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CROSS BORDER ECONOMIC COOPERATION BETWEEN POLAND AND THE KALININGRAD OBLAST OF THE RUSSIAN FEDERATION

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Abstract

Kaliningrad Oblast is a Russian exclave lying by the Baltic Sea. In the best interest of Baltic countries, including Poland, is for the Baltic Sea region to be a stable and trustworthy region benefiting from multifaceted international cooperation. In view of the above, the Kaliningrad Oblast of the Russian Federation and its relations with EU states, and especially the closest neighbours have an important role to play. Trading between Poland and Kaliningrad Oblast is developing relatively well, but capital involvement remains well below the potential capacity. The scope of economic cooperation is relatively small. Work on providing security and services to Polish investors in Kaliningrad also remains unsatisfactory.

Key words: Baltic cooperation, Kaliningrad, cross border economic cooperation

INTRODUCTION

Kaliningrad Oblast is a Russian exclave lying by the Baltic Sea. The Oblast was closed to foreigners up to 1991 and completely isolated from the West due to the strategic role of the Oblast as the base of the Soviet Union navy as well as the land and aviation military forces. To the end of the eighties, the Kaliningrad Oblast as the most westwards positioned and strongly militarised part of the Russian Soviet Federative Socialist Republic (RSFSR) separated by the territories of republics being part of one federation, remained a taboo subject, as if nonexistent on political maps. The situation of the area changed dramatically at the turn of the eighties and nineties. The disintegration of the Soviet Union resulted in the region, which for decades was a closed military base, becoming the subject of political discussions. With Lithuania gaining independence, the Oblast was separated from Russia first by one and then by several states (Latvia and Belarus). Finally, the Oblast was marked off with the disintegration of the Soviet Union on the 8th December 1991.

In economic terms Kaliningrad was and is important for Russia as up to the nineties it provided approximately 10% of fish production, 6% of celluloid, 4% of paper (4 celluloid and paper works), 100% of amber (*circa* 500 tons annually). Over ten million tons of low sulphur content crude oil is exploited annually in the area. Extensive resources of rock salt, peat and mineral waters are also of economic significance.

Until recently, 10% of the Oblast inhabitants were employed in marine related jobs and a deep sea fishing fleet of 600 vessels was operated from the Oblast. The region was strategically military oriented thus it housed a number of military production plants. Lack of military orders in recent years resulted in the industry sector facing difficulties in maintaining operation. Only some plants managed to switch to civil oriented production.

The Oblast features a relatively well developed transport system with one ice free Baltic port directly linked by shipping lines with Russian ports and the ports of other Baltic countries.

The key city of the Oblast is Kaliningrad with 46% of the Oblast population and 60% of the industrial potential. The coast houses tourist and spa facilities in Svetlogorsk, Zelenogradsk, Yantarny and Pionierskij.

Kaliningrad has a unique position in historical, economic and geopolitical terms. This former part of Eastern Prussia is 600 km away from Russia. It is closer to Warsaw and Berlin than to Moscow and it is located relatively close to well developed regions of Western Europe. The region held the status of a free economic zone in 1992 and holds the status of a special economic zone since 1996.

The present transformation taking place along the Pregola River gives rise to hope and to a lesser degree to some concern. Contemporary Kaliningrad, part of Russia, is undergoing transformations in all spheres of life. Cut off from the world for decades it is now dynamically making up for lost time, for economic and cultural negligence in the past. An attempt to dissociate from the past was unsuccessful. We can see it coming back to its roots, though to a different state and ethnic origin (Jasiński 1994).

Following 1990, the process of reinstating historical relations began with new economic and cultural relations developing around the Baltic Sea. Cooperation and integration processes spread across many spheres of social, economic and political life, assuming various forms; both institutional, governmental bi and multiparty forms as well as nongovernmental activities at various levels and among a range of environmental groups. Baltic Europe integration develops as a transnational political and institutional network. Dynamic development of transborder relations triggered the downfall of barriers and prejudice, the developing of official and unofficial interpersonal relations, especially between members of local societies. Such cooperation includes scientific relations between the University of Gdańsk and Immanuel Kant State University of Russia¹.

