

### SPECIAL ISSUE ON THE POLISH EU PRESIDENCY AND THE EASTERN PARTNERSHIP

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## A renewed approach to the Eastern Partnership

By Štefan Füle

The reverberations from recent events in North Africa have been felt right across the European neighbourhood. They have led the European Union to reflect not just on its relationship with its neighbours in the South, but also on the lessons that can usefully be applied to its cooperation with its Eastern partners. These lessons have helped to inspire and inform a renewed approach to the Eastern Partnership, which reaffirms the central importance of the core values of democracy, rights and freedoms, and restates the importance of engaging with all parts of society if we are to achieve our shared ambitions.

While not as dramatic as those in the south, we have seen many positive developments in our Eastern neighbourhood over the past months. We have achieved progress in our work on political association, economic integration, mobility, and a whole range of other important areas. Yet there are also a number of areas, such as progress on democracy, rights and freedoms, where we have fallen below our expectations, and where it is clear that more needs to be done. It was in this context that we set out a revised approach to the European Neighbourhood Policy in an EU Communication in May, and a renewed agenda for the Eastern Partnership at the recent Summit in Warsaw.

This renewed approach reinforces the central importance of those core values that have always been at the very heart of the Eastern Partnership. The need to secure democracy, basic freedoms and rights is fundamental and non-negotiable, and must continue to be the key strand running through all of our work if we are to build the stable, secure and prosperous region to which we aspire. Indeed, our experiences have shown that reforms in other areas simply cannot be sustained if they are not underpinned by political reforms, and this was a key conclusion of the Eastern Partnership Summit in Warsaw.

Our strong commitment to these core values is demonstrated by the fact that European Union support will now be contingent on the progress made to secure them. In those countries where progress on reforms is good, there will be the opportunity to benefit from the full range of cooperation and financial assistance. But in those countries where there is a clear lack of progress, such as is currently the case in Belarus, we will suspend our bilateral cooperation with the authorities until those conditions change, refocusing our aid on support to civil society and the population at large. This is the '*more for more*' principle which forms a key part of our new, more differentiated approach to the European neighbourhood.

As part of this, we must continue to clearly articulate the benefits of increased cooperation. While these benefits are too numerous to detail here, one of the most significant is surely the increased growth and prosperity that can accrue from enhanced economic links with the largest trading bloc in the world. Market access alone brings substantial benefits, but our intention is to go well beyond this by supporting countries to fully exploit these opportunities. Cooperation to achieve regulatory approximation is therefore a key part of the Deep and Comprehensive Free Trade Areas which we aim to negotiate with partner countries as part of their broader Association Agreements.

Increased mobility between partner countries and the European Union is another important attraction. Greater interpersonal contact and the increased exchange of ideas between citizens can be an invaluable asset, and we hope that we will eventually be able to establish visa-free regimes with all of our partner countries. In the meantime, we are taking a number of important steps in this direction. This includes the successful agreement of visa facilitation and readmission agreements with Georgia earlier this year, and the

implementation of action plans towards visa liberalisation with Moldova and Ukraine. Even with Belarus, where we have reduced our bilateral cooperation with the authorities in response to their ongoing crackdown, we have offered to negotiate agreements on mobility for the benefit of the broader population.

In addition, there are significant benefits to be accrued from increased cooperation in a range of other sectors, including energy, transport, the environment, climate change, electronic communications, agriculture and rural development.

Some of our partner countries also express clear aspirations to join the European Union. While the Eastern Partnership is not about membership of the European Union in the immediate future, it is clear that deep reforms to secure democracy, rights and freedoms have the potential to bring ever closer political association and deeper economic integration with the European Union within reach. It is on these same values that Article 49 of the European Union Treaty is based.

There are therefore clearly significant incentives for partner governments to undertake reforms. Yet, in all of these areas, it is clear that we will be unable to achieve our aims by working with governments alone. We must continue to engage with all parts of society if we are to bring about lasting change. In this regard, the role of civil society organisations will continue to be crucial in pressing for reform, and in reaching out to the broader population. This was a key conclusion of the recent Eastern Partnership Summit in Warsaw.

Indeed, the crucial role that civil society already plays has been demonstrated by recent developments in Belarus. While the EU has been clear that further bilateral engagement with the Belarusian authorities will not be possible until significant progress is made to establish basic rights and freedoms, our cooperation with civil society has been significantly stepped up and is enabling us to maintain the pressure for reform. We have continued to increase our support for their work, and have even gone beyond our pledge to quadruple the available funding.

We will continue to support civil society organisations as fully as possible as they strive to achieve our shared ambitions. This includes continued support for the coordinating role of the Eastern Partnership Civil Society Forum, and increased financial assistance through the newly-established European Neighbourhood Civil Society Facility and the planned European Endowment for Democracy. It also includes continued work to involve civil society representatives in our formal dialogues with partner governments.

We therefore have an ambitious new agenda for the Eastern Partnership. The challenge now will be to ensure its successful implementation, including through the establishment of an 'Eastern Partnership Roadmap' early next year, which will set out the full range of our joint work. In this way, we will continue to support the development of a stable, secure and prosperous region, with the core values of democracy, rights and freedoms at its heart.

*Štefan Füle*

*European Commissioner for Enlargement and European Neighbourhood Policy*

*European Commission*

## Six months of the Polish Presidency

By Konrad Niklewicz

On 1st July 2011 Poland took over the EU Council Presidency. It was not only a great challenge requiring strategic planning, full political and organisational activity at domestic and European levels, but also an excellent opportunity to help shape the European Union.

Proper preparation turned out to be the strength of the Polish Presidency. We began to perform our tasks as early as 2007 by analysing the experiences of other countries. Financial resources for organisation were secured in 2009, and that was when logistic preparations, training courses for Polish officials and initial promotion and information efforts got under way. Such early preparations brought about positive effects: we had a well-prepared programme and were ready to react quickly to unexpected events. For instance, following the attacks in Norway, the Polish Presidency convened a joint meeting of working parties on terrorism.

Tremendous public support for the European idea in Poland was without any doubt the strength of our Presidency. In 2011, 83 per cent of Poles stated in public opinion surveys that they were happy Poland was an EU member.

Priorities of the Polish Presidency had one basic goal — to help get the introduction of the European Union on a rapid economic growth track and strengthen its political power. The Polish Presidency fulfilled that objective through the development of the internal market and electronic market in particular to cite one example.

The construction of a proper multiannual community budget which would be appropriate for EU ambitions is another method to speed up economic growth in the Union. As the EU Presidency, we are glad to note that we have had some specific achievements in this field: we started negotiations on the Multiannual Financial Framework 2014-2020. The stage of negotiations was summed up in a special Presidency report where we emphasised that arriving at a consensus was possible. Most Member States agreed that the European Commission's budget proposal should be the basis for further work. Jointly with the European Parliament and European Commission, as the first Presidency, we decided to organise a Budget Conference. Involving representatives of national parliaments was a special value of that meeting. Denmark, which has taken over the Presidency from us, has already confirmed that it is going to continue the idea of Budget Conferences as a forum where political support for decisions on the MFF can be built.

As the Presidency, we have been (and as a Member State we still are) convinced that the determination of Multiannual Financial Framework will translate into the shape Europe takes on over the next decade. We don't need any unclear debates on the principles of distribution of resources for saving programmes or on priorities of specific policies. Instead, we believe that we have to strive to balance our budgets and, at the same time, promote economic growth and create jobs, especially in Europe. Poland, the country I am from, is an example of proper utilisation of European funds which are now helping us weather the economic and financial crisis. Having our experiences in mind, I do believe that the EU must now work to achieve consensus on the MFF, and that will lead all the Member States out of the existing crisis back to the economic growth path.

We have also achieved some tangible positive results in other spheres beneficial to the EU. We have strengthened European security in many different fields including energy policy, external border control, supervision over financial markets and the food market. The conclusions on strengthening the external dimension of the EU energy policy, adopted by the EU Council in November 2011, is particularly

important. Thanks to them, we have clearly defined market principles in external relations, such as those with the Russian Federation, key infrastructure projects which allow the import of raw materials from outside the EU and cooperation of the Member States at international forums.

It was us who caused the 'six-pack' economic governance legislation to be adopted. It has already become valid and has actually strengthened the economic governance in the European Union. It should also be mentioned that we managed to reach an agreement in the Council and EU Parliament on a Single EU Patent. The preparatory work on the patent had taken more than 30 years!

We devoted a significant part of our activity to the role of the EU in the world. We are convinced that good neighbour relations can strengthen Europe also in the economic dimension and bring it the most benefits at relatively small expense. That is why September's Eastern Partnership Summit was one of the most important events of the Polish Presidency. While preparing the Eastern Partnership project, Poland used its own experiences of economic and political transformation. Therefore, development of civil society, which is a driving force of democracy, is of key importance to the Eastern Partnership.

We haven't forgotten about the European Union's southern neighbours. Following recent events in Tunisia, Egypt, Libya and other countries of the Southern Neighbourhood, the Polish Presidency sought cooperation based on partnership while focusing on supporting democratic transformation, constructing modern state structures based on constitutional reforms, strengthening the judiciary and security and fighting corruption. It was Poland's Foreign Minister who was the first to visit Benghazi liberated by Libyan insurgents.

The involvement of Poland in the process of EU enlargement should also be mentioned here. On 9th December Croatia signed the Treaty of Accession thanks to its determination and the support from the Presidency. We have managed to conclude the work started by the Croats in 2003. Other aspiring candidates, including Serbia and Montenegro, have also made further steps towards the Union.

Our Presidency coincided with a difficult period of financial crisis. We hope we have coped with the challenge. We encouraged EU states, including those from outside the euro area, to display greater solidarity and discipline within the whole EU and euro area. The Polish Presidency brought about the adoption of specific solutions but also sought to strengthen European integration. We have kept repeating the whole time that we need more Europe, not less. We have passed the baton on to the next country with head held high. Good luck Denmark!

*Konrad Niklewicz*

*Spokesman for the Polish  
Presidency of the EU Council*

*Poland*



## Ukraine-EU relations – overview of the recent developments and perspectives for the nearest future

By Andrii Deshchytsia

The year 2011 will enter into Ukrainian history as a turning point in the process of the country's European integration. Foremost, it has been a year of decisive progress in negotiations on the Association Agreement between Ukraine and EU.

Ukraine and the European Union have never been as close to the final deal on the Association Agreement, as they are today. This progress has become possible due to intensive efforts of both sides during almost four years of negotiation process.

At the end of October we have reached a broad political understanding on the majority of outstanding issues in the negotiations on Deep and Comprehensive Free Trade Area (DCFTA). After the 21st round on 11 November, 2011, we are also very close to wrapping up negotiations on the political part of the Association Agreement.

A number of arrangements agreed within the negotiations are result of difficult compromise between two sides. These compromises would be impossible without clear political will and sincere interest of both Ukraine and EU to conclude a really ambitious Agreement.

We do hope that mutually acceptable solution on European perspective in the future Association Agreement could be reached. It would be a powerful signal for 46 million of Ukrainians which will have to deal with comprehensive reforms as the Association Agreement enters into force. It would also revitalize the whole project of European integration which is in need of a new strong impetus.

Above all, the agreement will mean that Ukraine will be legally bound to a huge file of EU legislation. Ukraine is committed to adopt approximately 80 per cent of EU legislation in the coming decade, with a view to taking stake in the EU market. Given the current economic crisis, one can imagine the huge amount of political will, and financial and human resources, which are required for such a task of strategic importance.

Therefore, in no case the Agreement should be treated like a gift to us. It is not only Ukraine which is interested in the EU. The European Union has its own stakes in this Association too.

First of all, Ukraine means more security and stability. Because of its size and unique geo-strategic location the security in Europe can only be enhanced if Ukraine successfully completes its European integration process. The example of Ukraine having evolved from a post-Soviet state to a truly European democracy would demonstrate that the European idea is still a powerful tool that can change the economic, political and societal reality even beyond the EU umbrella.

Second, Ukraine means a secure energy supply and better communications. Our country plays unique role as

the transportation and energy hub of the continent. As a part of a single European energy market Ukraine will greatly enhance energy security of Europe. The recent accession to the European Energy Community was an important step forward that made Europe stronger.

Third, Ukraine means a new EU market, enormous in its potential and capabilities. The country of 46 million, with an advanced industry and a fertile agriculture is a promising target for foreign investors. The Association Agreement and DCFTA will bring European standards and regulations – thus improving investment climate, making business environment predictable and transparent.

For the current Ukrainian government the European integration is a cornerstone not only of our foreign policy as it used to be, but first and foremost it is a guideline for internal developments, reforms and modernization of the country.

The EU oriented reforms have been implemented steadily and decisively since Ukraine's new administration is in office. Highly ambitious reform programme launched by the Government covers 21 spheres and is the most comprehensive reform agenda since Ukraine gained independence in 1991.

The purpose of all actions is to build Europe in Ukraine, to let Ukrainians feel they are living in Europe, to bring European standards to any given sphere of the public life.

We are fully conscious that the agenda before us is challenging, be it in terms of internal reforms or in terms of greater convergence between Ukraine and the EU.

Ukraine is a nation of euro-optimists which sees the EU not only as the democratic beacon and the most convincing success story on the continent, but also as our natural habitat, historic destination and home. This is what the EU-integration is for Ukraine: coming home.

And this is why despite the turbulent times in Europe most Ukrainians take the EU-integration personal and with a great deal of faith.

*Andrii Deshchytsia*

*Ambassador*

*Embassy of Ukraine to Finland*





## Towards a new European Security Strategy

By Stanisław Koziej

The European Union's ambitions to play a greater role in security issues still fail to be translated into concrete actions. Problems faced by the EU, as regards security policy, result neither from quite natural differences in the interests of the individual Member States nor from the ongoing financial crisis. The roots of problems are of more general nature. It is my contention that they stem from lack of consensus on strategic foundations. Hence, it is of major importance to further develop EU civil and military capabilities (strengthening the operations planning system, continuing the development of the pooling and sharing initiative, adapting the EU battlegroup concept to real operational needs) and to start debate about the EU's strategic goals in the area of security policy. Poland aims at using her experiences gathered during the Presidency of the EU Council, which is now coming to an end, in further works on strengthening the Common Foreign and Security Policy, including the Common Security and Defence Policy.

Therefore, I wish to focus on a single aspect of immense importance. I remain convinced that within the European Union it is high time to initiate a review of the 2003 European Security Strategy. The review should lead to amending the said Strategy. There are many arguments to support this proposition.

Change is happening not only in Europe. Our entire strategic environment is undergoing significant evolution. On a global scale, we can clearly see that the strategic centre of gravity is shifting towards Asia, with China and India gaining increasingly in importance. It is in that direction that the USA will surely be looking, at the cost of Europe's interests. This will also exert impact upon Russia's strategy.

In the regional dimension, the latest developments in North Africa have confirmed, once again, that serious sources of risk for our security exist in Europe's direct neighbourhood. New threats are not necessarily traditional, i.e. political and military ones. Non-military security dimensions, including transnational and asymmetric ones, are becoming just as important: migrations and their consequences, terrorism, cyber security, security of trade routes, energy security or rivalry for natural resources.

