



Weekly Briefing

**Lithuania external relations briefing:
Kaliningrad exclave: a weak spot of EU economic
sanctions against Russia
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Kaliningrad exclave: a weak spot of EU economic sanctions against Russia

Summary

Russia's aggression in Ukraine has prompted unprecedented economic sanctions from the EU and other Western allies against Russia. In particular, EU's the 4th and 5th economic sanctions packages involve banning of imports to the EU of certain goods from Russia. Lithuania has sought to apply the same treatment to the sanctioned goods in cases where they go between Russia's Kaliningrad exclave and the rest of Russia in transit through the territory of Lithuania. Amid heavy criticism and threats from Russia, the European Commission issued updated Guidelines regarding these sanctions which made an exception and allowed the transit of such sanctioned goods through Lithuania. Lithuania committed to adhere to the updated Guidelines and allow the transit of sanctioned goods. This decision by the EU of backing down to Russia is seen as a dangerous precedent which can be further exploited by Russia. It also shows that there are disagreements within the EU how much Russia should be punished and the lack of appetite in some EU countries for a stricter approach towards Russia.

Introduction

Kaliningrad exclave, a region with a population of just under 1 million, is sandwiched between Lithuania, Poland and the Baltic Sea, therefore the transport of goods and passengers between Kaliningrad and the mainland Russia is rather complicated. Apart from a slow seaway route, any land transport route must cross the territory of at least one EU/NATO member state, and the fastest and cheapest route for trains and trucks goes through the territory of Lithuania.

After the collapse of the Soviet Union, in 1993 Russia and Lithuania signed an „Agreement Concerning International Road Transport“.¹ In 2002, a Facilitated Transit Agreement for persons between the Kaliningrad region and the rest of the Russian Federation was signed.² In accordance to the bilateral agreements, for almost 20 years Russian passengers and goods were traveling between Kaliningrad region and the rest of Russia unhindered. The

¹ Agreement concerning international road transport, in:
<https://treaties.un.org/doc/Publication/UNTS/Volume%201831/volume-1831-I-31342-English.pdf>

² Report from the Commission, in:
<https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:52006DC0840&from=FR>

situation has changed after the EU has started preparing and putting in place sanctions packages against Russia in response to its so-called special military operation in Ukraine.

The 4th and 5th EU Sanctions Packages

The 4th EU sanctions package³, among other things, prohibited EU imports of Russian iron and steel products. The 5th EU sanctions package⁴ also prohibited EU imports of Russian coal, cement, rubber products, strong alcohol drinks, and other products. Notably, neither of the packages specified whether these restrictions also apply in the case of the aforementioned goods travelling between Kaliningrad area and the rest of Russia across Lithuania.

Updated European Commission Guidelines

Lithuania, a strong supporter of Ukraine, has sought to interpret the EU sanction packages in the strictest sense, and accordingly in July 2022 applied all the restrictions found in these sanctions packages to products going to Kaliningrad and crossing the territory of Lithuania, effectively blocking the transit of the aforementioned goods. Lithuanian officials argued that the sanctions are supposed to inflict a heavy economic cost on Russia because of its aggression in Ukraine, they also argued that Russia can still use the sea route to bring goods without any restrictions, therefore they will not hurt local population of Kaliningrad region too much. Russia claimed that Lithuania's actions were „unprecedented“ and resorted to protests and threats that it will take some unspecified retaliatory actions against Lithuania and the EU⁵. Lithuania wanted to maintain its hardline approach and negotiated behind the scenes with its EU and NATO allies but after negotiations the European Commission's (EC) Guidelines regarding transit through Lithuania were published on 13 July 2022,⁶ which allowed the transit of sanctioned goods like steel and iron to Kaliningrad, provided that they meet two conditions: (1) transported exclusively by train, and (2) the amount of such goods do not exceed the the previous years' transit volumes. The second condition effectively meaning that quotas are

³ Official Journal of the European Union, Volume 65, 15 March 2022, in: <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=OJ:L:2022:0871:FULL&from=EN>

⁴ Official Journal of the European Union, Volume 65, 8 April 2022, in: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=OJ:L:2022:111:TOC>

⁵ The Guardian: Russia threatens retaliation as Lithuania bans goods transit to Kaliningrad, in: <https://www.theguardian.com/world/2022/jun/20/russia-condemns-lithuania-transit-ban-some-goods-kaliningrad>

⁶ The Warsaw Institute: The European Commission's Guidelines regarding transit through Lithuania, in: <https://warsawinstitute.org/european-commissions-guidelines-regarding-transit-lithuania/>

introduced on the volumes of transit goods going to and from Kaliningrad. Lithuania agreed to allow such transit as per the updated Guidelines. That means that from now on Lithuania will be monitoring and controlling how much and what goods are transiting to and from Kaliningrad region.

