Federal Budget*				Budget of Kaliningrad Oblast**	Firms' Own Funds	Loans granted by Commercial Banks	Foreign Loans	Other sources of Finance***
		TOTAL	Capital investments	Current needs						
				Other needs	R&D					
2005	24,6	6,6	-	6,6	-	6	12	-	-	-
2006-2010	12,4	-	-	-	-	-	12,4	-	-	-
Grand Total	90,9	16,5	-	16,5	-	17	57,4	-	-	-
104	Reconstruction of training buildings and upgrade of research facilities of the Kaliningrad State University, Kaliningrad									
2002	20,3	2,3	-	2,3	-	3	15	-	-	-
2003	32,3	7,3	-	7,3	-	4	21	-	-	-
2004	32,6	7,6	-	7,6	-	4	21	-	-	-
2005	38,7	13,7	-	13,7	-	4	21	-	-	-
2006-2010	17,5	-	-	-	-	-	17,5	-	-	-
Grand Total	141,4	30,9	-	30,9	-	15	95,5	-	-	-
105	Reconstruction of on the training building on the campus of the Baltic State Academy, Kaliningrad									
2003	20	3,2	-	3,2	-	0,5	16,3	-	-	-
2004	30	4,5	-	4,5	-	0,9	24,6	-	-	-
2005	19,6	3,5	-	3,5	-	0,6	15,5	-	-	-
Grand Total	69,6	11,2	-	11,2	-	2	56,4	-	-	-
106	Construction of a regional center for the Russian Language and Slavic Studies at the Kaliningrad State University, Kaliningrad									
2006-2010	66	3	-	3	-	8	55	-	-	-
Grand Total	66	3	-	3	-	8	55	-	-	-
107	Construction of a school, v. of Melnikovo, Zelenogradski district									
2006-2010	26,4	11,5	-	11,5	-	14,9	-	-	-	-
Grand Total	26,4	11,5	-	11,5	-	14,9	-	-	-	-
108	Construction of a kindergarten for speech-impaired children, Leninogradski district, Kaliningrad									
2006-2010	29	14	-	14	-	15	-	-	-	-
Grand Total	29	14	-	14	-	15	-	-	-	-
109	Construction of a kindergarten for mentally challenged children, Moskovski district, Kaliningrad									
2006-2010	29	14	-	14	-	15	-	-	-	-
Grand Total	29	14	-	14	-	15	-	-	-	-
110	Reconstruction of a special vocational college, close type, using the facilities of the vocational college # 18, town of Neman									
2006-2010	11,6	3,2	-	3,2	-	8,4	-	-	-	-

Measures, Timing	TOTAL Funds	Source itemization								
		Federal Budget*				Budget of Kaliningrad Oblast**	Firms' Own Funds	Loans granted by Commercial Banks	Foreign Loans	Other sources of Finance***
		TOTAL	Capital investments	Current needs						
				Other needs	R&D					
Grand Total	11,6	3,2	-	3,2	-	8,4	-	-	-	-
Culture										
2002	20	10	-	10	-	10	-	-	-	-
2003	30	10	-	10	-	-	20	-	-	-
2004	40	15	-	15	-	-	25	-	-	-
2005	70	30	-	30	-	10	30	-	-	-
2006-2010	247	157,6	-	157	-	59,4	30	-	-	-
Grand Total	407	222,6	-	222,	-	79,4	105	-	-	-
111										
Construction of multi purpose educational and lodging compound at the Kaliningrad regional music college, Kaliningrad										
2005	20	10	-	10	-	10	-	-	-	-
2006-2010	20	10	-	10	-	10	-	-	-	-
Grand Total	40	20	-	20	-	20	-	-	-	-
112										
Reconstruction of Kaliningrad Drama Theater, Kaliningrad										
2006-2010	20,7	15	-	15	-	5,7	-	-	-	-
Grand Total	20,7	15	-	15	-	5,7	-	-	-	-
113										
Reconstruction of the regional theater for young spectators <i>Molodyozhny</i> , Sovietsk										
2006-2010	9,2	2,7	-	2,7	-	6,5	-	-	-	-
Grand Total	9,2	2,7	-	2,7	-	6,5	-	-	-	-
114										
Reconstruction and technological upgrade of Kaliningrad regional philharmonic, Kaliningrad										
2006-2010	9,1	2,7	-	2,7	-	6,4	-	-	-	-
Grand Total	9,1	2,7	-	2,7	-	6,4	-	-	-	-
115										
Reconstruction of Kaliningrad regional general research library, Kaliningrad										
2006-2010	14	4,2	-	4,2	-	9,8	-	-	-	-
Grand Total	14	4,2	-	4,2	-	9,8	-	-	-	-
116										
Reconstruction of training facilities and student hostel at the Kaliningrad regional culture and arts college, Sovietsk										
2006-2010	8	4	-	4	-	4	-	-	-	-
Grand Total	8	4	-	4	-	4	-	-	-	-
117										
Reconstruction of eth administrative building of the <i>Culture and Business Center</i> , Kaliningrad										
2006-2010	88	71	-	71	-	17	-	-	-	-
Grand Total	88	71	-	71	-	17	-	-	-	-