Without any doubt, the current binding security strategy has played a positive role in recent years, stimulating the process of strategic organization of the EU in the face of security problems. In practice, however, the strategy has been implemented only to a limited extent. It focuses more on listing threats rather than indicating detailed tasks to be

carried out by the EU institutions or defining prerogatives which should be developed by means of a political process.

Therefore, today we should go further ahead. One needs to do more than simply adjust the contents of the strategy to the present and future conditions of the security environment. We should also set up more concrete and precise mechanisms for its implementation, which will allow to impose some discipline on the EU's strategic debate in the future. Moreover, a provision on a regular update of subsequent EU security strategies would be of key importance.

How can an amendment process be successfully conducted? I deem advisable to use positive experiences from our work on developing the latest NATO Strategic Concept. I am referring to a Wise Men Group that could be appointed with a view to developing a draft report which would then be discussed by the representatives of the President of the European Council, the High Representative of the Union for Foreign Affairs and Security Policy as well as the Presidents of the European Commission and the European Parliament.

Europe cannot afford further stagnation in strategic issues, one which creates deadlock both in foreign and security policies. Therefore, it is of major importance to launch the strategic review soon, preferably in 2012. That would result in adopting a new European Security Strategy in 2013, i.e. on the tenth anniversary of its first-ever establishment. The European Union needs such a strategic impulse for its security identity.

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## The Polish Presidency and the Eastern Partnership

By Beata Wojna

As one of the most important architects of the Eastern Partnership (EaP), Poland pursued an ambitious EU presidency agenda in which the promotion of this initiative occupied an important place. When assuming rotating presidency in July this year Poland defined very clear priorities for the Eastern Partnership: to conclude Association Agreements and create deep and comprehensive free trade areas, by finalizing or making substantial progress in its negotiations with Ukraine and Moldova, and to make progress in the process of visa liberalisation and deepen sectoral cooperation. Poland expected also to encourage Belarus to cooperate with the EU, provided it respects the fundamental principles of democracy and human rights.<sup>1</sup> Political and social changes in the North Africa and Middle East, negative political evolution in some eastern partners and, finally, the economic crisis of the EU turned out the implementation of this programme into a complicated task and forced Poland to make double efforts during the six-month at the EU's helm to achieve positive results in the priorities envisaged for the EaP.

### Reconciling the East and the South

The point of departure for the Polish presidency was to be equally engaged in the south and the east, taking care of a balanced development of both dimensions of the European Neighbourhood Policy (ENP). More than twenty different meetings in the EaP format at the head of states, ministerial and senior officials levels, the EaP Civil Society Forum, the inauguration of the EaP parliamentary cooperation (Euronest Parliamentary Assembly) and the Conference of Local and Regional Authorities of the EaP gave more visibility to the eastern dimension of the European Neighbourhood Policy in times when the EU attention was turned towards North Africa and Middle East. At the same time the Polish presidency wanted to move away from a perception of the two dimensions of the ENP, the eastern and the southern, as vying for political attention and funding. With a proposal to create the European Endowment for Democracy – which appeared as a Polish response to the Arab spring – and support for democratic transition in Tunisia and Libya, Poland demonstrated that it is possible to be actively engaged in the promotion of the EaP and to have positive impact on the southern neighbourhood.

Finally, the results of Polish activity in this area will remain beyond the end of the presidency and the European Endowment for Democracy - new lightly structured, flexible, inclusive and non-bureaucratic funding tool for democratisation and building of the civil society in the neighbourhood to become operational in the first half of 2012 - could have a special role to play in the authoritarian states in Eastern Europe (Belarus, Azerbaijan) by supporting emerging actors in the political field such as democracy activists, dissidents, registered or unregistered civil-society organizations, trade unions and independent media and think-tanks, and maybe political parties.

<sup>1</sup> *Programme of the Polish Presidency of the Council of the European Union*, 1 July 2011- 31 December 2011, [http://pl2011.eu/sites/default/files/users/shared/o\\_prezydencja/programme\\_of\\_the\\_polish\\_presidency\\_of\\_the\\_council\\_of\\_the\\_eu.pdf](http://pl2011.eu/sites/default/files/users/shared/o_prezydencja/programme_of_the_polish_presidency_of_the_council_of_the_eu.pdf).

### The Warsaw summit outcomes

Polish activity in promoting EU relations with eastern neighbours allowed to achieve some of the short and medium term goals of the EaP, especially in trade and migration areas. The second EaP summit celebrated in Warsaw in September – the central event of the Polish presidency which gathered almost all heads of states and governments of the EU members and Eastern partners and the highest representatives of the EU institutions – was the occasion not only to evaluate the implementation of the initiative since it had been launched at the first EaP summit in Prague in 2009, but also to announce important political decisions.

During the Warsaw summit the possible finalisation of EU-Ukraine negotiations on the DCFTA and the beginning of DCFTA's negotiations with Moldova and Georgia by the end of 2011 were declared. In fact, by the end of the Polish presidency, negotiations on all technical aspects of DCFTA with Ukraine - one of the key priorities of the Polish presidency - were concluded. The participants of the summit also confirmed the possibility for partner countries "to take gradual steps towards visa-free regimes in due course on a case-by-case basis provided that conditions for well managed and secure mobility set out in two-phase action plans for visa liberalisation are in place." It means in practice that the full abolition of visas for the Eastern neighbours - the key demand of some eastern partners in its relations with the EU - could be possible in a short/medium perspective for citizens of countries that have fulfilled all the EU's requirements.<sup>2</sup>

On the weakest side of the Warsaw summit should be included relatively low presence of democratisation (being the Belarusian case the only one to be considered) and civil society dimensions in the final joint declaration, which was probably due to the sensitivity of eastern leaders to this kind of issues. Finally, the silence on the European perspective for the eastern neighbours – balanced to some extent by recognising the European aspirations and the European choice of some partners and highlighting the particular role for the Eastern Partnership to support those eastern partners who seek an ever closer relationship with the EU – seems to be the most important missing point.

### The old problems and uncertainties - final evaluation

The six-month Polish presidency proved – and the case of Ukraine is the best example - that the progress of the EaP depends mainly on the states to which it is addressed and not so much on positive results of summits or efforts undertaken by the presidency. On 11 October 2011, shortly after the Warsaw summit, Yulia Tymoshenko - former Prime Minister and political rival of the current Ukrainian President Viktor Yanukovich - was convicted of abuse of power during negotiations on a gas contract with Russia in 2009. She was sentenced to seven years in prison, a fine as compensation for \$200 million in losses incurred by the state fuel company Naftohaz and a ban on holding public office for three years. From the EU's

<sup>2</sup> *Joint Declaration of the Eastern Partnership Summit*, Warsaw, 29-30 September 2011, [http://www.consilium.europa.eu/uedocs/cms\\_Data/docs/pressdata/en/ec/124843.pdf](http://www.consilium.europa.eu/uedocs/cms_Data/docs/pressdata/en/ec/124843.pdf).

perspective, the Tymoshenko's episode is the most significant argument in favour of the position that Ukraine is not ready to sign the EU-Ukraine Association Agreement. So despite the finalisation of the negotiations on the DCFTA, the toughest part of the Association Agreement, there is the likelihood that its signing - conceived as a culminating event of the Polish presidency - will be postponed due to political problems with Ukraine.

The EaP is a long-term strategic framework for the EU's relations with its Eastern neighbours and the Polish presidency contributed positively to conclude two years and a half of its implementation, to maintain the Eastern neighbourhood in the EU agenda in times when the attention was focused on Arab spring and economic crisis, and to achieve some of short and medium term results in trade and migration areas. Moreover, it demonstrated that it is possible to be actively involved in the east and to support the southern dimension of the ENP. This is a good starting point for the next two years of the implementation of the EaP. However, and these is the main lesson from the Polish presidency, the old problems and uncertainties in the EaP countries linked to the general relapse in democratisation, being Moldova probably the only success

story, and the gap between the EU's offer and neighbours expectations, including the reluctance of the EU member states to consider the European perspective for the Eastern neighbours, sentence the EaP to a very long and difficult way forward.

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## Polish EU Council Presidency – efficient presidency in the difficult times

By Agnieszka Łada

The Polish EU Council Presidency had to confront some high expectations. The government in Warsaw, believed to be well prepared for the presidency and enjoying the better and better reputation in Europe, had not only the task of pushing the EU agenda but also that of shaping the EU system in the areas which still required changes after the Lisbon Treaty had come into force. It was believed that as a relatively big country, with the economy not hampered by the crisis as much as other countries (in 2009 Poland was the only country to achieve economic growth), with the society showing very pro-European attitudes (over 80% accept Polish membership in the EU and two thirds believe that this membership is something good) and with a government efficiently operating on the European scene, Poland had a chance to go beyond the day-to-day administration of the Union. At the same time, all the actions of the Presidency were watched very closely as it was the first presidency held by Warsaw. The Poles had been aware of the standards set high and of the challenges they would have to face. They also knew that presidencies were often surprised by the reality. It did happen again during the last six months. The financial crisis pushed other topics into the background. Even though the situation was not easy, Polish Presidency proved to be efficient and effective. It did not make any revolutionary changes, but it fulfilled its duties well, without any significant embarrassment that would cause a stir in Brussels and in other capitals.

The on-going economic crisis required stronger action in the economic area – finalising the reform processes already underway, but also undertaking new initiatives. Especially with regards to the latter, the position of Poland was not easy. As a country outside the Eurozone, Poland had no influence over a number of the decisions taken in the light of the crisis. The Minister of Finance could not even participate in the meetings of the Eurogroup, which made things even more difficult organisationally and politically. Therefore Poland tried to ensure that the countries remaining outside the Eurozone could participate in the talks on the future of the EU. The decisions adopted during the summit of 8-9 December 2011 provide such an opportunity.

The list of Polish priorities contained points suggesting that Poland would strive for strengthening EU economy and for stimulating growth. In this area a lot has been achieved. The greatest success has been the adoption of the package of six legislative acts, known as the “six-pack”, expected to strengthen the economic governance in the European Union and to protect the Union from subsequent crises. It was during the Polish 6 months that, after 30 years of disputes, an agreement was reached on the single European patent, which would reduce the costs related to registering inventions by entrepreneurs in the whole EU. An agreement was also reached on the so called correlation tables, that is, special documents describing the process of implementation of the EU law in the Member States. The report “Towards a European consensus on growth” pointed out the areas where, according to the Presidency, there was development potential that should be tapped in the coming years.

Simultaneously, the Polish Presidency launched consultations on the future multiannual financial framework. Their purpose, however, was not to carry out negotiations but to gather opinions of the Member States, EU institutions and national parliaments. That was the purpose of the first ever budget conference. At the end of the year, Poland presented a review of all the opinions, to be used by the next, Danish Presidency, for launching the budget negotiations.

Poland, as a traditional advocate of the interests of the countries east of the European Union, was also expected to

become involved in the development of the Eastern Partnership initiative. However, the events in the southern neighbourhood of the EU diverted the Union’s attention from the East, as additional action was required with regard to North Africa. After the reform of the Lisbon Treaty, this part of the EU foreign policy is now within the remit of the High Representative of the Union for Foreign Affairs and Security Policy. Yet, the rules of cooperation with the Presidency in a number of areas where their competencies overlapped still had to be established. As a result, the cooperation between the Presidency and the High Representative was smooth. The regular contacts between the Representative and the Polish Foreign Minister enabled efficient coordination at the highest level. Poles represented Baroness Ashton during some foreign visits or when hosting meetings with third countries, thus developing the framework for cooperation between EEAS and the Presidency.

Poland faced an uneasy task related to the policy towards the eastern neighbours. The lack of reforms and signs on their part, and especially the situation in Ukraine connected with the arrest of the opposition leader or prosecution of democratic activists in Belarus were the reason why no grounds or political will could be found for further tightening of their relations with the EU. In spite of that, the Eastern Partnership summit brought positive results, under the circumstances, although the absence of the Belarusian delegation was a certain dissonance.

The Polish response to the weakness of the democratic forces in the Eastern and Southern neighbourhood was the idea of establishing the European Endowment for Democracy, a new instrument expected to support transformation processes faster and more effectively than the existing ones. Poles managed to include the initiative in the EU documents relatively fast, as for the EU standards. The work on the establishment of the Endowment was taken over by the EEAS, but it was the Poles who did the lobbying. Eventually, the decision on establishing the EED had not been taken by the end of the year because there was not enough time for proper consultations in the Member States and for explaining all the doubts related to its structure. This Polish effort should be then given a positive assessment even though it did not end in unequivocal success. Similar assessment should be given to the development of the concept for strengthening the common EU security policy. The initiative to form the common permanent command for planning of military and civilian EU actions, proposed by Poland, was supported all EU member States except the UK, which made it impossible to reach the agreement.

The Polish Presidency will not be remembered by the Europeans for any revolutionary changes. Yet, this is not the role of the rotating presidency nowadays. Finalising several important negotiations, efficient implementation of the agenda and great involvement in working for the future of the EU allows us to include it among good, successful presidencies.

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## Eastern Partnership and Poland's EU presidency

By Adam Eberhardt

One of the priorities of the EU Council presidency held by Poland in the second half of 2011 was to strengthen the Eastern Partnership – a policy aimed to foster rapprochement between the states of Eastern Europe and South Caucasus on one side and the European Union on the other. Poland's interest in the success of transformation in the EU's Eastern neighbourhood results from its natural interests of a border state. It is not in Poland's interest to have its eastern border considered a frontier of the European model of socio-economic development and draw a line which limits the area of respect for fundamental European values.

On 29–30 September in Warsaw an Eastern Partnership summit was held. The summit debates focused on the improvement of efficiency of the programme mechanisms employed so far. The summit's goal was not to cause a breakthrough in the functioning of the EaP, as any such breakthrough at this stage is not possible, but to confirm the vitality of the EaP and give impetus to its further development. Originally the summit had been scheduled to take place in Budapest in spring 2011, however, due to the expected low attendance of European leaders the Hungarian EU Presidency decided to transfer the organization duties to Poland. The Warsaw summit was attended by heads of the major EU institutions (Herman van Rompuy, Catherine Ashton, Jerzy Buzek, Štefan Füle), some of the leaders of EU states (including Angela Merkel) and all of the invited presidents of states which participate in the EP (no invitation was extended to Alyaksandr Lukashenka).

It seems that the main goal of the EaP summit was to reduce the mutual discouragement evident in the EU's relations with its Eastern neighbours. This fatigue among the EU states results from their disappointment with the transformation of the Eastern European states which progresses slowly and encounters numerous problems. It escalated in 2011 as a result of developments in the region (crackdown on opposition in Belarus, autocratic tendencies in Ukraine's politics) but also due to the relatively successful actions carried out in the Mediterranean. Democratisation of the North African states reduces the pressure for the EU's success in Eastern Europe, diverts the attention of EU institutions both in the political aspect and in terms of the EU's readiness to offer financial support. It should be remembered that the European Neighbourhood Policy, which encompasses both the Mediterranean states and those subject to the Eastern Partnership, functions as a system of interconnections. Different, competing priorities adopted by the individual EU states lead to a peculiar 'tug-of-war' within the European Neighbourhood Policy – a success of the South can translate into marginalisation of the East. It is particularly evident in the case of the difficult negotiations on the EU's new multiannual financial perspective which started recently.

