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KALININGRAD OBLAST 2016

THE SOCIETY, ECONOMY AND ARMY

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Moscow has been developing a new model of governance for Kaliningrad Oblast over the past year. It involves curbing the pathological mechanisms which have held sway in the oblast so far (partly through the liquidation of tariff concessions and improving the transparency of the amber trade) and improving the effectiveness of how public funds are disbursed (including dismissals in the Baltic Fleet, changes in the management of building the stadium for the 2018 FIFA World Cup). The changes in the regional government and the fact that the governance of the oblast was entrusted to people sent from Moscow and had no links with the region was also an important stage of this process. The first one (July - October 2016) was Yevgeny Zinichev, a former bodyguard of President Putin. He was replaced by the current acting governor, Anton Alikhanov, a young economist from the Ministry of Industry and Trade of the Russian Federation.

The changes are a result of many interwoven factors, above all Russia's depleting financial resources and austerity policy, the increasing militarisation of the Russian Federation and the important role the oblast plays in this policy, and the need to ensure a satisfactory result in the upcoming presidential election (March 2018). Although there are at present no visible symptoms suggesting an intensification of protest sentiments, Moscow is taking preventive action to try to tighten its grip on local elites and residents, keeping in mind the public protests in the region in 2010 which the Kremlin found alarming.

Kaliningrad Oblast remains an essential element of the Russian military strategy in the Baltic region. This is borne out by the deployment in the region of S-400 air defence systems, ships equipped with Kalibr missiles, and Bastion missile defence systems (which are nominally anti-ship weapons but are also adjusted to attacking ground targets). Furthermore, the deployment of Iskander missile systems has been launched which enables the creation of a so-called 'Anti-Access/Area Denial' (A2/AD) zone, extending the range of Russian weapons to the territories and airspace of the neighbouring NATO member states.

I. KALININGRAD'S SIGNIFICANCE FOR RUSSIA AND ITS SPECIAL CHARACTERISTICS

What makes Kaliningrad Oblast unique among the federal subjects of Russia is its **geopolitical situation**: it is a Russian semi-exclave surrounded by NATO and EU member states (Poland and Lithuania). The physical distance from Russia proper (over 360 km in a straight line) not only makes communication difficult but also contributes to the oblast's intensifying relations with its neighbours. As a consequence, this loosens the bond between the oblast (its economy and citizens) and the rest of Russia. For this reason Moscow has traditionally feared excessively strong influence from other countries in the region or even the future loss of this territory. On the other hand, the oblast is used by the Kremlin as an important instrument in its policy towards EU and NATO member states, which results, for example, in an intensified presence of institutions of force in the oblast and restrictions in co-operation with the neighbouring countries.

Kaliningrad Oblast is an essential element of the Russian military strategy in the Baltic region. It is aimed at maintaining a military potential (see Appendix 4) that will successfully tie up the forces of a potential opponent, fulfilling tasks linked to monitoring alien military activity in the Baltic Sea and, depending on the conflict scenario, also:

- a. using the units deployed in Kaliningrad Oblast as supporting forces in the main attack in the Western strategic direction, or
- b. taking actions which have the character of military provocation while avoiding an open military conflict.

The military units deployed in Kaliningrad Oblast **have limited capabilities to conduct independent combat operations.** Any long-term or high-intensity actions are only possible as an element of actions taken by all forces in the Western strategic direction (Western Military District/Regional Group of Forces of Belarus and Russia). The main tasks of the forces grouped in Kaliningrad Oblast include: tying up the forces of the opponents in the frontier regions; conducting joint operations with forces deployed in Belarus as part of unblocking the oblast; and acts of sabotage at the rear of enemy troops (including tactical sea landing). The main limitation for the operation of Russian forces in Kaliningrad Oblast – in addition to relying on support, above all logistical, from Russia proper – is the geography of the theatre of action which makes it difficult for armoured and mechanised troops to move (the poorly

developed network of roads, the hilly terrain and lakes). Due to the fact that it lies within the immediate range of NATO member states' weapons of destruction, the maritime component of the troops in Kaliningrad Oblast (stationed in Baltiysk) has limited capabilities to act.

Regardless of the strictly military features, the troops in Kaliningrad Oblast are a vital component of the **psychological warfare which fits in with the policy of deterring NATO** waged by Russia against the West (the fleet's activity, the commencement of the deployment of Bastion and Iskander missile systems in the oblast and spreading rumours about the presence of tactical nuclear weapons in the oblast).

The economic situation of Kaliningrad Oblast is strictly linked to that in the remaining part of Russia; most of the region's production is sold within Russia, and the main investors are Russian business entities. **The region's economy is characterised by a small consumer market** (around one million residents), **low investment potential and an almost complete dependence on expensive exports**. The accessibility of supplies from Russia is limited by high transit costs, and imports from the EU are limited by customs duties and import bans (especially the embargo on agricultural and food products from Western countries imposed by Moscow in August 2014). **The region's investment attractiveness is further reduced by the fact that foreigners have limited access to a large part of its area** (1/3 of its territory) **due to security measures**. The economic privileges granted to the region in the early 1990s, which were expected to help overcome these barriers, in fact turned it into a grey zone for the trans-shipment of goods from third countries to Russia proper. **Amber deposits** (Kaliningrad Oblast has 90% of global resources; this sector is currently controlled by the state-owned corporation Rostec) are the main advantage of the region, but its budget benefits from this sector only to a limited degree (amber produced there is traded to a great extent in the grey economy, while its processing sector is poorly developed). Given the present level of economic development, **Kaliningrad Oblast is able to satisfy its demand for electricity by its own production**, but the raw materials used in this process are imported. The construction of the Baltic Nuclear Power Plant in the oblast has been frozen since 2013 because the main investor, the state-controlled company Rosatom, has been unable to find potential foreign recipients of the electricity it will generate there.

