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The Impact of Brexit on the EU Development Policy. 
Selected Financial Issues

Monika Szynol¹

**Abstract:** The withdrawal of the United Kingdom from the European Union – if it happens, regardless of the chosen variant – will be associated with various consequences for both sides. Brexit (British exit) will also impact the EU development policy, as London is one of the leading providers of ODA – in 2018 it financed 11.67% of its world’s total, and with Germany and France ensured two thirds of the EU ODA (65.61% in 2018). This paper attempts to answer the main research question: what impact will Brexit have on the EU development policy? The analysis covers the financial plane, and the following elements will be taken into consideration: the impact of the United Kingdom’s withdrawal from the organisation on the general EU budget, the European Development Fund and the sum of funds transferred to ODA by the EU institutions and its Member States, guaranteeing the status of the world’s most generous donor, currently providing more than 50% of total ODA. However, I argue that in the post-2020 perspective the fact that Brexit will happen will matter more the EU’S ODA than the actual form that it will eventually take. The withdrawal of the United Kingdom from the European polity may be associated with a significant reduction of the financial resources at the EU’s disposal and directed towards development assistance, but the European Union will remain the most important ODA donor, contributing around 41% of all global development aid.

**Keywords:** EU development policy; EU development cooperation; development aid; Brexit; the United Kingdom

The withdrawal of the United Kingdom (UK) from the European Union (EU) – if it happens, regardless of the chosen variant – will be associated with various consequences for both sides.² The effect of Brexit (British exit) will also affect the EU development policy.

The main reason for this is the overriding principle provided by the EU policy in the development area – dualism. The distribution of competences in this field between the Member States and the supranational level was apparent from the

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very beginning of the existence of the European Communities (their assistance programmes were often implemented independently of national programmes). That on the one hand hindered the achievement of coherence of activities and limited their effectiveness, but, on the other, it allowed the organisation and its members to become the largest (statistically) donor of Official Development Assistance (ODA). The EU in the second decade of the 21st century provides more than 50% of world’s ODA.

Yet, this duality was upheld by the treaty signed in 2007 in Lisbon, currently regulating the legal order in the EU. The key in this context is Article 4 of the Treaty on the Functioning of the European Union, stating: ‘In the areas of development cooperation and humanitarian aid, the Union shall have competences to carry out activities and conduct a common policy; however, the exercise of that competence shall not result in Member States being prevented from exercising theirs.’ As a result, as specified in Article 208 of the same treaty, the policies run in this field by the EU and individual Member States ‘complement and reinforce each other’.

Therefore, the EU development policy should be seen as the financial and political sum of activities carried out by the EU institutions and agencies, and by its members (especially their bilateral cooperation and other, additional to EU, multilateral ODA). However, in practise, Member States financing this policy play the main role in the EU development cooperation. This in turn means that the withdrawal of any of them from the organisation will also have consequences for this area of its activity. In particular, when that particular state is one of the EU’s net contributors and is part of the avant-garde of international development cooperation, which happens to be the case of the United Kingdom. The UK finances one tenth of the EU budget (belonging to the group of the biggest net payers), as well as around one tenth of the total ODA (11.67% in 2018). The country has become the third world’s largest ODA donor (after United States and Germany), and with Germany and France provides around two thirds of the total EU ODA (65.61% in 2018). This paper attempts to answer the main research question: what impact will Brexit have on the EU development policy? The analysis will cover the financial plane, and the following elements will be taken into consideration: the impact of the United Kingdom’s withdrawal from the organisation on the general EU budget, the European Development Fund (EDF) and the sum of funds transferred to ODA by the EU institutions and its Member States, guaranteeing the status of the world’s most generous donor. In view of this

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research question, it is necessary to formulate additional ones: how is the EU
development policy financed?, what is the share of the UK in the financial
mechanism of the EU development assistance?, will the form of Brexit have a
significant impact on this specific EU policy?, and can ODA become an effective
platform for cooperation between the parties in the future?

Despite the high importance of the subject, this area of the European Union’s
activity was not a priority for the negotiations launched under Article 50 of the
Treaty on European Union. Also, not much has been written about this issue, and
the published materials mainly analyse the impact of Brexit on the UK
development policy. Meanwhile, development cooperation is an important field of
the EU’s activity and a tool for meeting its global obligations. The EU has declared
its efforts to solve global problems (including reduction and eradication of poverty)
and the Millennium Development Goals agenda. Member States expressed their
commitment to this matter in the European Consensus on Development in 2005. In
the face of new challenges and the preparation of the 2030 Agenda by the UN, the
consensus was renewed in 2017 (The New European Consensus on Development),
and the EU countries confirmed achieving the Sustainable Development Goals until
2030. At the same time, they were also obliged to increase their expenditure on ODA
– the value of 0.7% GNI was meant to be reached in 2015, but the time was extended
to 2030. Also in this context, Brexit may weaken the EU development cooperation –
the United Kingdom belongs to a small group of Member States that has already
achieved the level of declared contributions and consistently maintains it.

Considering the uncertainty of the influence of the EU’s internal problems
on its development policy, the presented material shall fulfil the predictive function

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8 The post-Brexit EU development cooperation was analysed, among others, in: Clare Castillejo et al., ‘The
European Union’s next Multiannual Financial Framework: Prospects and Challenges for EU Development
Cooperation’, European Think Tanks Group Policy Brief, 2018; Thomas Henökl, ‘How Brexit affects EU external
action: The UK’s legacy in European international cooperation’, Futures, vol. 97, March 2018; Simon Lightfoot,
Emma Mawdsley, Balázs Szent-Iványi, ‘Brexit and UK International Development Policy’, The Political Quarterly,
vol. 88, no. 3, July-September 2017; Iliana Olivié, Aitor Pérez, ‘Possible impacts of Brexit on EU development and
of International Affairs, vol. 105, no. 5, 2016, and Bernardo Venturi, ‘Toward the New Multiannual Financial
A/RES/55/2.
10 Transforming our world: the 2030 Agenda for Sustainable Development. Resolution adopted by the General
Assembly on 25 September 2015. A/RES/70/1.
11 Joint statement by the Council and the representatives of the governments of the Member States meeting within
the Council, the European Parliament and the Commission on European Union Development Policy: ‘The
12 Joint statement by the Council and the representatives of the governments of the Member States meeting within
the Council, the European Parliament and the Commission. The New European Consensus on Development ‘Our
13 OECD, Net ODA (Total: % of gross national income, Million US dollars; 2000-2018), [website],
of science. All forecasts were prepared primarily on the basis of an analysis of documents regulating the European Union’s development cooperation, an analysis of statistical data on the EU and the British ODA, as well as an analysis of public discourse in this matter. Two main variants of Brexit scenarios were taken into account: based on the agreement accepted at the end of 2018, and a no-deal withdrawal (so-called hard Brexit). However, I argue that in the post-2020 perspective the fact of Brexit itself is more important for the EU’s ODA than the final form of the leave process. Nevertheless, for the EU development policy (in the long term) the most beneficial outcome may be to work with the UK, e.g. according to the adapted version of the concept of differentiated integration.14

**Brexit and the development cooperation financed by the EU budget**

One of the most important implications of the prospective (at the time of writing) British withdrawal from the European Union will be a significant reduction in the general budget of the EU.15 This effect will occur even though some transitional provisions regarding financial matters included in the fifth part of the ‘divorce bill’16 will enter into force. The United Kingdom is among countries that – due to the level of economic development (according to the World Bank’s data for 2018, the British economy is the fifth largest in the world, after the American, Chinese, Japanese and German ones17) – contribute to the EU budget largest membership fees.18 However, at the same time, such a dynamically developing market, as well as directing the European Union towards convergence and equalizing disparities in the fields of political, economic and social development between MS19, mean that the UK is not one of the leading recipients of EU funds. Consequently, the country is in the group of net payers, i.e. those countries that contribute more than they receive from the European budget.

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The British result in this category is indeed negative. London ranks 4th in the amount of membership contributions paid to the EU budget. Although the UK still is one of the 28 Member States, it finances around one tenth of the organisation’s budget. Taking into account the period 2000-2018, the United Kingdom paid around EUR 204.82 billion to the EU budget and its annual contributions constituted from 7.01% (2001) to 15.35% (2015) of all membership fees (including VAT-based own resource, GNI-based own resource, UK correction and different adjustments). Total revenues from Member States at that time amounted to around EUR 1 826.89 billion and the UK financed them in 11.21%. At the same time, around EUR 132.15 billion returned to the country from the EU budget, which meant a share in EU spending from 4.67% (2013) to 9.42% (2000). In total, the EU spent around EUR 2 131.14 billion of which 6.20% returned to the UK budget. This means that London has paid around EUR 72.68 billion more to the EU cash than it received. Then, the state did not ‘recover’ a total of one-third of its contributions (35.48%). The annual British contributions and EU expenses in the United Kingdom are summarized in Table 1 of the Annexes.

Net payer status is one of the basic arguments for the Brexit supporters. They propose to entirely allocate the funds to domestic expenses instead of transferring them to the EU budget. The withdrawal of the United Kingdom from the European Union and, consequently, a reduction in the EU budget will most likely also mean a decrease in development cooperation expenditures.

At the current stage of negotiations of the next Multiannual Financial Framework (MFF), it is difficult to predict the final limit of expenses for the development policy implemented by EU’s institutions. Funds allocated to development assistance are settled from the part of the EU general budget focused on the external actions of the organisation. The financial perspective 2000-2006 allocated EUR 34.6 billion to this area, the 2007-2013 framework allocated nearly EUR 51.3 billion, and the 2014-2020 budgeted planned EUR 51.5 billion. In the

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20 The biggest shares in the 2000-2018 period were incurred by Germany (around EUR 380.92 billion – 20.85% of total contributions), France (around EUR 323.67 billion – 17.72%), and Italy (around EUR 246.59 billion – 13.50%). The EU expenditures in these countries reached: for Germany – around EUR 219.28 billion (10.29% of total expenses), France – around EUR 251.79 billion (11.81%), and Italy – around EUR 198.85 billion (9.33%). These states did not ‘recover’ 42.43% (Germany), 22.21% (France), and 19.36% (Italy) of their contributions.

21 The European Union’s budget is funded mainly from the EU’s own resources (98%) which are supplemented by other sources of revenue. Total EU revenue means chiefly national contributions, enriched by value added tax, duties and levies, surplus from previous year, surplus from EAGGF-Guarantee, surplus from External Aid Guarantee Fund and other revenues, revised by correction mechanisms. European Commission, EU budget own resources, [website], https://ec.europa.eu/info/about-european-commission/eu-budget/revenue/own-resources_en, (accessed 29 July 2019).

22 The biggest shares in the 2000-2018 period were incurred by Germany (around EUR 380.92 billion – 20.85% of total contributions), France (around EUR 323.67 billion – 17.72%), and Italy (around EUR 246.59 billion – 13.50%). The EU expenditures in these countries reached: for Germany – around EUR 219.28 billion (10.29% of total expenses), France – around EUR 251.79 billion (11.81%), and Italy – around EUR 198.85 billion (9.33%). These states did not ‘recover’ 42.43% (Germany), 22.21% (France), and 19.36% (Italy) of their contributions.

23 Such arguments and postulates were used by referendum campaigns promoting the exit of the United Kingdom from the European Union, e.g. Better Off Out, Get Britain Out, Grassroots Out, Labour Leave, Leave.EU, Left Leave or Vote Leave. London School of Economics, The Brexit Collection, [website], https://digital.library.lse.ac.uk/collections/brexit/organisation, (accessed 29 July 2019).

current period, to the most important development cooperation programme – Development Cooperation Instrument (DCI) – EUR 19.6 billion was allocated (with EUR 16.9 billion in 2007-2013). In addition, for instruments indirectly linked to development cooperation the allocation reached: European Instrument for Democracy & Human Rights (EIDHR) – EUR 1.3 billion (EUR 1.1 billion in 2007-2013), Instrument Contributing to Stability and Peace (IcSP) – EUR 2.3 billion and Partnership Instrument – EUR 954.7 mln. Moreover, EUR 350 mln from the general EU budget and EUR 400 mln from the European Development Fund was allocated to the established in 2017 European Fund for Sustainable Development (EFSD).

The preliminary proposal of the European Commission (EC) for the new 2021-2027 MFF in relation to external EU’s activities seems ambitious. To eliminate poverty, promote sustainable development, prosperity, peace and stability, the new Neighbourhood, Development and International Cooperation Instrument (NDICI), amounting to EUR 89.2 billion, should be used. This tool, due to the EC proposal, will accumulate not only the budgetary instruments through which development policy has been carried out, but also the so-far non-budgetary instrument – the European Development Fund. The amount proposed by the EC is over EUR 7 billion higher that the funds at the EU’s disposal in the years 2014-2020 (in total, EUR 82 billion was allocated to external actions, including expenditures on the 11th EDF). Under NDICI, funds shall be spent on: the geographical pillar (EUR 68 billion; including EUR 32 billion for Sub-Saharan Africa, EUR 10 billion for Asia and the Pacific, and EUR 4 billion for Americas and the Caribbean), the thematic pillar (EUR 1.5 billion for Human Rights and Democracy, EUR 1.5 billion for Civil Society Organisations, EUR 1 billion for Stability and Peace, and EUR 3 billion for Global Changes), the rapid-response pillar (EUR 4 billion) and an additional flexibility cushion (EUR 10.2 billion). Moreover, the investment framework shall operate under the instrument focused on obtaining financing from the private sector, and include the European Fund for Sustainable Development as well as the External Action Guarantee. The structure of the NDICI is presented in Graph 1.

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As far as the Commission’s proposal to create a new, comprehensive and more flexible development cooperation tool, NDICI can be seen as a step in the right direction, it is difficult to imagine a compromise on the amount allocated to this instrument, while the funds directed to the EU’s internal affairs will be reduced. Experience also does not support the probability of entering into force the suggested amount. The initial EC proposal for the MFF 2014-2020 assumed a budget of EUR 70 billion for external actions, of which the already mentioned more than EUR 50 billion remained.

Therefore, it can be assumed that due to the reduction of the general budget at the EU’s disposal after Brexit (despite the presentation of various scenarios, including the increase in contributions made by other countries), the funds allocated to development policy instruments will most likely be reduced. The lack

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33 Even if the amount of expenses incurred for activities in the United Kingdom will remain in the general budget, there still remains a gap resulting from the British net payer status.

of British money will be too substantial and the European Union does not have a clear conception of future reform, which could motivate other Member States to increase their (not only financial) efforts. Taking that into account, a proportional 10% reduction in spending in this area can be expected.\(^{35}\) Nevertheless, impact on the final shape of financial mechanisms for development assistance in 2021-2027 will certainly also have (apart from the particular interest of Member States) internal and international commitments undertaken by the European Union, which are also associated with specific amounts of allocated funds for development. These include, first of all, the European Consensus on Development, the New European Consensus on Development and the United Nations 2030 Agenda, which assume spending at least 0.7% GNI on development goals.\(^{36}\)

Moreover, the aggregation of funds for development cooperation in the general budget of the EU (including the European Development Fund in it) will constitute a significant impediment to potential future cooperation between the European Union and the post-Brexit United Kingdom in achieving the Sustainable Development Goals.\(^{37}\) Proposals for such cooperation appeared on the British side\(^{38}\), they were also included in the Political Declaration, which is a part of the current ‘divorce agreement’.\(^{39}\) Therefore, the question arises whether (even despite the possibility of no-deal Brexit) the parties will manage to conduct a dialogue on international development cooperation “beyond the ‘EU-UK story’”.\(^{40}\)

**Brexit and the European Development Fund**

The UK’s withdrawal from the European Union will also affect the European Development Fund, which was established in 1957 to support the development of Africa, Caribbean and Pacific states (ACP) and Overseas Countries and Territories (OCT). The fund, which is a non-budgetary instrument of the EU development policy, is in principle linked to other agreements that associate the ACP and OCT with the European Union (formerly the European Communities). Therefore, its editions referred to the Convention on Overseas Territories, the Yaoundé Convention, the Lomé Convention, and since 2000 – the Cotonou Agreement (and its revised versions). The budgets of subsequent EDF editions have increased significantly: the 9\(^{\text{th}}\) EDF (2000-2007) operated on EUR 13.50 billion, the 10\(^{\text{th}}\) EDF


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(2008-2013) – EUR 22.68 billion, while EUR 11.55 billion has already been allocated to the 11th EDF (2014-2020).41

One of the most important facts is that the Fund’s budget is created from additional (separated from the general budget of the EU) direct contributions from the Member States. The contribution key results from internal agreements adopted by the states and takes into account the level of economic development of each member. As a result, British contributions are one of the pillars of the Fund. For the 10th EDF, the United Kingdom had paid almost EUR 3.4 billion, which accounted for 14.82% of its total budget. This means that the British input was four times higher than the total payments of the ‘new’ European Union countries, which financed EUR 821.0 mln (3.62%) of the 10th EDF. Higher than the UK’s contributions for that edition of the Fund were made only by Germany (EUR 4.6 billion – 20.50%) and France (EUR 4.4 billion – 19.55%), next was Italy (EUR 2.9 billion – 12.96%).42 Similar data can be mentioned for the 11th EDF. The British contribution has been calculated at over EUR 4.4 billion and 14.68% of the total budget of the Fund. This is almost three times more than counted in total payments made by the thirteen countries that joined the EU since 2004 (EUR 1.7 billion – 5.71%). Again, higher costs were incurred by Germany (EUR 6.2 billion – 20.58%) and France (EUR 5.4 billion – 17.81%), and the United Kingdom was followed by Italy (EUR 3.8 billion – 12.53%).43 Distribution of all national contributions to the 11th EDF, which reflects the financial role of the UK in the Fund, is presented in Chart 1.