The EU's disappointment with the cooperation with the EaP states is also evident in the moods of both the authorities and the societies in countries such as Ukraine, Moldova or Georgia which in previous years counted on a more generous offer on the part of the EU which would include, among other elements, EU membership perspective aimed to motivate them to implement the Community acquis. A drop in the attractiveness and attraction of the EU in the East results also from the current European integration crisis.

So, the Eastern Partnership summit organised by Poland was an attempt to show that the EU's Eastern policy is not just a bureaucratic instrument, but also it contains a strong political component which can be a stimulus to a rapprochement between the Eastern European and South Caucasus countries and the European Union. The more detailed issues connected with the filling of the political framework with specific content have remained beyond the competence of states which hold EU presidency, particularly since the Lisbon Treaty has been in force. In the current half year, however, Poland lobbied for accelerated implementation of the most prominent EaP projects.

The most important success was the conclusion of negotiations on the EU-Ukraine Association Agreement which,

among other aims, is meant to be a step towards the creation of a Deep and Comprehensive Free Trade Area (DCFTA). In the recent months the European Union started works on Association Agreements with all partners except Belarus. Additionally, in December 2001 negotiations were opened on the trade part of the agreements with Moldova and Georgia.

Activities were continued to foster the rapprochement between the Eastern neighbours and the EU also in the social sphere. The non-governmental Eastern Partnership Civil Society Forum has been particularly active and organised a summit which took place on 28–30 November 2011 in Poznań, Poland. Visa dialogue with the neighbouring countries was continued, and Ukraine and Moldova – the two most advanced countries in this respect – have decided to implement Action Plans which specify the conditions and criteria to be met by these countries; only then can they expect visa abolition. Moreover, the Eastern Partnership has become a stimulus for increasing the financing and obtaining extra funds from other sources such as the European Investment Bank.

Currently, the main difficulty in the EU's Eastern policy is the future of the dialogue with Ukraine considering that the Ukrainian authorities are using the judiciary for their own purposes, as evidenced by the example (one of many) of the detention and sentence of the opposition leader Yulia Tymoshenko. Despite its condemnation of the actions carried out by the authorities in Kyiv Poland was in favour of initialling the Association Agreement with Ukraine and treated this as the end of the process of technical work on the document which contains more than 1300 pages. The decision to initial the document increases the chance of its final signing, ratification and implementation when the situation in Ukraine improves, and thereby it has become another instrument of pressure exerted on the authorities in Kyiv. Obviously, the decision concerning the future of the Association Agreement should be viewed in the wider context of the policy of conditionality based on two principles: "more for more" and "less for less". It is understood that the EU's offer addressed to Ukraine should be reduced in response to the country's authorities' limiting of civil freedoms.

It should be remembered, however, that in the context of problems with respecting European values the reduction of the offer for Ukraine may lead to weakening the EU's influence on that country and, as a result, may fuel certain negative tendencies already apparent today. The Polish side argued that the Association Agreement, being an element of Europeanisation of Ukraine and implementation of European standards and principles, is of particular importance exactly because of the fragility of the Ukrainian democracy. Following this logic, the Association Agreement is not a reward for President Yanukovich, but an instrument of extorting from Kyiv the changes expected by the EU. The current situation suggests that this argumentation is unlikely to find support in all EU states. The future of the most important Eastern Partnership project and Poland's foreign policy priority towards the Eastern Partnership, i.e. implementation of the Association Agreement with Ukraine, is therefore still uncertain.

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# Belarus and the Eastern Partnership in 2011

By Alex Nice

The decision to include Belarus in the Eastern Partnership was controversial, with some representatives of the country's opposition and civil society arguing that the EU's relationship with Minsk should only be upgraded when the human rights situation in the country improved. Prior to the establishment of the Eastern Partnership, the EU lacked any format for structured dialogue with Belarus. The conclusion and ratification of a Partnership and Cooperation Agreement with Belarus were suspended by the EU in 1997 after President Lukashenka consolidated his authoritarian rule. Trade between the EU and Belarus is still governed by a Soviet-era agreement. The launch of the Eastern Partnership inter-parliamentary forum was delayed for two years due to disagreement over the involvement of deputies from Belarus. The first meeting finally took place in February 2011 without the participation of Belarusian representatives.

The acceptance of Belarus into the Eastern Partnership marked an all-too brief convergence of interests between Minsk and Brussels. Increasing pressure and declining energy subsidies from Moscow had underlined to Lukashenka the dangers of excessive dependence on Russia, whilst the EU, in the aftermath of the Russia-Georgia war, perceived the need to take a more proactive position in the region if the sovereignty of its neighbours was not to be further compromised. The decision to engage with Belarus, in spite of the country's authoritarian political system, was thus driven by realist security concerns, but was not necessarily incompatible with the EU's normative agenda. In return for engagement, the regime made some modest steps in the direction of political liberalisation, such as allowing two opposition newspapers to be legally distributed, and permitting the registration of opposition candidates in the presidential election. Such moves were largely symbolic, but nevertheless helped to ease the political and intellectual atmosphere in the country and gave significant encouragement to civil society.<sup>1</sup>

This brief thaw in relations was brought to an abrupt end on 19 December 2010 by the authorities' coordinated attack on protesters who had gathered in Minsk to contest the results of the presidential election, which Lukashenka claimed to have won with almost 80 percent of the vote. The EU's relations with Belarus in 2011 have been fundamentally shaped by the consequences of that fatal night and further repressive actions which have included increased restrictions on the activities and funding of NGOs, the violent dispersal of small protests organised through social networking sites, and the on-going intimidation and arrest of civil society and opposition representatives, including the human-rights campaigner Ales Bialiatski. There are currently over 20 political prisoners in Belarus, including two former presidential candidates.

The EU has responded by re-imposing the travel ban on leading figures in the Belarusian elite, which had been suspended on a rolling basis from October 2008. Whilst Belarus has not been excluded from the Eastern Partnership, the EU has broken off virtually all official contact with the regime. Owing to the visa ban, Foreign Minister Sergey Martynov was invited instead of Lukashenka to the Eastern Partnership summit in Warsaw in September 2011. Belarus decided to boycott the summit in response on grounds of discrimination.

The release of all political prisoners has been set as a precondition for the resumption of any dialogue. With relations are at an impasse, the impact of the Eastern Partnership on relations with Belarus has been minimal in 2011. But whilst the EU's principled position on political prisoners has created the appearance of unity, the fundamental policy question regarding whether to isolate or engage the Belarusian regime has not gone away. Following the Warsaw Summit, Poland again attempted to leverage Belarus' behaviour through conditionality, offering \$9 billion in exchange for the release of prisoners, the opening of

dialogue between the opposition and the authorities, and the conduct of a free and fair parliamentary election in 2012. Only the first of these conditions is feasible. The authorities have nothing to gain from a dialogue with the opposition and it is unclear that the opposition has anything meaningful to say to those in power. Demanding a free and fair election is tantamount to asking Lukashenka to prepare the circumstances for his own demise. It was also unclear where this money would come from, making the offer appear even less credible to Minsk.

The grim reality is that the EU have very little leverage vis-à-vis Belarus. In November 2011, Minsk and Moscow concluded a range of agreements on energy prices and the sale of the second half of the pipeline network Beltransgaz for \$2.5 billion which provide further Russian subsidies to the Belarusian economy. Armed with these rents, Lukashenka is likely to be able to stabilise the economy in the short term without resorting to international assistance or concessions to the EU.

The EU's interactions with Belarus bring some of the conceptual problems of the Eastern Partnership into particularly sharp focus. EU policy on Belarus is shaped by three contrasting policy aims: a desire to strengthen Belarusian statehood and sovereignty; a need to have a functional relationship with a direct neighbour of the EU; and a normative agenda based on external governance to liberalize the Belarusian political system. All three of these aims are legitimate, but they are not necessarily compatible. External governance and the use of conditionality imply a tutelary relationship that belies the notion of partnership and joint ownership supposedly embedded in the initiative.<sup>2</sup>

Whilst Belarus continues to hold political prisoners, these policy choices remain abstract. The status quo is unlikely to remain for long, however. The recent deals with Russia have staved off immediate financial collapse, but the current economic model remains unsustainable without considerable foreign support. Russia will continue to seek the sale of major state assets in exchange for subsidies, including the oil refineries and the potash producer Belruskali. Conflict is almost certain to re-emerge between the two brotherly nations. At some point soon Lukashenka may again try to diversify his foreign policy options and the question of engaging with the Lukashenka regime will again be on the EU's political agenda. Observers have suggested that in the few areas where dialogue has taken place, Belarusian officials have proven to be amongst the most professional and responsive interlocutors of the Eastern Partnership countries.<sup>3</sup> If the release of political prisoners can be achieved, the scope for interaction with Belarus through the Eastern Partnership should not be underestimated.

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<sup>1</sup> Vitali Silitski, "The EU's Eastern Partnership: Why it May Help Democracy Promotion and How the United States can Help Move it Forward", PONARS Eurasia Policy Memo No. 70, p. 4 [http://www.gwu.edu/~ieresgwu/assets/docs/pepm\\_070.pdf](http://www.gwu.edu/~ieresgwu/assets/docs/pepm_070.pdf).

<sup>2</sup> Elena Korosteleva, "The Eastern Partnership Initiative: A New Opportunity for Neighbours?", *Journal of Communist Studies and Transition Politics*, Vol. 27, No.1, March 2011, pp. 1-21.

<sup>3</sup> Anaïs Marin, "Saving What Can Be: What the Eastern Partnership Could (Still) Bring to Belarus", *Eastern Partnership Review*, Estonian Center of Eastern Partnership, [http://www.ecep.eu/ul/EaP\\_3\\_artikkel.pdf](http://www.ecep.eu/ul/EaP_3_artikkel.pdf)

# The Polish Presidency in the European Union in 2011

By Agnieszka Wójcicka

There are terminological as well as conceptual problems with the notion of the presidency, especially after the changes introduced by the Lisbon Treaty (LT) which have had an impact on the states taking over the six-month management of the EU. These problems, presented below, influence the main theses of this paper. The first one underlines that there is a different approach to estimating the Polish Presidency in the European Union (EU) after the changes brought by the LT (which can result in the statement that, *de facto*, the presidency lost important functions). Nevertheless, the 'post-Lisbon' order does not diminish the significance of the challenges which are faced by a state taking over the presidency, and it is true that all member states supported these changes by first signing and then ratifying the LT. The second thesis stresses that independent external factors such as the global and Eurozone crises, and the fact that Poland is not a member of the European Economic and Monetary Union (EMU) create a background against which the Polish Presidency could be described as the one with the 'Janus face'. Poland, as a non-euro state holding the EU presidency, is not a part of the internal and/or external scandals regarding the crisis in Euroland but also has a responsibility to participate in tackling its outcomes. On the other hand, it can be stated that – on account of this crisis – Poland is in practice not holding the presidency as the 'Merkozy'<sup>1</sup> order is observed within EU. Still, there is a need to stress that, for instance, the decisions taken during the European Council summit in Brussels on 8-9th of December 2011 portray the Polish initiatives and active involvement or solidarity with the Eurozone<sup>2</sup>.

Tomasz R. Szymczyński's claim that both terms, the "presidency of the Council of the European Union (CEU)" and the "presidency of the EU" are relevant because of specific reasons is correct. This author's novel analysis<sup>3</sup> of the approach of Pierre Bourdieu and the concept of the EU presidency shows that there is a dilemma in which the interpretation influences the conceptual apparatus used. Consequently, if the legal field is taken into consideration, the basis of the functioning of the presidency is limited to the Council (as CEU to the Council<sup>4</sup> - the treaty notion). If, in this context, the autonomy of the Committee of Permanent Representatives (COREPER) is not taken into account, it may be passed over but the limitation of the presidency to CEU creates a controversy concerning the status of the European Council (EC). This is why T. R. Szymczyński proposes<sup>5</sup> that these issues can be viewed through the perspective of the democracy deficit in the EU.

<sup>1</sup> This phrase is coined from the surnames of Angela Merkel and Nicolas Sarkozy who play the leading roles in the EU.

<sup>2</sup> These initiatives have met with criticism from the opposition party - Law and Justice (PiS).

<sup>3</sup> T.R. Szymczyński, *Prezydencja w Unii Europejskiej. Teoretyczne i praktyczne aspekty z perspektywy podejścia Pierre'a Bourdieu*, in: *Priorytety prezydencji Polski w Radzie Unii Europejskiej*, Z. Czachór, T.R. Szymczyński (eds), Warszawa 2011, pp. 51-82.

<sup>4</sup> The presidency, from the historical perspective, is assigned to the Council (since 8 December 1993 to CEU on the basis of the decision of the Council after the Treaty on European Union came into force on 1 November 1993). See the in-depth explanation: T.R. Szymczyński, *Prezydencja...*, op.cit., p. 75.

<sup>5</sup> T.R. Szymczyński, *Problematyka zjawiska deficytu demokratycznego w Unii Europejskiej – stan obecny oraz perspektywy*, in: *Stary kontynent w nowym tysiącleciu*, Z. Drozdowicz (ed.), Poznań 2002, pp. 59-73.

Such cognitive dissonance experienced by 'common' citizens goes against the concept of bringing citizens closer to EU matters.<sup>6</sup>

The LT brought other conceptual challenges by introducing the offices of the President of the European Council (a position taken by Herman Van Rompuy - the former prime minister of Belgium) and the High Representative of the Union for Foreign Affairs and Security Policy (held by Catherine Ashton from Great Britain) as well as the mechanism of presidency trios. As a consequence, the Prime Minister of Poland – Donald Tusk does not preside over the work of the European Council (which was previously the most prestigious area of the presidency). Analogically, C. Ashton's office limited the sphere of actions possible in the Foreign Affairs Council (FAC) for a state performing the presidency tasks. This is why the Minister of Foreign Affairs of Poland – Radosław Sikorski acts as C. Ashton's 'loyal deputy'.

In spite of these challenges and the specific paradox creating contradictory circumstances for the Polish Presidency (the willingness to enhance the roles of EU institutions, especially the European Commission, and the theoretical 'post-Lisbon' reality in which they are indeed stronger runs parallel to the practical dominance of the 'Merkozy' order), there are certain results of the course of Poland's six-month EU Presidency, the most important of which can be: 1. the preparations for Croatia's entry into the EU finalised in Brussels; 2. the suggestions regarding the institutional arrangements and anti-crisis measures, including possible treaty amendments, in order to prevent the creation of a 'two-speed Europe' and to strengthen the financial discipline with the inclusion of non-euro states to the fiscal pact. During the summit in Brussels new rules of public finance discipline<sup>7</sup> were proposed. These included: 1. sanctions against states exceeding proscribed levels of budget deficit and public debt; 2. forcing the maintaining of balanced budgets in the national constitutions of all member states; 3. enhancing the role of the European Commission to which member states will be obliged to submit their initial draft budgets; 4. the strengthening of the International Monetary Fund (INF) by euro and non-euro states with €200 billion to be used in support of debt-ridden Euroland economies. These rules would be implemented through an intergovernmental<sup>8</sup> accord. It looks likely that 26 member states will become signatories but without the United Kingdom (the Prime Minister of the UK - David Cameron vetoed the Franco-German blueprint).