The Russian system of financial clearance between the federal budget and the regional budgets means that only 40% of public levies collected in Kaliningrad

Oblast go to the local budget, while the rest goes directly to the central budget of the federation from which federal transfers are then made (in 2015, they accounted for over 30% of the region's income).

The region's unique geographic situation and the fact that many of its residents are immigrants (only around 50% of them were born in the oblast) contribute to a kind of **separateness of the oblast's society**. Its special characteristics are influenced by the strong presence of military personnel (representatives of institutions of force and their families account for around 30% of the population), the high mobility and intensive contacts with neighbours from the EU (residents of the oblast go abroad more often than to Russia proper) and numerous proofs (including architectural) of the region's rich German past. **Residents of Kaliningrad Oblast are characterised by greater activity and entrepreneurship than residents of other parts of Russia** (initially this was linked to trans-border shuttle trade). This was manifested in 2010 through massive political protests (up to 10,000 participants) which mainly concerned socio-economic issues, but anti-Kremlin slogans were also heard. These forced Moscow to replace the region's governor. However, the Kremlin's policy aimed at weakening the sense of distinctness of residents of Kaliningrad Oblast, discrediting the opposition, breaking its unity and restricting the possibilities to act, has curbed the protest potential in the region. Less than 200 people took to the streets in Kaliningrad as part of the wave of anti-Putin protests that rolled across Russia in late 2011/early 2012, and voter turnout in the parliamentary election in 2016 was lower than the Russian average. Separatist tendencies in the oblast (which were not strong, anyway) have also been suppressed (currently around 4% of respondents accept the possibility of separating the oblast from Russia), and references to the German past of the region are continually becoming less visible.

The general **goal of the Kremlin's policy towards the region is to keep its grip on it and to maintain social stability, but actions taken by Moscow towards the oblast have been inconsistent and often contradictory**. In fact, given the strong presence of institutions of force and the weak position of the governors (most of whom lacked clear support from the Kremlin), power in the region has been divided, which would often lead to conflicts of interest. The governors had no influence on decisions concerning institutions of force and the territory controlled by them as well as the key branches of the region's economy. Both the amber sector and the project to construct a nuclear power plant have been supervised directly from the federal centre. In 2005, the Kremlin for the first time nominated an 'outsider', Georgy Boos, a businessman

from Moscow, for governor of Kaliningrad Oblast. Boos was tasked with strengthening the influence of the central government. However, by focusing on promoting Moscow's interests and ostentatiously disregarding the local elites and public, he brought about massive protests, which resulted in his dismissal. Boos was replaced by another weak governor, Nikolay Tsukanov, a local resident who had no political support base in Moscow. Tsukanov managed to ensure social stability even though he also provided ostentatious examples of ineffective governance and – according to media reports – became involved in numerous corruption scandals. The new challenges the region needs to face are: Russia's dwindling financial resources, the 2018 FIFA World Cup, and the intensifying militarisation of Russia. These have led to **the Kremlin deciding to take direct control of the oblast. The first step was to nominate Yevgeny Zinichev as acting governor - he was an FSB officer and a former trusted bodyguard of President Putin Next they replaced him with Anton Alikhanov, a young economist from the Ministry of Industry and Trade of the Russian Federation** (for more information on Alikhanov see: The political situation).

II. CURRENT SITUATION IN THE REGION – MAJOR TRENDS

1. The economic situation

The region's current economic situation is affected above all by the continuing economic crisis in Russia and the changing conditions of doing business in the oblast. This is partly due to the **discontinuation of tariff concessions on 1 April 2016** which used to apply as part of the Special Economic Zone established in 1996. The new approach to managing Kaliningrad's economy is also having an impact. Anton Alikhanov began implementing this policy a year ago on behalf of the Kremlin, initially as deputy prime minister and acting prime minister of the oblast and currently as acting governor.

The drop in oil prices which coincided with **Western economic sanctions and Russian counter-sanctions** (goods shortages and increasing prices) have also had a strong adverse effect on the economy of Kaliningrad Oblast (although the region's socio-economic indicators match average levels for Russia as a whole). Gross regional product (GRP) in 2015 fell by 7.6% (and is expected to fall a further 1.3% in 2016; for more information on this, see Appendix 1). All potential growth factors remain negative at present. Investments in the region have decreased for the fourth year in a row (by 10% annually on average), and the residents' real incomes have been falling since 2015 as well (by around 6%). **The economic situation is still very tough**, especially in the primary sector, the car industry (Kaliningrad's Avtotor reduced its production by 50% in 2015), and trade and transport. However, some symptoms of an improvement of the situation have been observed in the processing industry (mainly the food sector), agriculture (which was to a great extent a result of the embargo on imports of food and agricultural products and the import substitution policy implemented) and the constructions sector (partly in effect of the preparations for the 2018 FIFA World Cup).

Attempts to boost Kaliningrad's economy have so far been unsuccessful.

According to Alikhanov's estimates, when the 1996 Special Economic Zone applied, the state budget 'lost' around 0.5 trillion roubles (up to US\$15 billion) on customs duty exemptions and indirect taxes, and the oblast turned into a grey trans-shipment zone; only 109 residents have been registered in the 2006 Special Economic Zone to date, principally all of them also benefited from tariff concessions, and their total investments are estimated to have reached around 90 billion roubles (up to around US\$2.5 billion). Over the past few years, the