The ‘technical’ implication of the EDF budget structure is also the distribution of votes in the European Development Fund Committee, which manages the Fund’s activities. The contribution key reflects also the number of votes in the Committee (Table 2). Therefore, in the 10th EDF, the United Kingdom had 148 votes, and in the 11th EDF – 147. Consequently, Germany (205 and 206 votes) and France (196 and 178 votes) had greater voting power, while Italy had slightly weaker – 129 and 125 votes. It is worth adding that in the 10th edition of the Fund it was agreed that the Committee should operate by a qualified majority of 720 votes, and 13 member states should cast votes for. The blocking minority was determined to 280 votes. In the 11th edition the qualified majority was upheld at 720 votes, but there should be 14 countries voting in favour. The necessary blocking minority was reduced to 279 votes. This indicates the significant potential of British stake. Although the United Kingdom could not push through or block initiatives on its own, its votes could have been the backbone of the coalition for or against discussed decisions.

42 Internal agreement between the Representatives of the Governments of the Member States, meeting within the Council, on the financing of Community aid under the multiannual financial framework for the period 2008 to 2013 in accordance with the ACP-EC Partnership Agreement and on the allocation of financial assistance for the Overseas Countries and Territories to which Part Four of the EC Treaty applies, Official Journal of the European Union, 09.09.2006, L 247.
43 Internal agreement between the Representatives of the Governments of the Member States of the European Union, meeting within the Council, on the financing of European Union aid under the multiannual financial framework for the period 2014 to 2020, in accordance with the ACP-EU Partnership Agreement, and on the allocation of financial assistance for the Overseas Countries and Territories to which Part Four of the Treaty on the Functioning of the European Union applies, Official Journal of the European Union, 06.08.2013, L 210.
Detailed information on the contribution key and granted votes in 10th and 11th EDF can be found in Table 2 of the Annexes.

**Chart 1: Member States’ contributions to the 11th EDF (mln EUR)**

![Chart 1](chart1.png)

Data sources: Internal agreement between the Representatives of the Governments of the Member States of the European Union, meeting within the Council, on the financing of European Union aid under the multiannual financial framework for the period 2014 to 2020, in accordance with the ACP-EU Partnership Agreement, and on the allocation of financial assistance for the Overseas Countries and Territories to which Part Four of the Treaty on the Functioning of the European Union applies, Official Journal of the European Union, 06.08.2013, L 210.

The EDF issue was mentioned in the fifth part and fifth chapter (articles 152-154) of the withdrawal agreement. In relation to the state’s participation in the European Development Fund, it was confirmed that the United Kingdom will remain the EDF party until its 11th edition is closed and all assumed tasks resulting from its previous editions will be completed. The financial liabilities were also maintained. Nevertheless, amounts not committed or decommitted in accordance to relevant provisions, in the United Kingdom’s share of this amounts, cannot be reused – this applies to the 10th and previous EDF editions and the uncommitted or decommitted sums from 11th EDF after December 31, 2020. Moreover, it was also agreed that British beneficiaries may participate on the basis of existing rules in projects that are implemented under the 11th EDF and its previous editions, as well as OCT with special relations with the United Kingdom. Furthermore, the United Kingdom may participate in the meetings of the EDF Committee (and the

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Investment Facility Committee, also established by an internal agreement), however, as an observer without the right to vote.\textsuperscript{45} Nonetheless, if Brexit enters into force in the no-deal scenario, British NGOs and other entities using the EU funds from the EDF will most likely lose their funding from day to day.\textsuperscript{46}

Due to the investment facility established by the internal agreement concerning the 11\textsuperscript{th} EDF (through which the Fund’s activities are connected with the European Investment Bank, EIB), it was decided that the state’s share (in proportion corresponding to the contribution to the EDF budget) will be returned at the investment’s maturity. As a rule, the UK’s capital share should not be recommitted or rolled over into subsequent periods after the end of the accounting period of the current edition.\textsuperscript{47} EDF related guarantees for loans from EIB’s own resources also remain in force, however the United Kingdom retains the right to participate in the amounts recovered in accordance with the guarantee conditions of the Member States and the right to balance its account payable on demand. This share should be proportional to participation in each guarantee agreement.\textsuperscript{48}

Thus, it can be stated that the ‘divorcee agreement’ – in the part concerning the EDF – focuses on finalizing the cooperation under the Fund between the United Kingdom and the European Union (its Member States), but without harm to previous commitments. The purpose of the provisions contained in the bill is primarily to implement the initiated and planned initiatives and to ensure the most advantageous use of the funds allocated in the EDF. However, only until the indicated end date of the cooperation.

Besides, EDF after 2020 will probably transform independently of Brexit. The European Commission is proposing to include this hitherto non-budgetary instrument in the general budget of the EU. The calculation initially presented by the EC indicated that the amount of expenditures on the next EDF edition shall be similar or slightly higher than the one allocated in its 11\textsuperscript{th} edition.\textsuperscript{49} Regardless of this offer, as well as the provisions of the ‘divorce agreement’ and whether Brexit will finally enter into force on its basis, the limitation of the budget of the European Development Fund should be expected (as in the case of the general EU budget).\textsuperscript{50}

Despite the noticeable tendency in the Member States to increase contributions, which will most likely be maintained (due to the need to fulfil the commitment to spend 0.7% GNI on ODA), it can be assumed that the lack of nearly 15% of the


\textsuperscript{47} Art. 152, Agreement on the withdrawal of the United Kingdom of Great Britain and Northern Ireland from the European Union.

\textsuperscript{48} Art. 154, Agreement on the withdrawal of the United Kingdom of Great Britain and Northern Ireland from the European Union.


British payments will not be covered by the other EDF participants and the next Fund will not operate with a higher financial allocation that the previous ones.51

**Brexit and the EU’s status of the largest global ODA donor**

Another instance of the envisioned consequences of the UK’s withdrawal from the European Union should be considered in the context of the status of lead global ODA donor, which is attributed to the EU. The European Union – acting through its institutions and agencies, but primarily thanks to its Member States commitments – is indeed at the forefront of global donors for development cooperation. The amounts of ODA provided by the EU institutions are presented in Chart 2.

Chart 2: Official Development Assistance provided by EU institutions 2000-2018 (mln USD)


However, taking into account the fact that the resources available to the European Union in this respect also come largely from its Member States (contributing to the general budget of the EU and to the EDF), it seems more appropriate to verify the total participation of the EU members in global ODA, regarding the sum of their bilateral and multilateral expenditures (not only those operated by the EU budget).

The OECD monitors ODA flows from 44 countries around the world. Of these, 29 belong to the OECD Development Assistance Committee (the 30th member is the European Union), and 20 are both members of the DAC and the EU. The data presented by the organisation confirm that the members of DAC transfer the majority of global ODA – in 2000-2018 it was from 85.31% (2014) to 97.72% (2000) of all flows. About half of all expenditures is borne by the EU DAC group of countries – from 44.07% (2014) to 52.99% (2001). Even higher results, confirming the EU status of the world’s generous donor, present data on the share of all EU Member States in the total global ODA (regardless of their membership in the DAC). EU countries in each year were donors of: 51.24% ODA in 2000, 52.99% in 2001, 50.22% in 2002, 49.28% in 2003, 48.60% in 2004, 47.93% in 2005, 51.32% in 2006, 51.95% in 2007, 50.41% in 2008, 50.33% in 2009, 50.77% in 2010, 49.26% in 2011, 48.62% in 2012, 45.82% in 2013, 44.41% in 2014, 50.99% in 2015, 52.03% in 2016, 51.82% in 2017, and 52.63% in 2018. Detailed information on the EU Member States’ shares in total ODA in the years 2000-2018 is presented in Table 3 of the Annexes.

Considering the abovementioned calculations, it can be stated that the European Union actually provides half of global ODA and is a global leader in development cooperation. However, this status and the strength of the EU in this area result from the status and strength of its Member States, which spend funds on bilateral and multilateral development activities. This context means that Brexit may affect the global position of the EU in providing development cooperation. The United Kingdom is one of the top countries that spend most on ODA every year. In the period from 2000 to 2007, the country was the 5th donor of global ODA. Constantly increasing its expenditures, in the second decade of the 21st century it was advanced to the top three largest donors. During this period, only the United States and Germany incurred higher expenditures on development cooperation. The share of British expenses (which in 2000 amounted to more than USD 5.3 billion, and in 2018 reached more than USD 18.4 billion) in the total global ODA was: in 2000 – 7.19%, in 2001 – 7.40%, in 2002 – 6.73%, in 2003 – 7.35%, in 2004 – 7.69%, in 2005 – 7.92%, in 2006 – 9.18%, in 2007 – 6.99%, in 2008 – 7.76%, in 2009 – 8.69%, in 2010 – 9.50%, in 2011 – 9.45%, in 2012 – 10.01%, in 2013 – 11.40%, in 2014 – 10.72%, in 2015 – 11.30%, in 2016 – 10.87 %, in 2017 – 11.16%, and in 2018 – 11.67%. The position of the UK in the group of five world’s most generous ODA donors in the years 2000-2018 is presented in Chart 3. Detailed information is available in Table 4 of the Annexes.

52 The calculations include different dates of accession to the DAC and the EU. Until 2010, the following EU Member States were members of the OECD DAC: Austria (1965), Belgium (1960), Denmark (1963), France (1960), Finland (1975), Germany (1960), Greece (1999), Ireland (1985), Italy (1960), Luxembourg (1992), The Netherlands (1960), Portugal (1960/1991), Sweden (1965), Spain (1991), United Kingdom (1961), European Union (European Commission; 1961), and Australia (1966), Canada (1960), Japan (1960), New Zealand (1973), Norway (1962), Switzerland (1968), United States (1961). In subsequent years, DAC was joined by: from the EU – Czech Republic (2013), Poland (2013), Slovak Republic (2013), Slovenia (2013), Hungary (2016), as well as Iceland (2013) and Korea (2010). In turn, until 2004, the EU Member States were: Austria, Belgium, Denmark, France, Finland, Germany, Greece, Ireland, Italy, Luxembourg, The Netherlands, Portugal, Sweden, Spain and United Kingdom. In 2004, Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovak Republic and Slovenia joined, and in 2007 Bulgaria and Romania. In 2013, Croatia joined the EU, which is not included in OECD statistics.
Moreover, it can be seen that among the leaders of global ODA there are – except the United States and Japan – three EU MS: Germany, France and the United Kingdom. Consequently, they must be considered as the pillars of the EU development policy. Also worth mentioning is that the contribution of the UK in 2004 was more than 16 times higher than the total expenditures on development goals of 10 new EU MS (their share in total ODA was 0.47% at that time), while in 2018 it remained 10 times higher than the spending of 12 countries of the ‘new’ EU (their share was 1.18%). Taking into account the outlays of all EU Member States, the British share in them was: 14.02% in 2000, 13.96% in 2001, 13.40% in 2002, 14.91% in 2003, 15.82% in 2004, 16.52% in 2005, 17.89% in 2006, 13.45% in 2007, 15.39% in 2008, 17.27% in 2009, 18.70% in 2010, 19.19% in 2011, 20.59% in 2012, 24.88% in 2013, 24.15% in 2014, 22.17% in 2015, 20.89% in 2016, 21.53% in 2017 and 22.17% in 2018. Counting the share of three EU development cooperation locomotives (Germany, France and the UK) in total EU Member States’ spending on ODA, it turns out that they transferred over a half of the sum from all countries (from 50.79% in 2000 to 65.61% in 2018).53

Referring to the data presented, it is worth checking how the status of the EU among donors would have changed, if the British contributions had not been counted in the total expenses incurred by organisation’s members. The presence of the European Union in the total world ODA, counted with and without the UK’s share, is shown in the Chart 4.

53 The share of France, Germany and the United Kingdom in total ODA provided by the European Union: 50.79% in 2000, 49.21% in 2001, 50.08% in 2002, 53.12% in 2003, 53.59% in 2004, 50.06% in 2005, 54.36% in 2006, 50.18% in 2007, 50.53% in 2008, 52.96% in 2009, 55.41% in 2010, 56.31% in 2011, 59.74% in 2012, 61.07% in 2013, 60.89% in 2014, 60.33% in 2015, 63.04% in 2016, 64.74% in 2017, and 65.61% in 2018.
The indicated data shows that even without the British shares to the EU development cooperation, the organisation will hold the status of global ODA leader. The total expenditures of all its Member States will continue to outweigh the expenses of other actors, for example being twice as high as the funds allocated to development cooperation by the United States. However, the EU will certainly lose the status of this party, which is the donor of more than half of the global ODA. Subtracting British contributions from the sum of the total EU ODA flows means that the organisation already operated not more than 50%, but about 40% of Official Development Assistance. At the same time, an increase of expenditures on development cooperation by individual countries involved in it may be expected (due to the need to meet global financial obligations in this respect). However, this growth will be disproportionately higher for the United States, Japan or the UK than for EU Member States (except Germany and France). This, in turn, may result in a gradual decrease in the Union’s financial participation in global ODA, especially taking into account the fact that after Brexit its development policy will be based not on three, but only on two pillars.

Conclusions

Brexit will without any doubt have serious consequences for the development cooperation provided by the European Union. This will mainly result from two issue. First of all, the United Kingdom is one of the main global ODA

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54 Including also countries that are not members of the DAC and OECD. OECD, 'Estimates for other providers of development co-operation not reporting to OECD', in: Development Co-operation Report 2018: Joining Forces to Leave No One Behind, OECD Publishing, Paris 2018.
Monika Szynol

donors (currently it is among the top three largest donors). Secondly, London also finances a significant part of the EU’s activities, including those implemented under development policy. Despite that, this matter does not constitute a priority for negotiations initiated under Art. 50 of the Treaty on European Union.

The European Union finances its development cooperation primarily from the resources of its general budget (from its part allocated to external actions) and the European Development Fund, which is a non-budgetary instrument. Both the general budget of the organisation and EDF are made up of direct contributions from Member States (the EU budget in the vast majority, EDF – completely). Until now, payments from the United Kingdom belonged to the pillars of these tools. London financed around 10% of the EU’s own resources, being one of the largest net payers to the EU budget, and it also paid around 15% of each EDF edition. Therefore, the withdrawal of the United Kingdom from the organisation will be associated with a significant reduction in financial resources at the EU’s disposal and directed at development cooperation. Although the preliminary calculation presented by the European Commission on the Multiannual Financial Framework 2021-2027 assumes an increase in the EU budget for external actions, experience shows that this is a section of the organisation’s budget, which is in the first place vulnerable to cuts during the debate between the Member States. Therefore, it can be expected that after Brexit, the organisation’s expenditures on ODA will fall in proportion to British contributions, because other Member States will not be able to fill the gap created in this way.