In conclusion, the Polish Presidency in the EU has been a combination of the greatest opportunities and challenges for Poland as an EU member state which took the role on for the first time. It indicates that a less ambitious plan would have meant missing an opportunity and an overambitious vision would likely have been a failure. This

<sup>6</sup> See more about these issues in: T.R. Szymczyński, *Ireland, the Lisbon Treaty and the European Referendum*, "European Governance" 2008, Vol. 2, No. 2. Available here: [www.urge.it](http://www.urge.it); T.R. Szymczyński, *Prezydencja...*, op.cit., p. 76-77.

<sup>7</sup> The official website of the Polish Presidency, <http://pl2011.eu/en/>, 13 December 2011.

<sup>8</sup> This implementation may not have the desired effect because, for example, the changes aimed at the enhancement of the role of the European Commission must have their basis in the primary law and require treaty amendments. The intergovernmental accord brings different results.

presidency was the crowning of Polish EU membership and it was put to the test by external factors outside Poland's control (the financial and economic crises) as well as by domestic factors, as for example, the parliamentary elections that took place in Poland during the presidency. As the institution of the presidency raises expectations (which can lead to negative reactions when unfulfilled) and has results (which bring positive responses when attained), under these conditions the Polish strategy was 'not to make promises'. The 'post-Lisbon' and 'Merkozy' status quo in the circumstances of the mentioned crises created a context which makes it necessary to view the Polish Presidency as neither extremely successful nor totally ineffective.<sup>9</sup>

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<sup>9</sup> An additional perspective on the Polish Presidency will be known after the EU Kiev summit in Ukraine on 19 December 2011. The debate in the Polish parliament about the decision taken in Brussels on 8-9th will be held on 15 December 2011 while Polish Prime Minister Donald Tusk will summarise the presidency at a plenary session of the European Parliament in Strasbourg on 14 December 2011.



## The Polish EU Presidency and the Eastern Partnership

By Rafał Sadowski

The activation of the EU's policy towards its eastern neighbours and the strengthening of the Eastern Partnership (EaP) formed one of the priorities of the Polish Presidency of the EU Council. When attempting to sum up the achievements of the presidency in this area on the one hand there have been successes such as the activation of sectoral cooperation, a certain improvement of the mechanisms of the functioning of the EaP and the achievement of certain steps forward in bilateral co-operation (above all the practical finalisation of negotiations on the free trade area with Ukraine and the launch of it with Moldova and Georgia). On the other hand, though, the Polish Presidency failed to gain increased political significance for the EaP on the EU's political agenda, which was dominated by the issues of the eurozone crisis and by the Arab revolutions in north Africa. However, it was not necessarily down to the activities of the Presidency itself.

By stating that the Eastern Partnership (EaP) is one of the priorities of the Polish Presidency of the EU Council leads on naturally from the strategic significance the Eastern European region has for the interests of Poland. Those interests are defined as strengthened independence and the stability of the countries of the region. One of the instruments for this is their integration into European structures. Long before it joined the EU Poland was aiming at an activation of EU policy in its eastern dimension. From the end of the '90s Poland had been attempting to actively participate in and initiate EU activities geared towards the east; this became somehow a Polish 'specialisation' in the EU. The effect of this was the action, taken in cooperation with Sweden, with the initiative to establish the Eastern Partnership, which was launched at a summit in Prague in May 2009.

Warsaw attempted to take advantage of its Presidency of the EU Council to activate EU policy on the eastern neighbours and to strengthen the political significance of the Eastern Partnership. It is worth noting here that the European Commission and the European External Action Service are chiefly responsible for the implementation of activities within the EaP. The role of the Presidency is highly limited and brings about mainly political stimulation of activity from the EU's institutions. The main aims of activity within the Presidency regarding the EaP were focused above all on three issues:

1. the achievement of significant progress in the negotiations of the Association Agreements and on Deep and Comprehensive Free Trade Areas (DCFTA). It concerned the closing of negotiations with Ukraine and with Moldova and Georgia the launch of negotiations on the DCFTA.
2. achieving progress in the process of visa liberalisation.
3. the development of sectoral cooperation through the organisation of a series of meetings at ministerial and expert levels.

The most important event to take place during the Presidency was the Eastern Partnership summit, which took place in Warsaw on 29th-30th September. Poland's ambition was to strengthen the political dimension of the EaP. The possibilities of extending political integration

turned out, however, to be limited due to opposition from a part of EU countries and also due to the lack of success the partner states had in modernisation and the growing reservations concerning the state of democracy in some of them. In this situation the decisions of the summit were focused on raising the effectiveness of the mechanisms of the EaP already in existence. The strategy for action within the EaP is beginning to be focused in on drawing partners into sectoral co-operation and the extension of the possibilities for them to participate in programmes and EU agendas. Decisions were made for example on the acceptance of association agendas which are supposed to facilitate the implementation of association agreements by defining the priority goals and activities. The summit also bound the High Representative and the European Commission to working out a road map for the EaP which would define its priorities, instruments and activities to be implemented by the next summit in 2013. The announcement of an increase of funds for the implementation of the EaP for 2011-2013 by 150 million euros was rather symbolic but important.

The activation of sectoral and multilateral cooperation within the EaP was certainly a success of the Presidency. A large amount of ministerial and expert meetings were arranged on the subject of the widest possible range of areas of cooperation, including: culture and youth exchanges, the judiciary, transport, mobility, the fight against corruption, customs, co-operation between statistics agencies, ombudsmen, sanitary services and food security, environmental protection, etc. The Third Civil Society Forum also took place during the Presidency in November in Poznań. The activity of two EaP structures was also launched during the Presidency: the Conference of Regional and Local Authorities for the Eastern Partnership and the Eastern Partnership Business Forum which is a platform for contacts and co-operation for representatives of the business world. These activities are of course selected and indeed selective areas and do not have a comprehensive character; they do, however, allow for the stimulation of European integration in those defined areas.

A success of the bilateral cooperation of the EaP was seen in the decision made by the EU to launch negotiations on the agreement of a DCFTA with Georgia and Moldova. The negotiations on the Association Agreement with Ukraine are also practically complete but pen has not yet been put to paper due to the events on the Ukrainian political scene and the arrest of former Prime Minister Yulia Tymoshenko by the government in Kyiv.

No significant progress was made however in the process of visa liberalisation. The European Commission in September presented rather critical reports evaluating the progress made by Ukraine and Moldova in fulfilling the first stage of the EU Action Plan on Visa Liberalisation. Despite certain successes being recorded, shortcomings meant that neither country passed on to the second stage of implementing these plans.

Poland also actively tried to react to crisis situations which threatened the progress being made in the implementation of the EaP. An example of this may be the unfolding of the situation in Ukraine and the signing of the Association Agreement being blocked. Warsaw engaged

itself in undertaking intensive dialogue with the government in Kyiv; an example of this are: when Poland's former president, Aleksander Kwaśniewski visited Kyiv in September; when the presidents of Poland, Germany and Ukraine met in Wrocław and those of Poland and Ukraine met in Kyiv in November and when foreign ministers of Poland and Sweden visited Donietsk in late November. Belarus has also had its individual position as the government in Minsk intensified repression against the society. Poland took a principled position on this issue, strongly criticising the actions of Minsk and it furthermore extended support to the democratic opposition. During the EaP summit in Warsaw a declaration was accepted on the Belarus issue in which the EU states criticised human rights violations in Belarus. The EU also presented an aid package worth nine billion US dollars for Belarus which would be granted when there was a situation of a liberalisation of the political system.

During its Presidency Poland managed to activate activities taken within the EaP, mainly through organising sectoral co-operation meetings. The EaP has been

permanently written into the EU's foreign policy and has become the main EU initiative towards its eastern neighbours which includes a model for the European integration of the countries from this region. On the scale of the entire presidency, though, it had less significance than the challenges of the EU itself – above all the financial and political crises and the need to introduce institutional reforms – and than the development of the situation in the southern neighbourhood following the Arab Spring.

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## Together faster and more efficiently

By Janusz Wróbel

Pruszcz Gdański is a special place for me. I have lived here since birth having the opportunity to observe changes in the city at first and then for more than a decade to participate actively in them. The most important development has taken place during our presence in the European Union.

Today my city is one of the most attractive places in northern Poland. Such an opinion is confirmed both by investors and by the countrywide economic rankings. In the recent years Pruszcz Gdański has been ranked highly in the Golden Hundred of Self-Governments as well as in the ranking of biweekly "Wspólnota" (Community). Our advantage is the industrial district. Many well-known companies have their seats here, among others Investa, Crown Cork, Polish Post or LPP S.A. Investors say that it was friendly politics that encouraged them to choose this location – quick and easy formalities, help and care from 'the first step'.

Recently we have acquired a very valuable prize in the category of cities of sustainable development. It means that Pruszcz Gdański with its 27 000 inhabitants is attractive not only for investors but also for people who plan to settle here. They are drawn here by a unique, small-town atmosphere which allows one to run from the urban tumult and relax. And the big city is very close.

The centre of Pruszcz Gdański is only 10 km away from the heart of thousand-year-old Gdańsk. For potential new residents it is one of the main assets as well as the easy access to Tricity Metropolis. The town is an important road and rail hub – all strategic Pomeranian routes intersect here. Tricity bypass which is also the beginning of the road leading to the German border becomes A-1 freeway near Pruszcz. There is also the Southern Bypass of Gdańsk which is a part of trunk road number 7 leading to Warsaw and further South. Main railway line to Tricity, Aeroclub airport used by more and more small planes.

It is just the big road infrastructure which is the indicator of the development of Pruszcz Gdański in the European Union context. Building new communication solutions, which was possible thanks to coo financing from the European Union became a very important impulse for the increased attractiveness of the city. And we used our chance efficiently. Thanks to funds from the European Union we were able to build one of the most important urban investments and at the same time the one hardest to implement– the bypass of Pruszcz Gdański which will be

opened for the first drivers in December. We are getting ready for new investments.

Open and united Europe isn't just infrastructure. The citizens of Pruszcz Gdański have always traveled a lot. Nowadays anywhere in Europe we can meet familiar number plates. It used to be the same long time ago. The famous 'Amber Route' finished in Pruszcz Gdański. We decided to reach to the European heritage and reconstruct an ancient trade village from Roman times. Where the waste ground used to be, there is now a unique education, exhibition and reconstruction centre which shows how European cultures used to influence and penetrate each other during many centuries.

Within common Europe we are united by communication routes and common history told by among others international tourist routes. In Pruszcz, apart from the Amber Route, there is also Cistercian Route, Hydroelectric Power Station Route or Mennonites Route.

The Mennonites who were a part of big Dutch society lived in Pruszcz Gdański since the beginning of the 19th century. Today because of their religious and cultural specificity they are one of the symbols of centuries old Polish-Dutch cooperation which still develops dynamically.

A few weeks ago the Dutch decided to have the city of fans for Euro 2012 on the airport in Pruszcz Gdański. It turned out that the Dutch team will play in Ukraine with which we have also been strengthening our cooperation recently. The continuous integration with European Union encourages Ukrainians to watch us to see what there is still left to do in order to join common Europe some day. It is the best stimulant for further development for us. It is also an honor to transfer our European experiences further to places where others want to implement them.

*Janusz Wróbel*

*Mayor of Pruszcz Gdański*

*City of Pruszcz Gdański*

*Poland*

## The European Union's external energy policy and its relations with its neighbours to the East

By Agata Łoskot-Strachota

In September this year the European Commission issued a communication on the EU's energy relations with its external partners. It identified the major directions for action and the tools which should be created. At the same time, the EU is more and more frequently becoming involved in these relations, including with its highly important Eastern neighbours. In November this year the European Commissioner for Energy attended the launch of the Nord Stream pipeline; he was criticised for standing in the shadow of Chancellor Merkel and President Medvedev, yet any greater involvement on his part could be viewed as being problematic in the context of past controversies surrounding Nord Stream. Several months earlier EU member states gave a negotiating mandate to the European Commission to carry out negotiations with Azerbaijan and Turkmenistan concerning the legal framework for the planned Trans-Caspian Gas Pipeline. This was considered a success for the European Commission. A success that would not however have any major direct impact on the implementation of the project. For over a year EU officials have been involved in intergovernmental negotiations on the energy supplies to some of the new member states (which is a matter of concern for the other countries) and presently opts for information sharing on the contracts signed or negotiated. These examples illustrate very well the far from obvious status of: the EU's mandate in the external energy policy, the forms of its involvement and sometimes also the effectiveness of its actions. However, the nature of the EU energy market (open, dependent on external supplies) and the degree of its interconnectivity with external markets (at regional or global level) make the external energy policy an integral and necessary part of the EU's energy policy, mirroring the developments of the internal market. This is probably among the reasons why the internal energy market rules are becoming the EU's key tool especially in relations with its partners in the immediate neighbourhood. This policy formula brings tangible effects, but it also has certain limitations, as evidenced by the EU's relations with its Eastern neighbours. Ukraine, which is to follow the EU's path in its energy market reforms, has also inherited some of the shortcomings of the EU's solutions and may multiply the EU's mistakes. The divergent interests and the doubts of the member states and European business regarding the EU's rules, or sometimes the lack of will to implement them fully, re-emerge and take a more solid form in relations with Russia's Gazprom. Finally, the EU's focus on its own solutions and the fact that too little attention is being paid to the needs of its key partners both result in the post-Soviet energy resources producers' search for alternative markets other than the EU.

Currently, the broadly understood Eastern neighbourhood area (including Russia & Central Asian states which are not covered by the EU's neighbourhood policy) is the main source of gas imported by EU member states (i.e. the Russian gas and the Caspian gas which is hoped to enable the diversification of supplies), an important source of oil (Russia, Azerbaijan, Kazakhstan) and an increasingly significant partner in the electricity field (important also in the context of the effects of the EU's climate policy or the reinforced tendency to move away

from nuclear energy). It is the key area of the transit of hydrocarbons to Europe (Ukraine and Belarus are still the most significant route of gas transit to the EU and an important oil export route). It is also a set of markets which are connected with the EU market to differing degrees. The changes on the Ukrainian or the Russian energy market related to e.g. the demand for or the prices of energy, or the general investment climate, are likely to be reflected also in the EU. In this context the EU seems to have adopted two major objectives towards the states in its immediate Eastern neighbourhood. On the one hand it wishes to secure itself a sustainable, stable and secure access to energy from the East. On the other, it is fostering closer cooperation and eventually – the integration of its Eastern neighbours' markets with its own.

The EU member states' bilateral cooperation with Russia, with other energy suppliers or with transit states has not always allowed for the interests of all member states to be secured. It sometimes resulted in decisions which were contrary to the interests of some EU states. One good example here is the construction the Nord Stream pipeline, completed (first line) in November 2011. The process of the implementation of the initiative (including granting it EU priority project status) caused numerous controversies within the EU. Nord Stream has emphasised, among other things, the diverging priorities of individual member states in their energy relations with Russia and has highlighted the divisions within the EU on those who considered the increased import levels of Russian gas an opportunity, and those who saw it as a potential threat. It underlined both the necessity and the challenges connected with the shaping of the common policy towards external partners. The experience resulting from the process of implementing Nord Stream is certain to have influenced the way the EU gets involved in other significant infrastructure projects connecting the EU with third countries. A good example here is the Southern Corridor, when the EU was reluctant to grant particular importance to one of the initiative's projects (Nabucco, ITGI, TAP) not wishing to favour some of the companies/states involved at the expense of others. This cautious and ambiguous stance the EU has assumed could however have been one of the reasons for the stagnation of the Southern Corridor project.