Measures, Timing	TOTAL Funds	Source itemization								
		Federal Budget*				Budget of Kaliningrad Oblast**	Firms' Own Funds	Loans granted by Commercial Banks	Foreign Loans	Other sources of Finance***
		TOTAL	Capital investments	Current needs						
				Other needs	R&D					
2005	5,3	3,8	-	3,8	-	1,5	-	-	-	-
Grand Total	13,6	10,5	-	10,5	-	3,1	-	-	-	-
125 Reconstruction of the Museum of Amber, Kaliningrad										
2006-2010	6,9	-	-	-	-	2,1	-	-	-	4,8
Grand Total	6,9	-	-	-	-	2,1	-	-	-	4,8
Health Car										
2002	201,84	60,7	-	60,7	-	41,14	-	-	-	100
2003	183,1	51,3	-	51,3	-	31,8	-	-	-	100
2004	168,5	44	-	44	-	24,5	-	-	-	100
2005	124	47	-	47	-	62	-	-	-	15
2006-2010	274,5	146	-	146	-	128,5	-	-	-	-
Grand Total	951,94	349	-	349	-	287,9	-	-	-	315
126 Construction of a home for patients with chronic mental disturbances, г.Черняховск										
2006-2010	38,5	28	-	28	-	10,5	-	-	-	-
Grand Total	38,5	28	-	28	-	10,5	-	-	-	-
127 Construction of a regional cancerologic dispensary, Kaliningrad										
2005	60	15	-	15	-	30	-	-	-	15
2006-2010	120	60	-	60	-	60	-	-	-	-
Grand Total	180	75	-	75	-	90	-	-	-	15
128 Construction of a in-treatment section for the regional tuberculosis dispensary, Kaliningrad										
2002	20	10	-	10	-	10	-	-	-	-
2003	20	10	-	10	-	10	-	-	-	-
2004	20	10	-	10	-	10	-	-	-	-
2005	20	10	-	10	-	10	-	-	-	-
Grand Total	80	40	-	40	-	40	-	-	-	-
129 Construction of a regional prenatal center, Kaliningrad										
2002	20	10	-	10	-	10	-	-	-	-
2003	20	10	-	10	-	10	-	-	-	-
Grand Total	40	20	-	20	-	20	-	-	-	-
130 Construction of a spa for TB-affected children, Svetlogorsk										
2004	20	10	-	10	-	10	-	-	-	-
2005	24	12	-	12	-	12	-	-	-	-
2006-2010	16	8	-	8	-	8	-	-	-	-
Grand Total	60	30	-	30	-	30	-	-	-	-
131 Construction of a 200 bed surgery building for the children's regional hospital, Kaliningrad										

Measures, Timing	TOTAL Funds	Source itemization								
		Federal Budget*				Budget of Kaliningrad Oblast**	Firms' Own Funds	Loans granted by Commercial Banks	Foreign Loans	Other sources of Finance***
		TOTAL	Capital investments	Current needs						
				Other needs	R&D					
2005	20	10	-	10	-	10	-	-	-	-
2006-2010	100	50	-	50	-	50	-	-	-	-
Grand Total	120	60	-	60	-	60	-	-	-	-
132	Reconstruction of operating room and surgery division of the Kaliningrad regional hospital, Kaliningrad									
2002	33,4	16,7	-	16,7	-	16,7	-	-	-	-
2003	14,6	7,3	-	7,3	-	7,3	-	-	-	-
Grand Total	48	24	-	24	-	24	-	-	-	-
133	Conversion of the training facility of the Kaliningrad Higher Air Force Engineers Academy into a diagnostic Health Center as part of the Baltic Naval Command, Ministry of Defense of the Russian Federation, Kaliningrad									
2002	128,44	24	-	24	-	4,44	-	-	-	100
2003	128,5	24	-	24	-	4,5	-	-	-	100
2004	128,5	24	-	24	-	4,5	-	-	-	100
Grand Total	385,44	72	-	72	-	13,44	-	-	-	300
134	Физкультура и спорт Reconstruction of stadiums and other sports facilities in Kaliningrad Oblast									
2002	22	-	-	-	-	10	6	-	6	-
2003	22	-	-	-	-	10	6	-	6	-
2004	22	-	-	-	-	10	6	-	6	-
2005	22	-	-	-	-	10	6	-	6	-
2006-2010	81	-	-	-	-	55	12	-	14	-
Grand Total	169	-	-	-	-	95	36	-	38	-
135	Пениitenciарная система Construction of penitentiary institutions in Kaliningrad Oblast									
2002	-	-	-	-	-	-	-	-	-	-
2003	6	3	-	3	-	3	-	-	-	-
2005	13	5	-	5	-	8	-	-	-	-
2006-2010	40	15	-	15	-	25	-	-	-	-
Grand Total	59	23	-	23	-	36	-	-	-	-
136	Construction of buildings and facilities OM 216/13, v. of Slavyanovka									
2003	6	3	-	3	-	3	-	-	-	-