In addition, the effect of Brexit will also be negative to the EU’s status as the most generous global ODA donor. The organisation (counting the total expenditures of the EU institutions, as well as the expenses of the Member States on bilateral and other multilateral activities) will remain the largest donor, but, most likely, it will not provide more than half of the global development assistance. This is due to the fact that EU development cooperation after the British withdrawal will be based not on three, but on two pillars – contributions from Germany and France. Although the commitment to allocate 0.7% GNI to ODA will remain valid, nominally the expenditures in this field will be higher in the UK as one of the largest economies in the world than in relation to other EU countries (except Germany and France).

Our analysis allows to draw the conclusion that for the EU development policy it is of little significance whether Brexit will be finalized on the basis of an agreement or will enter into force in the no-deal option. If the United Kingdom will leave the European Union in an orderly fashion, the gate to jointed development cooperation will remain open, which results from an agreed political declaration. Even if the current agreement will be renegotiated (as some British decision-makers strive), it can be assumed that the provisions on development assistance will remain the same – they do not make for controversial parts of the deal (for the British side). Nevertheless, a reform of the EU budget, assuming the concentration of all development cooperation instruments in the general budget of the organisation (in particular the inclusion of EDF) may stand in the way of the declaration to search for a new formula for cooperation in the matter of ODA. It is difficult to imagine a form of concurrence in which a state outside the organisation would have to contribute to its general budget on the one hand, and have access to
The Impact of Brexit on the EU Development Policy. Selected Financial Issues

it on the other. In the short term, regarding the process of negotiating a new MFF, difficulties in cooperation between parties are to be expected.

In the case of the no-deal Brexit, cooperation in the field of development assistance between the European Union and the United Kingdom will be significantly more difficult. This will be the result of a total breaking of the relationship between the parties, according to the words of former British Prime Minister Theresa May, 'Brexit means Brexit'. In the short term, this will mean conducting completely independent development policies, despite the fact that they will implement globally set goals.

However, in both these scenarios, in the medium and long term, one can expect an attempt to work out a mutually acceptable formula for ODA cooperation. With regard to Brexit carried out on the basis of the agreement, this would again result from the provisions of the political declaration, and above all – from the unity of development cooperation goals. In the context of the no-deal final – also from the awareness, as the United Kingdom is likewise actively taking advantage of the European Union’s possibilities of implementing assistance actions and distributes a significant part of its ODA through EU channels. Then, creating mechanisms and tools that will allow the participation of non-member countries in a greater extent may be the next challenge for the EU development cooperation. This kind of differentiated integration (delegated cooperation and fund trusts) already exists and is used by Norway and Switzerland. Therefore, Brexit may paradoxically increase the flexibility of the EU ODA or focus the European Union’s attention on cooperation within the DAC OECD framework. In a longer perspective, such an effect could prove beneficial for global development. Nevertheless, potential negotiation on this matter will entail further dilemmas. Considering the fact that development cooperation reaches overriding priorities, it may become a relatively non-conflicting and convenient instrument of cooperation between the EU and the UK. Still, the basic question will be whether the parties will be more determined to achieve global goals, or whether they will be more focused on their particular interests. In the latter situation, it is not excluded that Brussels and London will concentrate primarily on building bilateral economic relations, leaving development cooperation behind.

Therefore, the above considerations regarding the financial impact of Brexit on the EU development policy, as well as many uncertainties in this matter, lead to

the next research question: what political consequences will Brexit cause for the EU development assistance? It should be noted that the United Kingdom is not only a rich part of the EU wallet in this area, but also an important partner in designing the cooperation or strengthening the ability of Member States to meet development commitments. In addition, development cooperation is an important element of the EU’s soft power, which Brexit will significantly weaken.
Annexes

Table 1: British contributions and expenditures in total EU national contributions and expenditures 2000-2018 (mln EUR, % in total)

<table>
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<tr>
<th>Year</th>
<th>EU</th>
<th>UK</th>
<th>%</th>
<th>EU</th>
<th>UK</th>
<th>%</th>
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Table 2: Contribution key in the 10th and 11th EDF – amounts and votes

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*estimated votes / estimated amount

Data sources: Internal agreement between the Representatives of the Governments of the Member States, meeting within the Council, on the financing of Community aid under the multiannual financial framework for the period 2008 to 2013 in accordance with the ACP-EC Partnership Agreement and on the allocation of financial assistance for the Overseas Countries and Territories to which Part Four of the EC Treaty applies, Official Journal of the European Union, 09.09.2006, L 247.; Internal agreement between the Representatives of the Governments of the Member States of the European Union, meeting within the Council, on the financing of European Union aid under the multiannual financial framework for the period 2014 to 2020, in accordance with the ACP-EU Partnership Agreement, and on the allocation of financial assistance for the Overseas Countries and Territories to which Part Four of the Treaty on the Functioning of the European Union applies, Official Journal of the European Union, 06.08.2013, L 210.
### Table 3: The EU member states in ODA 2000-2018

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The Impact of Brexit on the EU Development Policy. Selected Financial Issues

Political Support at EU Level for Energy and Environmental Policies

Clara Volintiru, Maria-Floriana Popescu, Doru Franțescu, Melania-Gabriela Ciot

Abstract: In a context of ever more complex decision-making at the EU level, it is important to understand the underpinnings of consensus for major policies. Building upon the recent experience of the Romanian Presidency of the Council of the European Union, and the end of a legislative cycle in the European Parliament, this article traces the institutional efforts of newer Member States in a dynamic and troubled European Union. We reviewed an extensive set of official documents to discern the main policy goals in the energy and environmental fields. We also present an original data set on the past decisions of Members of the European Parliament (MEPs). Building upon our empirical data, we show that despite an integrated approach at EU level between energy and environmental goals, newer Member States in Eastern Europe are still divided, being in favour of more energy interconnectedness, but not inclined to apply environmental standards.

Keywords: European Union, Energy Union, Council of the European Union, European Parliament, Romania

Introduction

Never before has there been such a level of interconnectedness between the field of energy policy and the environmental policy. Starting with the Paris Agreement in 2016, the environmental goals assumed by the European Member States informed a dramatic change of paradigm for the energy sector. Now, as environmental engagements imbue a wide variety of European programmes and projects, the political commitment is paramount. As the USA retreated from the Paris Agreement in 2017, the European Union remains the undisputed global leader in fighting climate change, and the success of its energy reforms is watched with great attention by the rest of the world. In fact, the new president of the European Commission recently stated: „I want the European Green Deal to become Europe’s hallmark. At the heart of it is our commitment to becoming the world’s first climate-neutral Continent”.

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Doru Franțescu is CEO and co-Founder of VoteWatch Europe. E-mail: doru@votewatcheurope.eu.

Melania-Gabriela Ciot is Associate Professor at Babeș-Bolyai University. E-mail: gabriela.ciot@ubbcluj.ro.

The outline for the Strategic Agenda 2019-2024 focuses on four major themes: (1) protecting citizens and freedoms, (2) developing our economic base: the European model for the future, (3) building a greener, fairer, and more inclusive future, and (4) promoting Europe’s interests and values in the world. These themes will dictate the policy agenda of the coming years, the political agenda is much harder to align.

This article will present the current context in which policy decisions are taken at EU level, with a particular focus on the workings of the Council of the EU and the European Parliament. These two institutions fall in-between the technocratic/policy orientation of the Commission and the political inclinations of the European Council, and sometimes act as a functional bridge between the community method and intergovernmentalism.

Following the elections that took place throughout the European Union between May 23 and 26, 2019, during difficult times for the EU, where a Member State is about to leave the group, the highest ballot was recorded in the last two decades of European Parliament elections, strengthened by a first-ever increase in the number of voters since the first European elections in 1979. Once completed, the European elections and, in particular, their results lead us to a “political battlefield”. The ensuing negotiations will redesign the future of the European Union for at least the next five years.

The architecture of the future European Union could be designed between two paradigms: sovereignty – that would involve the fragmentation of Europe for power reasons, in which Member States would become the poles of power in the new European design, and federalization – that would involve building a political pro-European majority in terms of values, one that can achieve the transversal policies and measures that those commissioned to lead the European Union will have to put into practice.

The Romanian Presidency of the Council of the European Union (the Council) has successfully managed to close a relatively large number of legislative files. Under the Romanian Presidency of the Council more than 90 files have been closed, which is the highest number for any presidency in the legislative cycle that just ended.

The main challenge for the Romanian Presidency was also an opportunity: the nearing end of term of both the European Parliament and the European Commission. The fact that European Elections took place during the Romanian Presidency meant that the time for effective negotiations and deliberations in the European Parliament was restrained to approximately two months before the start of the electoral campaign. By contrast, the fact that the European Commission was coming to the end of its term meant that there was an interest in preserving its political legacy and seeing many files through, and as such offered the Romanian Presidency valuable support in concluding negotiations.

The Romanian Presidency of the Council was also constrained by the sequencing of its activities with respect to the preceding and succeeding presidencies. From the preceding Austrian Presidency, the Romanian officials had to take over the status of negotiations for different files [e.g. the negotiation box for the Multiannual Financial Framework (MFF 2021-2024)], and, in turn, handed them over to the succeeding Finnish and Croatian Presidencies. At the beginning of 2019, a common 18-month programme has been published for the current Trio.
According to it, the main priority at the beginning of the Romanian Presidency was the finalization of the still outstanding files of the current Strategic Agenda and in particular those listed in the Joint Declaration on the EU’s legislative priorities for 2018-19. These totalled 65 files in 7 key areas: (1) better protecting the security of our citizens, (2) reforming and developing our migration policy in a spirit of responsibility and solidarity, (3) giving a new boost to jobs, growth and investment, (4) addressing the social dimension of the European Union, (5) delivering on our commitment to implement connected digital single market, (6) delivering on our objective of an ambitious Energy Union and a forward looking Climate Change Policy, and (7) further developing the democratic legitimacy at EU level.3

We focus our empirical analysis in particular on the political objective of the Juncker Commission to develop “an ambitious Energy Union and a forward looking Climate Change Policy”.4 The EU thus aims to create a favourable environment that stimulates and accelerates public and private investment in innovation and modernization in all key sectors, taking into account the diversity of energy supply sources and economic structures across the EU. At EU level, all these measures aim to increase the number of jobs and economic growth, putting research and innovation at the centre of our common future and preparing European industry to support its commitments on climate change. Europe will continue to send the message that the world can count on it as a climate leader.5 For example, under the Paris Agreement on climate change, the EU is committed to reducing greenhouse gas emissions by at least 40% by 2030. This is an investment in the prosperity and sustainability of the European economy, the data emphasizing that, between 1990 and 2016, EU greenhouse gas emissions decreased by 23%, while gross domestic product increased by 53%.6

In the annual report “State of the Union 2018”, the European Commission has made a commitment to be able to boost in the nearby future (more precisely, 2018-2020) the financial support given to artificial intelligence research and innovation to €1.5 billion. However, the EU needs to turn Europe into an international centre for business intelligence, which can allow the analysis of a larger amount of data that can help solve several challenges. It may contribute, for example, to better healthcare, early detection of diseases, better reactions to cyberattacks, minimising production costs or designing renewable energy parks.7

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Energy and Environmental Policies in the European Union

The world energy sector is heading for a tumultuous period, as scientific discoveries and the observed effects, such as melting the ice cap that leads to the rise of the seas, have made climate change more important to global political agendas. Solutions to climate change require a transformation of the energy sector, as this sector contributes for over 40% of global greenhouse gas emissions. However, growing demand for energy-based services is pushing governments to quickly develop energy production without considering climate implications. Such issues need a better global governance.

In the future, the implementation of energy policies will play an important role in ensuring access to sustainable and secure energy, addressing trade challenges as well. Greater importance should therefore be given to issues such as poverty, education, the environment, geographical movements and economic issues. All these topics are closely related to energy and the way in which the future of mankind will be built.

The global community is looking for new approaches and solutions for adapting to climate change and responding to challenges such as water, energy and food security. The Rio+20 Declaration “The Future We Want” underscores the need for a balanced integration of economic, social and environmental concerns into economic development, and also stresses the need to address food, water and energy security issues, thus so as to reduce the negative impact on the environment (on water, biodiversity, air and climate). One of the greatest challenges facing humanity is how it manages global warming and how it will mitigate its negative effects on human and natural systems. Adapting to climate change is a global priority and is extremely important for developing countries where a large number of people depend on sectors which are sensitive to climate change such as agriculture, forestry and fisheries, have limited resources and capacity, and live in climate-sensitive areas such as mountain regions and coastal areas. The aim of building climate resilience is to reduce vulnerability to both climate and non-climatic changes, so that it is closely linked to the sustainable use and proper management of water, energy and nutrition resources that are vital to sustainable development through a harmonious approach to the challenges of water, energy and food security.

The nexus between food, water supply, energy, and climate change has been identified by the National Intelligence Council (NIC) in the USA as one of the four major challenges that will shape the world in 2030. The map of risk

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interconnections (see Figure no. 1) shows how this nexus is perceived as being intertwined with other risks, including environmental risks and cyberattacks.

Figure no 1. The Global Risks Interconnections Map 2019

The urgency towards a coordinated global action on climate change was reinforced in 2014 by the Intergovernmental Panel on Climate Change in their report. It reaffirmed that global warming takes place unequivocally, and that it is “highly likely” that human influence was a dominant cause. Major atmospheric concentrations of greenhouse gases (carbon dioxide, methane and nitrous oxide) are at its highest level in the last 800,000 years. Strong evidence of the effects of climate change is already evident in terms of rising sea levels, melting glaciers, ocean warming and the increasing frequency of extreme weather phenomena.

Currently, energy electricity production is mainly based on combustion of fossil fuels in large power plants that generate carbon dioxide and lose much of the initial energy requirement. Burning these fossil fuels is a serious problem because it causes environmental problems, some leading to global warming (exhausting fossil fuels can be considered a more convincing reason for abandoning their intensive use). It is also lost from the energy produced when electricity is conveyed through electrical networks and is transformed from high voltage into a suitable voltage for household or commercial use. The system is also vulnerable to actions caused by atmospheric or intentional conditions that may lead to temporary interruptions of energy supply.

The use of energy reserves inexorably influences sustainable environmental development. There are no sources of energy that do not harm nature, but some are more destructive than others. Air contamination, water pollution, and soil erosion are the consequences of how fossil fuels are extracted, transported, prepared and burned. In addition, burned fossil fuels lead to greenhouse gas emissions and, implicitly, to environmental changes.

In addition to carbon dioxide emissions or radiation that affects the environment and the population, coal burning is the largest source of mercury emissions in the air each year. Therefore, the reduction of mercury emissions plays a key role on the agenda of the European Union and the United States of America.\(^1\)

Coal has the longest tradition since people use it for heating purposes for thousands of years. In addition, coal has been the basis of the industrial revolution of the 18\(^{th}\)-19\(^{th}\) centuries, not least of which this revolution is associated with images of coal mines. Prior to the beginning of the 20\(^{th}\) century, this fossil fuel was considered, due to its wide use, the main commodity in global trade. The end of the coal age can be considered the year 1912, when Winston Churchill ordered the conversion of fuel used in the operation of all ships, from coal to oil.\(^2\) This shift has turned attention to oil, which has become the world’s most dominant source of energy at the expense of coal.

But almost 90% of the world’s energy resources are in the form of coal: lignite or brown coal; since the beginning of the century, coal has been the fastest growing energy source. In the European Union, 88% of the energy reserves are in coal beds, which can be exploited using modern techniques in underground mines or in surface pits.\(^3\)

The European Union has experienced a renewed use of coal in energy production at a time of low international coal prices and high gas prices in the EU. Since 2008, gas prices have risen, while coal and lignite prices have been lower than expected.\(^4\)


Power plants in the European Union are in the process of aging and nearly half of their electricity generation capacity could be shut down in the coming decades, especially coal and nuclear power plants. There is a risk for Europe to lose the diversity of its electricity generation capacity. Investments are needed to modernize power plants in the long term, while maintaining the diversity of coal and nuclear power generation.