The discussion on the principles of implementation for joint investments and strategic infrastructural projects such as Nord Stream has also been an element of a much wider debate on the principles of cooperation with companies from third countries and the third countries themselves. The EU would like to make these principles ever more based on its own law and standards. The EU's internal market is becoming – *inter alia* due to the internal divergences and shortcomings of the EU's energy policy – a key tool in the EU's relations with its neighbours, including those to the East. The principles of the liberalising energy market are to be followed not only by domestic companies, but also by companies from third countries, and the provisions of the subsequently adopted directives are having an increasingly significant impact on multiple issues including the shape of the contracts with external suppliers and foreign investments in the energy sector. The process of



adaptation to EU market rules sometimes generates problems in the cooperation with external partners. This is particularly visible in the case of cooperation with Russia's Gazprom. Implementation of the principles of full unbundling may lead, among other issues, to the necessity of selling a part of its EU assets (the case of Lithuania). The obligation to guarantee third party access to infrastructure impacts on the functioning of the already existing and the planned pipelines, including Yamal-Europe or the German Nord Stream pipelines (NEL and OPAL). In consequence, the liberalisation directives have become one of the key disputed issues in EU-Russia gas relations, while the dilemma of balance between consistency in implementing the EU's own law and the strategic importance of good energy relations with Russia is one of the major challenges faced by the EU's energy policy.

Ensuring the execution of its internal market rules is not the only thing the EU is striving for. It also wants to export its solutions outside, as evidenced by the recent enlargement of the Energy Community to include Ukraine and Moldova. Whether such activities in the EU's Eastern neighbourhood prove to be effective is very uncertain. Ukraine could actually be the best the test for the feasibility of the EU plans. It is important for the EU as a transit country. It is also one of few states in the neighbourhood to have a solid interest in extending their energy cooperation with the EU as it considers it a counterbalance and a tool in its energy relations with Russia. Although Ukraine has already started, among other initiatives, the process of gas law reform, its finalisation & implementation would require a concrete and attractive offer and increased involvement from the EU. Meanwhile, the EU's involvement in Ukraine seems to be weakening. It will be all the more difficult to

transplant the EU's principles to other states in the EU's Eastern neighbourhood, with Belarus being one of the most challenging partners due to its accelerating integration with Russia. The EU policy formula based on the export of its own solutions has major limitations, and it appears that it not only lacks relative attractiveness to EU partners but also the solutions themselves do not respond to the key problems/needs of the individual states. This is evident in the case of energy suppliers. Forced adaptation to EU rules may result in these partners intensifying their search for new markets (e.g. Russia's plans for the export of gas to China may be linked to the liberalisation of the EU market). In the case of potential new suppliers (including Azerbaijan and potentially Kazakhstan) the EU's pressure on the implementation of its internal principles may have a deterrent effect, as it generates tangible costs and the benefits are regarded as mostly intangible.

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## Between the Baltic and the Mediterranean

By Adam Łukaszewicz

To many people of the Mediterranean region, Poland is a remote northern country on the cold Baltic sea, without direct connections with the South. Such a vision of the Baltic area is subject to modifications by archaeology.

Already in the Neolithic and in the Bronze periods (from the sixth to the second millennium BC), contacts and migrations brought to the Baltic area impulses from the Mediterranean. We may suppose that inspiration could be exported in both directions.

Some historians still think in terms of a division of ancient Europe into two zones: the countries of the Roman Empire and of the "Barbaricum".

Another question is, where exactly is the Central and where the Eastern Europe? Answers to such questions change in the course of time. Under the early Roman Empire the river Hypanis (Boh, by some researchers mixed up with the Bug) was the eastern border of Europe. A famous Roman poet of the first century BC, who was also a general of the emperor Octavian and the first Roman governor of Egypt, Caius Cornelius Gallus, wrote about that river:

*Uno tellures dividit amne duas*  
"With one coast it divides two continents".

These five words preserved in the work of an ancient geographer Vibius Sequester happened to be the only extant fragment of Gallus' poetry, until a discovery at Qasr Ibrim in Nubia in 1978 brought us more of his writings on papyrus.

I think that we may infer from that line of Gallus, that in antiquity a borderline on a river was situated not in the middle of the stream but along a coast!

Claudius Ptolemy in the 2nd century AD distinguishes the western (book II) and eastern (book III) Europe. Nevertheless, both parts are to him one continent. Ptolemy's eastern Europe reaches far beyond the Hypanis and includes Sarmatia, Maeotis Palus (the Azov Sea) and the river Tanais (Don). Later, the notion of Europe as a continent reached the Ural.

An important phenomenon in the European prehistory is the early appearance of a splendid culture on the vast areas of today's Ukraine and Romania. That culture called Tripolye-Cucuteni in the 5th millennium BC produced painted pottery of very high standard, similar to the products of the Aegean civilization, but much earlier. The most astonishing fact is the early appearance in that culture of important pre-urban agglomerations and of an enigmatic writing system. That mysterious culture disappeared, leaving place to new peoples.

Later, in the Bronze Age, about 3 500 years ago, we can already speak of Europe's cultural unity. In the Bronze Age a complex civilization extended from the Baltic to the Mediterranean and covered the Western, Central and Eastern Europe, making a bridge between the most advanced countries of the Near East and the Aegean, and the European North.

No people in Europe lives where it had originally lived. The idea of autochthonous peoples living in a zone *ab origine*, is a myth. The toponyms and hydronyms often preserve scraps of the language of predecessors. The entire European population originally came from outside and was ever since wandering to and fro. Even the Alps and the Carpathians were much less a barrier than usually believed. However, some regions show less mobility than other regions, and the Baltic area was always an area of remarkable stability.

The distances should not be overestimated. The way from Warsaw to Alexandria in Egypt is shorter than from Warsaw to Cadiz in Spain!

The Goths who in the third century AD devastated the Aegean coasts, had wandered from the North to the shores of the Black Sea and later in a raid reached the Levant. Rivers and seas were efficient ways of communication. In full light of Hellenistic history, the Celts who inhabited a great part of Europe invaded Asia Minor and settled in Galatia in that Asiatic peninsula. Ancient historiographers describe migrations of Germanic tribes, later the invasions of Huns, Avars and Alans, and finally the coming of Slavs, brave warriors who - according to the historian Procopius - were much feared in the Byzantine empire.

Poland, situated at the crossroads of Europe, has also been a meeting place of those wandering peoples. After the establishment of a permanent Slavonic presence on the Vistula, the area was still open to influences from the South. The evidence is manifold and comes for example from the fragmentary clay tablets from Podedbiecie, found in 1986 by Ewa Marczak at the excavations directed by prof. Jerzy Gąssowski, and dated approximately to the 8th century AD. They contain the Nomina Christi written in Greek, as a visible trace of Byzantine influence in a Western Slavonic area. A similar conclusion results from prof. Andrzej Buko's research on a more recent medieval tower in Stolpie in Eastern Poland, which has close analogies in Byzantine Greece.

Archaeology shows, how far reached the trade of Central and Eastern Europe in the early medieval, pre-Christian period. The excavations of the Institute of Archaeology of the University of Warsaw at Truszki-Zalesie near Kolno in north-eastern Poland have brought fragmentary evidence of contacts with the civilizations of Central Asia and of the Mediterranean in the early 10th century. There are also other similar sites.

In the early 10th century, the western Slavs in Poland created a mighty independent medieval state which in 966 adopted Christianity and functioned according to the Western standards. That state could resist the attempts of various invaders, including the Mongols who in the 13th century reached the Eastern and Central Europe after having covered many thousands kilometers. The Mongols demonstrated that rapid long distance migrations were possible to horse-riding peoples. For almost two centuries they dominated the eastern zone of Europe. Their descendants, still living in the area among the Slavs, are proudly aware of their pedigree rooted in the empire of Jenghiz-Khan.

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## Poland as a tourism destination – looking for a place in the market

By Ewa Dziedzic

The fall of the Iron Curtain signaled the beginning of the radical change in Poland's political, social and economic life. For tourism that meant the deep transformation of the environment in which it used to operate. Under the communist regime tourism was treated in twofold way: there was deep distinction between international and domestic tourism. The international tourism, especially involving relationships with the Western countries, was perceived as a tool for earning hard currency and achieving propaganda goals. So a network of dedicated hotels was created to accommodate foreigners and a few tour operators were allowed to service both incoming and outgoing traffic. Domestic tourism was considered to be a part of social services delivered to workers by trade unions and state enterprises. Overwhelming majority of the tourism supply was state-owned and the demand was satisfied by controlled distribution of services.

Although the system was similar in all countries in the Central and Eastern Europe some particular solutions could differ. Proportions between international and domestic tourism varied depending on perception of the tourism attractiveness by the state authorities. The countries with warmer climate and access to sea developed some number of resorts, others like Hungary and Czechoslovakia focused on their capitals. Polish tourism stayed dominated by socially oriented domestic tourism. The supply was concentrated along the Baltic Sea coast, mountainous regions at the Southern border and to lesser extent in some lake districts located in the Northern part of the country. It consisted of rather rudimentary facilities for beach tourism, downhill skiing, spas included into the medical care system and some outdoor activities like trekking, kayaking or sailing. The offer was complemented by major cities and a few smaller towns with historical and cultural heritage.

With the beginning of the new era the Polish tourism faced several major challenges:

1. decreasing demand for domestic tourism caused by dropping real incomes of households and erosion of the system of support for social tourism;
2. the fall of demand from the former Eastern bloc states;
3. the necessity to compete with outbound destinations for more affluent Polish tourist,
4. the lack of recognisability of Poland in the main Western tourism source market.

The challenges were accompanied by poor quality of transport infrastructure impeding the physical accessibility to many destinations within the country, lack of good quality diversified accommodation, a lack of knowledge how to run tourism business in market conditions and an absence of administrative structures interested in and capable of developing tourism destinations. But there were also opportunities. Firstly, Poland was associated with anti-communist Solidarity movement and the Pope John Paul II that appealed to some groups of potential visitors from the Western countries. Secondly, the economic transformation resulted in collapse of many plants and collective farms and high structural unemployment. The traditional destinations for recreational tourism were strongly hit by those developments because of their peripheral location and weak economic base and tourism remained almost a sole option for economic development there. Thirdly, most tourism facilities were privatized and new owners wanted to receive returns on their investment. Fourthly, Poland's strive to join the EU resulted in growing co-operation and adaptation of the Polish economy and law to its standards. Poland received technical and financial support for its efforts and tourism became one of the areas of such co-operation.

The program PHARE-TOURIN helped to prepare the first national strategy of the tourism product development and to adjust tourism administration to the models worked-out in countries with market economy. The strategy identified the following "brand products":

- business tourism with special stress on MICE sector,
- city and cultural tourism,
- sport, recreational and special interests tourism,
- rural tourism,
- transit and border zone tourism.

The strategy implementation embraced the promotional campaign that was to create the image of Poland as a tourism destination. Poland was positioned as a country of diversified natural landscapes and rich traditional rural life. The theme was supported by design of logo and slogan: "Poland Naturally". The outcomes of those efforts were limited and some reasons may be named to explain why: the campaign was not supported by any spectacular attraction and offers based on it. In fact it went against the popular view that post-communist countries were grey and heavily polluted. It should be also remembered that tourism based on outdoor and rural activities is spatially dispersed, the size of market segments interested in it is limited and many of potential visitors prefer destinations located not too far from their place of residence, especially as repeat travel is concerned.

Despite the limited success of Poland's positioning the PHARE-TOURIN program incited interest in tourism as an economic activity both among entrepreneurs and local authorities. The next impulse for tourism development came with Poland's accession to the EU that involved the implementation of "open sky" policy and breaking of the actual monopoly of Warsaw airport on international flights. The authorities of other cities and low cost carriers quickly realized the potential of regional airports and their actions resulted in growing international traffic to those cities, especially to Cracow, Wrocław and Gdańsk. The better recognisability of Poland was paradoxically supported by a controversial phenomenon of work emigration of Poles to other EU countries, mainly to the UK and Ireland. All that prompted the Polish Tourist Organization to rebrand Poland and to position it as a country offering surprising experiences to people who look for something new, getting beyond formatted tourist products. The new campaign has been focused on city, cultural and MICE tourism but does not neglect visitors looking for active holidays. The new concept has found its reflection in a special logo and slogan: "Move Your Imagination!"

The data on hotel accommodation and trends in tourism nights show that Poland has started to keep pace with its neighbours. But although the stress on city and cultural tourism seems to be a good strategic choice it has not solved all problems. The poor accessibility of many destinations still remains a major hindrance for tourism development. The other threats arise from the saturation and unsustainable models of tourism development in some destinations. The problem is compounded by high seasonality of beach tourism and weak use of the potential for creation of second-tier destinations around the primary ones. Those issues are especially acute as the Baltic coast resorts are concerned.

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## Warsaw School of Economics and its international co-operation with Belarus and Ukraine

By Elzbieta Kawecka-Wyrzykowska

With the collapse of the socialist economy system, majority of research contacts and students' exchange programs with Eastern partners were substantially reduced at the Warsaw School of Economics (SGH – *Szkola Główna Handlowa w Warszawie*). For obvious reasons, the main focus of interest, both for faculty and students, have become Western partners, offering teaching programs and expertise useful for the needs of the market economy being implemented in Poland. It took some time to rebuild earlier contacts and to establish new ones with Eastern partners, including Belarus and Ukraine (B&U).

Nowadays SGH, being the oldest economics and management university in Poland, has a broad network of research and teaching contacts with foreign partners all over the world. SGH is also a member of prestigious international networks, among them PIM (Partners in International Management, a consortium of leading international business schools) and CEMS (Global Alliance in Management Education, number 2 Management Programme in the world and number 1 over last 3 years according to 2011 FT Ranking) composed of 27 best business schools in Europe and outside the continent, and offering Master in International Management.

Cooperation with Eastern neighbours, including that with B&U, still is not as extensive as with Western partners. Out of more than 250 partner universities and business schools of SGH, only a few are located in Belarus and Ukraine. However, contacts with these countries have been developing in recent years and nowadays include a number of different instruments and fields of interest.

First of all, there is a substantial number of Ukrainian and Belarusian students coming to SGH for degree programs. They usually have Polish roots and majority of them are able to study in Polish. In the academic year 2010/2011, there were 72 students from Ukraine and 116 from Belarus enrolled in degree programs (both at the first and the second cycle of studies). The number of SGH students interested in exchange programs with universities from both countries is very low but nevertheless there are some SGH students studying in B&U. Also, each year 1-2 students from countries in question study within PhD program (in Polish or in English). An additional dimension of these contacts is the annual conference "East-West Bridge" organized by SGH Students Association East West Business which gathers students from Eastern countries among them B&U and Russia (the recent workshop was on the application of modern technologies in business).

In the years 2002-2007 SGH implemented a project Business Management Education in Ukraine, financed from the American Government grant USAID, in co-operation with University of Minnesota (covering 26 Ukrainian High Schools). Its task was to support adjustment of Ukrainian educational business programs to market economy rules (creation of MBA and post-degree programs).

As a part of long lasting scholarships program Lane Kirkland "Transformation in CEEC" financed by Polish-American Freedom Foundation, SGH hosts each year young researchers from both countries offering them research consultancy.