Measures, Timing	TOTAL Funds	Source itemization								
		Federal Budget*				Budget of Kalinin-grad Ob-last**	Firms' Own Funds	Loans granted by Commercial Banks	Foreign Loans	Other sources of Finance***
		TOTAL	Capital investments	Current needs						
				Other needs	R&D					
Grand Total	6	3	-	3	-	3	-	-	-	
Развитие рыночной инфраструктуры										
2002	16	-	-	-	-	4	3,5	-	-	8,5
2003	22	0,5	-	0,5	-	4,5	5	-	-	12
2004	46,05	6,3	-	6,3	-	7,5	5	-	-	27,25
2005	41,45	7,7	-	7,7	-	7,5	5	-	-	21,25
2006-2010	130	21	-	21	-	25	25	-	-	59
Grand Total	255,5	35,5	-	35,5	-	48,5	43,5	-	-	128
Development of the Kaliningrad Center of innovations and technologies, Kaliningrad										
2002	16	-	-	-	-	4	3,5	-	-	8,5
2003	21	-	-	-	-	4	5	-	-	12
2004	21,25	-	-	-	-	4	5	-	-	12,25
2005	21,45	2,2	-	2,2	-	4	5	-	-	10,25
2006-2010	98,9	13,9	-	13,9	-	19	25	-	-	41
Grand Total	178,6	16,1	-	16,1	-	35	43,5	-	-	84
Set up a specialized training center using international educational standards at the Kaliningrad State University, Kaliningrad										
2004	23,8	5,8	-	5,8	-	3	-	-	-	15
2005	19	5	-	5	-	3	-	-	-	11
2006-2010	28,1	5,6	-	5,6	-	4,5	-	-	-	18
Grand Total	70,9	16,4	-	16,4	-	10,5	-	-	-	44
Agency for Regional economic development, Kaliningrad										
2003	1	0,5	-	0,5	-	0,5	-	-	-	-
2004	1	0,5	-	0,5	-	0,5	-	-	-	-
2005	1	0,5	-	0,5	-	0,5	-	-	-	-
2006-2010	3	1,5	-	1,5	-	1,5	-	-	-	-
Grand Total	6	3	-	3	-	3	-	-	-	-
Research and Development Activities										
2002	2	2	-	-	2	-	-	-	-	-
2003	14,5	14,5	-	-	14,5	-	-	-	-	-
2004	14,2	14,2	-	-	14,2	-	-	-	-	-
2005	5,5	5,5	-	-	5,5	-	-	-	-	-
Grand Total	36,2	36,2	-	-	36,2	-	-	-	-	-
Improvement of the legal framework for an efficient performance of the Special Economic Zone										
2002	1,5	1,5	-	-	1,5	-	-	-	-	-
2003	2	2	-	-	2	-	-	-	-	-
2004	2	2	-	-	2	-	-	-	-	-
Grand Total	5,5	5,5	-	-	5,5	-	-	-	-	-

Measures, Timing	TOTAL Funds	Source itemization								
		Federal Budget*				Budget of Kalinin- grad Ob- last**	Fir ms', Ow n Fun ds	Loans granted by Com- mercial Banks	For- eign Loans	Other source s of Fi- nance ***
		TO- TAL	Capi- tal in- vest- ments	Current needs						
				Other needs	R&D					
141										
Develop organizational and economic measures aimed at attracting investments and improving investment climate in the oblast										
2003	2	2	-	-	2	-	-	-	-	
2004	3	3	-	-	3	-	-	-	-	
Grand Total	5	5	-	-	5	-	-	-	-	
Develop recommended guidelines (possible scenarios) for further development of Kaliningrad										
142										
Oblast as a focal point for cooperation between the Russian Federation and the European Union										
2002	0,5	0,5	-	-	0,5	-	-	-	-	
2003	3	3	-	-	3	-	-	-	-	
2004	2,5	2,5	-	-	2,5	-	-	-	-	
Grand Total	6	6	-	-	6	-	-	-	-	
Make a forecast for further development of Kaliningrad Oblast, given its geopolitical situation										
143										
2003	2	2	-	-	2	-	-	-	-	
2004	2	2	-	-	2	-	-	-	-	
Grand Total	4	4	-	-	4	-	-	-	-	
Comparative analysis and assessment of alternative routes between Kaliningrad oblast and the main territory of Russia										
144										
2003	3	3	-	-	3	-	-	-	-	
Grand Total	3	3	-	-	3	-	-	-	-	
Comparative analysis of the various scenarios for the future of the fuel and power sector Kaliningrad Oblast										
145										
2003	2	2	-	-	2	-	-	-	-	
2004	2	2	-	-	2	-	-	-	-	
Grand Total	4	4	-	-	4	-	-	-	-	
Assessment of the status of small businesses in Kaliningrad Oblast and development of mechanisms and tools for their further evolution										
146										
2004	1	1	-	-	1	-	-	-	-	
2005	2	2	-	-	2	-	-	-	-	
Grand Total	3	3	-	-	3	-	-	-	-	
Creating of a scientific information analysis and consulting center (think tank)										
147										

Measures, Timing	TOTAL Funds	Source itemization								
		Federal Budget*			Budget of Kalinin- grad Ob- last**	Fir ms', Ow n Fun ds	Loans granted by Com- mercial Banks	For- eign Loans	Other source s of Fi- nance ***	
		TO- TAL	Capi- tal in- vest- ments	Current needs						
Other needs	R&D									
2005	3	3	-	-	3	-	-	-	-	-
Grand Total	3	3	-	-	3	-	-	-	-	-
148 Development and introduction of energy-saving technologies										
2003	0,5	0,5	-	-	0,5	-	-	-	-	-
2004	0,5	0,5	-	-	0,5	-	-	-	-	-
2005	0,5	0,5	-	-	0,5	-	-	-	-	-
Grand Total	1,5	1,5	-	-	1,5	-	-	-	-	-
149 Develop hardware and software for the modeling of sea traffic in the waters of the ports and navigable canal in the Kaliningrad region										
2004	1,2	1,2	-	-	1,2	-	-	-	-	-
Grand Total	1,2	1,2	-	-	1,2	-	-	-	-	-

* * Subject to update and adjustment on a yearly basis, every time the laws on the Federal Budget and the Federal Special Purpose Investment Programs are drafted, contingent on federal resources available.

** Subject to update and adjustment on a yearly basis, every time the Budget of Kaliningrad Oblast is designed, contingent on regional resources available.

*** Funds distributed by federal ministries and agencies, RAO UES Rossii, RAO Gazprom, local governments (municipalities).

**** In 2002 the funds for capital investments are made available under the Federal Special Purpose Program *Energy Effective Economy*.

***** In 2002 the funds for capital investments are made available under the Federal Special Purpose Program *Increasing the Yield of Russia's Soil (2002-2005)*.