This is an opportunity for Europe to further decarbonise its energy sector in the long run, but, nevertheless, the current market model may not provide adequate investment signals. Putting forward scenarios involving a low-carbon future, the European Union will need a substantial additional electricity capacity that cannot be achieved only from the use of renewable sources. The EU electricity market will need to be adapted to better meet the energy requirements and current production capacity of the Member States.

**Romanian Presidency of the Council of the European Union**

It is hard to define the progress indicators for a presidency of the Council, as circumstances and file content differ greatly. For the Romanian Presidency one can choose as progress indicator either the number of resolved files – more than 90 files, or the difficulty to close some of those files (e.g. gas directive). Additionally, the success of any presidency should be weighed against its ability to serve as an “honest broker” (i.e. objectively manage deliberations, so as to achieve consensus and close negotiations). There is always a large temptation for national representatives to pursue national interests in various files, either by advancing negotiations in files of interest, or by delaying the process for contentious issues. By all accounts, Romania acted as an honest broker, which means that it closed many of the files that were important to other Member States (e.g. migration, digital market). It remains to be seen if and how this political capital can be used later on in future negotiations.

Apart from being concerned about the safety of EU27, the leaders of the EU have to finalise the negotiation on the Multiannual Financial Framework (MFF) for 2021-2027, the seven-year agreement that regulates the European Union’s budget. The agreement on the EU’s finance will be concluded after the European elections, as they were considered they could become an unnecessary distraction that prevented any agreement that could have satisfied the MFF. In the last Council dedicated to this matter, from May 2019, ministers focused on the proposals from the European Commission related to the European Development Fund and the European Neighbourhood.

The European Commission has proposed to earmark 25% of the next long-term EU budget 2021-2027 to finance climate actions. On behalf of the European Council, Donald Tusk declared the support of the EU to provide „massive investment for climate neutral goals, with „at least 25% of the EU’s next budget...
dedicated to climate-related activities”. The European Parliament has called for a higher percentage (30%). The European Parliament has also proposed that a specific allocation (i.e. 4.8 billion euros) be included in the next Multiannual Financial Framework (MFF) for the establishment for an Energy Transition Fund to address societal, socio-economic and environmental impacts on workers and communities adversely affected by the transition from coal and carbon dependence. However, the negotiations for the future MFF are still undergoing, so it is too early to say what percentage will be agreed upon in the end. The clear signal from these inter-institutional negotiations is that there is a clear engagement to fund adequately the environmental goals of the EU.

The President-elect of the European Commission, Ursula von der Leyen, said she intends to prioritize climate and the environment in all fields of EU policy. But some say these climate proposals are too ambitious. The energy sector, which is essential to the European economy, wants a “just transition”, involving important investments aimed towards renewable sources. In order to satisfy the Energy Union’s goals and promote the shift to a clean energy system, funding will be required to finance structural adjustments to guarantee safety of supply.

Therefore, Von der Leyen pledged to unlock €1 trillion for climate investment over the next decade and transform components of the European Investment Bank into a devoted climate bank, channeling private investment into environment and clean energy initiatives. Simultaneously, the EU organizations are negotiating the Sustainable Finance structure for future energy industry investments. Industry is pushing for financing for impacted areas, businesses and employees. While the sector promotes a just transition in energy, it does not want to bear the economic strains alone.

The Romanian Presidency of the Council of the EU has established the future of the European energy system as one of its thematic priorities. Under the provisions of the Clean Energy package, the policy design for ensuring the desired energy transition and climate goals has to account for changes in the energy infrastructure, energy storage solutions and innovative technologies.

Under the Finnish Council Presidency, 1 July-31 December 2019, the Minister of Economic Affairs Katri Kulmuni stressed at the end of September 2019 that Finland will foster a modern, digital-led industrial strategy with a powerful

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focus on studies and innovation to generate sustainable growth in the EU. In the shift to a climate-neutral economy, this will also be important. More financing is also foreseen in the next coming year compared to 2019 for example for Horizon 2020, Europe’s EGNOS and Galileo satellite navigation systems, the Connection Europe Facility’s power strand, Erasmus+ and the European Defence Industrial Development Programme.

The integrated National Energy and Climate Plans (NECPs) are an obligation for the EU Member States under the new provisions of the Energy Union. These will be developed in accordance with the views of the European Commission and will be the benchmark for governance of the national energy authorities. The latter institutional entities will be able to manage 10-year economic policy strategy for 2021-2030 period. Therefore, the Government of Romania published its NECP draft at the end of November 2018 for public consultation, which is a synthetic perspective on the Romanian energy policies, including the sources of greenhouse gas emissions. Moreover, the project sets the national targets for 2030 regarding the reduction of greenhouse gas emissions, the share of renewable energy sources in the final energy consumption, and the increase of energy efficiency. The NECP proposal suffers from a lack of transparency and rigor in terms of the analytical grounds and the methodological clarity required. Considering the modifications in the EU objectives and regulatory structure over the past two years, as well as developments in the global fuel and technology industries, the adoption process of the Romanian NECP is rendered more difficult, given the alignment requirements of the European Commission.

Connected to the Environmental Priorities assumed by Romania under the Presidency of the Council of the EU, the Danube region is important for Romania’s strategic agenda. It could provide a useful platform for the development of transnational projects with European added value of the type envisioned as eligible for funding in the future MFF. Following eight years of joint efforts for a more prosperous and cohesive common European space, the Danube Strategy faces a revision phase, which started under the Bulgarian EUSDR Presidency, now taking the final phase under the Romanian EUSDR Presidency. A new Action Plan for the Danube region can more effectively facilitate joint efforts, especially with regards to cross-cutting topics (e.g. climate protection, infrastructure development, digitalisation). The endorsed timeline considers the drafting process of EU’s cohesion programs for the years 2021 to 2027. The first draft of the new Action Plan has been finalised under the Romanian Presidency, but further national consultations will take place over the summer with relevant stakeholder, expecting a final endorsement in the autumn of 2019.

**Energy and Environmental Policy Files from the Council’s Perspective**

The Romanian Presidency’s priorities with regards to energy have been: the Energy Union, the Clean Energy package, and the Natural Gas Directive.

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Under the Romanian Presidency of the Council of the European Union, important progress has been made in the energy field. A directive amending Directive 2009/73/EC concerning common rules for the internal market in natural gas was adopted with only the Bulgarian delegation abstaining. The Council also formally adopted an amendment to the so-called gas directive which aims at closing a legal gap in the EU’s regulatory framework and boosting competition in the gas market. The overall objective of the amendment to the gas directive is to ensure that the rules governing the EU’s internal gas market apply to gas transmission lines between a Member State and a third country, up to the border of the Member State’s territory and territorial sea. Among the main elements of the EU gas market rules, which are set out in the so-called gas directive from 2009, are ownership unbundling, third-party access, non-discriminatory tariffs and transparency requirements. Other notable achievements include the adoption of the files on electricity market and the Agency for the Cooperation of Energy Regulators.

Completion of the dossier Clean Energy for All Europeans has taken place at the threshold of the Romanian Presidency at the Council of the European Union. By doing so, the EU has committed itself to reducing greenhouse gas emissions by at least 40% by 2030. In this respect, the main goal of the package is the transition to clean energy, which will obviously imply changing European energy markets.

The dependence on oligopolistic sources of energy and natural gas transport routes is a vulnerability for the national, regional and European energy sector. Since Romania is one of the relatively weakly interconnected members of the EU in the energy field, it was important to support this priority when holding the presidency of the Council. In this context, Romania promoted increased investment in order to expand the interconnection capacity across EU Member States. Some useful tools in this respect, which would improve the investment framework for interconnections, are the Projects of Common Interest (PCIs) proposed by the European Commission.

Diversifying natural gas supply routes is a measure to increase the energy security of countries in South-East Europe. Particularly important is the establishment of a regional and European interconnected energy network to ensure the development of competitive energy prices.

If we are going back to the “history” of the energy policy, since 2007, under the Bush administration, we can see that the USA started to regard energy

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efficiency as a matter of national security. The Union is following the same path more recently, with great efforts dedicated to increasing and ensuring energy efficiency. It is a way to address the issues of energy-saving, local pollution and climate change, as well as increased energy security. Intelligently implemented, energy efficiency measures can make a significant contribution to addressing the challenges of energy accessibility and energy poverty.

As the Romanian energy sector is generally obsolete and inefficient from a technical and economic point of view, this issue was considered a priority during the Romanian Presidency. Moreover, Romania’s energy intensity is still almost double the European average.

Digital technologies offer new opportunities on energy markets, for actors willing and able to adopt innovation. For companies and end-users to take advantage of digitization in the energy sector, a regulatory framework is needed to ensure that existing operators can adapt their business models, that start-ups and technology companies are attracted by the energy sector and that there are real incentives for suppliers.

At EU level, at least 50 million people strive to pay their bills on time and ensure the proper heating, cooling and illumination of their homes. Reducing energy poverty will mean reducing public health spending, decreasing pollution and lowering greenhouse gas emissions, and increasing productivity and economic activity. The EU does not currently have a unified legal and administrative framework in addressing energy poverty. Opportunities in this respect are the “Clean Energy for All Europeans” legislative package and the recent launch of the EU Energy Poverty Observatory.

In 2018, the Commission adopted its communication “A Clean Planet for All” on a strategic long-term vision for a climate-neutral economy. The Council conclusions on climate diplomacy adopted by the Foreign Affairs Council on 18 February 2019 welcomed the Commission’s communication and stated that the EU would deliver a long-term strategy “striving for climate neutrality” to the UNFCCC by 2020 as requested in the Paris agreement. The strategic long-term vision does not propose new targets but aims to create a vision and sense of direction of EU climate and energy policy towards achieving net-zero greenhouse gas emissions by 2050 through a socially fair and cost-efficient transition. The strategy sets out eight pathways to reducing emissions by modelling different technological solutions: six of them achieving emission reductions in the range of 80-90%, and two charting a course to climate neutrality (net-zero emissions) by 2050. According to the Commission, the strategy covers all key sectors, including energy, buildings, transport, industry, agriculture and land-use, and is in line with the Paris Agreement objective to keep temperature increase to well below 2°C, and pursue efforts to keep it to 1.5°C.

To reach the targets of the Paris Agreement, the use of fossil fuels must be halved by 2030. Romania has a high potential for producing renewable energy,
from a multitude of sources: hydro, wind, solar, geothermal, biomass. It also has the potential to benefit economically from the industrial transition to the production of clean energy generation and consumption technologies.

The Romanian Presidency of the Council of the European Union took on the following priorities: Paris Agreement, 2030 Agenda for sustainable development, Biodiversity, and the Marine Environment Strategy. Its key objectives including: CO\(_2\) emission standards for new heavy-duty vehicles, coordinating the active participation of the EU and Member States in several meetings on the subject, such as the international negotiation session in Bonn (17-27 June 2019) regarding the Paris Agreement or the fourth meeting of UNEA from Nairobi (11 - 15 March 2019), and advancing the negotiations on the LIFE Programme.

The Romanian Presidency did conclude Europe’s first-ever CO\(_2\) emission reduction targets for trucks. The new rules will ensure that between 2025 and 2029, new trucks will emit on average 15% less CO\(_2\) compared to 2019 emission levels. From 2030 onwards, they will be required to emit on average 30% less CO\(_2\). The new rules close a gap in European environmental legislation. The rules on the most lasting and polluting chemicals were toughened under the Romanian Presidency as to ensure the protection of human health and our environment, ensuring safe and clean drinking water and improving access to water, as well as updating LIFE programme and ensuring appropriate funding for nature, biodiversity, climate action and the transition to renewable energy and increased energy efficiency.

**Energy and Environmental Policy Files from the European Parliament’s Perspective**

The debate on energy policy often encompasses a plurality of interests, as energy decisions have economic, environmental and geopolitical implications. While environmental groups are leading a push towards phasing out the use of polluting sources of energy, other political forces are more concerned about energy security. The discussions are further complicated by the different geopolitical interests and energy preferences of EU Member States. With a growing economy that still needs to catch up with those of the other EU countries, Romania tends to focus more on the security of energy supply (abundant supply of cheap energy is needed for economic growth) and prioritizes the development of the pan-European gas infrastructure which it could exploit. On the other hand, the country is also worried about the predominance of oligopolistic sources of energy and tends to oppose projects that would strengthen the hand of energy superpowers such as Russia.

A fully integrated electricity market is one of the requirements to build a European Energy Union, as it would decrease the isolation of the electricity grids of individual Member States. However, the 10% target of electricity interconnectivity between Member States set in 2002 has not been reached in all countries: the problem of “energy islands” and the weak support of both some political forces and some national governments have slowed down the process of reaching the targets. Romania is part of the countries with the highest difficulties on this area but, according to the Commission’s 2017 Report, Romania should still be able to reach

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its target by the deadline. The other countries that are more isolated are Spain, Portugal, Italy, United Kingdom and Poland.

While additional funding would help the lagging countries, only a minority of MEPs and of the EU Council are willing to support further financial incentives to increase the interconnection of EU Member States. Opposition is due to the fact that some forces in the countries with higher electricity interconnection levels do not necessarily have an interest in promoting investments in this regard and would rather prefer to allocate investments elsewhere (for instance in the clean energy transition).

**Figure no 2: Support for more funding to reach the 10% interconnection electricity target by 2020**

Source: original data, VoteWatch Analysis, based on actual votes in the European Parliament.

The supporters of the request to allocate more funds for reaching the 10% target of electricity interconnection can find allies among the Social Democrat members and right-wing nationalist ENF. However, MEPs from other groups are not highly supportive (for various reasons). Both free-market oriented ALDE and EPP, as well as left-wing Greens/EFA, GUE/NGL and 5 Star Movement tend to be on the opposing side.

The analysis of voting behaviour reveals that some MEPs voted along national lines, although the picture is quite nuanced. In the case of Romania, MEPs mostly followed the lines of their political groups, with PSD voting in favour of additional support, whereas most EPP members voted against (with the key
exception of the MEPs Mureșan and Marinescu). Conversely, Spanish and Portuguese MEPs (the Iberian Peninsula being another peripheral region with regards to electricity interconnection) tend to be much more supportive of strong support for investments and they tend to vote against their political groups when necessary.

While some political forces endorse the production of energy from biomass as a viable alternative to traditional energy sources (e.g. fossil fuels), biofuels are also criticized for diverting agricultural production away from the supply of food and promoting de-forestation.

National cleavages are also observed, since the production of biofuels is unevenly distributed across the European continent. Even though Romanian production of biofuels is still lower than those of other EU countries, there is a strong potential to increase production in the country.

The proposals to crack down on the production and use of biofuels are supported by only a minority of members of the European Parliament and inside the EU Council. However, the level of support for stronger limitations on the use of biomass for energy purposes is expected to increase since the fringe forces that are keen on these proposals (the Greens, the far-left and most right-wing nationalists) are set to grow in strength and size in light of the EU elections this year.

Those who want regulators to support the use of biofuels can count on the support of free-market oriented groups EPP and ALDE. The strongest opposition comes from left-leaning groups, Greens/EFA, GUE/NGL and the Italian 5 Star Movement. The Socialist and Democrats are also keen on supporting certain types of biofuels, but are worried about those that contribute to deforestation. Conversely, right-wing nationalists have also nuanced views on the matter: these political forces are not keen on public support for biofuels, but they tend to be less concerned about the environmental impact of biofuels (e.g. deforestation).

Our analysis of voting behaviour shows that most MEPs tend to follow the lines of their political groups on these matters, although there are significant exceptions, Romanians being one of them. While Romanian EPP members are aligned with their political group, which is rather supportive of biofuels, some Romanian S&D members are willing to defect from the position of the S&D group, when needed, and still support the use of biofuels. Apart from Romania, Bulgarian and Polish members also display stronger support for biofuels than their political group. At the opposite end, Dutch and Belgian members seem to be less keen on incentives for biofuels than other national delegations within the same groups.

The debate on the doubling of the capacity of Nord Stream pipeline focused on the geopolitical implications of the project, rather than its environmental and economic impact. The project would allow Russian gas to by-pass countries with which Russia has less friendly relations (such as Ukraine and Poland) and to export more gas directly to Germany and Western Europe.