Development of economic cooperation in neighbouring regions has also been initiated by regional and local agreements signed by Polish Voivodships, towns and gminas with Kaliningrad Oblast.

¹ Formerly called "State University of Kaliningrad".

The “opening up” of Kaliningrad Oblast provided an important impetus for developing economic relations – transforming the closed military zone into a free and next special economic zone. EU enlargement in 2004 also affected the specifics and unique geostrategic location of the Kaliningrad Oblast, which is part of the Russian Federation lying inside the European Community.

This process started in 1996 when Kaliningrad Oblast became a free economic zone. Thus entrepreneurs, including big corporations, gained access to the Kaliningrad Oblast with a population of nearly one million, and through the city “theoretically” to the entire Russian market. From that moment the Oblast was named “the gate to Russia”.

The Economic Department of the General Consulate of the Republic of Poland in Kaliningrad represents Polish economic interests in the Oblast, helps to establish trade relations, provides information and advisory services, assists in translations and interpreting, runs a database of Polish and Russian offers as well as official economic statistics.

Economic cooperation of Poland with the Kaliningrad Oblast is best illustrated by statistics on trade figures and investments. Trade turnover dynamics of the Oblast with Poland indicate development of economic cooperation (Fig. 1). Regular, more than tenfold growth of trade volume in the years 1994-2006 confirms the successful and consistent development of trade relations and Poland’s rating of an important economic partner.

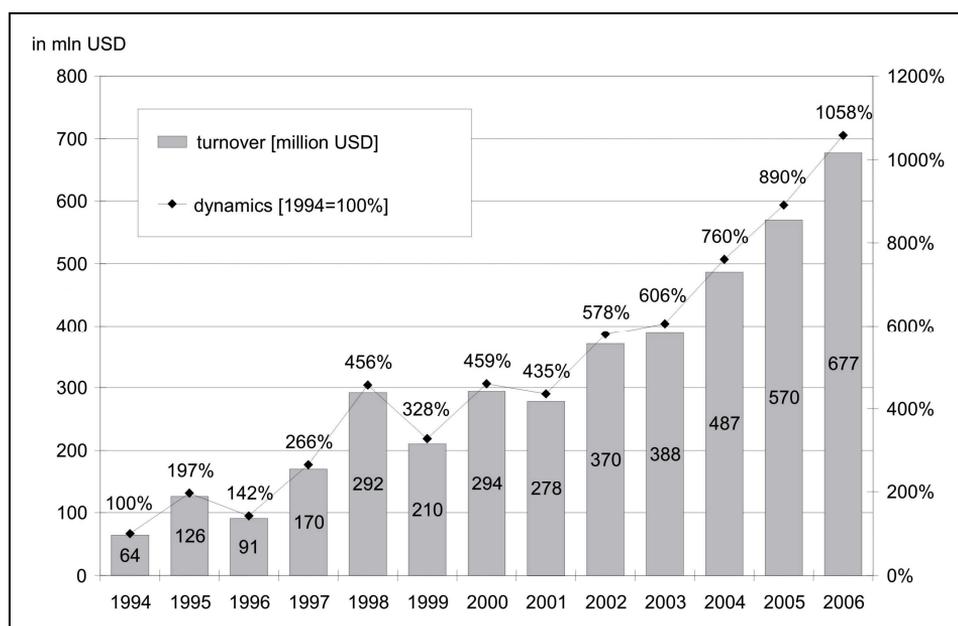


Fig. 1. Volume and dynamics of trade turnover between Poland and the Kaliningrad Oblast in the years 1994-2006

Source: own study based on data provided by the Economic Department of the General Consulate of the Republic of Poland in Kaliningrad

Poland rates third among Kaliningrad Oblast suppliers, after Germany and China (Tab. 1). The special location of the Oblast means that circa 70% of goods on the market is imported. The exchange of goods with Poland is best illustrated by the trade balance (Tab. 2). Polish companies mainly supply the Russian exclave with foodstuffs (up to 26% of import from Poland – official estimated data) and domestic detergents (17%). The main group of products imported from Poland to the Oblast also include: machinery products (55.3%), other chemical industry manufactured products: plastic and plastic derivative products, clothing, shoe wear, paper, construction materials and furniture. Poland is an export leader of frozen vegetables and fruits to Russia as a whole. The most often exported are vegetable mixtures, dried vegetables, frozen strawberries, fresh apples, cherries and plums.