Chief of Staff,
Government, Russian Federation
Minister, Russian Federation I.

Shuvalov

Appendix 3.

Federal Special Purpose and Regional Programs Being Implemented in Kaliningrad Oblast

1. Federal Special Purpose Programs

Item #	Program Designation	Ref. Number and Date of Program Approval	Time frameworks, Years
1	Children of Russia	Decree # 1696 by President of the Russian Federation dated 18.08.94, Decree # 210 by President of the Russian Federation dated 19.02.96	Extended to 2002
2	Disabled Children	Resolution # 625 by the Government of the Russian Federation dated 25.08.00	2001-2002
3	Children Orphans	Resolution # 625 by the Government of the Russian Federation dated 25.08.00	2001-2002
4	Gifted Children	Resolution # 625 by the Government of the Russian Federation dated 25.08.00	2001-2002
5	Refugees' and Displaced Persons' Children	Resolution # 625 by the Government of the Russian Federation dated 25.08.00	2001-2002
6	Prevention of juvenile delinquency	Resolution # 625 of the Government of the Russian Federation dated 25.08.2000	2001-2002
7	Development of social assistance schemes for families and children	Resolution # 625 of the Government of the Russian Federation dated 25.08.2000	2001-2002
8	Safe motherhood	Resolution # 625 of the Government of the Russian Federation dated 25.08.2000	2001-2002
9	Social welfare support to the disabled	Resolution # 36 of the Government of the Russian Federation dated 14.01.2000	2000-2005
10	The youth of Russia	Resolution # 1015 of the Government of the Russian Federation dated 27.12.2000	2001-2005
11	Prevention and elimination of social diseases	Resolution # 790 of the Government of the Russian Federation dated 13.11.2001	2002-2006
12	Development of education	Федеральный закон от 10.04.2000 г. № 51-ФЗ	2000-2005
13	Housing for 2002-2010	Resolution # 675 of the Government of the Russian Federation dated 17.09.2001	2002-2010
14	Promote further development of local government (municipalities) and set the grounds for practical materialization of the constitutional powers granted to bodies of local self-governance	Resolution # 1394 of the Government of the Russian Federation dated 15.12.99	2000-2014
15	Develop (local) bodies of the federal treasury system	Resolution # 677 of the Government of the Russian Federation dated 23.06.99	2000-2004
16	Energy saving initiatives in Russia	Resolution # 80 of the Government of the Russian Federation dated 24.01.98	1998-2005

Item #	Program Designation	Ref. Number and Date of Program Approval	Time frame-works, Years
17	Develop socio-economic and cultural environment for the rebirth of Russian Germans	Decree # 901 by the President, Russian Federation, dated 20.08.97; Resolution # 854 of the Government of the Russian Federation dated 08.07.97	1997-2006
18	World Ocean	Resolution # 919 of the Government of the Russian Federation dated 10.08.98	1998-2012
19	Promote employment in the Russian Federation	Resolution # 327 of the Government of the Russian Federation dated 11.04. 2000	2002-2005
20	Upgrade the uniform air traffic system in the RF	Resolution # 368 of the Government of the Russian Federation, dated 20.04.95	By 2005
21	State Housing Certificates	Decree # 102 by the President, Russian Federation, dated 28.01.98	1998-2002
22	Reform and further develop defense industries (2002-2006)	Resolution # 713 of the Government of the Russian Federation, dated 11.10.2001	2002-2006
23	Increasing the yield of the Soil in Russia	Resolution # 780 of the Government of the Russian Federation, dated 9 Nov., 2001	2002-2005
24	<i>Culture of Russia</i> Program	Resolution # 955 of the Government of the Russian Federation, dated 14.12.2000	2001-2005
25	Program for the development of commodities markets infrastructure in the Russian Federation	Resolution # 593 of the Government of the Russian Federation, dated 15.06.98	1998-2005
26	Development of Tourism in the Russian Federation	Ordinance # 2090-p of the Government of the Russian Federation, dated 17 Dec. 1999	1999-2005
27	Development of Nuclear Power Engineering in the Russian Federation	Resolution # 815 of the Government of the Russian Federation, dated 21 July, 1998	1998-2010
28	Energy Saving in Russia	Resolution # 80 of the Government of the Russian Federation, dated 24 Jan., 1998	1998-2005

2. Regional Programs

#	Program Title	Ref. Number and Date of Program Approval	Time frame-works, Years
1	Preventive Vaccination	Regional Administration's Resolution # 800 dated 17.12.1999	2000-2005
2	Saccharine disease (diabetes)	Resolution # 424 by Head of Regional Administration (Governor) of 25.10.2000	2001-2004
3	High priority measures to combat TB in Kaliningrad Oblast	Regional Administration's Resolution # 607 of 27.12.2000	2001-2004