Russian government has been trying to change the character of the oblast's economy from one based on trans-shipment to one based on production and exports, above all by liquidating the customs privileges granted in 1996. This is expected to help reduce the economic pathologies in the region. In spite of previous fears, the liquidation of the tariff concessions has not yet had any major adverse effect on the economy (no spectacular bankruptcies or protests have been seen). Around 800 entities in the region benefited from these concessions at the beginning of 2016. Being aware of the upcoming legal changes, they were preparing for them, for example, by increasing the imports of goods in the last months of the Special Economic Zone's operation or by increasing their reserves. Additionally, the Russian government, in an attempt to reduce the negative consequences of the liquidation of the tariff concessions, decided, for example, to lower the investment threshold (to 50 million roubles – currently around US\$0.77 million) for residents of the currently existing Special Economic Zone (established in 2006). This offers tax privileges, and they have planned to offer financial compensation to those businesses which have lost out as a result of the changes – in aggregate, an additional 67 billion roubles (around US\$1 billion) has been allocated from the federal budget for 2016 for this purpose. This subsidy has caused an increase in the share of transfers from the federal budget in the oblast's income structure from 30% in 2015 to a planned level of over 70% in 2016. The oblast's total budget revenues were expected to increase in 2016 to a level of 108 billion roubles, including around 30 billion roubles generated by the oblast itself, and the other 78 billion roubles as transfers from the federal centre (67 billion roubles to companies in connection with the liquidation of the tariff concessions and 10 billion roubles allocated for the region's development, mainly for social welfare needs: healthcare, education and social policy). However, since the special subsidies to companies were used to a lesser extent than expected (only a quarter of the planned 67 billion roubles had been spent by the end of September 2016), the federal government has decided to reduce them in 2016 to 24 billion roubles (around US\$0.37 billion), which was taken into account in the 2016 budget amendment (accepted in November 2016).

At the same time, the federal government has commenced work on a new document that will set the rules for the operation of the economy of Kaliningrad Oblast. They are expected to boost the region's development (the bill is already in the final phase of negotiations). According to declarations, the new document will offer tax relief to investors and is expected to make the region more open to foreign investors, for example, by introducing visa facilitations for foreigners – electronic visas received on the oblast's border. The Ministry of

Foreign Affairs of the Russian Federation, referring to the promised visa facilitations, decided to discontinue – starting from 1 January 2017 – the experiment of issuing short-term tourist visas to Kaliningrad Oblast (these facilitations were introduced in 2002; around 1,000 foreign tourists used them annually).

The region does not stand out among other Russian federal subjects as regards the level of corruption (the oblast has relatively small funds at its disposal) and corruption schemes. So-called ‘everyday corruption’ in citizen-public servant relations has been disappearing in the oblast over the past few years (because it is relatively easy to reveal it and the gains are low). At present, public servants ever more often derive financial benefits and siphon off public money by discriminating in favour of firms and projects owned by their relatives and friends.

This is visible in Kaliningrad on all levels of public administration, including on the level of the mayor of Kaliningrad, Alexander Yaroshuk, or the former governor of the oblast, Tsukanov, who have been accused - in the media and Transparency International’s reports - of favouring in public tenders firms they have links to and federal corporations present in the oblast (in one case related to Tsukanov, the prosecutor’s office admitted conflict of interest). One of the worst corruption scandals concerns the construction of the football stadium. Local officials are accused of having chosen the worst location for the stadium on a swampy island in the city centre guided by the interests of the firms linked to them. The capital-intensive investment (it is practically impossible to calculate how many tonnes of sand and other construction materials were needed for the ground preparation) will allow the expansion of housing development areas in the city centre.

The ambers sector is also a perfect area for siphoning off public funds from the region as its greater part has in fact been functioning in the grey economy for 25 years. In 2015, the Kaliningrad Amber Factory (a mine) located in Yantarny extracted 313 tonnes of amber, and its income from sale reached 1.3 billion roubles (around US\$21 million). The estimated level of illegal production in Kaliningrad is currently around 150 tonnes annually, and in most cases this is higher quality amber, larger nuggets. Until 2012, when the amber factory was owned by the Russian Ministry of Finance, illegal amber production was flourishing, and the amber trade was controlled by organised criminal groups (Viktor Bogdan, who currently lives in Poland, was allegedly one of their main leaders). Since 2012, when the state-controlled holding Rostec became the owner of the factory, control over amber cash flows has been in the

hands of President Putin's old friend, Viktor Chemezov (the head of Rostec) and his circle. However, the low transparency in the sector and budget revenues generated by it have not changed in principle.

The oblast's new government has been trying to curb abuse and improve the efficiency of how public money is used. Over the past few months, the oblast's government has made efforts to improve the transparency of the amber trade, insisting that the state-owned company Rostec should standardise production and sell amber on the exchange (although the first auctions were held in July 2016, amber worth a total of only 50 million roubles, i.e. around 15% of quarterly output, was sold during the first three months), at the same time supporting the development of the processing industry in the region. The first special auction is to be held in late December; local jewellers have previously had very limited access to amber. It is still uncertain whether the regional government intends to combat illegal amber extraction and how it will do this. Another major element of the region's economic policy is the increased scrutiny of the football stadium construction project aimed at guaranteeing it finishes on time and preventing any further growth in its costs.

2. The social situation

The continuing economic crisis in Russia has adversely affected the social situation in Kaliningrad oblast (real wages fell by around 10% in 2015 alone). The crisis has also brought about a **deterioration of public sentiment** manifested above all through dissatisfaction with the local socio-economic situation and freefalling evaluations of people's own financial situation. This is reflected in the results of social surveys (for example, the percentage of those dissatisfied with the situation in the region increased by 12 percentage points between November 2014 and April 2015; for more information, see Appendix 2). Residents of the oblast also declare that they have noticed increased dissatisfaction with the government's actions among the general public due to the increasing prices during the crisis (a survey conducted in March 2016). However, the deterioration of people's living standards has not led to outbreaks of public dissatisfaction, and the predominant stance taken by residents is passive adaptation to the deteriorating financial conditions. The surveys also show that, despite the predominant belief that massive acts of protest are unlikely, residents of Kaliningrad declare their readiness to take part in possible demonstrations more than twice as often as people on average in Russia. Only small protests, with participation in the tens or at most hundreds have been seen in Kaliningrad over the past few months where strictly political slogans were not raised. For

example, the popular protests of people who have been wronged by developers and protests against construction projects on the seaside (including the hotel in Svetlogorsk) have taken place.