As regards research, the main partners in Ukraine are: National University Kiev Mohyla Academy, Association "Regulator Reforms Support Centre" in Kiev; Ukrainian Academy of Customs Dnipropetrovsk and National University of Lviv. Main SGH research partners in Belarus include: Belarusian National Technical University in Minsk; Belarusian State Economic University in Minsk and Yanka Kupala State University in Grodno (the last one - in the framework of BSRUN network).

Research co-operation with B&U covers such areas as: Polish - Belarusian Transborder Customs Co-operation, role of FDI in Ukrainian economy, customs issues, tourism development, tax policies, experience of transformation etc. Results of this co-operation have been presented at conferences and published in Belarusian and Ukrainian journals.

SGH researches participated in two research projects conducted with partners from B&U within the EU 6 Framework Program. The first one "Economic and Social Consequences of Industrial Restructuring in Russia and Ukraine", WP 8 "Restructuring and Social Safety Nets in Russia and Ukraine" (in co-operation with National University Kiev Mohyla Academy). The second one "European Network for Better Regulation", aimed at improving and disseminating the current knowledge on regulatory processes (in co-operation with Association "Regulator Reforms Support Centre" in Kiev).

An important and very valuable in terms of practical applications component of bilateral contacts is several expertises and opinions that have been prepared by SGH experts for the Government and Parliament of Ukraine on customs procedures, rules of origin of goods and their compatibility with international standards. Co-operation on customs issues has been conducted also with Customs Offices in Belarus and Ukraine as well as with the Customs Faculties of the Belarusian National Technical University and Belarusian State Economic University in Minsk.

SGH faculty have been co-operating closely with Polish-Ukrainian and Ukrainian-Polish Chambers of Commerce as well as with Polish-Belarusian and Belarusian-Polish Chambers of Commerce. These contacts involve regular exchange of experience related to customs clearance and procedures in force on the neighboring borders and presenting papers during the annual conferences organized by Chambers.

Moreover, periodical contacts and exchange of ideas take place during annual international conferences organized by academic associations and organizations whose members are Polish, Belarusian and Ukrainian universities and business schools (e.g. CEEMAN, BRUSN).

SGH is open for closer contacts covering all possible areas. As regards teaching, SGH has been offering several degree programs not only in Polish but also in English at all three studies cycles. Moreover, students can choose individual courses offered in foreign languages (mostly in English and German).

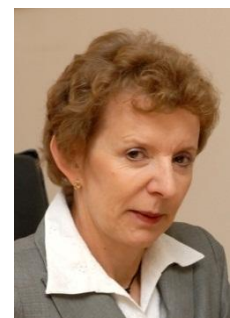
SGH faculty have also very rich experience in research and practical advice on macro- and microeconomics studies, management, demography, social and regional studies and many other areas. They have largely contributed to the economic and social transformation of Polish economy in the 1990s and to country's integration into the EU, with extensive expertise and as top leaders of business community, of the Government, the Parliament and of other key public and private institutions. The faculty are ready to share all those experiences and knowledge with interested partners.

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## Ukrainian mainstream and dream stream of Russian energy policy

By Michael Gonchar

2011 was the year of commissioning the LNG-terminal GATE in the Netherlands and the pipeline Nord Stream in the Baltic Sea, which represents the competition between LNG and pipeline supplies. Since the late 90s, Russia has materialized a number of projects of non-transit pipelines. The pilot project was a Russian-Turkish Trans Black Sea Blue Stream pipeline. According to Russians' view, Nord Stream as well as South Stream through the Black Sea will strengthen energy security in Europe, removing the risks of transit. But there are some doubts about this vision.

exempt from export duties. Indicators of the past five years are quite evident:

	2006	2007	2008	2009	2010
Total Gazprom's export to Turkey, bcm	19,9	23,4	23,8	20,0	18,01
Including <i>Blue Stream</i> , bcm	7,5	9,5	10,1	9,8	8,1

Source: Gazprom

1. On November 25, 2011, three weeks after the Nord Stream kick off, there was a «gas surrender» in Belarus. 100% of BelTransGaz now belong to Gazprom in exchange for a three-year period of low prices for Russian gas and Minsk participation in the Russian initiative of the Eurasian Union. As for Ukraine, Russia's position was clearly specified in the leaked to the press in 2009 document of the Russian Foreign Ministry: «to consider Russia's participation in the exploitation of Ukrainian gas transmission system as a strategic goal». Thus, both bypass projects - Nord Stream and South Stream - played a role of a powerful factor in the political and psychological pressure on transit countries - Ukraine and Belarus. The purpose was to force them to transfer control over their national gas transportation systems to Gazprom.
2. If we look at the scheme of existing and proposed routes of Russian gas exports (Baltic, Belorussian, Ukrainian, Black Sea), we can come to unexpected conclusions. Diversification of routes could result in varying the amounts, prices and directions of supplies to the European Union from the East. This could be done not only with a view to maximize the revenue of Gazprom. It could be also an ideal opportunity to put pressure on one or another country by threatening to restrict/disrupt supplies. And this requires that the pipeline infrastructure on all routes should be under the control of Gazprom. This is just why it retains controlling stake in both streams.
3. Confirmation of Russia's intentions to manipulate the created surplus capacities are statements of the Gazprom management. Here are two of them in 2011 that belong to the same person - the head of Gazprom. I quote from Reuters:

*Feb 16, 2011. The launch of the Nord Stream gas pipeline on the bed of the Baltic Sea will not affect gas supplies to Europe via Ukraine and Belarus, the head of Russia's top gas producer, Gazprom said.*

*May 25, 2011. CEO Russia's gas monopoly Gazprom said on Wednesday during a gas meeting in Brussels that around 20 bcm of gas would be diverted from transit to Europe via neighbouring Ukraine to Nord Stream.*

This is certainly not conducive to strengthening confidence to Russia as a partner not only in Ukraine but also in the whole Europe.

4. Economics of gas transportation through new routes is indeed inferior to gas transit through the gas transmission systems of Ukraine and Belarus. However, the Russians allege on the economic attractiveness of the bypasses. The example of the Blue Stream indicates the opposite. Despite the fact that Trans Black Sea pipeline has a maximum capacity of 16 billion cu m, the bulk of supply flows by the traditional route through Ukraine, even taking into account the fact that gas supply by Blue Stream is

We can conclude that Russia needs Ukrainian and Belarusian mainstems to conduct gas business with the EU, and bypass flows are necessary to wage «gas wars». And Russia does not need alternative gas resources on the EU market, especially from the Caspian region and Central Asia. Thus, there is an irreceivability of the projects of the Southern Gas Corridor and the EU Trans-Caspian pipeline.

Who will win the competition of the pipeline projects - the Southern Gas Corridor or the South Stream? For me, the winner will be the LNG and infrastructure integration of the EU gas market. Confirmation of this is quite successful promotion of the LNG terminal projects. Inauguration by Queen Beatrix of the Netherlands of the LNG terminal at Rotterdam on September 23, 2011 with a very indicative title GATE (Gas Access To Europe) is very symbolic. In 2014, two more LNG terminals will start operation - at Dunkirk (France) and Swinoujscie (Poland).

The risk of Russian ambitions is once again proved by the statements of Russian politicians. For example, Mikhail Margelov, the Chairman of the Committee on Foreign Affairs of the Russian Senate and Special Presidential Envoy to Africa, expressed quite openly: «... **oil and gas policy should be not just an important part, but also one of the main instruments of Russian foreign policy**». In 2011 the Russia's foreign policy got «Putin's program» - creation of the Eurasian Union with consequent economic and political expansion of the Russian Federation. It should be done not only on post-Soviet space, and not only in the energy sector.

For the EU and Ukraine there are two important things in the current situation. For the Commission it is essential not to make exceptions from the Third Energy Package for certain projects, such as OPAL, NEL, and South Stream. For Ukraine it is also necessary to preserve the independent status of the Ukrainian gas mainstream by integrating it into the EU infrastructure through the mechanism proposed in the Communication «The EU Energy Policy: Engaging with Partners beyond Our Borders» as of September 7, 2011: «The EU must support efforts to rehabilitate Ukraine's Gas Transmission System while improving transparency and the legal framework. It should aim at faster integrating Ukraine into the Energy Community».

Michael Gonchar

President

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Strategy XXI

Ukraine



## South Stream – behind rhetoric

By Andriy Chubyk

On September 16, 2011 Russian Gazprom, Italian Eni, French EdF and German Wintershall signed a shareholders' agreement on the construction of South Stream gas pipeline in the framework of South Stream Transport AG. Participation of two new shareholders became possible due to reduction in the share of the Italian Eni (OAO "Gazprom" - 50%, Eni - 20%, Wintershall and EdF –15% for each). The reasons for such acquiescence were not disclosed, however, it could be suggested that the following factors played important role:

- Guarantee on laying marine part of the pipeline (for Eni) and accordingly, significant gains;
- Guarantee for access to gas production assets in Russia (for Wintershall and EdF);
- Discounts in gas price for South Stream related contracts;
- Reduction of investment risks for European energy companies;
- Easing of credits for the project through participation of more than one international company.

The company South Stream Transport AG was registered in the Swiss Canton Zug. It will own marine part of the South Stream pipeline instead of South Stream AG, founded by Gazprom and Eni in 2008.

The final investment decision on the project for the creditor banks should be prepared in the second half of 2012. Start of the pipeline construction is scheduled for 2013. The first line with the capacity of 15.57 bcm will probably be launched in December 2015. The preliminary cost of the project is about €15.5 bln<sup>1</sup>, which should cover construction of the underwater and land branches outside of Russia. At first it is planned to lay only one of four pipelines, but it needs anyway completion of pre-construction works on the route for the entire project, which will certainly absorb the biggest part of the announced amount. Thus, for nearly 16 bcm of gas an astronomical sum should be paid. The value of almost 2500 km of infrastructure in Russia is not disclosed yet and not officially counted to the general budget of the project<sup>2</sup>.

Since 2008, Russia signed memorandums of understanding on construction of South Stream gas pipeline with Bulgaria, Serbia, Hungary, Greece, Slovenia, Croatia and Austria<sup>3</sup>.

For participation Russia promised to most of European partners opening of favorable credit lines or conditions for cooperation in gas sphere. For example, Bulgarian support for South Stream only in terms of transit payments is promised to be evaluated at €2.5 bln<sup>4</sup>, which is questionable, given the relatively short length of pipeline on the territory of Bulgaria.

The grand South Stream project is associated with enormous political and economic benefits, which its participants seem to get from. What kind of benefits in fact will be received and by whom?

Prima facie all interested parties, meaning involved states, will have advantages. However, it could be very far away from the truth. For example, Russia as possibly the most interested party will receive a bypass gas transport route with planned maximum capacity of 63 bcm, which is approximately equal to the lowest technological level of Ukraine's GTS functionality in the transit mode under high pressure. Political advantage is measured not with civilized desire to improve relations with partner countries, but the possibility to manipulate with volumes of gas supply, whenever the leadership of Russia will consider protecting interests of own [country]. In such a case, Russia will be able to cut off gas supplies both to Ukraine and to Romania and Slovakia, which are currently carried out through Shebelynka-Ismail and Urengoy-Pomary-Uzhgorod pipelines. The only advantage that is even difficult to be identified as economic, could be creation of conditions for reducing the cost attractiveness of Ukrainian industrial assets and their further acquisition for a song by Russian companies.

At the same time by any further gas dispute Ukraine will be certainly lost for Gazprom as one of the largest buyers of Russian gas, or at least profitability of its marketing will be significantly reduced, as Russian shareholders, no doubt, will agree to cooperate with Gazprom only if gas prices will be equal with Russian.

The cost of Russian gas transit through Ukraine to the EU and Balkan states in 2010 amounted to \$2,6 bln<sup>5</sup> for 98,6 bcm<sup>6</sup>, which is even less than announced transit expenses of maximum possible 63 bcm via Bulgaria. Given that Gazprom is going to build up or has built up joint ventures for gas purchase with in most cases state energy companies in countries on the planned South Stream route, it will be the owner of gas on the whole technological chain. Further it means that it will pay for transport services of the South Stream Transport AG, while revenues of all mentioned joint ventures will be transferred and allotted in Swiss Zug without possibilities to monitor this process. For borrowed credits on construction of domestic part from Western Siberia to Black Sea coast primarily Russian customers will pay, while repayment of credits on marine and European part of the project is intended to be put on all buyers of Gazprom's gas in Europe due to long-term contracts, which are so stubbornly defended by the political leadership of Russia.

It is so far clear, that the project will bring political and economic benefits not to the Russian state and its citizens and even not to the state company Gazprom as a major taxpayer to the federal budget, but to a limited band of interested persons, which will have access to bearer shares in Swiss Zug.

In return, most of European states, participating at the South Stream project, will receive:

- additional stiff long-term contracts on supply of expensive Russian gas;

<sup>1</sup> <http://inosmi.ru/world/20110620/170936875.html>

<sup>2</sup> <http://south-stream.info/index.php?id=10>

<sup>3</sup> <http://south-stream.info/index.php?id=14>

<sup>4</sup> <http://riaновости.рф/tpolitics/20101113/295990360.html>

<sup>5</sup> <http://www.rbc.ua/ukr/newline/show-gazprom-ukraina-v-2010-g-za-uslugi-go-tranzitu-gaza-poluchila-21022011124000>

<sup>6</sup> [http://mpe.gov.ua/fuel/control/uk/publish/article?art\\_id=188753&cat\\_id=35081](http://mpe.gov.ua/fuel/control/uk/publish/article?art_id=188753&cat_id=35081)

- political implications as a consequence of European energy legislation, in particular third gas package violation (EU member states);
- loss of control over gas transportation systems in own territory (Balkan states).

European shareholders will undertake additional investment risks and worsen own credit rating through additional obligations regarding loans for the project. Economic benefits from gas production in Russia seems to be also quite low given exclusive access of Gazprom to the Unified gas transportation system and weak legislative support to foreign investors. Moreover there is a high probability that the European Commission will apply sanctions against companies-shareholders for activities, which contradict the norms of the European energy legislation.

The South Stream project is still facing the problem of choosing a route through Turkish or Ukrainian exclusive economic zone. With both countries Russia allowed itself to aggravate relations over the gas issue. Both countries are not interested in implementation of the South Stream, because it limits their transit role. However Turkey feels itself confident enough in negotiations as it has diversified system of gas imports (Azerbaijan, Iran, LNG terminals). Russia currently does not want to give up the gas price and to commit to participation in the Samsun-Ceyhan oil pipeline project, as hopes to achieve significant progress in gas talks with Ukraine. Here possible intentions could be:

1. Obtaining consent for routing the South Stream through the exclusive economic zone of Ukraine for certain reductions in the price on imported Russian gas.
2. Obtaining control over Ukrainian GTS via joint venture (consortium).

Under the first option Ukraine can rely on temporary drawbacks, because after project implementation Gazprom will certainly try to cancel immediately such "disadvantageous" conditions of cooperation with Ukraine. For Ukraine such concession may result not only in drop of profits due to reduction of gas transit, but in creation of technical conditions for GTS transport disability (reducing gas supply to the lowest level of technological functionality) and ultimate goal to gain control over it latter for token payment.