#	Program Title	Ref. Number and Date of Program Approval	Time frameworks, Years
4	Cancerology	Resolution # 627 by Head of Regional Administration (Governor) of 19.10.1999	2000-2002
5	Kaliningrad Regional Center for continuous education Program	Resolution # 311 by Head of Regional Administration (Governor) of 14.08.2000	2001-2005
6	Protection of Children's Rights who require state protection	Law # 62 of Kaliningrad Oblast dated 14.07.2001	2001- 2005
7	Professional development, retraining, social rehabilitation and integration, creation of new jobs and resettlement of military service people and their family members upon retirement for 1998-2005	Regional Duma's Resolution # 5 of 15.01.1998	1998-2005
8	Seed farming	Resolution # 665 by Head of Regional Administration (Governor) of 02.11.1999	1999-2002
9	Costs related to the creation and maintenance of State Town-Planning Cadastre at the expense of revenues from the land tax	Resolution # 401 by Head of Regional Administration (Governor) of 23.08.2000	2001-2003
10	Program for the designing of an Integrated Town-Planning System in Kaliningrad Oblast and its individual parts	Resolution # 322 by Head of Regional Administration (Governor) of 15.08.2000	2001-2002
11	Regional Crime Combating Program in Kaliningrad Oblast for 1999-2003	Resolution # 501 by Head of Regional Administration (Governor) of 24.08.1999	1999-2003
12	Program for Long-Term Improvement of Materiel and Logistical Support System for the Kaliningrad Regional Office of the RF Federal Service of Tax Police for 2001-2003	Law # 267 of Kaliningrad Oblast of 25.10.2000	2001-2003
13	Development of Tourism	Law of Kaliningrad Oblast <i>On Tourism in Kaliningrad Oblast</i> and <i>Concept for the Development of Tourism in Kaliningrad Oblast for the Period Up To 2005</i>	2001-2005
14	State Support Program for	Law of Kaliningrad Oblast, June 2001	2001-2002

#	Program Title	Ref. Number and Date of Program Approval	Time frame-works, Years
	Small Business in Kalinin-grad Oblast for 2001-2002		

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Annex 4

Measures to develop and improve the normative and legal base required to implement the Program

The Program implementation has its specificity because there is a Special Economic Zone in Kaliningrad Oblast. Despite a 10-year period expired since its establishment (Regulation on the Special Economic Zone in Kaliningrad Oblast (*Yantar* Free Economic Zone) approved by the Resolution of the Council of Ministers of the RSFSR No. 497 of September 25, 1991), no comprehensive legal concept of its functioning has been developed that would take into account both regional interests and interests of the Russian Federation as a whole. As a result, in Kaliningrad oblast business promotion through the establishment of special administrative, fiscal, customs and financial benefits, which is generally accepted in the worldwide practice of similar (integrated) zones, runs against the priority of more general business activity regulating principles contained in the federal legislation. As a consequence, incentives and privileges were granted inconsistently, sometimes they were cancelled and restored alternately which made the performance of the Special Economic Zone highly dependent on current socio-economic and political changes and did not contribute to any noticeable improvement of the investment climate.

To change the situation, it is necessary that amendments be made to certain federal laws that govern the performance of the Special Economic Zone in Kaliningrad Oblast.

The following legal and organizational measures can be proposed regarding the Special Economic Zone in Kaliningrad Oblast:

- simplification of the effective customs procedures for exports and imports, currency importation and exportation by participants in the Special Economic Zone and investors operating in the Special Economic Zone;
- simplification of procedures for entry into, and exit from, Kaliningrad Oblast for foreign nationals and stateless persons working in or visiting the Special Economic Zone;
- legal endorsement of the special regime that applies to land;
- introduction of beneficial rates for utilities;
- establishment of *flag of convenience* ports;

- free and urgent (within not more than 30 days) public examination of project documentation required to implement Special Economic Zone projects;
- exemptions for the tax on real estate for participants in the Special Economic Zone;
- guarantee against any unfavorable changes in the laws of the Russian Federation for participants in the Special Economic Zone and investors operating in the Special Economic Zone.

In order to promote investments, privileges can also be provided for investors who grant loans at lower interest rates.

Priority should be given to the interests of the whole of the Russian Federation when additional fiscal (tax and customs) privileges are to be granted. It is advisable that such privileges be granted selectively – only for those participants in the Special Economic Zone that implement priority projects, strategically important for the whole country. The lines, or areas in which such projects are implemented must be limited and defined in the legislation. They may include:

- development and implementation of resource-saving (first of all, energy-efficient) technologies;
- development and implementation of new power sources;
- invention and introduction of new products and services that would allow to establish a temporary "production monopoly" on the world market.

An alternative financial mechanism for the development of the Special Economic Zone can be established in the framework of a special agreement between Kaliningrad Oblast and the Russian Federation.

To fight any malpractice associated with the illegal transfers of assets and funds from the privileged organizations, it would be reasonable to establish legislatively a procedure for privilege revocation (at a court of law) if certain economic performances are degraded.

Along with generally accepted statistical indicators of socio-economic development, special indicators should be developed to capture how efficient the Special Economic Zone in Kaliningrad Oblast will be, with due regard for its specific features.

With its enclave position, the strengthening of economic ties, as well as those in the area of science and technology, with the rest of the Russian Federation is of special importance for Kaliningrad Oblast.

A well-balanced industrial policy is required in the Special Economic Zone, as well as promotion and development of export-oriented and import-substituting

production plants working for the domestic market of Kaliningrad Oblast and the whole of Russia.

Such areas as the agriculture, establishment and development of tourist zones and business use of currently idle production facilities would be also relevant for the interests of the Russian Federation in Kaliningrad oblast.

Establishment, together with foreign countries, of international (joint) free economic zones in Kaliningrad Oblast, whose specific features and performance criteria would be governed by an international treaty, seems very promising.