For Kaliningrad Oblast, keeping a relatively open border with its neighbours is an important factor ameliorating social tension. This is a kind of a safety valve which enables, for example, for the shortages in the region's supplies to be made up by shopping and medical tourism, mainly to Poland, and a certain limited development of entrepreneurship based on cross-border co-operation (mainly shuttle trade).

The Russian government's **anti-Western propaganda campaign** (aimed at constructing an image of Russia as a besieged fortress and an image of Western countries as enemies) **appeals less to residents of Kaliningrad** than to those of other regions of the Russian Federation. Social surveys reveal that residents of the oblast declare a positive attitude towards Poles and Lithuanians. On the other hand, Moscow's fears that overly close relations between residents of Kaliningrad Oblast and their neighbours may result in anti-Kremlin sentiments have proven unfounded. **The Kremlin's activity continues to be evaluated very positively in Kaliningrad Oblast** (poll results are similar to the Russian average; according to a survey conducted in March 2016, the president's activity was evaluated positively by 86% of residents of the oblast, and the prime minister's activity by 56% of them). The annexation of Crimea met with massive approval (88%). The opinions are even better in those cities where the Baltic Fleet is stationed.

Similarly, **the Polish government's decision to suspend small border traffic (in July 2016) between Poland and Russia, even though it is viewed as an inconvenience by residents of the oblast, has not provoked any marked emotion** because they have relatively easy access to EU member states' visas, and this allows them to maintain intensive external contacts (in the case of Russians less than 50% of border crossings with Poland were made on the grounds of the small border traffic cards). What poses a more serious problem to the oblast are the less frequent visits of Polish citizens to the region and their less intensive shopping (part of the excise duty on alcohol and fuel goes to the oblast's budget). The local grey economy, where illegal productions of alcohol products had been flourishing in the past few years, has also been adversely affected. It cannot be ruled out that, if the suspension of small border traffic is maintained, the attitude of the oblast's residents to Poland may deteriorate.

3. The political situation

The irregularities in managing funds in the oblast (the examples being the Baltic Fleet, the stadium construction and the airport development) recently revealed by prosecution authorities are an **element of the central government's broader policy aimed at disciplining the local elites**. This is also linked to the political calendar (the parliamentary election in September 2016 and, above all, the presidential election planned for March 2018).

The recent **replacements of the oblast's governors** have been a manifestation of this policy. Yevgeny Zinichev, who previously served as the head of the oblast directorate of the Federal Security Service (FSB), was nominated as acting governor on 28 July 2016 (he had been an officer of the Federal Protective Service and one of President Putin's bodyguards; he had led the FSB in Kaliningrad Oblast from 2015). However, he was replaced on 6 October by the then acting prime minister of the oblast, Anton Alikhanov, and was appointed one of the six deputy heads of the FSB. The new acting governor has a good opinion in business circles and has the Kremlin's approval for cracking down on the most scandalous elements of the corrupt system and for concentrating the cash flow in the present government's hands. Leonid Mikhailyuk, the new head of the local FSB who had no previous links with the oblast (until September 2016 he served as a deputy head of the FSB in Perm) is expected to help him with this task.

Staff reshuffles have brought in a modification of the oblast's political governance model, i.e. depriving representatives of the local elites of influence in the decision-making process and replacing them with people sent from Moscow. This will result in Moscow tightening its grip on the region and reducing the scale of the existing pathologies linked to fund management in the oblast or state-controlled companies profiting from criminal activity (for more information on this issue see section II.1.).

Anton Alikhanov, acting governor of Kaliningrad Oblast. He was born in 1986 in Sukhumi. He has a PhD in economy and a degree in law. He is the youngest head of a Russian federal subject in Russia's modern history.

He worked for the Russian Ministry of Justice from 2010 and for the Ministry of Industry and Trade from 2013, for example, as director of the Department for Regulating Foreign Co-operation.

On 22 September 2015, Alikhanov was nominated deputy prime minister of Kaliningrad Oblast (he was in charge of agriculture and industry). Less than a year later (on 30 July 2016) he was promoted to acting prime minister of the oblast. This position was reinstated by the then newly nominated acting governor Yevgeny Zinichev (under Tsukanov's rule, the regional government was led by the governor).

On 6 October 2016, President Vladimir Putin entrusted Alikhanov with the function of acting governor of Kaliningrad Oblast (the election for this position will be held in September 2017). When submitting the nomination, the president made mention of the fact that Alikhanov was one of the authors of the new bill concerning the development of Kaliningrad Oblast.

According to press reports, Alikhanov may count on strong support from Moscow. He comes from a wealthy family. His father, Andrey Alikhanov, was among the founders of the food processing giant, Rosmiasomoltorg (holding a 20% stake). Andrey is a good friend of the present deputy prime minister of Russia, Igor Shuvalov, and the presidential envoy of the Volga Federal District, Mikhail Babich.

The media also hints that Alikhanov might be connected to the head of Rostec, Viktor Chemezov (Rostec is the owner of Kaliningrad Amber Factory).

The **parliamentary and local elections on 18 September 2016** were the first effectiveness test for the new government. Although the government party achieved a result worse than the average in Russia, it may be acknowledged that it passed the test. United Russia officially garnered 43.4% of the vote (54.2% in the Russian Federation as a whole) and its candidates won in both single-member constituencies in the oblast. The same three parties as elsewhere in Russia: the Liberal Democratic Party of Russia (LDPR), the Communists (CPRF) and A Just Russia (JR) exceeded the 5% threshold. The support levels for the opposition parties were marginal (for more information see Appendix 3).

Along with the election to the State Duma, elections to the oblast parliament and Kaliningrad city hall were held. United Russia won these elections, too (29 out of 40 seats in the regional parliament and 20 of 28 seats in the city council) mainly owing to victories in single-member constituencies (winning 33 of a possible 34 seats there). Approved opposition parties and two deputies of Patriots of Russia, which is in fact a pro-Kremlin party, also made it to the regional parliament.