Table 1

Key trade partners with the Kaliningrad Oblast in 2006

Country	Export value in USD	Export share in %	Country	Import value in USD	Import share in %
Latvia	461.8	18.6	Germany	865.6	16.4
The Netherlands	461.7	18.6	China	713.2	13.6
Malta	192.2	7.7	Poland	588.7	11.2
Germany	161.2	6.5	Korea	334.0	6.3
Belgium	148.3	6.0	Lithuania	309.6	5.9
Denmark	142.3	5.7	US	228.6	4.3
Finland	133.5	5.4	The Netherlands	172.5	3.3
Sweden	89.0	3.6	France	164.3	3.1

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

Table 2

Trade turnover of Kaliningrad Oblast with Poland in the years 2003-2006

Turnover	2003		2004		2005		2006	
	In million USD	Dynamics 2002=100%	In million USD	Dynamics 2003=100%	In million USD	Dynamics 2004=100%	In million USD	Dynamics 2005=100%
TOTAL	387.9	105.0	486.6	125.4	569.7	117.1	677.3	118.9
Export	44.0	37.2	64.7	147.0	54.9	84.8	88.6	161.4
Import	343.9	137.1	421.9	122.7	514.8	122.0	588.7	114.4

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

The main products imported from Kaliningrad Oblast include crude oil and oil derivatives, timber, fertilisers, copper and celluloid (Ministerstwo Gospodarki...).

Polish products are displayed in Kaliningrad shops similarly as construction components and fittings of new facilities, such as: window frames and doors, furniture, indoor fittings, sanitary fittings, electrical devices, air conditioning and ventilating systems, lighting systems, etc.

Spatial proximity, time and costs of transport favour other, mainly local companies dealing with foodstuffs and plastic products manufactured in Warmińsko-Mazurskie Voivodship and partly Pomorskie Voivodship. Companies targeted part of their production at the Oblast market, particularly dairy, baking and confectionary industries. It is estimated that 30% of Polish companies operating in the Kaliningrad Oblast come from Warmia and Mazury. Most farm and food products exported to the Oblast come from Warmińsko-Mazurskie Voivodship. Also paper products, household appliances, home and garden fittings belong to products found attractive by most shop networks, including the Russian tycoon "Wester".

Official statistical data does not account for crossborder trade, which is estimated at 30-50% as compared to registered trade (Falkowski 2004). Crossborder trade is

Table 3
Structure and volume of trade turnover between Kaliningrad Oblast and Poland in 2006

Product group	Export		Import	
	In million USD	Share in %	In million USD	Share in %
Farm and food products	2.3	2.6	100.8	17.1
Mineral products, fuel and energy	64.8	73.2	11.1	1.9
Including fuel and power products	64.2	72.5	2.0	0.3
Chemical products	4.7	5.3	128.3	21.8
Leather, furs	0.1	0.2	2.2	0.4
Timber and wood products	7.3	8.2	65.3	11.1
Textiles and shoe wear	0.2	0.3	23.3	4.0
Precious stones and metals	0.02	0.02	0.01	0.002
Metal and metal products	2.6	2.9	67.3	11.4
Machines and devices	5.8	6.5	82.3	14.0
Others	0.7	0.8	108.0	18.4
Total	88.6	100.0	588.7	100.0

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

popular among inhabitants on both sides of the border. This especially refers to the unemployed. Surveys conducted and direct interviews with self government leaders in border gminas show two different approaches to this phenomenon. Some of the self government representatives oppose this kind of activity because of its “doubtful legality”. On the other hand, in some parts of Warmińsko-Mazurskie Voivodship cross border trade is treated as “an expression of resourcefulness and entrepreneurship” of the unemployed or of those looking for extra income. For most residents, and sometimes for whole families, crossborder trade is the only source of income, especially in gminas suffering a high, in national terms, unemployment rate.