Legal Framework

Measure	Source of Law/Regulation	Time Frame work, years	Entities Responsible for Implementation
Federal Level			
Transportation System			
Develop proposal concerning transit of fuel and power, goods and passengers between Kaliningrad oblast and the rest of Russia as the Lithuanian Republic, the Latvian Republic and the Republic of Poland pass over to the EU norms and regulations	Draft Resolution of the Government of the Russian Federation	2002	Ministry of Energy, RF; Ministry of Transport, RF; Ministry of Railroads, RF; Ministry of Defense, RF; State Customs Committee, RF; Federal Border guard Service, RF; Ministry of Foreign Affairs, RF; Administration of Kaliningrad Oblast
Draft Agreement to be entered into by the Russian Federation and the Republic of Belarus <i>On Unification of Tariff Distances for the purposes of transportation of goods along Russian and Belorussian railroads.</i>	Draft Agreement between Russian Federation and the Republic of Belarus	2002	Ministry of Railroads, RF; Ministry of Foreign Affairs, RF; Ministry of Economic Development and Trade, RF; Kaliningrad Railroad Agency; Administration of Kaliningrad Oblast
Develop proposals concerning the assignment for temporary use by the Kaliningrad Port Administration, Basin # 3, of the Baltic Naval Base allowing vessels to enter the above base pursuant to the procedure established in the federal legislation of the Russian Federation	Draft Ordinance by Ministry of State Property, RF	2002	Ministry of State Property, RF; Ministry of Defense, RF; Ministry of Transportation, RF; Administration of Kaliningrad Oblast; Kaliningrad Port Administration

Measure	Source of Law/Regulation	Time Frame work, years	Entities Responsible for Implementation
Fuel Sector and Power Engineering			
Develop an intergovernmental agreement concerning construction of the second gas-pipeline and transit of natural gas through the territory of the Lithuanian Republic	Draft intergovernmental agreement	2002	Ministry of Energy, RF; Ministry of Foreign Affairs, RF; OAO Gazprom; Kaliningrad Oblast Administration
To address the issue of using the Mazheikai refinery (Lithuania) to process oil from Russia and to deliver oil products to Kaliningrad oblast through the shortest possible transportation leg	Draft ordinance by the Government of the Russian Federation	2002	RF Governmental Commission for Operation of trunk oil- and gas- and oil products-pipelines; Ministry of Energy, RF; State Customs Committee, RF
Consider an option of setting up in Kaliningrad oblast an alternative TEC-2 steam power plant as a powerful source of electric power	Experts' opinion	2002-2003	Ministry of Nuclear Energy, RF; Ministry of Energy, RF; Kaliningrad Oblast Administration
Creating an Investor-Friendly Environment			Ministry of Economic Development and Trade, RF; State Customs Committee, RF; Ministry of Finance, RF; Ministry of Taxes and Fees, RF; CBR; Ministry of Justice, RF; Federal Border-Guard Service, RF; Ministry of Foreign Affairs, RF; Ministry of Defense, RF; Ministry of State Property, RF; Ministry of Industries and Science, RF; Ministry of Transport, RF; Ministry of Railroads, RF; Ministry of Energy, RF Kaliningrad Oblast Administration
Draft a new federal law On the Special Economic Zone in Kaliningrad Oblast, defining special conditions for administrative regulation and other forms of regulations to be applied	Draft federal law	2002	Ministry of Economic Development and Trade, RF; State Customs Committee, RF; Ministry of Finance, RF; Ministry of Taxes and Fees, RF; CBR; Ministry of Justice, RF; Federal Border-Guard Service, RF; Ministry of Foreign Affairs, RF; Ministry of Defense, RF; Ministry of State Property, RF; Ministry of Industries and Science, RF; Ministry of Transport, RF; Ministry of Railroads, RF; Ministry of Energy, RF Kaliningrad Oblast Administration

Measure	Source of Law/Regulation	Time Frame work, years	Entities Responsible for Implementation
Develop proposals providing for unobstructed movement along the territory of the Russian Federation of heavyweight trucks which are placed under the regime of the customs free zone and which operate between Kaliningrad oblast and other regions of the Russian Federation.	Draft resolution by the Government of the Russian Federation	2002	State Customs Committee, RF; Ministry of Transport, RF; Ministry of Railroads, RF; Ministry of Economic Development and Trade, RF, Federal Border-Guard Service, RF; Ministry of Finance, RF; Ministry of Industries and Science, RF; Kaliningrad Oblast Administration
Address the issue of subsidizing in part the cost of travel by train for residents of Kaliningrad Oblast to other regions of the Russian Federation.	Draft federal law	2002	Ministry of Finance, RF; Ministry of Economic Development and Trade, RF, Ministry of Railroads, RF; Kaliningrad Oblast Administration
Prepare proposals regarding protectionist tariff policy vis-à-vis goods that are in- and outbound to/from ports in Kaliningrad oblast.	Draft Ordinance by the Government of the Russian Federation	2002	Ministry of Railroads, RF; Ministry of Transport, RF; Ministry of Finance, RF; Ministry of Economic Development and Trade, RF; State Customs Committee, RF; Kaliningrad Oblast Administration
Financial Area Develop a set of measures aimed at making the regional financial system healthier and bringing the regional fiscal institutions in line with the new system of fiscal federalism relations between the three levels of government in Russia in the light of the newly effective Tax Code of the RF and the Budget Code of the RF Institutional Environment	Draft agreement between the Ministry of Finance, RF and the Kaliningrad oblast Administration	2002	Ministry of Finance, RF; Ministry of Economic Development and Trade, RF; Kaliningrad Oblast Administration; Institute of Economy in Transition