The project is backed by countries such as Germany, Austria and Netherlands, whose economies would benefit from a bigger supply of natural gas. The project would also reduce the disruptive impact of a conflict between Russia and Ukraine on the supply of gas to Western Europe. Conversely, countries such as Poland and Romania are concerned about the Russian alleged ‘divide and conquer’ strategy translated into its efforts to diversify its supply routes to Western Europe and gain political leverage in some Member States in the process.
While the Council tends to be more divided (based on different national priorities), there is a bigger majority in the European Parliament against the project. The balance of power in the European Parliament will not change substantially after the elections, although the gains of right-wing nationalist forces that tend to be more sympathetic towards Russia is set to increase the level of support for the project. The opponents to the project can count among their allies most political groups in the European Parliament: both free-market oriented groups (ALDE, EPP, ECR) and left-leaning groups (S&D and Greens/EFA), whereas Nord Stream II is mostly supported by the political groups that tend to be more friendly towards Russia (ENF and GUE/NGL), whereas the Italian 5 Star and the British Eurosceptics tend to be more neutral. Differently from other issues, Nord Stream II tends to generate splits within some of the political groups, as MEPs belonging to different countries do not necessarily see eye-to-eye with their European group’s colleagues. For instance, German, Austrian and (to a lesser extent) Dutch members tend to be more favourable towards Nord Stream II. For different reasons, Greek and Bulgarian members are also more supportive, probably because of their close political and cultural relations with Russia. Not surprisingly, Romanian MEPs tend to vote cohesively against Nord Stream II, regardless of political affiliation.

With regards to environmental policies, one of the more contentious issues under discussion is that related to environmental conditionalities linked to budgetary allocations in the future Multiannual Financial Framework 2020-2027. The European Investment Bank plays a key role in injecting funding into infrastructural projections across the EU as beyond. Over the past five years, the EIB has financed projects for over 300 billion euros. Clearly, the funding is not evenly distributed across the EU MS, with Italy and Spain being the bigger beneficiaries during the period 2014-2019. One of the key issues is what conditions should be attached to funding from the EIB. In particular, some political forces would like to introduce a stricter environmental conditionality on EIB financing and exclude support for projects such as bio refineries, steelworks, regasification and gas storage facilities, and motorways. There are also calls to make EIB support conditional on the sharing of fiscal and financial information by companies. However, stricter conditionality could severely affect countries that are still catching up with regards to their infrastructure, as well as make the process to borrow money more burdensome and bureaucratic. Since Romanian infrastructural system has still to reach the same level as Western European ones, the country would need to ensure that there are not too many strings attached to EIB funding.

There is currently a large majority within both the European Parliament and the EU Council that rejects the introduction of a stricter conditionality on EIB loans. We expect support for a stricter conditionality to increase after the EU elections, mostly because of the gains of fringe political forces (both on the far-left and far-right of the political spectrum) and the losses of the more established parties.
The opponents to a stricter conditionality on EIB loans can count on the support of free-market oriented political families (ALDE, EPP and ECR), as well as the Social Democrats. Left-leaning Greens/EFA, GUE/NGL and the 5 Star Movement are the most supportive of a stricter conditionality. Right-wing nationalists have more nuanced views, although they lean towards supporting a stricter conditionality.

Generally speaking, ideological views seem to trump national cleavages on this topic: most far-left wing members of the European Parliament support a stricter conditionality, as this would ensure that taxpayers’ money is spent for project that comply with very high standards.

Romanian MEPs have similar views on what is Romania’s interest in this matter, almost all of them expressing opposition to linking EIB financing to the environmental impact and financial disclosure.
The European Committee on Environment (ENVI) in the European Parliament becomes an increasingly contentious ground given the adoption of ambitious Climate Action goals. In the spring of 2019, Greta Thunberg, a young Swedish climate activist took the floor in the ENVI Committee and pointed out that the strategies adopted by various Governments to limit global warming to 1.5 degrees C as part of the Paris Agreement are insufficient and the greenhouse gas emissions curve needs to start declining steeply no later than 2020. The European Parliament adopted a resolution on the basis of separate reports by the ENVI and ITRE committees, endorsing the objective of net-zero greenhouse gas (GHG) emissions by 2050 and urged the Member States to do the same. As such, the EU is implementing ambitious climate policies in line with the 2030 climate and energy policy framework to achieve the target of reducing domestic greenhouse gas emissions by at least 40% by 2030 compared to 1990 levels. The recently adopted EU legislation on greenhouse gas emissions reductions (i.e. ETS, Effort Sharing, LULUCF) are in line with the EU and Member States’ NDC. In addition, the co-legislators agreed on higher 2030 targets for renewable target and energy efficiency compared to the Commission proposal. The European Parliament also encouraged

Source: original data, VoteWatch Analysis, based on actual votes in the European Parliament.

Political Support at EU Level for Energy and Environmental Policies

member states to update the nationally determined contribution to the Paris Agreement (NDC) by 2020.

Overall, the support for more progressive environmental policies in the European Parliament is divided across national lines (see Figure 5). While Western Europe is in favour of Climate Action, Central and Eastern Europe is vastly less supportive. According to voting data in the European Parliament, the highest endorsement for progressive environmental policies is to be found in Mediterranean Member States and Scandinavian states. It is in the latter group that the Green Party has been an electoral success in the latest European Elections. The data related to Southern MEPs mostly stems from the progressive stances of the new anti-austerity parties on the environment (5 Star Movement, Podemos, Syriza, etc.).

Figure no 5: Overall support for environmental progressive policy in the European Parliament

At the other end of the spectrum, Polish MEPs are the most conservative on environmental issues, followed by the Slovaks and the Slovenians. As shown in Figure 5, post-communist delegations prefer a more gradual approach to raising the current standards. Interestingly, British MEPs are closer to these latter views than the ones promoted by their Western European colleagues. An explanation is
that the largest political party from this country (i.e. UKIP) is strongly conservative on environmental matters.

**Discussion and Concluding Remarks**

Building upon the key objective of the Juncker Commission (i.e. Energy Union and a forward-looking Climate Change Policy), the future von der Leyen Commission supports a European Green Deal as its hallmark policy. Commission vice-president Franz Timmermans moving from the portfolio on Rule of Law (RoL) to Climate Action Policy reflects the shifting focus on what is likely to become a core European value in the coming years.

This article demonstrated through a process-tracing methodology that the political support in all the European leading institutions is essential in ensuring the adoption of the new energy and environmental ambitions. The subject of this investigation is interesting because it is a topic on which everybody agrees in principle (i.e. energy security and countering climate change), but there is a wide difference of opinions (and possibilities) as to how to effectively reach the desired outcomes.

Institutional cooperation and alignment of objectives is essential to ensure the deployment of a truly compatible energy and environmental policies in the European Member States. The European Commission has set out an ambitious agenda with clear overlaps between climate and energy policies. Through the lenses of the Commission the interventions in these two areas should be designed in a unitary manner. According to the governance of the Energy Union and climate action rules, which entered into force on 24 December 2018, EU countries are required to develop National Energy and Climate Plans (NECPs) and monitor the progress of their implementation. However, the Council of the European Union and the European Parliament have to ensure consensus on some divisive decisions (e.g. gas directive, electricity interconnection, Nord Stream II, environmental quotas). The empirical evidence in this article assessed both the activity of the Romanian Presidency of the Council of the EU, and that of the European Parliament in these areas. It has attempted to show how consensus was reached, and what impediments there were.

There is a clear dividing line in the European Union between Member States that favour more assertive climate action, and those that are reluctant to implement more progressive environmental policies. With Central and Eastern Europe (CEE) clearly in the latter group, we can see this policy position as a reflection of the persistent East-West divisions in the EU. CEE is marked by a certain recipe for economic development with significant capabilities in the energy sector reliant upon coal, while significant shares of the population struggle with energy poverty. As such, the direct and indirect economic costs of the Green Deal are much higher in these countries. Clear action plans have to be designed to guide the transition of these Member States towards the European Green Deal.

Further research is needed to understand better the positive externalities of environmental goals and the transition of the energy sector. So far, much of the existent research, as well as the public statements on the subject have focused on the changes in energy policy as a reaction to environmental standards. However, this change of paradigm (i.e. lowering the energy footprint and developing climate neutral sources) is not only a constraint, it can also be an opportunity.
Environment policy, together with greening the economy can contribute in a very significant manner to the broad policy objectives of stimulating sustainable growth and creating jobs. Across the Atlantic, newcomer in Congress Alexandra Ocasio-Cortez submitted to the U.S. House of Representatives the Green New Deal (GND) proposal, aiming to counter both social exclusion and green-house gases. This dual approach to counter socio-economic and environmental ills is likely to be found in the European Semester in the coming years.

Between the European Green Deal and the American Green New Deal, the policy framework is ripe for broader change in the structure of the economies and societies of the Western world. Furthermore, after a long period of isolationist and regionalist tendencies in international affairs, a new momentum is gained for multilateral cooperation on the world stage.

References:


Impact of the 4th Industrial Revolution on the World Order

Florin Bonciu

Abstract: The paper starts from two realities of the contemporary world (the unfolding of the 4th industrial revolution and the change of the world order) and attempts to evaluate to which extent the latter influences the former. After reviewing the possible impact of the 4th industrial revolution on the main factors that influence the perceived power of a state the conclusion is that while the 4th industrial revolution will bring with it numerous and complex changes, the influence on the world order will relate mostly to the nature of institutions and interactions among the key players, while the key players themselves will remain to a large extent the existing ones (USA, China, Russia, potentially India), followed at a significant distance by some European states, Japan and maybe some others. This conclusion may assist especially smaller states in defining their foreign affairs policy for the decades to come.

Keywords: 4th industrial revolution, world order, determinants of power, artificial intelligence

JEL classification: F02, F50, F63

Overview: world order in transition

The subject of world order is not discussed very often except in the field of the study of international relations, maybe because the world order is not changing very frequently and therefore it is assumed in the common perception to be rather perennial. This topic arises in times of significant change when there is a general perception that some fundamental aspects related to the international actors and the nature of their interactions are no longer as they used to be. The beginning of the 21st century, particularly in the aftermath of the crisis that started in 2008, is more and more characterized by such a perception of a changing world order. There are some who believe or hope that this perceived change is only temporary, there are others who are sure the change is definitive, but all agree that the Bretton Woods system that defined to a large extent the world economy after the World War II is no longer functional.

For those who still doubt that the world order has been changing as compared to the post World War II period, it is enough to notice that:

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- since 1990 the world economy is no longer bipolar (and one of the key players, the Soviet Union, is no longer present);
  the USA is no longer the only centre of power being challenged in different ways by China and, of late, often in disagreement with the European Union;
- Russia is reasserting as a significant player in certain geographical areas or in certain scientific and military domains;
- China has become the official largest creditor surpassing IMF or the World Bank (Horn, S., Reinhart, C., Trebesch, C., 2019) and succeeded to land on January 3, 2019 the first space probe on the far side of the moon (Moritsugu, K. 2019);
- India is expected to surpass as GDP Great Britain in 2019 and, attempted to become the fourth state to land a space vehicle on the moon in September 2019 (Carter, J., 2019).

In essence, the world order reflects the distribution of power among key players, based on certain rules and institutions which may be explicit or implicit. Due to its intrinsic determinants world order has a historical character because the distribution of power among key players, their rules of interaction and even the players themselves are changing after relatively long time intervals. At the same time, world order is heavily influenced by geography which determines the intensity of interactions among players and has a lot of nuances as these intensities of interactions are rather different. A certain world order, at a given historical time, is more evident in the geographical areas with strong interactions among players and more relative and less evident in the geographical areas with less intense interactions. Henry Kissinger explained this characteristic by saying: “No truly global ‘world order’ has ever existed” (Kissinger, H., 2014).

In modern times, world order has been mostly related to state power, manifested primarily as economic and military power. The past decades have added a new factor in this equation represented by science and technology or, generically speaking, knowledge. This new factor has reached an entirely new dimension together with the emergence and gradual coming of age of the 4th industrial revolution (4IR) and particularly with one of its core components, artificial intelligence (AI).

Although the last decades of the 20th century and the first decades of the 21st century have been characterized by globalization (in the sense of increasing interactions and interdependences of economic actors on a global scale) and the rise of the role of transnational corporations, from the point of view of world order states are still the key actors that shape to a significant extent the nature, intensity and direction of international relations and this characteristic seems to remain valid for the foreseeable future. A clarification is needed regarding the relation between states and transnational corporations. As economic power objectively ends by influencing political power, there is a rather strong reciprocal influence between states and transnational corporations, while in some cases the transnational corporations themselves are state owned (for instance in China, Malaysia, South Korea or Russia) or with state participation (for instance in many Western European countries where there are well known companies like Volkswagen, Enel, Deutsche Telekom, Engie, Airbus, Renaulit, OMV in which the respective states have between 15 and 32% of the capital) making the state-transnational corporation interaction even more evident (UNCTAD, 2017).
The power of states can be manifested within a given world order as hard power (which is coercive in its essence), soft power (which is attractive or appealing) and smart power (which is holistic, being more than a combination of the previous two), while the manifestation of power is constantly changing from one period to another due to shifts in a multitude of factors (Nye, Jr., J.S., 2011).

As for the 4th industrial revolution, the concept has received more and more attention in the past years, being promoted among others by the World Economic Forum and its founder Klaus Schwab as a transformation of what we do, but also of what we are on a scale that has never been experienced before (Schwab, K., 2016). As Klaus Schwab statement may appear rather strong in its part mentioning that the 4th industrial revolution is changing “what we are” as human beings, maybe some examples are useful: Elon Musk announced in July 2019 that his company, Neuralink, is working for developing a brain-machine interface and it has already obtained some significant results (Hitti, N., 2019). Also, in July 2019, Facebook presented results of its project for a brain-reading computer interface (Robertson, A., 2019) while a team of researchers from the University of Massachusetts Medical School proved that they can allow infra-red vision to humans by injecting nano particles in their eyes (Waghorn, M., Curtis, S., 2019) and researches on bio-printing - 3D printing of body parts and organs are quite advanced (Kent, C., 2019).

The reason why the 4th industrial revolution is different and this difference matters for the reshaping of the world order of the 21st century is that instead of replacing the primacy of one sector of activity with another (for instance agriculture with industry as it happened with the first industrial revolution or industry with services as it happened with the second and the third industrial revolutions), the 4th industrial revolution is characterized by a fusion of “physical, biological and digital worlds” (Schwab, K., 2016) which impacts all sectors of human activity, at the same time changing its very nature and substance.

Some experts consider that the technologies of the 4th industrial revolution (such as artificial intelligence, robotics, 3D printing, 5G communications, biotechnology and genetic editing, quantum computing to name just a few) will enhance, change and replace most if not all aspects that define the economy and society of the next 50 years in such a way that will “create realities that we previously thought to be unthinkable” (Hinton, S., 2018).

In order to determine how the 4th industrial revolution may influence the world order it is useful to review the determinants of power at the state level and to adapt their content to the contemporary situation.

Generally speaking the power of states as manifested in the interaction with other states at regional, continental or global level is influenced by factors such as:
- **Quantity and quality of resources (land, natural resources, population);**
- **Capability to transform resources for economic and military purposes;**
- **Knowledge, science and technology, education;**
- **The pursuit of a state long term interests by means of diplomacy in all its formats;**
- **Capability to generate and disseminate information at a regional and global level;**
- **The richness, motivation and appeal of cultural and spiritual values.**
To this list which is rather generic and commonly used we suggest the addition of two more factors:

- Geography, in the sense of the geographical location of a state. This factor influences the availability of natural resources in a broad sense (including wind and solar light, but also rivers, seas or mountains) as well as the existing neighbouring states at a given time in history, an aspect that may be beneficial or detrimental for one's own development.

- History, in the sense of accumulated wealth and experience that may provide for a state a critical mass of expertise, capital, skills that may be useful in obtaining a favourable interaction with the rest of the world economy at a given time. From this point of view we may compare history, in favourable case, with a “savings bank” where previous knowledge, know-how, capital and beneficial relations with other key players may be accumulated from the previous historical stages. It is nonetheless true that this historical heritage may be in some cases detrimental and impose on the current generations the challenge of overcoming past liabilities and biases.