Implications (on Lithuania and Western unity)

There has been heated debate in Lithuania, whether or not it is worth applying such strict policies towards transit of goods to and from Kaliningrad. Before the publishing of EC Guidelines, Lithuanian government claimed it will keep blocking the goods transit to Kaliningrad and that its the right thing to do in support of Ukraine. However, there have been rumours that closest allies of Lithuania, including transatlantic ones, behind the closed doors communicated that they saw risks bigger than benefits of pursuing not see clear benefits in holding. Following the EC Guidelines, there has been heavy criticism to Lithuanian government that it caved in to the pressure of Lithuania's allies and agreed to back down from its policies towards the transit goods. Now the government said it will abide by the new Guidelines and sought to present the agreement with the EC over the Guidelines as a welcome development. The Lithuanian officials claimed that following the agreement the transit of goods is no longer free after effective introduction of annual quotas.⁷

Lithuania not backing down

There are signs that even after the EC Guidelines clarified the EU approach, Lithuania will be looking to exploit any remaining levers in an attempt to demonstrate that after Russia's aggression in Ukraine the days of unrestricted and free transit of goods to and from Kaliningrad are over. For example, in August and September, Lithuania already announced that the quotas for certain categories of sanctioned goods have already been used up.⁸ In addition, there could potentially be another obstacle for the transit of Russian goods. For transportation of goods travelling through the territory of Lithuania, Russia has to pay to Lithuanian Railways (LTG).

⁷ Lrytas.lt: I. Šimonytė: trys priežastys lemia Lietuvos sprendimą atsižvelgti į EK nuomonę dėl Kaliningrado tranzito

<https://www.lrytas.lt/lietuvosdiena/aktualijos/2022/07/14/news/i-simonyte-pasisake-apie-ek-isaiskinima-del-kaliningrado-tranzito-ka-naujos-gaires-reiskia-lietuvai-23960337>

⁸ Lrt.lt: Kaliningrad has already used up transit quotas for some sanctioned goods – Lithuania's LTG, in:

<https://www.lrt.lt/en/news-in-english/19/1757913/kaliningrad-has-already-used-up-transit-quotas-for-some-sanctioned-goods-lithuania-s-ltg>

However, the EU sanctions have also cut off most of Russian banks from the international payments system (SWIFT), and all Lithuanian banks also stopped serving money transfers to and from Russia. There is a real risk that Russian companies won't be able to make payments necessary for the transit of goods, and Lithuanian institutions have already indicated there are limits on what they can do to facilitate the payment process.⁹

A test for Western unity

The dispute regarding the transit goods to and from Kaliningrad is much more than just a conflict between Lithuania and Russia. Lithuania's approach has a direct link to the EU-wide sanctions, and that is exactly how Lithuanian government wants this situation to be seen. Lithuania wants to demonstrate that during this kind of conflicts with Russia it is not left alone and that its allies are supportive and involved.

From this particular angle it seems that Lithuania has failed to convince its allies to back its approach. On the contrary, the EU forced Lithuania to soften its approach and allow the transit of sanctioned goods through its territory. The introduction of quotas and restriction of goods transit to railways only seem like clauses designed to save the face of Lithuanian government and let Lithuanian officials claim they have achieved something in the negotiations with the allies.

This particular dispute may set a dangerous precedent of the EU willing to relax its approach to Russia when it is being threatened by some kind of retaliatory consequences Russian government is surely looking into different ways how it would be able to soften Western economic sanctions and undermine strong Western support for Ukraine.

Conclusion

The dispute over the transit goods to and from Kaliningrad going through the territory of Lithuania is just another consequence of Russia's war in Ukraine. Lithuania has failed to gather enough of its allies to back its strict interpretation of EU's economic sanctions. This case demonstrates that not all Western countries have the appetite to punish Russia even more for its aggression in Ukraine. Instead, they carefully weight advantages and disadvantages of any potential escalation with Moscow. In general, the EU has been fairly united in its approach

⁹ Lrt.lt: Payments for Kaliningrad transit will continue, though 'challenges' possible – Lithuanian minister, in: <https://www.lrt.lt/en/news-in-english/19/1767459/payments-for-kaliningrad-transit-will-continue-though-challenges-possible-lithuanian-minister>

towards Russia. However, in situations like this one, some divisions within the EU are visible. In particular, the Eastern and Central EU members are stricter than Western members towards Russian aggression in Ukraine.

Russia has always been seeking to exploit the peculiar geography of its Kaliningrad exclave in order to achieve its wider political and geopolitical goals. And now Kaliningrad region serves as another tool in Russia's attempt to soften EU's economic sanctions and weaken Western unity.