The second option also does not warrant revision or abandonment of South Stream construction, because its implementation may be delayed only temporarily. And preferences in gas price will also be temporary. Strategically, the South Stream will remain a priority of Russian political leadership, as it allows completing envelopment maneuver with pipeline infrastructure over the EU under Russian control, which corresponds to the Energy Strategy of Russia for the period up to 2030 and last but not least will bring significant economic benefits to companies involved in construction.

As third option, the peculiar vicious circle of political intergovernmental discussions Russia-Ukraine-Turkey can be terminated through the implementation of the idea of building an LNG terminal on the Russian Black Sea coast. In this case, Russia will not require permits of other Black Sea states and preserve country's image, while successfully implement politically and economically difficult project of gas supply to Europe in view of current economic realities on the gas market. However, this option is much less attractive for project initiators and it attracts attention only in critical cases, such as Turkey's recent refusal to allow laying of South Stream through its exclusive economic zone<sup>7</sup>.

Summarizing the above, it may be noted that the South Stream project is politically expedient only for Russia, and only as a means of further energy blackmail of gas importers, rather than creation of conditions for development of natural gas exports.

Economically it is advantageous only for companies, involved in its construction and for the group of shareholders, which own shares in Swiss offshore companies.

European countries, seeking diversification of both sources and routes of energy supplies, are certainly not in list of South Stream beneficiaries.

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*Executive Director*

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*Ukraine*

<sup>7</sup> <http://www.nr2.ru/moskow/351288.html>

## Belarus – the thwarted partnership

By Anaïs Marin

Belarus is an exception in the Eastern Partnership because it is the only EU neighbor not entitled to fully participate in the initiative due to the poor human rights and rule of law record of its leadership. This situation is somehow paradoxical, given that Poland's main intention upon launching the Eastern Partnership initiative in 2008 was to compensate for the fact that Belarus' authoritarian president Alexander Lukashenka had already snubbed the European Neighborhood Policy. Following the August 2008 Russian-Georgian war, drawing Belarus closer to the EU had become even more of a priority for Poland, which shares a direct land border with both Belarus and Russia. Hence, Brussels extended the Belarusian government an invitation to attend the inaugural Eastern Partnership Summit in Prague in May 2009 even if the regime had failed to meet most of the requirements, listed in a non-paper issued in November 2006, upon which the EU conditioned the resuming of dialogue. Official Minsk accepted the invitation, wrongly assuming that in the Eastern Partnership framework "joint ownership" would prevail over the EU's conditionality principles.

In the absence of a Partnership and Cooperation Agreement – the ratification of which has been frozen since Alexander Lukashenka's "constitutional coup" in 1996 – Brussels has no institutional framework for cooperation with official Minsk. This implies that since 1997 the EU's common policy on Belarus has been governed by EU Council resolutions and sanctions. Hence the political constituent of the Eastern Partnership (the bilateral track towards an Association Agreement and visa liberalization with the EU) is closed to Belarus. The latter cannot start negotiations on a Deep and Comprehensive Free Trade Agreement (DCFTA) either since, like Azerbaijan, it does not meet the precondition of WTO membership. This leaves Belarus but access to the multilateral track of the Eastern Partnership, which encourages horizontal (regional) cooperation with and among Eastern Partners, including within the Civil Society Forum, currently the only Eastern Partnership institution Belarus is actively participating in.

The last fraudulent re-election of Alexander Lukashenka on 19 December 2010 and the ongoing crackdown against the opposition, independent media and human rights defenders in Belarus prompted the EU to abandon its "critical engagement" policy and re-instate "restrictive measures" (a visa ban, assets freeze and, since June, targeted economic sanctions) against the Belarusian regime. Despite the lobbying of other Eastern Partners in favor of a softer stance on Belarus, the Eastern Partnership inter-parliamentary assembly (EURONEST) first convened this year without the participation of Belarusian parliamentarians, whose election the European Parliament considers as illegitimate.

Tensions mounted ahead of the second Eastern Partnership Summit convened in Warsaw on 29 September 2011. The EU Presidency, which had invited one of the rare members of the Belarusian government who is not on the visa ban list, Prime Minister Mikhail Myasnikovitch, refused to grant the Belarusian ambassador to Poland, whom official Minsk wanted to accredit instead, the right to stand on an equal footing with heads of State and

government. As a result, the Belarusian delegation slammed the door on the first day of the Summit to protest what it considered as an unfair discrimination.

Indeed, the EU's tough stance on Belarus contrasts with its accommodating position towards Azerbaijan, whose democracy credentials are arguably very poor as well, not to mention the fact that conditionality is absent from the EU's "strategic partnership" with Russia. One pragmatic explanation for such "double standards" in the EU's democratic conditionality discourse is that the latter countries hold the gas and oil resources on which the EU is dependent for its energy consumption.

Ironically, including Belarus in the Eastern Partnership was actually meant to help this transit country reduce its own dependence on Russian hydrocarbons, the re-exportation of which is a major source of income for Belarus, albeit a more costly one since the first "gas wars" with Russia erupted in 2006-7. This explains why official Minsk initially met the prospect of fostering multilateral cooperation within the Eastern Partnership with enthusiasm: it expected that EU donors would invest in big transport, energy and infrastructure projects, and provide Belarus with the Western technologies it desperately needs to modernize its oil refineries and transit facilities.

Therefore, in 2009-10 the Belarusian government invested considerable effort to make the most of its participation in Eastern Partnership sector meetings within platforms 2 (economic integration and convergence with EU policies) and 3 (energy security). It developed business contacts and drafted projects meant to diversify Belarus' energy deliveries thanks to EU support. Official Minsk, which was then envisaging importing crude oil from Venezuela through Lithuanian and Ukrainian terminals, proposed to design ambitious transit infrastructure projects labeled as a trilateral contribution to the Eastern Partnership. None of these projects was given any attention in Brussels however, possibly because the emergence of a Baltic-Black Sea oil corridor is not in the interest of those EU member states holding stakes in the alternative route opened with the Nord Stream pipeline.

Against this background, the virtual exclusion of Belarus from the Eastern Partnership on political grounds provided Russia with an opportunity to foster its own geo-economic interests in the region. The acceleration of Russia's re-integration plans within the Eurasian Economic Union, illustrated with the purchase of Belarusian gas transit operator Beltransgas by Gazprom on 28 November, augurs ill of the potential to draw Belarus any closer to the EU. This, in turn, is a severe drawback for the democratic forces and civil society organizations of Belarus, which had put great hope in the Eastern Partnership for breaking the deadlock of Belarus' 17 years of almost uninterrupted isolation from Europe.

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## Belarus's energy security

By Anton Lobach

### We all live in a Global World

The problem of energy security is not a matter of individual countries. Of coordination of actions in the field of energy security depends a peace and economic development of our planet. However, due to energy resources there are conflicts and contemporary military expansions arise. Therefore, the issues of energy, military, economic and environmental security are seriously interrelated.

Today talk about energy security can only be in the context of international relations. No one country can not live and develop alone without interaction with the global world. For Belarus, this statement is especially true. Energy Security goes from Economic Security and Political Economy.

### The regionalization

Contemporary processes of globalization are accompanied by regionalization. The most important reason of this regionalization - is to create of both: the economic and energy security.

The European countries joined into the European Union. This allows them to perform a single force to external partners and to support each other within the union.

Belarus has also felt the need to join into a regional association. Since Belarus has teamed up with Russia and Kazakhstan in the Customs Union. In this regard, it was forced to neglect some of their interests. In particular, certain income of the state budget and some degree of independence. At the same time, literally, on the meeting of prime ministers of Russia and Belarus on August 15, 2011 signed an agreement to provide special prices in energy for Belarus in 2012 year. This is a form of energy security, which we assign to the geopolitical.

### Discounts on energy provide additional economic growth

Getting the special price of energy makes it possible to Belarusian goods and services to get a competitive advantage in international markets. The population and domestic enterprises can save their costs and generate additional profits. This is a form of energy security, which we assign to the economic.

### Belarus Energy Situation

There are not enough domestic energy resources in Belarus. However, the costs amount of Energy is up to 35% of GDP. Energy rise in price has caused a serious currency crisis in March 2011 in Belarus.

A similar situation we see in international markets. Oil rise in price stimulates a constant rising cost of food, causes currency crises and imbalances in the global economy.

On the example of the major economies countries, we see that one of the factors of economic development is the availability of energy resources. Countries without their own resources become into dependent of their energy suppliers.

In 1990, Belarus consumed 750 kg of oil equivalent per 1 thousand dollars of GDP; in 2008 it was 320 kg.

However, the energy intensity of GDP in Belarus is higher than 2 or more times if to compare with the highly developed countries. Belarus should reduce the energy intensity of GDP in two directions: reducing consumption of fuel in energy production and rational use of already produced energy.

### The Volumes of consumption in Belarus

Up to 90% of electricity and thermal energy in Belarus is generated using imported natural gas. It makes the country's

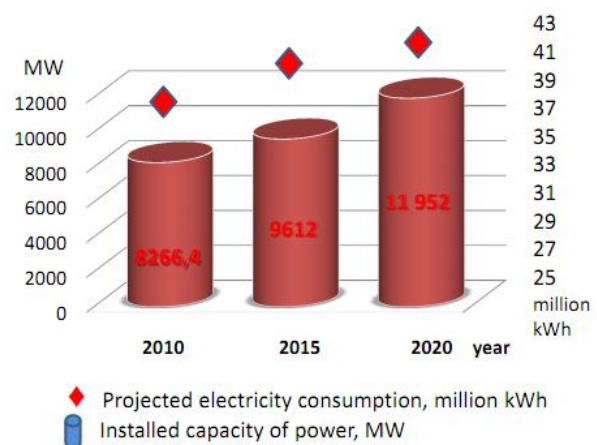
growing economy is too sensitive to fluctuations in gas prices and forces to search for alternative sources of energy.

The annual volume of gas imports is 21.7 billion cubic meters, of oil - 20.5 million tons, of coal - 200 tons a year. The contract price of gas for Belarus in the first quarter of this year amounted to \$223.15 per thousand cubic meters, compared to \$195.67 per thousand cubic meters in the IV quarter of 2010. In 2010, the average price of Russian gas for Belarus was \$187 per thousand cubic meters. Belarus has spent more than \$ 4 billion for import of gas in 2010 year (4.0579 million). Overall, in 2010 Belarus has spent more than \$ 9.5 billion on oil import. The price going up and influence the economy.

In addition, in 2011 Belarus imported 3 billion kWh of electricity from Russia, as well as 2.5 billion kWh of Ukraine.

According to the estimates of gross consumption of energy resources will increase from 37.05 in 2005 to 52.4 million tons of coal equivalent in 2020, including energy - from 35 to 50.3 billion kWh.

Belarus is used 36.14 billion kWh of electricity a year and consumed, in addition, 33.9 million Gcal of heat energy as well. (Source: Ministry of Energy of the Republic of Belarus.)



### The Renovation of the energy system

Belarus been building the concept of energy security for many years. During this time, Belarus has upgraded power networks and generation capacity. And we must also say about the credit support of the International Bank for Reconstruction and Development in this work.

Renovation of energy system and its rational use are among the directions of reducing energy intensity of GDP. Since 1995, "Belarus increased by 2.5 times in the GDP without the practical increase in energy consumption, and this is already an achievement."

### Diversification

The reliance on import energy has prompted ambitious plans to diversification of energy supplies, improve energy efficiency and sustainability.

To provide energy security Belarus is trying to diversify its supplier. For this purpose Belarus delivers oil from Azerbaijan and Venezuela through ports of the Ukraine and the Baltic countries. And we must honestly admit that the cost of such actions is quite large.

In 2010 the total supply of oil brand Santa Barbara from Venezuela in Belarus amounted to 1.8 million tons and worth \$ 1.15 billion (about \$ 638 per ton, including delivery). And if to compare in the same 2010 oil deliveries from Russia

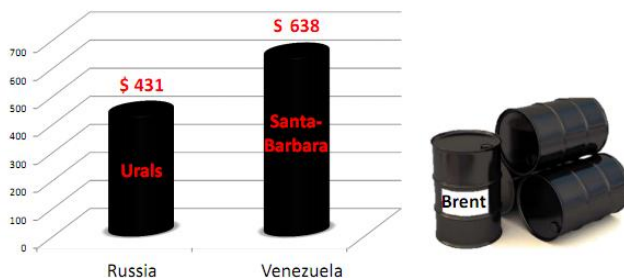
amounted to 13 million tons and worth \$ 5.6 billion. In this way, one tone of Russian oil brand Urals cost for Belarusian budget of \$ 431. (Source: Belstat)

In the future Belarus plans to conduct the purchase of oil and petroleum products from Kazakhstan and to find an alternative to Russian gas supplies.

From local resources Belarus plans to produce up to 25% of electricity and heat already by 2012. Mainly it should be achieved by increasing the peat extraction (up to 3.3 million tons) and of firewood (up to 11 million cubic meters). It gives equivalent to the replacement of 3.5 billion cubic meters of gas.

Increasing competition for renewable energy development is prompting new markets and cost-savings for infrastructure.

## The Diversification Cost



## Alternative energy sources

Due to high energy costs it has been studied various possibilities of alternative energy development in Belarus. Currently developing projects on the use of solar and wind energy. The possibilities of application of hydrogen energy technologies are also studding.

There were made substantial investments to improve Belarus' renewable capacity, with proposals including three hydroelectric plants, several biomass and combined heat and power plants, plus the construction of over 2,400 wind turbines. Of all renewables, biofuel is most attractive to Belarus because of the vast areas of forest and farmland across the country.

Biofuel facilities are being constructed on the south of the country to produce 650 million liters of bioethanol a year.

Chemical company Azot is experimenting with the production of methyl ether from rape oil.

Biomass also offers ways to reclaim land contaminated by the Chernobyl disaster as the growing and harvesting process helps clean-up the land.

The government has committed to ensuring at least 25% of energy to be produced by local fuels and renewable energy sources by 2012.

To stimulate the development of alternative energy The Ministry of Energy of Belarus buys this electricity by the rate 3 times higher than it sells electricity to customers.

## Going to the nuclear power station

We do a lot, but sometimes that's not enough. We need to save what we have and take care of the future. Natural resources are limited, alternative energy sources are not sufficient and we need to resort to more complicated things.

Thus the decision about the necessity building a nuclear power plant in Belarus has made.

Certainly, there are both supporters and opponents of this decision. And of course it is one solution that has more questions than answers. Of course the main issue in this context is energy security.

## Nuclear Power Station

Construction of nuclear power plant will reduce growth in energy tariffs and replace the fuel balance of Belarus for more than 5 billion cubic meters of natural gas.

The new nuclear agenda is creating significant business opportunities in a wide range of markets for companies that possess expertise in nuclear technology and plant operation.

## NPP in the world - according to IAEA

According to the **International Atomic Energy Agency at UN (IAEA)**, more than 18% of the electricity generated in the world is produced by nuclear reactors.

There are around 440 nuclear reactors with total capacity of over 365 MW, which are located in more than 30 countries. The main generation capacity is concentrated in Western Europe and the USA. Only in 2000-2005. put into operation 30 new reactors. Currently, 12 countries, built 29 reactors with a total capacity of about 25 MW. According to experts of to the International Atomic Energy Agency UN planned to build 130 new units by 2020.