Numerous cases of manipulation and electoral fraud were seen during the elections (as in other parts of Russia). The election campaign in the oblast was almost unnoticeable, which was proof of the attempt to discourage citizens from political activity. In effect of this, voter turnout was low – officially 44% (compared to 47.9% on the nationwide scale) and was most likely significantly overstated by the government. Other means of manipulation included gerrymandering (changing the boundaries of the constituencies in a manner disadvantageous to the opposition), paying for votes for United Russia, writing additional votes in the final stage of the voting and most likely forging reports compiled in polling stations.

4. The military and security situation

The Russian government's stoking the atmosphere of threat allegedly posed by NATO member states to the oblast is used as an excuse for the **organisational changes in the Baltic Fleet** launched in spring 2016. On 1st April the decision was taken to re-form the 11th Army Corps on the base of existing ground units, and supplies of new weapons were promised. The Russian side has so far limited itself to creating the command structures and the staff for the new corps, but no new combat units have been developed. The most recent essential reinforcement of combat potential took place in 2011 when an additional artillery brigade was formed (on the foundation of subdivisions which until then reported to other structures). It may be estimated that the forces currently stationed in Kaliningrad Oblast have around 25,000 soldiers in aggregate.

S-400 air defence systems (in 2012-2013) have been deployed in Kaliningrad Oblast (they have a range of 400 km; two divisions of the 183rd Anti-Aircraft Rocket Regiment have been equipped with this system) as have **Bastion missile systems** (with Onyx missiles which have a range of at least 450 km in the case of attacking ground targets; one of the divisions of the 25th Coastal Missile Regiment was equipped with Bastion systems in November 2016). This, alongside the commencement (in October 2016) of the deployment of **Iskander-M missile systems** (with a range of at least 500 km) has had a major impact on the combat capabilities of the Armed Forces of the Russian Federation in the Baltic Sea basin. The date of completion of the process of rearmament of the 152nd Missile Brigade with Iskander missiles is still an open question – initially it was planned for completion in 2018. The Bastion systems attract special attention – it should be assumed that, as with the solutions applied on the latest Russian warships, these systems can be used to launch **Kalibr missiles** (with a range of at least 1,500 km). Furthermore, the Baltic Fleet has four large

project 20380 corvettes (introduced into service in 2008-2014 which have a base in Baltiysk) which can be equipped with Kalibr cruise missiles, as well as two newer and smaller **project 21631 corvettes** which are already equipped with Kalibr missiles (they changed their base from Sevastopol to Baltiysk in October 2016). It should be emphasised that Poland is also within the range of the vessels (including submarines) equipped with these missiles operating in the Black Sea basin. **The deployment of these systems has significantly expanded the spectrum of the Russian troops' attack capabilities and has enabled the creation of a so-called Anti-Access/Area Denial (A2/AD) zone based on Kaliningrad Oblast.** If the zone is created, the territories and air-spaces of the neighbouring NATO member states and, considering the range of Kalibr missiles, also the entire Central Europe and Scandinavia will be within the range of Russian weapons.

Unlike the situation in the mid-1990s, **Kaliningrad Oblast has lost its features of an 'aircraft carrier' (mainly as a result of the development of air- and sea-based precision weapons).** However, **the deployment of the new types of missile systems has made this region highly essential in the context of the potential paralysing of military activity on NATO's eastern flank.** Units of the land component of troops are the last to be rearmed on the scale of the Western Military District as a whole. Only the tempo of rearmament of the air and maritime components is similar to that seen in other troop units in the European part of the Russian Federation. From the Russian viewpoint, the only element of strategic significance is the new (it was put into operation in 2011) early warning radar station Voronezh-DM located in Pionersky, and first S-400 air defence systems outside Moscow were deployed in Kaliningrad to protect it. However, taking into account the **viewpoint of the countries in the region, it is the Anti-Access/Area Denial zone created on the basis of the new missile systems that has strategic significance.**

One consequence of the increasing militarisation of the oblast is the **intensified activity of the secret services and other institutions of force.** A special role is played by the structures of the Federal Security Service (FSB) and the Federal Protective Service (FSO) which are in charge of the oblast's counter-intelligence protection and governmental special communication. Over the past few years the oblast has been playing an increasingly important role as a **staging base for carrying out intelligence tasks in Lithuania and Poland.** One proof that intelligence activity has intensified is found in the fact that tasks which have the nature of classical political intelligence are carried out by the FSB which, according to the competences act, is only tasked with

shallow trans-border intelligence. The fact that proves that such actions are taking place is the indictment brought against the FSB officer Nikolai Filipchenko who was detained in Lithuania on charges of attempting to recruit officers of the Lithuanian services tasked with protecting the premises used by the president of Lithuania.

III. POSSIBLE DEVELOPMENTS

- The key task for the Kremlin in the immediate future as regards Kaliningrad Oblast is for the upcoming presidential election to be held there without major incident. The special characteristics of Kaliningrad Oblast mean that the Kremlin will be making efforts to maintain social stability, for example, through economic development, maintaining the residents' ability to travel outside the oblast and continuing subsidising the region (although, most likely, the value of the subsidies will be reduced when compared to 2016, which has been an exceptional year in this context). At the same time, the militarisation of the region and the upward trend of secret services control there will be intensifying. The Kremlin will still have the dilemma as to how these two processes can be reconciled.
- The oblast's new government will most likely be able to reduce the scale of economic pathologies in the region, which is in the interest of the Kremlin and the state budget. However, there is room for scepticism as to whether the mechanisms that enable the government elite (this circle is constantly contracting) to grow rich will be eliminated. This is because the general character of the Russian state is not changing: the centralised decision-making process, the lack of competition, the strongly developed bureaucratic apparatus, and the predominance of the dominant position of institutions of force.
- Kaliningrad also remains an important instrument of Moscow's policy towards the EU and NATO. The experience observed so far and the fact that the secret services are tightening their grip on society mean that the Russian government can allow the region to continue developing co-operation with its neighbours (including the northern part of Poland), without risking that anti-Kremlin sentiments will be stoked. Poland's decision to suspend small border traffic may be used by the Russian government to discredit Poland in the eyes of residents of Kaliningrad Oblast and, should relations between Russia and Brussels improve, also in the eyes of EU member states by using this example as proof of "Polish Russophobia".
- It should not be expected that the difficult economic situation in the region will lead to serious outbreaks of public dissatisfaction that would pose a threat to the regime. If any protests occur, these will most likely be only isolated cases. Despite their special characteristics, residents of the oblast are generally receptive to the Kremlin propaganda which claims that NATO