Looking at the above list one conclusion emerges: that the power of states depends at a given moment on what resources they have and how they use them for achieving long term interests. From a historical perspective it seems that the most difficult part consists in defining long term interests and pursuing them in a consistent, coherent and flexible manner over long periods of time. From this point of view it is interesting to note that a study carried out by Harvard Business Review over a period of eight years on a number of high growth companies identified purpose as the main driver in the long run positive evolution of the respective companies. According to the study, purpose plays two critical roles: it helps companies re-evaluate, reassess and redefine their playing field (meaning replacing or extending their focus from current competition and market to new areas where they can be among the first comers if not the first); and it helps them to redefine the value proposition (meaning that instead of competing based on current criteria, they focus on new criteria which are more holistic and long term) - (Malnight, T.W., Buche I., Dhanaraj, C., 2019).

In our opinion it is quite easy to translate this perspective from the company to the state level and stress once again the importance of defining long term interests or purpose.

How the 4th industrial revolution may influence the power of states and the world order

Although the power of states is a very complex and hard to define concept, influenced by a high number of factors, a formula has been proposed by Ray S. Cline (1977) which allows at least an approximation of it by combining tangible elements (C, E, M) with intangible ones (S, W). This formula which offers just a qualitative interpretation is presented below:

\[ Pp = (C + E + M) \times (S + W) \]

where:

- \( Pp \) is the perceived power of a state;
- \( C \) is the critical mass related to population, resources and territory;
- \( E \) is the economic capability;
- \( M \) is the military capability;
S is the strategic purpose of that state;  
W is the will/determination to pursue national strategies.

Looking at the above formula it is obvious that the 4th industrial revolution will impact both the tangible and the intangible elements in a considerable manner. Based on extensive research of relevant sources one can say that the 4th industrial revolution is already influencing (and this influence will increase the future) the following aspects:

- How states use resources (land, labour, capital, knowledge) and what resources are used (both natural and created resources) as result of the advances in knowledge, science and technology;
- How the states educate, re-train and use labour as a key factor in capitalizing the potential of the 4th industrial revolution;
- The states’ capability to transform input resources into economic and military resources, including the expansion of economic and military activities to the outer space;
- The efficiency and effectiveness of using diplomacy and foreign relations in order to redefine the spheres of influence or in order to participate in a beneficial way in the new architecture of world order;
- The capability to generate and disseminate information to the point of influencing decision making and behaviours of leaders and people.

The impact of the 4th industrial revolution on economy

One of the most obvious impacts of the 4th industrial revolution is on economy. The 4th industrial revolution already impacts and redefines many areas related to economy, from education to research and development, from engineering to management and marketing and from space exploration and computing to health care.

As economic activity is still measured by Gross Domestic Product (GDP), although there are numerous limits of this indicator, some studies tried to quantify the impact of the 4th industrial revolution on GDP at the global level. One study conducted by PriceWaterhouseCoopers (PwC) states that in 2030 global GDP could be up to 14% as compared to its 2018 value (an increase of about $15.7 trillion), as a result of the implementation of artificial intelligence (AI) alone (PwC, 2018).

What is relevant from the perspective of the topic of this research is that, according to the PwC study, China might record an increase of 26% of its GDP until 2030 due to AI ($7.0 trillion) while North America (mainly USA) might record an increase of 14.5% of its GDP ($3.7 trillion), which means that these two areas will record an increase of their GDP by $10.7 trillion or about 70% of the world impact of AI utilization. Developed Asia (except China) might record an increase of its GDP of 10.4% ($0.9 trillion), Western Europe of 9.9% ($1.8 trillion), Southern Europe of 11.5% ($0.7 trillion) while the rest of the world might record an increase of its GDP of 5.6% ($1.2 trillion).

The 4th industrial revolution may also influence the economy by the discovery of new materials (like graphene with applications from energy to electronics to biomedicine), new sources of energy that, for instance, may allow the obtaining of cheap hydrogen from oil fields (including depleted ones) and oil sands
or by converting sunlight into hydrogen using the moisture in the air, **new communication technologies** like 5G, **quantum computing** or **hypersonic aviation** with applications in the military field (La Fuente, J., 2019; Proton Technologies, 2019; Zarremba, H., 2019; Harris, S., 2018; IBM, 2019; TRT World, 2019).

Therefore the 4\textsuperscript{th} industrial revolution will influence the balance of power by the differentiated increase of output (GDP) and by creating relative and temporary absolute advantages for states that obtain breakthroughs in key areas and are able to deploy them rapidly in economic and military areas.

**The fourth industrial revolution impact on education and labour formation**

Although many initial reactions to the advances obtained under the umbrella of the 4\textsuperscript{th} industrial revolution in areas like artificial intelligence and robotics were of fear that humans would be soon replaced on a large scale, later analyses tend to favour the idea that at least in the medium to long term the humans will co-exist and co-work with artificial intelligence and robots. This idea is both more realistic and comforting but it raises a new challenge because education and formation (including through lifelong learning) will have to prepare not only the experts that will design the artificial intelligence and robots, generically speaking, but also the rest of the workforce that will have to operate in rather different working environments.

In this context, according to some studies, by 2022 almost 60\% of companies will significantly modify how they produce and distribute their goods and services, which means that about 54\% of employees will need an adaptation and upgrade of their skills and competences. Some estimates indicate that about 35\% of workforce may need training of up to 6 months, 9\% of workforce will need training of 6 to 12 months, and 10\% of workforce will need training of more than one year (World Economic Forum, 2018).

At the same time, even if the very pessimistic opinions of some years ago that stated that artificial intelligence and robots will eliminate in the next one or two decades almost 50\% of the jobs in USA and, by extension, in the developed countries (Frey, C.B., Osborne, M.A., 2013) have been attenuated to a certain extend in more recent analyses, they still point to a probability of 50-70\% of elimination of about 276 million jobs due to automation in the 32 member states of the OECD (Nedelkoska, L., Quintini, G., 2018).

Therefore a challenge that arises from the above aspects is that either way (dues to jobs losses or due to the changing of the nature of jobs), due to the effects of the 4\textsuperscript{th} industrial revolution a huge number of people will need training, re-skilling and up-skilling at the same time. What type of logistics will be needed for such a huge effort, where the teachers will be coming from and who will pay for this unprecedented exercise?

Being so comprehensive in its areas of manifestation, the 4\textsuperscript{th} industrial revolution impacts education and labour formation in multiple ways:

- **What to study?** Besides traditional knowledge new fields of study emerge and the graduates of tomorrow will have to be able to live and work in a different environment characterized by climate change, new materials, new plants and animals obtained by genetic engineering, new communication
technologies, new sources of energy, new forms of human interaction and the list may continue.

- How to study? Traditional forms of interaction between teacher and student may be more and more complemented or even replaced by customized teaching based on artificial intelligence where the teaching process is adapted to each individual, the teaching process may use augmented reality and virtual reality, distance learning may become more frequently used.

- When to study? Due to the significant changes determined by the fourth industrial revolution but also by other phenomena such as climate change the traditional forms of education will be more and more complemented by Life Long Learning while the increase of the duration of active age may bring to the education process a new category of students over 50 or even 60 years old.

In order to evaluate the impact of the 4th industrial revolution on education and formation of labour, we estimate that the states that define strategies for the preparation and adaptation of their work force to the new environment may have a better chance of capitalizing on the opportunities determined by the new technologies and knowledge and, at the same time, to minimize the losses of jobs and social tensions they may incur.

At the same time, the states that not only have defined an education and formation strategy for the 21st century but also employ the technologies of the 4th industrial revolution in the process are at an advantage. For the moment, China is the most advanced in the large scale deployment of AI based education that already enrols tens of millions of students in extra-curricular, tutoring programs, digital learning platforms or normal classrooms; at the same time, in the US there is a growing interest for the use of AI in education, numerous foundations, universities and industrialists supporting this approach (Hao, K., 2019). Other countries are at best experimenting with different approaches but are still far from a large scale implementation.

**The 4th industrial revolution impact on the military sector**

The history of humankind is so rife with the military dimension that ignoring it would leave any analysis incomplete. And the contemporary period is nothing but a proof of that. Therefore when discussing the world order the military sector represents a significant element.

By its comprehensive nature, the 4th industrial revolutions is both supported/financed by the military sector and, by its results, a supporter of the military dimension. Due to its disruptive nature, the 4th industrial revolution is not bringing to the military more of the same, but rather entirely new dimensions such as hypersonic weapons, quantum encryption and communications, nanotechnologies, genetic engineering, a new space race with a military component, the use of robots in the military field, including the much debated possibility of the emergence of lethal autonomous weapons.

From this point of view in recent years the key actors that are very present on the military scientific arena are the USA, Russia and a more and more prominent China, an emerging India and, to a certain distance, other countries like United Kingdom, France, Israel, Japan and others.

As the 4th industrial revolution represents on a historical scale a new beginning, this creates the opportunity for key players to enter a new race for
securing favourable positions in a redefined architecture of world order. It is very likely that, as in previous periods (such as the two World Wars and the periods that followed them), the development of science and technology will be accelerated by military research and some of the results will arrive later in the consumer use.

**The impact of artificial intelligence on the world order**

Although artificial intelligence represents just one of the components of the 4th industrial revolution, it seems that it has the most significant impact on the weakening of the existing international institutions and rules of interactions among states that have been widely accepted in the previous decades. The impact of different applications of artificial intelligence on decision making, behaviour and actions of individuals or institutions is so significant because it is massive (that is present on a large scale) and very different. A recent case proved that individuals and institutions are simply not prepared for the type of interaction or data usage as it happened in the Facebook - Cambridge Analytica scandal where personal data of millions of people had been used for political advertising purposes without their consent (Gartenberg, C., 2019).

Research carried out by experts of World Economic Forum (Pauwels, E., 2018) pointed out that artificial intelligence affects the existing world order through a number of mechanisms, namely:

- **the degradation and/or relativization of truth** by the widespread use of fake news that are more and more extremely difficult to distinguish from reality. This may create a climate of confusion, mistrust and misguidance that can affect multiple areas (economic, social, political, and military).

- **precision surveillance** that combine vast networks of video cameras with facial recognition software and big data analytics allowing states to monitor the location and behaviour of entire populations or, on a more benign level, allowing companies to measure emotions and reactions in order to determine consumer or employee behaviour.

- **global competition for big data** referring to entire populations in order to process it through AI based algorithms. Such data can be used for commercial, medical, political and military purposes and may lead to cyber races, cyber colonization or cyber wars.

The response and adaptation to this new environment is difficult both at the national and international levels because all the institutions that exist at this levels have been established a long time ago, some of them being more than a century old.

Some politicians and experts are aware of these developments and their related risks and they try to incorporate these new technologies in the foreign affairs and diplomacy areas. Already artificial intelligence is a **topic to be discussed in diplomatic circles** (including its implications on economy and business; security; democracy; human rights; ethics), a **new environment where foreign affairs is extending its activities** and a **tool for diplomacy** used for a better understanding of various circumstances and implications of foreign affairs decisions (DiploFoundation, 2019).

As it happened with all major discoveries (for instance nuclear power or the transistor), artificial intelligence may have a dual impact on governance on all levels: it may provide very powerful analytic instruments based on myriad of sensors and big data processing, but, at the same time, it may be instrumental in
fuelling distrust and sewing confusion by the control and distortion of mass-media, social networks and vital data bases.

**Conclusions**

In retrospect all industrial revolutions have had an impact on world order, either **consolidating that order** (like the 1<sup>st</sup> industrial revolution that consolidated the position of the United Kingdom as the major world centre of power or the 3<sup>rd</sup> industrial revolution that consolidated the position of United States as the major world centre of power) or **challenging that order** (like the 2<sup>nd</sup> industrial revolution that marked the gradual replacement of Great Britain by the United States as a major centre of power or the 4<sup>th</sup> industrial revolution that marks the challenging of the pre-eminence position of the United States and its gradual replacement with a dynamic multi-polar world).

From a pragmatic point of view, the 4<sup>th</sup> industrial revolution acts as an amplifier for both beneficial and detrimental effects, a characteristic that requires much more prudence and patience than it has been manifested until now. In essence, the 4<sup>th</sup> industrial revolution will significantly influence:

- the economy on a local and global scale, with a lot of positive implications but also with the risk of enhancing inequality and the development gaps between groups of countries as well as within countries;
- the international stability and peace by potentially increasing the risk of different types of wars (from trade wars, to cold wars, hybrid wars and cyber wars) due to the emergence of entirely new types of weapons or instruments that can be used for destabilizing, weakening or controlling the adversaries);
- democracy and traditional ethical values by the potential to influence the decision making process of vast masses of people, affecting their perception of reality and their ability to manifest their free will. In this respect, Noah Yuval Harari has warned against the risk that with a better knowledge of biology and more computing power human beings can be hacked/controlled by governments and corporations by predicting their choices and redefining their feelings (Harari, N.Y., 2018).

In our opinion, capitalizing the positive effects of the 4<sup>th</sup> industrial revolution and minimizing the negative ones will depend substantially on human resources (it seems that once again the human beings represents the most precious capital). How the human resources will be educated and trained during the lifelong learning process will influence the ability to use the knowledge available nowadays and will further enhance science and technology through continuous research. In theory, the options for a better education and use of the human resources are available to all states, but in reality the states are rather different in their capability to follow such paths.

From the perspective of 2019 it seems that the benefits of the 4<sup>th</sup> industrial revolution will not be equally distributed and the maturity of this revolution may bring with it inequality both internally and internationally (Laudicina, P.A., et al, 2018; McKinsey Global Institute, 2018).

From this perspective, there are two states that seem more advanced in developing and deploying the technologies of the 4<sup>th</sup> industrial revolution, namely the USA and China. A second group of states, such as Russia (which has a
particular situation with an asymmetry between the economic and the scientific levels of development), Great Britain, Germany, France, Israel, Japan, Canada, South Korea and some others seem to be well positioned due to highly developed education, research and industrial sectors. Even much smaller states, such as Finland, Sweden or Singapore may be well positioned, because they have highly developed education, research and industrial sectors. A third group of states, such as India, Italy or Malaysia have a certain potential to capitalize the benefits of the 4th industrial revolution, possessing strengths in certain sectors but somehow lacking the coherent and consistent approaches at state level that can be found in the first two categories. The forth group of states includes the rest of the world that is lacking both significant current strengths in education, research and development and industrial sectors and coherent and consistent strategies regarding the 4th industrial revolution.

In our opinion, particularly the states that belong to the fourth group will have to focus on the systematic development of their human resources in order to be able to make use of the technologies specific to the 4th industrial revolution. Even if they cannot be leaders of innovation, the fact that they will be able to employ the new technologies may give them some advantages and the potential for increases of productivity. At the same time, this group of countries will have to develop a better understanding of the emerging architecture of the world power in order to position themselves in the most beneficial manner in relation to established or emerging poles of power.

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Impact of the 4th Industrial Revolution on the World Order


Common Interests and the Most Important Areas of Political Cooperation between Poland and Romania in the Context of the European Union

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Abstract: The article addresses several issues that constitute the main areas of Polish-Romanian relations in the 21st century in the political dimension and in the broad sense of security. Relations between Poland and Romania have been characterized in the context of the membership of both countries in the European Union. Particular emphasis was placed on the period of the Romanian Presidency of the Council of EU, which lasted from January to the end of June 2019. The article indicates the most important common interests of both countries, the ways for their implementation, as well as potential opportunities for the development of bilateral and multilateral cooperation. The article also takes into account the key challenges that Poland and Romania must face in connection with EU membership.

Keywords: Romania, Poland, European Union, Three Seas Initiative, multilateral cooperation.

Introduction

Polish-Romanian relations were particularly close in 1921-1939, when Romania was the only neighbour, apart from Latvia, who was Poland’s ally. After the end of World War II, both Poland and Romania were in the Soviet bloc. After the collapse of the Soviet Union, Romania initiated, similarly to Poland, a political and economic integration to Western European structures, obtaining in 2004 membership in NATO and in 2007 in the structures of the European Union.