Measure	Source of Law/Regulation	Time Frame work, years	Entities Responsible for Implementation
Withdraw from the records of the Ministry of Defense, RF its plot of land in <i>Vostochny (Baltiysk)</i> and all the property thereon and make them assignable to the respective local government for construction of a ferry-boat compound and deep-water port Market and Social Infrastructure	Draft ordinance by the Ministry of State Property, RF	2002	Ministry of State Property, RF; Ministry of Defense, RF; Ministry of Transport, RF; Kaliningrad Oblast Administration; Kaliningrad Port Marine Administration
Design a joint mechanism with the European Union to fund the infrastructure and social sphere covered by the Program	Draft agreement	2002 - 2003	Ministry of Foreign Affairs, RF; Government Commission for Cooperation between Russia and EU; Kaliningrad oblast Administration
Draft an agreement between the Russian Federation and the EU on principles and measures necessary to provide for Kaliningrad Oblast's needs in the light of EU expansion Social Sphere	Draft inter-governmental agreement	2003	Ministry of Foreign Affairs, RF; Government Commission for Cooperation between Russia and EU
Set up a history and archaeology conservation area on the isle of Kant in Kaliningrad	Draft order by the Ministry of Culture, RF	2002	Ministry of Culture, RF; Kaliningrad Oblast Administration
Upgrade the status of the festival of organ music Autumn Constellation: make it an international event International Cooperation	Draft order by the Ministry of Culture, RF	2002	Ministry of Culture, RF; Kaliningrad Oblast Administration
Introduce in Kaliningrad Oblast a special procedure for issuance of all types of visas, for multiple and/or single entry, for short and long stay, directly at open cross-border passes, at the rates established in accordance with the reciprocity principle	Draft Resolution of the Government of the Russian Federation	2002	Ministry of Foreign Affairs, RF; Kaliningrad Oblast Administration
Build Mamontovo II - Gzhekhutki international motor-vehicle checkpoint for the needs of movement of passenger and goods	Draft Resolution of the Government of the Russian Federation	2004	Ministry of Foreign Affairs, RF; Kaliningrad Oblast Administration

Measure	Source of Law/Regulation	Time Frame work, years	Entities Responsible for Implementation
Develop an inter-Government Agreement regarding construction of an alternative gas-pipeline and transit of natural gas through the territory of the Lithuanian Republic	Draft inter-governmental agreement	2002 - 2003	Ministry of Energy, RF; Ministry of Foreign Affairs, RF; OAO Gazprom, Kaliningrad Oblast Administration
Regional Level Fuel Sector and Power Engineering Develop an energy saving Program for Kaliningrad Oblast for the period of 2002-2005	Draft Law of Kaliningrad Oblast	2002	Kaliningrad oblast Duma; Kaliningrad Oblast Administration
Release terms of reference for linking up the Kaliningrad TEC-2 steam power plant to the gas networks	Draft decision by OAO Gazprom	2002	OAO Gazprom; Kaliningrad Oblast Administration
Develop and sign Contract on long-term supply of gas for Kaliningrad Oblast	Draft Contract	2002	OAO Gazprom; Kaliningrad Oblast Administration
Tourism and Recreational Sector Develop a Program for further development of tourism and recreational industry in Kaliningrad Oblast for the period up to 2010	Draft law of Kaliningrad Oblast	2002	Kaliningrad oblast Duma; Kaliningrad Oblast Administration
Investment Climate Develop a new Law of Kaliningrad Oblast On Stimulating Investments into Production (Manufacturing Sector) in Kaliningrad Oblast	Draft law of Kaliningrad Oblast	2002	Kaliningrad oblast Duma; Kaliningrad Oblast Administration
Introduce amendments and additions to the Law of Kaliningrad Oblast On Science and Innovations Policy in Kaliningrad Oblast	Draft law of Kaliningrad Oblast	2002	Kaliningrad oblast Duma; Kaliningrad Oblast Administration
Develop a new Law of Kaliningrad Oblast On Industrial Policy	Draft law of Kaliningrad Oblast	2002	Kaliningrad oblast Duma; Kaliningrad Oblast Administration
Develop a concept for the development of manufacturing industries in Kaliningrad Oblast	Draft Resolution by the Kaliningrad oblast Duma	2002	Kaliningrad oblast Duma (legislature), Kaliningrad Oblast Administration
Develop a new Law of Kaliningrad Oblast On Fishery and Fishing Activities in Kaliningrad Oblast	Draft Law of Kaliningrad Oblast	2002	Kaliningrad oblast Duma (legislature), Kaliningrad Oblast Administration
Introduce amendments and additions to the Law of Kaliningrad Oblast On Land	Draft Law of Kaliningrad Oblast	2002	Kaliningrad oblast Duma (legislature), Kaliningrad Oblast Administration

Measure	Source of Law/Regulation	Time Frame work, years	Entities Responsible for Implementation
Social Sphere			
Culture			
Draft a Law of Kaliningrad Oblast On the Procedure of the Assignment for Use and Disposal of Property that is part of Russia's Historic and Cultural Heritage	Draft Law of Kaliningrad Oblast	2002	Kaliningrad oblast Duma (legislature); Kaliningrad Oblast Administration
Develop a regional special purpose Program aimed at preserving the historic and cultural heritage of Kaliningrad Oblast	Draft Law of Kaliningrad Oblast	2002	Kaliningrad oblast Duma (legislature); Kaliningrad Oblast Administration
Develop a regional special purpose Program aimed at providing assistance to, and furthering development of, libraries in Kaliningrad Oblast	Draft Law of Kaliningrad Oblast	2002	Kaliningrad oblast Duma (legislature); Kaliningrad Oblast Administration
Develop a regional special purpose Program aimed at developing state institutions of culture in Kaliningrad Oblast	Draft Law of Kaliningrad Oblast	2003	Kaliningrad oblast Duma (legislature); Kaliningrad Oblast Administration
Set up a regional representative office of the Federal agency for management and use of historic and cultural heritage	Draft Order, Ministry of Culture, RF	2002	Ministry of Culture, RF; Department of Culture, Kaliningrad oblast Administration
Health Care			
Introduce amendments and additions to the Law of Kaliningrad Oblast On Preventive Measures against the Spreading in Kaliningrad Oblast of the Disease caused by HIV-Infection	Draft Law of Kaliningrad Oblast	2002	Kaliningrad oblast Duma (legislature), Health Care Department, Kaliningrad Oblast Administration
Prepare a Draft Resolution by the Head of Administration (Governor) Kaliningrad Oblast On the Funding of Inter-Communities Medical Assistance Centers in the Region	Draft Resolution by the Head of Administration (Governor) Kaliningrad Oblast	2002	Kaliningrad Oblast Administration; Health Care Department, Kaliningrad Oblast Administration
Develop a regional Program to address the issues of the disabled persons and disability related problems	Draft Law of Kaliningrad Oblast	2002	Kaliningrad oblast Duma (legislature); Kaliningrad Oblast Administration