member states pose a threat to Russia. Since the oblast is located on the potential frontline, this strengthens the desire to focus on the leader and seek support from the federal centre.

- The expected complete rearmament of the 152nd Missile Brigade in Chernyakhovsk (by 2018) with Iskander missiles will not principally change the military situation around Kaliningrad Oblast. At the most this will slightly expand the spectrum of Russian impact as part of the anti-NATO access denial zone. Russia may use this as a bargaining chip in an attempt to convince the new US administration (and the governments of some European NATO member states) to withdraw from building elements of the US-NATO missile defence system in Redzikowo, Poland. If such attempts are unsuccessful, the deployment of Iskanders, which has long been planned, will most likely be presented as a response to the implementation of this project.

APPENDICES

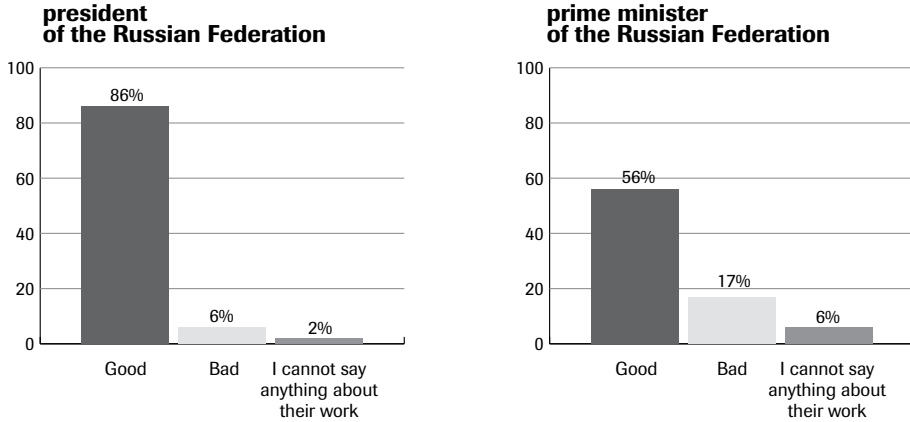
Appendix 1. Key socio-economic indicators of Kaliningrad Oblast

	2015	First six months of 2016 (against first six months of 2015)
Gross regional product (change %)	-7.6	-1.3 (all-year forecast)
Industrial production (change %)	-7.0	1.1
Agricultural production (change %)	10.2	n/a
Retail trade (change %)	-8.7	-1.5
Inflation (figures for December)	11.7	3.5
Investments in share capital (change %)	-13.1	-8.9
Citizens' real incomes	-5.8	3.7
Real wages	-9.9	-2.1
Unemployment (in %)	5.9	5.9
Regional budget deficit (in %)	19	n/a

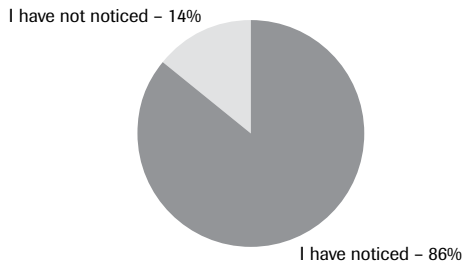
Source: Rosstat

Appendix 2. Public sentiment in Kaliningrad Oblast according to public opinion polls

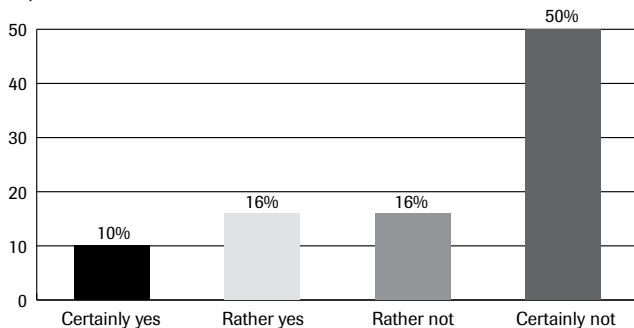
1. How do you evaluate the government’s work? (survey conducted by KM Group in March 2016)