As state leaders, who spend most of its electricity needs are met by nuclear power plants, are France (77%), Slovakia (57.8%), Belgium (56%) and Sweden (49.2%).

Nuclear power plants operate in 15 out of 27 countries - EU members and produce about a third of the energy generated in the EU electricity.

The largest number of nuclear reactors have the United States (104), France (59), Japan (53), Russia (30) and UK (27). Among the top ten richest countries in the world, only Italy has not its nuclear plant. However, it makes extensive use of electricity of French nuclear power plants.

## Conclusions

Thus appears a balance of Advantages and Disadvantages.

It's a very contradictory balance between the obvious advantages of economy and ecology on the one hand and the risk of possible accidents on the other side. Moreover, if economic and even environmental factors can accurately calculate the risks can only guess.

And General Director of the International Atomic Energy Agency at UN Mohamed ElBaradei being a realist, speaking in June 2004 at a conference in Moscow, gently said: "... at a time when nuclear power is celebrating its 50th anniversary, its future - though it may have becomes promising - and it still remains uncertain".

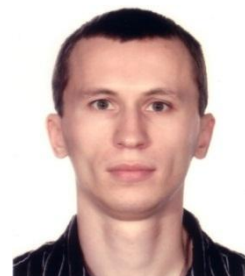
That's why the problem of Energy Security is not a matter of individual countries. On coordination of actions in field of Energy Security depends a peace and economic development of our world.

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## Currency crisis 2011 in Belarus

By Eduard Simchanka

According to Belarusian standards year 2010 was relatively stable. GDP grew by 7.6%, CPI was 110.9%, refinancing rate during the year decreased from 13.5 to 10.5%. At the beginning of 2011 the official rate of Belarusian ruble against the basket of currencies stood at 1057<sup>1</sup> (3000 to the U.S. dollar, 3999 to euro and 98 to Russian ruble). After devaluation of Belarusian ruble by 20% in early 2009, the value of the basket has remained close to the center of the band and was decreasing relatively slowly (about 5% per year) over the last two years. Certain devaluation expectations were associated mainly with increased current account deficit and external debt and the rapid growth of the salary and pensions at the end of 2010 before president elections. But the scale and the course the crisis have exceeded all expectations.

Evolution of the crisis may be divided into two stages. The first stage began with a shortage of hard currency. In January 2011 Belarusian Currency and Stock Exchange (BCSE) increased fee from buyers of foreign currency from 0.0095% to 2% (reduced to 0.03% in August). In March, restrictions were imposed on the purchase of foreign currency for companies and population, then corridor of exchange rate on interbank market was expanded from 2 to 10%. Companies could buy the currency at the official rate only for energy, medicines and other priority aims, and population only for some immediate needs. In April, the National Bank allowed free rate fixing at the interbank market and an "electronic point of cash foreign exchange" appeared in the Internet. Thus, the first stage ended by return to a system of multiple exchange rates (for the first time since the end of 2000).

The second stage lasted for about six months - from April to October. In May, the National Bank expanded the corridor of fluctuations of the Belarusian ruble to a basket of currencies from 8% to 12%, imposed restrictions on buying medicines at the official rate, allowed free rate fixing on the interbank currency market and in exchange offices. Finally on May 24 National Bank officially devaluated the Belarusian ruble to the basket at 1.54 times to 1810 (to the beginning of 2011 at 1.71 times). In September, an additional trading session at BCSE was introduced, in which exchange rate was formed on the basis of supply and demand. On October, 20 the main and the additional trading sessions of BCSE were merged. Exchange rate at the single session became the new official exchange rate. This meant the second official devaluation of Belarusian ruble at 1.69 times from 2027 to 3059 (YTD at 2.89 times). So the second stage of the crisis ended by official recognition of the real depreciation of the Belarusian ruble, return to a single exchange rate and rejection of the fixed exchange rate regime. The dynamics of main exchange rates during crisis is shown in Figure 1.

The crisis has caused the acceleration of inflation (DTY more than 100%), decline in revenues, short-term shortages of certain goods. Actions of authorities to tackle the crisis included increasing the refinancing rate, statements to reduce spending on government programs and attempts to find additional external financing. Meanwhile, money supply (M2) for nine months increased by 1.44 times compared with the corresponding period in 2010, salaries of state employees and pensions were increased.

Explanations of the crisis include the lack of reserves, excess emission and concessional lending, large trade deficit, growth of external debt and companies indebtedness, rising energy prices, income increase at the end of 2010, boom in the automobile market in the first half of 2011 (before rise of customs duties). The wider explanations consisted in reference to an inefficient economic model, a high proportion of state sector and active use of administrative methods. Great emphasis was placed on the impact of inflation and devaluation expectations and external forces. All this, however, does not explain depth and duration of the crisis.

In my opinion, the main cause of the crisis lies in setting too high GDP and income growth goals and their realization by command methods and through additional emission and foreign borrowing. Implementation of such goals during the last ten years has enabled to increase GDP by more than 42% and the real incomes of more than 75% in each of five-year periods 2001 - 2005 and 2006 - 2010. Specificity of the pre-crisis five-year period compared to the previous one was in switching from mostly internal to mostly external sources of additional financing. Growth of money supply (M2) was 14.1 in 2001 - 2005 and 3.0 times in 2006 - 2010. External debt increased at 2.45 times (long-term at 1.7, state debt at 1.3 times) in the first five years and at 5.54 times (respectively 10.6 and 18.3 times) in the second five years. At the same time, the regime of a fixed peg resulted in a deviation of exchange rate from its equilibrium level and increasing of demand for the currency. However, this additional funding was actually excessive in terms of efficiency.

The scale of the crisis could be much less if not an artificial increase in income before the elections in late 2010, effect of which are lasting in 2011 and which directly and indirectly increased consumer imports, and mentioned demand for cars at the end of 2010 and the first half of 2011. However, the overall impact of these factors is a smaller part of the accumulated imbalances. The crisis have led to refusal from fixed exchange rate regime, which for years was considered a prerequisite for economic growth, adaptation to external shocks and restricting inflation. Its overall effect consists in deterioration of economic situation and perspectives of economic development.

*Eduard Simchanka*

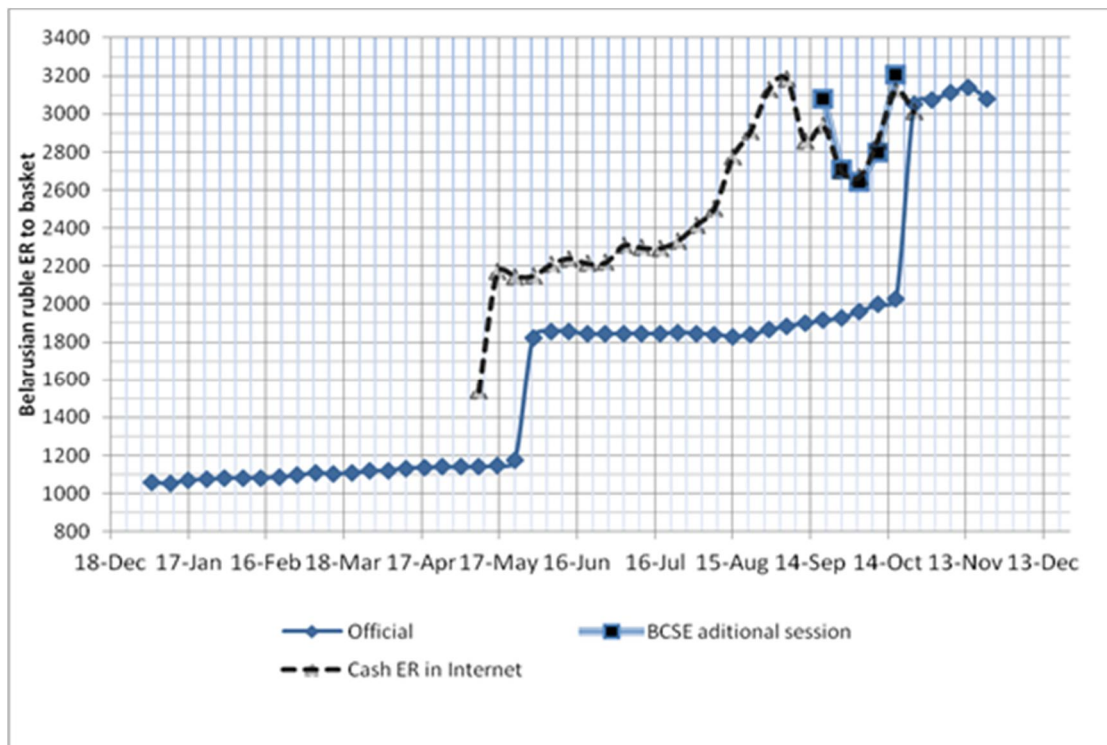
*Candidate of Economy*

*Independent researcher*

*Belarus*

<sup>1</sup> Since 2009 Belarus used crawling peg of Belarusian ruble to the basket of U.S. dollar, euro and Russian ruble with a horizontal corridor. The value of the basket is calculated as the geometric mean of the currencies. At the beginning of 2009 the corridor was  $\pm 5\%$  relative to the central value, in the middle of the year it increased to 10%, in 2010 was  $\pm 10\%$ , for 2011 defined  $\pm 8\%$ .

Figure 1 Dynamics of the official exchange rate, exchange rate at BCSE additional session and cash rate at the black market



Sources: National Bank official statistics, [www.procopovi.ch](http://www.procopovi.ch) (Internet cash rate)



## Georgia and its role in energy transit towards the West

By Murman Margvelashvili and George Mukhigulishvili

As a part of the ancient Silk Road Georgia historically was on a significant trading route between East and West. Georgia's importance for energy transit became obvious in the beginning of 20th century by oil exports from Azerbaijan to the Black Sea ports and its role as the key energy transit country was revived in post Soviet times. Currently Baku–Supsa and Baku–Tbilisi–Ceyhan oil pipelines transport about 30mln tons of oil annually while SCP gas pipeline supplies up to 8 BCM of natural gas per annum from Azerbaijan to Turkey. Railway transports 4mln tons of Kazakh oil. Georgia also provides transit of Russian gas to Armenia transporting about 1.5-2 BCM annually.

Having no significant oil & gas reserves, Georgia covers 60-70% of domestic gas needs through the gas provided by transit agreements while the rest is also imported. Thus by linking the interests of own energy supply to the interests of other countries Georgia has achieved a reasonable level of energy security and stable gas prices. Notably, it was the startup of SCP that allowed Georgia to diversify its gas supply away from critical dependence on Russian imports.

Energy transit is also a major factor of state security for Georgia. It is noteworthy that during the 2008 warfare with Russia no energy infrastructure was damaged and though about 20% of Georgian territory is still occupied, there has been no interruption in energy flows. Georgia's potential role in energy transit to Europe is believed to be among the strongest factors of Western interest and support for Georgia's independence and aspirations to join NATO and EU.

*Therefore, due to political, energy security and economic reasons Georgia is vitally interested in further development of energy transit routes over its territory.*

Georgia's transit role is strongly enhanced by EU plans of diversifying its external energy supply. While facing the challenges of growing energy demand, declining gas production, unreliable supply from North Africa and dim prospects of nuclear energy, Europe calls for development of renewable energy sources and use of natural gas as the most economical and climate friendly intermediate fuel. At the same time EU needs to assure the security of gas supply and avoid the dependence on major monopoly players that would be tempted to use their monopoly position for political gains. Indeed, natural gas is tied to the delivery routes and the goal for Europe is to achieve that these routes operate with transparent and equitable rules assuring stability and fair market price of the supply.

Currently Russia supplies about 30-35%<sup>1</sup> of EU gas demand while some Eastern European states are completely dependent on Russian gas. Many instances indicate the use of energy as political instrument by Russia and make this high degree of dependence unacceptable for the EU. Political differential pricing of gas for different countries, 2009 winter gas crisis in Eastern Europe, earlier 2006 winter electricity and gas attack on Georgia, as well as emerging internal political instability do not add to the Russia's image as a reliable and neutral supplier. Trying to enhance its monopoly position Russia is actively engaged in acquisition of strategic energy infrastructures in other countries and subsidizes the construction of new strategic pipelines to enclose the Europe by the network under own control and to separate it from the vast gas reserves of the Caspian and Middle East.

In its search for diversification of energy supplies EU has been developing the concept of Southern Gas Corridor (SC) to allow EU consumers' access to vast Caspian gas reserves. According to current estimates the gas reserves of Azerbaijan are evaluated at 4-5 trillion cubic meters (tcm)<sup>2</sup>, while Turkmenistan and Kazakhstan own 20+<sup>3</sup> and 2.5 tcm respectively<sup>4</sup>. *The strategic*

*objective of the (Southern) corridor is to achieve a supply to the EU of roughly 10-20% of EU gas demand ("Big Gas") by 2020, equivalent to 45-90 bcma.<sup>5</sup> There are several intended projects (Nabucco, White Stream, TAP, ITGI, but also AGRI, recently announced SEEP and Trans-Anatolian pipeline) at various stages of development that comprise the concept of Southern Corridor. The EU strategy of developing the key SC projects concurrently is designed to reduce the transportation risks for the Caspian producers by assuring the "Effective CORRIDOR" for gas transportation via two parallel routes west of Georgia, one across Turkey (Nabucco, TAP, ITGI, SEEP and Trans-Anatolian pipeline) and another across the Black Sea (White Stream subsea pipeline and AGRI (Azerbaijan-Georgia-Romania Interconnector) LNG transportation system).*

Southern corridor is a complex mix of projects involving a big number of diverse players. Its strategic value to the EU is directly linked to independence from Russian influence. Georgia, being a small but critical link of this complex chain, may critically affect its success by avoiding or falling under the influence of this monopoly player.

Georgia's Euro-Atlantic aspirations contribute to its image of a country with proven track record of a reliable transit state. The potential leverages that might be provided by Russian military presence, ownership or control of critical energy infrastructure and informal business relations, can be effectively curbed only by transparent legal environment and decision making practices of EU standards as well as political support by Western countries. Thus it is in the interests of EU as well as Georgia that the latter strengthens its independence and becomes a more democratic country with stable and transparent legal system, open policy making, strong institutions and sustainable development prospects.

It is in mutual interest to expedite Georgia's reforms and Euro-Atlantic integration process through existing and new mechanisms including Eastern Partnership, Energy Community etc. An important condition of this work should be closer cooperation and more detailed consideration of specifics of Georgian energy market and its economic interests that should be protected in this process. Such an approach will result in a faster progress and allow seize the opportunities still existing for both sides in the rapidly changing global environment.



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Georgia

<sup>1</sup> 34.2% in 2009 [http://epp.eurostat.ec.europa.eu/statistics\\_explained/index.php/Energy\\_production\\_and\\_imports](http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Energy_production_and_imports)

<sup>2</sup> SOCAR

<sup>3</sup> <http://oilprice.com/Energy/Natural-Gas/Green-Eyed-Gazprom-Attacks-Turkmenistan-s-Natural-Gas-Resources.html>

<sup>4</sup> CIA <https://www.cia.gov/library/publications/the-world-factbook/rankorder/2179rank.html>

<sup>5</sup> [http://ec.europa.eu/energy/infrastructure/strategy2020\\_en.htm](http://ec.europa.eu/energy/infrastructure/strategy2020_en.htm)

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