The price differences in the Kaliningrad Oblast and Poland mean that the most profitable trade involves alcohol, tobacco and fuels. Sporadically, there are cases of smuggling drugs across the border and sometimes arms (to Poland) and cars (to Russia).

The Kaliningrad Oblast market of nearly a million, due to the diversified income level of its inhabitants, may be seen as a market that is not highly receptive but it is very important for Polish companies. The Special Economic Zone of Kaliningrad Oblast as “gateway to Russia” has become an attractive location for investments. About 600 Polish companies have at maximum been registered there. The majority are minor entities and half of them periodically suspend operation after successful upward swings waiting for better times (Nowochatko and Molga 2007). Nevertheless, the number of Polish companies exceeds the number of German companies – the biggest importer in the Oblast. In 2006, two direct neighbours of the Oblast were among the biggest investors. The Dutch, Swiss and Cypriots did not invest directly. The biggest portfolio investors in particular years such as Virgin Islands, the Bahamas and Lichtenstein were rather connected with money laundering by criminal organisations operating in the Commonwealth of Independent States. The biggest direct investors were Lithuanian companies, which successfully compete on the Oblast market with Polish companies (Table 4). In terms of value, Polish investments in Kaliningrad Oblast rate fifth in overall investment in Russian regions. In total 17.6 million USD were invested to the end of 2006.

Table 4

The biggest investors in Kaliningrad Oblast in 2006

Country of origin	Total	Including direct investments	
	In million USD	In million USD	In %
The Netherlands	21.4	0.5	2.34
Lithuania	17.9	9.9	55.31
Switzerland	12.2	-	-
Cyprus	9.1	0.6	6.59
Poland	6.9	6.2	89.86

Source: own study based on data provided by the Economic Department of the General Consulate of the Republic of Poland in Kaliningrad

Representatives of the Polish Consulate in Kaliningrad encourage investments in the production of medicaments, cosmetics, foodstuffs, juices, frozen food and baby food recommending and indicating the success of companies operating on the Kaliningrad market. The rating of Kaliningrad Oblast attractiveness made by Russian companies does not arouse trust of potential investors. It places the Oblast in group 3B1, which means lowered potential and moderate risk (Russian Federation... 2004).

Polish products are common in Kaliningrad, many Polish brands are popular and have been recognised for several years now. In order to export own products and to obtain tax reliefs it is worthwhile to establish a company in the Russian Federation to gain in terms of financial security (Gadomski 2004). Companies from Poland, which decided to invest in the Russian Federation, enter the market in various ways:

- by constructing factories or distribution centres, usually near Moscow or St Petersburg and next expanding to other regions;
- by building factories in the Kaliningrad Oblast and further customs free distribution on the Russian market;
- by opening trade representative offices in Kaliningrad Oblast to conduct market research and develop further distribution or even production facilities in the special economic zone;
- by contributing capital to companies in the Oblast and establishing companies with mixed Polish and Russian capital.

The biggest and best known Polish companies operating in Kaliningrad Oblast include:

- *Budimex S.A.* a construction company seated in Warsaw, realising big construction projects in Kaliningrad (office buildings in the city centre);
- *Dospel Sp. z o.o.* company seated in Częstochowa, producing and servicing air conditioning and ventilations devices and systems;
- Polish-Russian company *Chłod System* producing devices and cooling systems for industry and commerce (seated in Magnitogorsk) in Czelabinski Oblast;
- *Grupa Maspex* from Wadowice, which opened and operates a coffee roasting plant and also deals in production and distribution of *Tymbark* juices and drinks;
- *Sunset Suits* from Poznań, a producer of clothes for men with own name brand company stores in Kaliningrad;
- *Polish Airlines LOT S.A.* present on the Kaliningrad market since May 2002, have their own offices in Kaliningrad, the only aviation carrier that runs a regular daily line from Warsaw; *LOT* is the sole operator of *Star Alliance* providing aviation services for Kaliningrad, making Warsaw the only transit airport from Kaliningrad to the European Union or North America;
- *Kredyt Bank S.A.* also operating in Kaliningrad for several years provides banking services to Polish entrepreneurs and others (plans to close down the sole representative office in Russia);
- *MTI – Furninova Polska Sp. z o.o* in Kętrzyn, a Polish-Swedish company producing upholstered furniture (sofas, armchairs, footstools and beds) has its sales outlet in Kaliningrad;
- *Zakłady Przemysłu Odzieżowego "Warmia"* (clothes factory) in Kętrzyn distributes its products in Kaliningrad Oblast;

- *Apator Metrix S.A.* from Tczew, a leader in production and distribution of bellows gas meters is developing an assembly plant in the Oblast;
- *Gino Rossi S.A.* from Słupsk has an exclusive shoe shop in Kaliningrad;
- *LPP S.A.* from Gdańsk, a clothes company dealing in distribution of products under own brand name (*re-kids, Henderson*) with name brand shops in Kaliningrad; (2 shops *RESERVED*, 1 shop *CroppTown*).

The latter companies originate from the Warmińsko-Mazurskie and Pomorskie Voivodships.

Their business is often of global nature and Kaliningrad Oblast is treated as just another European region, where products can be sold and profitable business developed on the market.

Capital investment and Polish-Russian joint ventures are popular with production and service companies. Other important Polish investments in Kaliningrad Oblast also include: artificial fertilisers handling facility in Kaliningrad port, construction of a starch factory in Bagrationovsk by *Polimer-Mostostal S.A.*, contracts for restoration of historical part of the city and Kaliningrad historical sites, involvement of construction company in building of power and heat plant, a port terminal in Baltiysk and food processing plant in Svetlogorsk.

Trading and investing in the Kaliningrad Oblast is not a problem free business. The most onerous barriers in entering the Oblast market (and Russian market) include:

- unreliable legislation, imprecise regulations and procedures, varied interpretations of the law by clerks and administration officers;
- no laws protecting investments, trademarks or brand names;
- long lasting and costly process of product standardisation and certification – e.g. 4000 USD on starting mass production of a piece of furniture (single model, line);
- discouraging customs tariffs for apples or furniture imported from Poland, which means the products lose their competitive edge on the Russian market;
- obstructed border crossings with poorly operating green lanes facilitating business travel;
- high costs of gaining a licence for service providers (construction works);
- long waiting time for work permits, lasting even up to 4-5 months, which is particularly arduous for construction companies with scheduled contracts;
- imprecise or rather free estimates by customs for changing the customs code (to obtain a certificate of origin) of imported semi products for further processing on the Oblast territory;
- high transit fees for transport to Russia and corrupted Belarus customs.

In the best interest of Baltic countries, including Poland, is for the Baltic Sea region to be a stable and trustworthy region benefiting from multifaceted international cooperation. In view of the above, the Kaliningrad Oblast of the Russian Federation and its relations with EU states, and especially the closest neighbours have an important role to play.

CONCLUSIONS

- The region holds the status of a free economic zone and since 1996 that of a special economic zone. The Act of 2005 on a Special Economic Zone in the Kaliningrad Oblast is aimed at major investors, particularly Moscow capital. The Act lacks reference to small and medium sized business for which the requirement to invest not less than 5 million Euro is a serious barrier.
- In the year 2000 the gross regional product per capita amounted to 65% of the level reached by Baltic States and 50% of that achieved by Poland.
- Political tension between Warsaw and Moscow is reflected at the local level. We can note it observing the rhythm and traffic flow at border crossings. On the other hand good official international relations mean relaxed and easy local cooperation.
- Following Poland's accession to the EU, interest in closer official relations with Russian partners grew at the local level.
- Trading between Poland and Kaliningrad Oblast is developing relatively well, but capital involvement remains well below the potential capacity.
- The scope of economic cooperation is relatively small. Work on providing security and services to Polish investors in Kaliningrad also remains unsatisfactory.
- A good method for promoting and presenting Polish products and services in Kaliningrad is the Polish National Exhibition Polexport organised annually in the city.
- Opportunities for export growth to Kaliningrad Oblast lie in the dynamically developing construction business, construction materials and fittings.
- The present transformations taking place by the Pregola River give rise to hope and to a lesser degree to some concern. Contemporary Kaliningrad, part of Russia, is undergoing transformation in all spheres of life. Cut off from the world for decades it is now dynamically making up for lost time, economic and cultural negligence of the past.