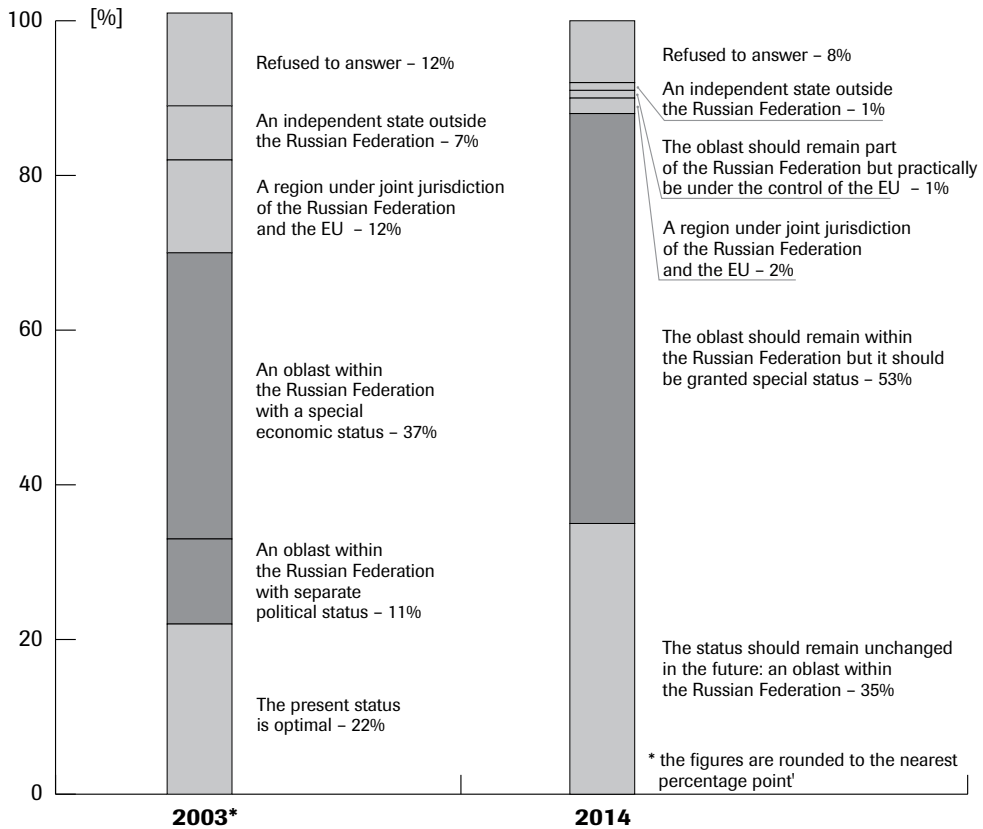
2. Have you noticed increasing dissatisfaction in your environment with the activities of the government and the leaders of our oblast in connection with the growing prices of goods, utility services, etc.? (survey conducted by KM Group in March 2016)



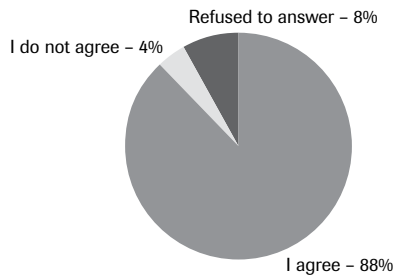
3. If residents of the oblast took to the streets the next Sunday, would you personally take part in the demonstration? (survey conducted by KM Group in March 2016)



4. Which status of Kaliningrad Oblast would be the most beneficial from the viewpoint of the interests of its residents? (survey conducted by KM Group)

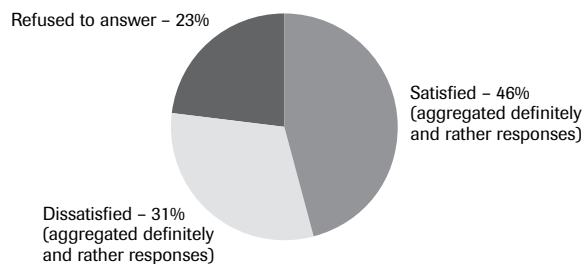


5. Do you agree with the annexation of Crimea and Sevastopol to our country as subjects of the Russian Federation? (survey conducted by KM Group in April 2014)

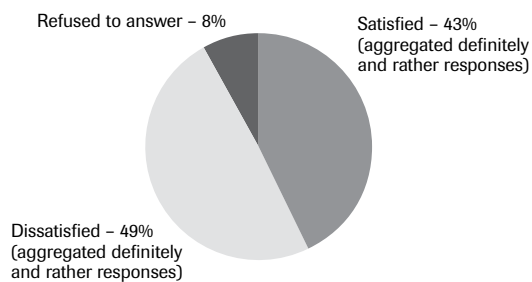


6. Evaluation of the situation in the region

KALININGRAD OBLAST: What is your level of satisfaction with the way things are going in Kaliningrad Oblast?
(A survey conducted by KM Group in March 2015)



RUSSIAN FEDERATION: What is your level of satisfaction with the way things are going in the region?
(A nationwide survey conducted by FOM in March 2015)



Appendix 3. Official results of the parliamentary and local elections in Kaliningrad Oblast held on 18 September 2016

Political party	Election to the State Duma		Election to the regional parliament in Kaliningrad Oblast		Comparison – percentage of those who voted for party lists in the election to the State Duma on the scale of the whole country
	Percentage of those who voted for party list (5% threshold)	Seats won in the two single-member constituencies	Percentage of those who voted for party list (5% threshold)	Number of seats (including those won in the 20 single-member constituencies)	
United Russia	43.4%	2	41.2%	29 (19)	54.2%
Liberal-Democratic Party of Russia	16.6%	0	16.7%	4 (0)	13.1%
Communist Party of the Russian Federation	14.0%	0	16.7%	4 (0)	13.3%
A Just Russia	5.6%	0	7.1%	1 (0)	6.2%
Patriots of Russia	3.4%	0	5.6%	2 (1)	0.6%

Appendix 4. Russian military units in Kaliningrad Oblast

(general military and combat support sub-units and their basic weapons in compliance with CFE are specified along with the make-up of the units)

Central subordination units

- 1407th Central Artillery Armament Base - Kaliningrad.

Land Forces (units reporting directly to the command of the Western Military District)

- 82nd Radio-Technical Brigade - Primorye (part of the unit, the other part is located in Smolensk Oblast);
- 841st Radio-Electronic Combat Centre - Yantarny.

Aerospace Forces

- NN. Radio-Technical Node (Voronezh-DM radar station) - Pionersky;
- 26th Measurement Point (Sazhen-TM quantum-optical station, Fazan command and measurement system).