The aim of this article is to point to the key areas of cooperation between Poland and Romania, with particular emphasis on the cooperation of these two countries in the context of the European Union. The article has been divided into several parts, according to their chronological order, in such a way as to identify the most important manifestations of bilateral and multilateral relations of our countries in particular stages: before Poland’s and Romania’s accession to the EU, from 2004 to 2010, and then in the second decade of the 21st century.

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There are relatively few studies in Polish scientific literature devoted to relations between Poland and some of the neighbouring countries, including Romania. Especially if the subject of interest is the period after 1989 or bilateral and multilateral relations in the 21st century. The book entitled: "Polish-Romanian relations. History, economy, European Union", edited by S. Sagan and V. Serzhanova from 2013, as well as papers from scientific conferences, which are regularly held in Suceava, certainly deserve attention.

This paper uses several characteristics for social sciences and political science research as well as for international relations, methods and research techniques, such as: analysis of documents and source literature. The political system analysis, decision-making process and institutional-legal analysis were used as research methods.

This article does not aspire to treat exhaustively this interesting and multithreaded issue, which is Polish-Romanian relations in the context of the EU. The author's intention was to point out aspects and areas of convergence of interests of Poland and Romania in the multilateral dimension over two decades of the 21st century, in the face of changing international conditions, which are important from the point of view of the foreign policy and cooperation of both countries.

**Polish-Romanian relations before accession to Western European structures**

Poland and Romania have had close contacts throughout history. A hundred years ago, relations between our countries alongside important political, military and economic issues also had their personal dimension expressed in mutual sympathy connecting Marshal Józef Piłsudski with King Charles II. In the interwar period, Poland and Romania bordered on each other and maintained very good relations on many different levels. The position of both countries in the bloc of communist states generated a series of shared experiences as well as challenges that later both countries had to face.

After the changes that took place in Central and Eastern Europe in connection with the collapse of the Eastern bloc, new opportunities and prospects for the development of bilateral relations emerged. Both countries experienced a difficult path of modernization and transformation, the aim of which was to democratize and open up to economic and political cooperation with Western countries. This involved the need to adjust the legal dimension, the political, economic and military structures, to the requirements of Western European and Euro-Atlantic organizations, to which both Poland and Romania aspired.

From the beginning of the 1990s, as a result of changes in internal and external policy initiated in both countries, as well as in the first decade of the 21st century, Poland and Romania signed a number of cooperation agreements. In January 1993, the Treaty of friendly relations and mutual cooperation was signed in Bucharest. It emphasized the necessity of cooperation in the field of international security and economic cooperation\(^2\). On the same day, the 25\(^{th}\) of January, the

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A consular convention regulating the diplomatic relations between the two countries was signed in Bucharest. A number of important contracts regulating economic contacts were also concluded. Agreement on trade relations and payments and the Protocol on the liquidation of mutual debts and obligations in payment relations as of December 31, 1990, signed on the 18th of December in 1990 and two important agreements of the 23rd of June in 1994 - Agreement for the avoidance of double taxation and prevention of Tax evasion with respect to taxes on income and assets and Agreement on the promotion and mutual protection of investments.

However, this was not the time when Poland and Romania saw themselves as particularly important partners in foreign policies of their countries. The aspirations to stabilize mutual contacts were mainly focused on economic relations. In 1993, the post-communist authorities ruling Romania at that time made a declaration of their desire to join Western international organizations such as the Council of Europe, NATO and the European Union. It was a manifestation of common political interests of Poland and Romania, and a similar approach to ways of ensuring the security of this part of the world.

In the following years, as a result of the unification of the Romanian opposition and the creation of the Romanian Democratic Convention (which unified various political forces - from the extreme right, through democrats and peoples, to the Hungarian minority), the monopoly of post-communists in the Romanian political scene broke, which contributed to evolutions in Romania’s internal and foreign policy. It also meant strengthening relations with the countries of Central Europe, such as Poland, the Czech Republic and Hungary, with a clearly pro-European foreign policy vector.

In 1995, Romania filed an official application for membership in the Communities (on the 22nd of June), and in April in the same year, the first official visit of Romanian President Ion Iliescu to Poland took place. Less than a year later, on May from 14 to 15, 1996, Aleksander Kwaśniewski, the President of the Republic of Poland, visited Romania on a return visit.

3 Consular Convention between the Republic of Poland and Romania, the 25th of January 1993, Journal of Laws 1993, No. 29, item 104.
In the following years, lower-level contacts took place - visits by Speakers of the Senate and Sejm, foreign ministers or groups of parliamentarians. Intensification of mutual contacts favoured building good bases for cooperation of these two countries in the future also in the international dimension. Even in the 1990s, and specifically from 1997, both countries began cooperation within the Central European Free Trade Area (CEFTA). Although Poland and Romania's efforts to integrate with Western European structures were similar, each country focused on building relations mainly with its closest neighbours. In the context of the process of accession to the EU, Germany played a special role in Polish foreign policy, while France played a significant role in the Romanian case. Nevertheless, the next decade brought a significant revival in bilateral relations at various levels.

The visits at the highest level continued. Official visits took place in January 1997, when Romanian President Emil Constantinescu visited Poland, and then in March 1999 and in October 2003, Polish President Aleksander Kwaśniewski visited Romania. After Romania's accession to the EU, in 2007, the President of Poland Lech Kaczyński visited Bucharest. The meetings between heads of state were also accompanied by meetings of representatives of the government administration, foreign ministers and defence ministers. There were also meetings and visits of the heads of governments - in 2002, Romania's Prime Minister Adrian Năstase in Poland, and in 2004, the Polish Prime Minister Leszek Miller in Romania.

Strengthening the foundation of formal and legal state relations, in May 1999, an Agreement on legal aid and legal relations in civil matters was signed. Subsequently, in July 2001, a Cooperation Agreement was concluded to combat organized crime, terrorism and other types of crimes (entered into force on the 27th of August in 2003). A scientific cooperation agreement was also concluded.

For Polish-Romanian relations at the turn of the 20th and 21st centuries, the international context related to the growing asymmetric threats in the world was not without significance. Terrorism and the war against it, which grew stronger especially after the attacks on the 11th of September in 2001, has become one of the most important goals of the internal and international services. Due to the transnational nature of terrorist threats, the cooperation of states is indispensable in this respect. Romania, like Poland, supported US actions in the intervention in Iraq in 2003. Although Romanian troops did not participate in the second war in Iraq, the country later sent 700 soldiers as part of the stabilization mission.

Both Romania and Poland were in a rather difficult situation at that time. Romania was not yet a member of NATO (the accession of this country to the North Atlantic Alliance took place in 2004). Whereas Poland, although it belonged...
to NATO since March 1999, was at the threshold of membership in the European Union, and some of the countries of this organization did not support the actions of the United States against Iraq.

However, this was undoubtedly one of the factors that apart from the common goals of our diplomacy, related mainly to European and Atlantic integration, revealed the common interests of our countries on the international scale, as well as a similar approach to global security. All these aspects had a beneficial effect in bringing the two countries closer together at the beginning of the first decade of the 21st century.

The completion of processes initiated in the early 1990s was the accession of Poland and Romania to NATO structures (Poland - 1999, Romania - 2004) and the European Union (Poland - 2004, Romania - 2007).

The Polish–Romanian relations in 2004-2010

In the years 2004-2007, in the period when both countries joined the European Union, bilateral contacts significantly strengthened, while to a lesser extent they were implemented on the EU forum. This was mainly due to the reluctance of the then Polish authorities - the right-wing party of the Law and Justice, to develop cooperation within EU. The focus was primarily on strengthening relations with the United States and with those EU countries that showed a more Eurosceptic attitude, such as the Czech Republic, Hungary or the United Kingdom. Romania was also focused mainly on an alliance with NATO and the USA in both the political and military dimensions.

With the change of government in Poland in 2007, the priorities of foreign policy also changed, especially regarding European integration. The position of Poland as the leader of Central European countries in the EU increased. This manifested itself in various initiatives to achieve the goals of the sub region. In the face of changing external conditions and a number of challenges faced by EU states towards the end of the first decade of the 21st century, such as the global economic crisis, the division into a two-speed Europe strengthened. Germany, France and the Benelux countries, as well as countries belonging to the Eurozone, were to remain the leaders of it. In both cases Poland and Romania would be excluded from the possibility of a wide influence on EU decisions. It could also threaten the inflow of European funds to these countries. In the face of new challenges, in order to strengthen bilateral cooperation, on the 7th of October in 2009, a declaration on strategic partnership was signed by Presidents Lech Kaczyński and Traian Băsescu.

The pillars of the partnership include: political cooperation in the field of, broadly defined, security, support for the countries applying for EU membership, such as Turkey, Croatia, Ukraine and Moldova, cooperation in energy and sustainable development, including support for the construction of the so-called Southern corridor, including Nabucco pipeline, economic partnership - including maintaining the Common Agricultural Policy after 2013, as well as maintaining EU

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cohesion policy, transport (especially projects for expansion of connections on the EU's eastern border and on the north-south axis), and ensuring the European Area Freedom, Justice and Security - it was a commitment to coordinate efforts to promote the free movement of workers, and in particular to remove barriers to employment of Polish and Romanian citizens in other EU countries.

Common interests and challenges in Polish-Romanian relations in the second decade of the 21st century

It seems that currently - in the first and the end of the second decade of the 21st century, Polish-Romanian interests are even more consistent than before. Poland and Romania have intensified bilateral relations for many years, the purpose of which in the 1990s was to support each other's activities towards accession to international groups. Subsequently, both countries developed multilateral cooperation to strengthen the bilateral contacts at the end of the first decade of the 21st century, which are perceived by the governments of both countries as beneficial also from the point of view of the effective implementation of common interests on the international arena. In the face of the existing challenges faced by key integration groups for both countries, as well as in the context of current asymmetric threats, the need to intensify contacts between Poland and Romania is greater than ever before.

On the basis of common Polish-Romanian interests, we can distinguish the three most important areas of intensification of contacts between these countries in the second decade of the 21st century in the bilateral dimension, as well as on a regional and global scale.

First of all, it is in the interest of both countries to strive to strengthen their place within the structures of the European Union, by tightening integration and skilfully responding to current problems and challenges faced by the European Union, such as Brexit, problems of integrity and leadership in the EU or a number of dilemmas related to accepting refugees from the Middle East.

Secondly, Polish-Romanian interests manifests themselves in the constant intensification of cooperation with the United States, both bilaterally within NATO. It should be kept in mind that both Poland and Romania lie on the eastern border of the European Union and are NATO flank countries. This and similar historical experiences, causes the perception of the governments of both states on various international issues, including Russia, to be consistent.

Thirdly, both countries recognize the need to strengthen their place both on the global and regional level, as well to increase European security. To this end, it is justified to further develop bilateral cooperation in the political, economic, cultural and scientific dimension, as well as in the area of defence, which may bring benefits to both countries. Intensification of contacts is done, among the others, by cooperation within such integration structures as the Three Seas Initiative or Bucharest Format (B9), referred to later in this article. The tripartite security talks that take place between Poland, Romania and Turkey also play an important role.

The second decade of the 21st century abounded in many meetings of significant importance, both for bilateral relations and for multilateral cooperation. Only in 2017 took place a number of meetings and consultations between the high representatives of both countries. For example, the President of Romania took part in the Summit of the Three Seas Initiative in July 2017, announcing that his
country will be the host of the Summit in 2018. There were also three visits by the Minister of Foreign Affairs of Romania in Warsaw and a visit of the Polish Ministry of Foreign Affairs in Bucharest. There were also numerous contacts at the ministerial level devoted to the development of cooperation in various fields, in particular science, environment and defence. The meetings confirmed common interests in foreign policies of both countries, connected with strengthening their attachment to the EU and with a tight transatlantic relationship and a strong North Atlantic Alliance. Both countries assign a crucial role to these structures in ensuring stability and security in Europe.

In February 2018, the visit of the Minister of Foreign Affairs of Poland, Jacek Czaputowicz, took place in Bucharest, where he met his Romanian counterpart Teodor Meleşcanu and was received by President Klaus Iohannis. As it was emphasized, Romania was the third country after Bulgaria and Germany visited by Czaputowicz, which confirms the importance of good relations between the two countries. The talks concerned both bilateral and multilateral cooperation issues. The will to intensify bilateral relations in terms of economic cooperation, infrastructure development and transport was confirmed, based on the mechanisms developed during the Three Seas Initiative Summit in Warsaw in July 2017. It was emphasized that Poland and Romania are similarly looking at the future of Europe and the threats to its security, including the issue of energy or migration policy. It was declared the aim to strengthen cooperation regarding work on the multiannual budget of the European Union after 2020. Both countries also agreed on the issue of EU integration of the Western Balkan states, which is the only way to ensure the security and prosperity of cooperation in this part of Europe. The cooperation of the Bucharest Format in the area of strengthening NATO’s eastern flank was also the subject of talks.

In the same month, the head of the Polish Ministry of Agriculture, Krzysztof Jurgiel, met with his Romanian counterpart, Petre Daea. The meeting confirmed that such issues as: a strong Common Agricultural Policy after 2020, the situation on agricultural markets, trade in agricultural real estate or the control of ASF virus (African swine fever) are convergent in Polish-Romanian relations. In the field of the Common Agricultural Policy after 2020, it should be considered, according to the Polish minister, an increase in the membership fee to the EU, which is connected with the exit of the United Kingdom from the EU. Both Poland and Romania believe that trade in agricultural real estate in the European Union should be the competence of nation states. Both countries are also in favour of closer cooperation on agricultural markets. With current globalization and disruptions on

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14 The visit of the Minister of Foreign Affairs of Poland took place three days after the appointment of the Social Democratic Party MEP (PSD) Viorica Dăncilă for the position of the head of the Romanian government.


agricultural markets, good monitoring and rapid intervention at EU level is needed.\footnote{A. Michałek-Tycner, \textit{Poland and Romania on ASF and Common Agricultural Policy}, Polish Radio, \url{https://www.polskieradio.pl/42/5202/Artykul/2030804,Polska-i-Rumunia-o-ASF-i-Wspolnej-Polityce-Rolnej} (05.06.2019).}

Polish-Romanian cooperation, and in particular issues related to the economy, energy policy and security were the subject of talks between Viorica Dăncilă and Mateusz Morawiecki during a meeting in Warsaw in May 2018. The heads of governments of both countries confirmed that through the Central European dimension they want to build a strong EU and strengthen mutual relations within NATO structures. The key projects include: construction of the Via Carpatia route connecting the Baltic with the Black Sea. Prime Minister Mateusz Morawiecki emphasized that Romania is one of the key partners of Poland in the field of economic and trade cooperation, as well as in the field of defence, cultural policy and broadly understood European policy. As the head of the Polish government declared, Poland supports Romania's ambitions in joining the Schengen area. It has been declared that in areas such as cohesion policy, common agricultural policy and European Union funds, Poland will try to cherish its relations with Romania and other countries as much as possible. The Nord Stream 2 project was also discussed, where both countries stressed the importance and necessity to diversify sources of gas supply. As stated, the creation of the second branch of the northern gas pipeline does not mean the construction of a common, diversified gas supply field. The head of the Polish government pointed out that both Poland and Romania would defend the interests of the Central European region with determination. He stated that the European partnership, Europe of one speed, not several speeds, is a promise of common development and agreed on this development throughout the EU.\footnote{Prime Minister Mateusz Morawiecki: \textit{We want to build a strong European Union through the Central-European dimension}. Prime Minister of the Republic of Poland Official Website, \url{https://www.premier.gov.pl/mobile/en/news/news/prime-minister-mateusz-morawiecki-we-want-to-build-a-strong-european-union-through-the.html} (10.06.2019).}

In June 2018 a visit of the President of Romania to Poland took place. It had a direct connection with the meeting of the B9, which Poland and Romania co-host. The talks between the President of Poland, Andrzej Duda, and Klaus Iohannis concerned mainly the security policy in the region and the coordination of activities before the July NATO summit in Brussels. The economic situation in Europe and work on the next financial perspective and the future EU budget were also discussed. President Duda underlined the convergence of positions of Poland and Romania in terms of maintaining at the appropriate level of the cohesion funds and financing related to the Common Agricultural Policy. The issue of cooperation within the countries of the Three Seas Initiative was also raised, noting the need to take actions for the implementation of joint initiatives in the development of road, railway and energy infrastructure in our region.\footnote{Bilateral visit of President of Romania, Mr. Klaus Iohannis, in the Republic of Poland and his participation in the High Level Meeting of the Bucharest Format (B9), on 7-8 June 2018, President of Romania, \url{https://www.presidency.ro/en/media/press-releases/bilateral-visit-of-president-of-romania-mr-klaus-iohannis-in-the-republic-of-poland-and-his-participation-in-the-high-level-meeting-of-the-bucharest-format-b9-on-7-8-june,}} The presidents’ talks also
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concerned bilateral economic cooperation. It was emphasized that last year, mutual trade volume amounted to over EUR 5.5 billion.