Measure	Source of Law/Regulation	Time Frame work, years	Entities Responsible for Implementation
Design per capita norms (standards) for the funding of health care institutions, develop the chargeable medical services sector in the oblast	Draft Resolution by the Head of Administration (Governor) Kaliningrad Oblast	2003	Kaliningrad Oblast Administration; Health Care Department, Kaliningrad Oblast Administration
Develop a Program for the Streamlining of local (municipal) health care systems proceeding from availability of resources in the budget of all levels and the needs of the population in medical services	Draft Resolution by the Head of Administration (Governor) Kaliningrad Oblast	2003	Kaliningrad Oblast Administration, Health Care Department, Kaliningrad Oblast Administration
Develop a regional special purpose Program <i>The Older Generation</i>	Draft Law of Kaliningrad Oblast	2002	Kaliningrad oblast Duma (legislature), Kaliningrad Oblast Administration
Education			
Establish legal framework for non-governmental educational institutions to operate in, and develop the sector of chargeable educational services	Draft Resolution by the Head of Administration (Governor) Kaliningrad Oblast	2002-2004	Kaliningrad Oblast Administration, Education Department, Kaliningrad Oblast Administration
Create a competitive environment for provision of chargeable educational services with a view to raising the equality of education	Draft Law of Kaliningrad Oblast	2003	Kaliningrad oblast Duma (legislature), Kaliningrad Oblast Administration
Reorganize the funding system in the education sphere, raise funds for the needs of educational institutions, create a differentiated and strictly targeted system for provision of assistance to children from low income families	Draft Law of Kaliningrad Oblast	2003	Kaliningrad oblast Duma (legislature), Kaliningrad Oblast Administration
Put in place a strategy for higher education establishments to train schoolmasters and other education specialists to staff elementary and secondary schools / vocational training colleges	Draft Resolution by the Head of Administration (Governor) Kaliningrad Oblast	2003	Education Department, Kaliningrad Oblast Administration
Housing Sector			
Develop a Regional Program for Modernization and Reform of the Housing and Utilities Sector in Kaliningrad Oblast	Draft Law of Kaliningrad Oblast	2002-2003	Kaliningrad Oblast Duma, Kaliningrad Oblast Administration

Measure	Source of Law/Regulation	Time Frame work, years	Entities Responsible for Implementation
Draft a Law of Kaliningrad Oblast On Mortgage Loans	Draft Law of Kaliningrad Oblast	2002-2003	Kaliningrad Oblast Duma, Kaliningrad Oblast Administration
Develop a regional Program for mortgage lending	Draft Law of Kaliningrad Oblast	2002-2003	Kaliningrad Oblast Duma, Kaliningrad Oblast Administration
Develop a draft Law of Kaliningrad Oblast On the Formation of a Reserve of Housing Stock to Enforce Social Guarantees of Borrowers who Take Long-term Mortgage Loans	Draft Law of Kaliningrad Oblast	2002-2003	Kaliningrad Oblast Duma, Kaliningrad Oblast Administration
Develop a regional Program for the rehousing of residents living in houses that are obsolete and hard to repair in Kaliningrad Oblast	Draft Law of Kaliningrad Oblast	2002-2004	Kaliningrad Oblast Duma, Kaliningrad Oblast Administration
Develop the procedure for the drawing up of TOR's and other design documents and issuance of permits for construction of real estate in Kaliningrad Oblast	Draft Resolution by the Kaliningrad oblast Duma	2002-2003	Kaliningrad Oblast Duma, Kaliningrad Oblast Administration
Environmental Protection and Nature Conservation			
Draft a law of Kaliningrad Oblast On the Coasts of the Baltic Sea, Kursha and Vistula Bays within the borders of Kaliningrad Oblast	Draft Law of Kaliningrad Oblast	2002-2004	Kaliningrad Oblast Duma, Kaliningrad Oblast Administration
Draft a law of Kaliningrad Oblast On Fee for Conversion Of Timberland Into Land That Can Be Used for Purposes Other than Forest management and for the Use of Timberland and/or Withdrawal of Timberland	Draft Law of Kaliningrad Oblast	2002-2003	Kaliningrad Oblast Duma, Kaliningrad Oblast Administration
Develop a regional Program for recycling and recovery of industrial and domestic wastes in Kaliningrad Oblast	Draft Law of Kaliningrad Oblast	2002-2004	Kaliningrad Oblast Duma, Kaliningrad Oblast Administration

Measure	Source of Law/Regulation	Time Frame work, years	Entities Responsible for Implementation
Develop a Draft Resolution by the Head of Administration (Governor) Kaliningrad Oblast On Approval of a new Regulation concerning the Procedure for Allotting Fields for Exploration of Commonly Encountered Minerals in Kaliningrad Oblast	Draft Resolution by the Head of Administration (Governor) Kaliningrad Oblast	2002-2003	Kaliningrad Oblast Administration

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