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TRANSGRANICZNA WSPÓŁPRACA GOSPODARCZA POLSKI Z OBWODEM KALININGRADZKIM FEDERACJI ROSYJSKIEJ

Streszczenie

Obwód Kaliningradzki to rosyjska eksklawa położona nad Bałtykiem, której najważniejszym miastem jest Kaliningrad, gdzie koncentruje się 46% ludności i 60% potencjału przemysłowego. W obwodzie znajduje się stosunkowo dobrze rozwinięty kompleks transportowy. Region zyskał w 1992 r. status wolnej strefy ekonomicznej, a w 1996 r. specjalnej strefy ekonomicznej.

Rozszerzenie Unii Europejskiej w 2004 r. wpłynęło na specyfikę i unikatowe geostrategiczne położenie Obwodu Kaliningradzkiego, stanowiącego część Federacji Rosyjskiej, położonej wewnątrz Zjednoczonej Europy. Od tego czasu zaczęto określać go mianem „bramy do Rosji”. Polska jest trzecim najważniejszym dostawcą towarów do Obwodu Kaliningradzkiego po Niemczech i Chinach. Polskie przedsiębiorstwa zaopatrują eksklawę Rosji przede wszystkim w żywność oraz chemię gospodarczą. Do głównych grup towarów importowanych z Polski do obwodu należą ponadto: wyroby przemysłu maszynowego, inne produkty przemysłu chemicznego: tworzywa sztuczne i pochodne i pochodne, odzież, obuwie, papier, materiały budowlane oraz meble. Do najczęściej wysyłanego asortymentu należą mieszanki warzywne, warzywa suszone, mrożone truskawki, a także świeże jabłka, wiśnie i śliwki. Z Obwodu Kaliningradzkiego sprowadza się głównie ropę naftową i produkty ropopochodne, wentylacyjne, oświetlenie, drewno, nawozy, miedź i celulozę. Polskie towary widoczne są w kaliningradzkich sklepach, podobnie jak komponenty budowlane i wyposażenie nowych obiektów, takie jak: stolarka okienna i drzwiowa, meble, zabudowy wnętrz, armatura sanitarna, urządzenia elektryczne i klimatyzacyjne. Ponadto artykuły papiernicze, gospodarstwa domowego, wyposażenie domów i ogrodów są towarami, którym zainteresowane są większe sieci sklepów, w tym rosyjski potentat „Wester”. Szacuje się, iż około 30% polskich firm działających w Obwodzie Kaliningradzkim pochodzi z Warmii i Mazur. Większość artykułów rolno-spożywczych eksportowanych do obwodu pochodzi z województwa warmińsko-mazurskiego. Niespełna milionowy rynek Obwodu Kaliningradzkiego, z uwagi na zróżnicowany poziom dochodów ludności, można uznać za stosunkowo mało chłonny, ale okazuje się on bardzo ważny dla polskich przedsiębiorstw. Ich liczebność jest większa niż firm z Niemiec – największego importera w tym regionie. W 2006 r. wśród największych inwestorów w obwodzie było dwóch jego bezpośrednich sąsiadów. Największym inwestorem bezpośrednim są firmy litewskie, które skutecznie konkurują na rynkach obwodu z polskimi firmami. Polskie towary są powszechne w Kaliningradzie, wiele polskich marek jest dobrze znanych i rozpoznawalnych od kilku lat.