Naval Forces (Baltic Fleet)

Maritime component:

- 128th Surface Ship Brigade - Baltiysk (one project 11540 frigate, four project 20380 corvettes equipped with Kalibr missiles; two project 965A destroyer ships were withdrawn from service in 2016);
- 71st Landing Ship Brigade - Baltiysk (four project 775/775M landing ships, two project 12322 Zubr air-cushioned landing crafts, two project 21820 landing boats, three project 11770 boats and one project 1176 landing boat);
- 64th Maritime Region Protection Brigade - Baltiysk (146th Anti-Submarine Warfare Tactical Group);
- six project 1331M ZOP corvettes; 323rd Trawler Division - four project 12650 base minesweepers, six project 13000 and 10750 roadstead minesweepers; 313th Spetsnaz Division);
- 36th Missile Boat Brigade - Baltiysk (1st Missile Boat Squadron - seven project 12411/12411M missile corvettes; 106th Small Missile Ship Squadron - four

- project 12341 missile corvettes; two project 21631 missile corvettes with Kalibr missiles);
- 342nd Emergency and Rescue Division - Baltiysk (twelve rescue and fire protection units);
- 72nd Reconnaissance Ship Squadron - Baltiysk (two medium-sized project 864 reconnaissance ships, two small project 503M reconnaissance ships);
- 603rd Hydrographic Ship Squadron - Baltiysk (one project 861 hydrographic ship, seven hydrographic boats);
- 51st Hydrographic Service Region - Baltiysk (six hydrographic boats);
- Group of Supply Units - Baltiysk (eleven auxiliary units, including two tankers and eight tugs).

Land component:

- 336th Marine Infantry Brigade - Baltiysk (two marine infantry battalions, one landing and assault battalion, two artillery squadrons; 134 BTR-80/82A armoured personnel carriers, eighteen 122 mm 2S1 Gvozdika self-propelled howitzers, twelve 120 mm 2S9 Nona-S self-propelled howitzers, six 122 mm BM-21 Grad multiple rocket launchers);
- 561st Maritime Reconnaissance Point - Parusnoye (two Spetsnaz companies);
- 25th Coastal Missile Regiment - Donskoye (two missile batteries, six Redut system launchers);
- NN. Arsenal - Baltiysk.

Air component:

- a squadron of ZOP helicopters from the 72nd Airbase - Donskoye (fourteen ZOP Ka-27PL/PS helicopters).

The Group of Land Forces reporting to the Baltic Fleet command

11th Army Corps - Kaliningrad - consisting of:

- 7th Mechanised Regiment - Kaliningrad (three mechanised battalions, one tank battalion, a squadron of self-propelled artillery; 85 BMP-2 infantry fighting vehicles, 30 T-72B tanks, eighteen 152 mm 2S3 Akatsiya self-propelled howitzers, twelve 120 mm 2B16 Nona-K towed howitzers; general military battalions with a three-company structure; the possibility

- to develop a mechanised squadron on the basis of the equipment stored in weapon and ammunition bases);
- 79th Mechanised Brigade – Gusev (three mechanised battalions, a tank battalion, two self-propelled artillery squadrons, one missile artillery squadron, one anti-tank artillery squadron; 41 T-72B tanks, 159 MT-LB armoured personnel carriers, eleven BTR-80 armoured personnel carriers, 36 152 mm 2S3 Akatsiya self-propelled howitzers, eighteen 120 mm 2S12 Sani mortars, twelve 122 mm BM-21 Grad multiple rocket launchers, twelve 100 mm MT-12 Rapira anti-tank cannons; general military battalions with four-company structure);
 - 244th Artillery Brigade – Kaliningrad (one self-propelled artillery squadron, one missile artillery squadron; eighteen 152 mm 2A36 Giatsint-B towed howitzers, eighteen 122 mm BM-21 Grad multiple rocket launchers);
 - 152nd Missile Brigade – Chernyakhovsk (three missile squadrons, twelve 9K79 Tochka-U missile systems; there are plans to replace them with Iskander systems by 2018);
 - 22nd Anti-Aircraft Rocket Regiment – Kaliningrad (four missile batteries, sixteen 9K330 Tor systems).

Units directly reporting to the Baltic Fleet command:

- 69th Engineer Regiment – Gvardeysk;
- 254th Spetsnaz Radio-Technical Battalion – Gvardeysk;
- 134th Communication Battalion – Kaliningrad;
- 135th Communication Battalion – Kaliningrad;
- 2574th Weapons and Ammunition Base – Guryevsk/Ryabinovka (it is possible to develop a tank regiment);
- 2676th Weapons and Ammunition Base – Cherepanovo (it is possible to develop a mechanised regiment);
- 2652nd Artillery Weapons and Ammunition Base – Prokhladnoye (it is possible to develop an artillery regiment);
- 148th Repair and Construction Battalion – Kaliningrad.

The Group of Aerospace Forces reporting to the Baltic Fleet command

44th Anti-Aircraft Division – Kaliningrad – consisting of:

- 183rd Anti-Aircraft Rocket Regiment – Gvardeysk (six missile squadrons; sixteen S-400 systems, 24 S-300PS systems, six 96K6 Pantsir-S1 systems);

- 1545th Anti-Aircraft Rocket Regiment - Znamensk (two missile squadrons; sixteen S-300W systems);
- 81st Radio-Technical Regiment - Pereyaslavskoye.

Units directly reporting to the Baltic Fleet command:

- 72nd Airbase - Chkalovsk (one fighter aircraft squadron, two multirole squadrons; eleven Su-27/Su-27P fighter aircraft, thirteen Su-27SM3 multirole combat aircraft, eight Su-30M2 multirole combat aircraft, twelve Mi-24 combat helicopters, eight Mi-8 combat support helicopters);
- assault squadron of the 72nd Airbase - Chernyakhovsk (sixteen Su-24M/Su-24MR front-line bombers, planned for rearmament by 2017 with new Su-30/ Su-34 multirole combat aircraft);
- transport squadron of the 72nd Airbase - Khrabrovo (three An-26 transport aircraft, two An-140-100 transport aircraft);
- 81st Communication and Radio-Technical Battalion - Primorsk/Lunino;
- 82nd Communication and Radio-Technical Battalion - Kaliningrad.