At the end of 2018, there was one more visit from the Polish side in Romania. Polish President Andrzej Duda and Minister of National Defense Mariusz Błaszczak met with Polish soldiers serving in the multinational NATO forces in Craiova.

An important project in the development of Polish-Romanian relations is the initiative of Poland and Romania, of bringing together 9 EU and NATO member states from the Eastern Flank - "Format 9 Bucharest" (B9). This structure includes: Romania, Estonia, Lithuania, Latvia, Slovakia, Hungary, Bulgaria, the Czech Republic and Poland. It aims at state consultations on security issues, coordination of their activities, and consolidation of the North Atlantic Alliance. According to the view expressed by the President of Poland, Andrzej Duda, B9 - is building of a sphere of security. In March and October 2017, a meeting of the General Directors for Strategic and Security Affairs and the Ministry of Foreign Affairs took place in Warsaw.

In June 2018, in turn, a meeting of B9 presidents took place in Warsaw. It was the second meeting at the highest level of this forum. The first took place in 2015 in Bucharest and ended with the signing of a declaration, which stated the aim of joining efforts to ensure, where necessary, the "strong, credible and balanced military presence" of NATO in the region.

The result of the meeting in 2018 was the adoption of a common position of NATO’s eastern flank countries within the goals of the Alliance for the coming years. The document’s provisions confirm that NATO’s eastern flank countries are unanimous in their perception of threats, as well as ways to strengthen security in the region. In accordance with the joint declaration adopted by B9 - NATO’s approach to Russia based on deterrence and defense and openness to political dialogue, it will remain the policy of these countries. NATO Summit in 2018 was expected to develop a comprehensive response to contemporary security threats, including hybrid threats faced by the Allies. In line with the position of states, ensuring a coherent and integrated approach to the defence of NATO’s eastern flank is based on an effective and region-focused Alliance command structure.

and A visit of the President of Romania to Poland, President of the Republic of Poland, https://www.prezydent.pl/aktualnosci/wydarzenia/art,1028,prezydent-rumunii-w-czwartek-z-wizyta-w-polsce.html (13.06.2019).

20 As part of strengthening the eastern flank of NATO, the allies decided at the NATO summit in 2016 to deploy multinational battle groups in the Baltic States and in Poland, as part of the so-called enhanced forward presence (eFP), and in Romania and Bulgaria, where the initiative received the name tailored forward presence (tFP). While Polish soldiers are part of the tFP forces in Romania, the eFP battalion grouped in Poland includes 120 Romanian air-raiders. Poland has allocated a contingent of about 230 soldiers from the 17th Wielkopolska Mechanized Brigade from Międzyrzeczce, armed with 14 wheeled armored personnel carriers Rosomak, grenade launchers and light mortars to the multinational brigade tFP in Romania and Bulgaria. The main task of the NEC is joint training under the auspices of the Multinational South East Division. In: A visit of the President of the Republic of Poland to Polish soldiers stationed in Romania, President of the Republic of Poland, https://www.prezydent.pl/aktualnosci/wizyty-zagraniczne/art,310,prezydent-z-wizyta-u-polskich-wojskowych-stacjonujacych-w-rumunii.html, Poland’s President Andrzej Duda pays visit to South-East Multinational Brigade in Craiova, Romanian Business News - ACTMEDIA, https://actmedia.eu/daily/poland-s-president-andrzej-duda-pays-visit-to-south-east-multinational-brigade-in-craiova/78923 (13.06.2019).
strengthening of naval forces and strong air defence and realistic support strategy. It was emphasized that increasing the readiness and capability of NATO forces to respond, and the military mobility in the territory of the Alliance, is essential in the context of deterrence and defence on the eastern flank. The leaders of the B9 states also announced further investment in their own security in order to strengthen NATO’s overall capabilities and to maintain defence spending at 2% of GDP (or approach this level accordingly). The B9’s Estonia, Romania and Poland are three (out of only five) NATO countries that currently fulfil the two per cent obligations. This shows just how serious the Eastern flank is for NATO. As Polish President A. Duda remarked, this type of activity proves to our partners that the countries of Central and Eastern Europe can take responsibility not only for their region, but also actively contribute to ensuring the security of the Western allies.

Another important meeting of B9 took place in February 2019 in Slovakia. In addition to heads of state, NATO Secretary General Jens Stoltenberg also took part. The meeting was a commemoration of the 70th anniversary of the founding of NATO, and the 15th and 20th anniversary of the accession of the B9 countries to the Alliance. Politicians talked about the security situation in the region and hybrid threats, as well as cyber security. The key importance of joint actions in ensuring regional security was underlined. The meeting, as specified, was a demonstration of the unity and solidarity of the B9 countries, as well as openness to mutual needs. Importantly, there was no disagreement between the participants when it comes to assessing the security situation and perceiving threats in the field of military security in Central and Eastern Europe. The presidents talked about the situation in Ukraine, the Black Sea, the incident in the Kerch Strait, the situation of the Baltic States and the Baltic Sea, as well as the problem of the return of Russia’s imperial ambitions, which should be reacted to appropriately. One of the postulates that emerged during the meeting was the need to strengthen the presence of the Alliance in the Black Sea region and to increase NATO’s readiness and presence in this part of Europe by increasing the number of soldiers of allied countries in the region. Regarding NATO enlargement, the President of Poland, Andrzej Duda, sharing the standpoint of other B9 states, stated that the Alliance should maintain an open-door policy, referring to the future prospects of Northern Macedonia, Georgia, Republic of Moldova or Ukraine.

This article has already mentioned another important initiative which also combined the interests of Poland and Romania in the political and economic dimension and which is called the “Three Seas Initiative”. It is a platform of

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24 The first meeting of the Initiative took place on the 29th of September 2015 in New York, while the formal First Summit of the Three Seas took place on the 25th of August 2016 in Dubrovnik. Its participants adopted a joint
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coopera\ufffdtion for the presidents of the twelve countries located between the Adriatic, Baltic and Black Seas. Its aim is to stimulate the development of their countries and strengthen the European Union’s cohesion by building strong ties and connections on the North-South line, in accordance with the conviction that the stronger Central Europe is, as part of the EU, the stronger the European Union becomes. Countries within the framework of the Three Seas initiative undertake activities aimed at strengthening cooperation and developing transport and energy infrastructures, digital communication on the North-South line, by supporting cross-border and macro-regional projects of strategic importance for the countries in the region. The members of the Three Seas Initiative are: Austria, Bulgaria, Croatia, the Czech Republic, Estonia, Lithuania, Latvia, Poland, Romania, Slovakia, Slovenia and Hungary. Through the political patronage of heads of states, the initiative supports the cooperation and synergy of already existing regional models of cooperation in the EU, especially the Visegrad Plus Group (V4 +) implemented in an extended format, in which – depending on the subject – the countries of the region already cooperate.

The most important projects being implemented and initiated include: the Baltic-Adriatic Transport Corridor, the Via Carpatia and Via Baltica roads, the Rail Baltic and Amber Rail Freight Corridor rail connections, local government initiatives such as the Central European Transport Corridor as well as the North-South Gas Corridor\(^25\). However, the Tri-Sea summit in 2017 showed some divergent interests regarding the vision on energy policy of member states. At the summit in Warsaw, US President Donald Trump was present, promoting liquefied gas from the USA, which may be an alternative to Gazprom’s supplies. Meanwhile, just before the Summit, Minister of Foreign Affairs and Trade of Hungary, Peter Szijjarto signed with the head of Russian Gazprom Alexey Miller an agreement on a new gas supply route to Hungary. The minister explained that for Hungary the most realistic scenario for connecting to the southern gas supply route is cooperation with Gazprom, which began the construction of a gas pipeline project running from Russia to Turkey along the bottom of the Black Sea. “The issue of energy supply has taken a geopolitical dimension with the expiration of the transit agreement between Russia and Ukraine at the end of the year and the absence of a new deal,” the minister said. As he also added: “So the situation may arise that Russia will stop delivering gas to Europe via Ukraine. This is what we have to prepare for because we always have to prepare for the worst-case scenario when we’re planning the country’s energy supplies”. Szijjarto argued also that Romania still had not allowed bilateral gas transport, and in Croatia there was still no liquefied gas terminal on the island of Krk\(^26\).

declaration – they agreed that cooperation in the Adriatic-Baltic-Black Sea area, both within the EU and in the wider transatlantic space, must be revived, „but without creating parallel structures to existing cooperation mechanisms”.

\(^25\) In total, in the Croatian project prepared by experts from the private sector Project Catalog, there are 157 infrastructure projects concerning mainly energy, transport and telecommunications in the Three Seas region. The Summit of the Three Seas Initiative, President of the Republic of Poland, https://www.prezydent.pl/aktualnosci/wydarzenia/art,653,inicjatywa-trojmorza--three-seas-initiative.html (15.06.2019).

The main topics discussed at the third Three Seas Summit, which was held in Romania in 2018, were transport, energy and digital issues\(^{27}\). The US Secretary of State for Energy, Rick Perry, who was present at the summit, said: “we know that energy security is basically tantamount to national security, and transatlantic energy security is fundamental to the national security of all of our nations”. The energy should never be used as a means of political coercion – he added. He also assured the countries of Central and Eastern Europe that they can count on the United States as a stable and reliable energy partner\(^{28}\). The growing presence of interest and the rank of the initiative was evidenced by the presence of Jean-Claude Juncker, the head of the European Commission, as well as representatives of the USA and Germany. At the summit, key documents were signed to further develop this initiative: letter of intent regarding the establishment of the Three Seas Fund, declaration of the establishment of a network of chambers of commerce and industry of the TSI countries and the establishment of the Tricity Business Council. Although, as Prime Minister Mateusz Morawiecki pointed out in May 2018, the Three Seas Initiative is not “against anyone”, but is for strengthening the EU and this part of Europe, Hungary was absent at the Bucharest summit. Hungary, as the only Tri-Sea country, did not decide to join the Trinitarian Fund\(^{29}\).

In June 2019, the fourth Summit of the Three Seas Initiative took place in Slovenia. At this year’s meeting, apart from representatives of 12 countries, also the head of the European Commission Jean-Claude Juncker and German President Frank-Walter Steinmeier participated\(^{30}\). The President of Slovenia Borut Pahor encouraged the European Commission to include the Three Seas Initiative in the process of policy creation. The leaders stressed that the tool that will boost cooperation within the framework of the Three Seas Initiative is also the so-called progress report – periodically published document showing the degree of implementation of projects from the so-called short list of priority projects. This way would involve in the Three Seas Initiative projects – along with European institutions and national governments – also private entities are to be organized regularly the Tri-regional Initiative Business Forums. This year the forum was held for the second time on the occasion of the Brda summit. US Energy Secretary Rick Perry also participated. The President of the Republic of Poland Andrzej Duda said

\(^{28}\) The American Secretary also announced the launch of a new initiative called Partnership for Transatlantic Energy Cooperation. He assured that by working with the countries of the region and in close cooperation with the European Commission, it will be accelerated investment in infrastructure critical to the North-South energy corridor. The most important projects are: completion of the trans-Adriatic gas pipeline, LNG Krk terminal, interconnections between Greece and Bulgaria, interconnection between Bulgaria-Romania and Hungary, as well as many oil and gas projects at sea. As stated, these are important projects, and the Tri-Sea countries have too much potential to limit themselves to pipeline policies. He also added that the plans for the nuclear power program in Poland, the resumption of a competitive tender in Temelin in the Czech Republic, are important guidelines for the revival of nuclear energy in Europe. *U.S. Secretary of Energy Rick Perry at the Three Seas Initiative Business Forum*, U.S. Embassy in Romania, https://ro.usembassy.gov/secr.../ (17.06.2019).
\(^{29}\) According to Hungarian Prime Minister Viktor Orbán, his country needs a partner that he can count on. In addition, the Hungarians want to become a bridge between the European Union, NATO and Russia.
\(^{30}\) *Three Seas Summit*, https://www.three.si/ (29.06.2019).
that this year summit showed that cooperation within the framework of the Three Seas Initiative "has evolved considerably". He stressed that its aim is to create a "cooperation effect" in Central Europe, that is, coordinating efforts, among others, for infrastructure projects. Romanian President Klaus Iohannis pointed out that the Three Seas Initiative contributes to the strengthening of transatlantic ties. As he noted, the presence of US is a real catalyst for strengthening cooperation, it has a strategic value, and it is an essential component of the transatlantic partnership. The Three Seas Initiative Fund was also established – the only institutionalized form of cooperation under this initiative, which is to finance joint projects.

It should be noted that the activity of Poland and Romania in these two initiatives - B9 and the Three Seas Initiative, increases the security of the EU's and NATO's eastern borders. Both countries support part of NATO's missile defence system and NATO's international battalions. Both countries also have strategic interests in their neighbourhood in the east. It is also worth emphasizing that in both these initiatives, Bucharest and Warsaw have closely cooperated with each other from the beginning.

Another forum of multilateral cooperation between the two countries is the regular trilateral consultations held since 2016 - Romania - Poland - Turkey. In August 2017, talks at the level of Foreign Ministers took place in Warsaw. The next meetings took place in 2018 in Bucharest and in 2019 in Ankara. These states are interested, among others, in strengthening NATO's presence in the Black Sea region. It would also be beneficial to strengthen military cooperation through the presence of Turkish soldiers on the eastern flank of NATO. Although Turkey was not a proponent of this type of activity earlier, the position of Ankara is changing due to the annexation of Crimea by Russia and the imbalance of power between these countries. The geopolitical location of Poland and Romania, as well as the historical experience of these countries, make them predisposed to promote Euro-Atlantic values in the neighbouring regions. All the more so, because in the national interest of both Poland and Romania, there is already mentioned the desire to strengthen the position of both countries and play an important role in the regional and international dimension in strengthening democracy and security.

A manifestation of the tightening bilateral relations between the two countries is, among other things, the launch in March 2019 of the first Polish honorary consulate in Romania, in the city of Brașov. One of the aims of the consulate will be to help in establishing business contacts between companies from

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32 Jean-Claude Juncker pointed out that in 2004-2020, 60 billion euros were invested from the Structural Funds in the region of the Tri-Sea Initiative. Juncker's plan has generated an additional EUR 42 billion for the 12 countries participating in this initiative. “I am convinced that we have done and will continue to do everything we can to support better cohesion and a better network of connections in this region also in subsequent years” - he said. As he added, in the Commission’s proposal on the EU budget for 2021-2027, “we want to pay 42.3 billion euros for a better network of connections, especially in this region.”

Poland and Romania. As emphasized by the Honorary Consul Janusz Szaliński, he would like to bring more businesses from Poland to Romania34.

**Polish-Romanian relations during the Romanian Presidency of the Council of the EU**

In January 2019, the Polish Minister of Foreign Affairs Jacek Czaputowicz visited Romania. The head of Polish diplomacy was the first foreign guest of his Romanian counterpart, Teodor Meleşcanu, in the year of the Presidency of Romania at EU Council. As Czaputowicz said, his visit to Bucharest was a proof of the will to develop very good bilateral relations and cooperation within the most important multilateral structures – the EU and NATO.

Ministers discussed, among the others, energy policy, the Multiannual Financial Framework, cohesion policy and migration policy. The convergence of views on many issues was emphasized. The urgent need to revise the Gas Directive was pointed out. The head of the Polish Foreign Ministry expressed his conviction that it is crucial for the finalization of the Energy Union project. He referred in this context to the subject of the Nord Stream 2 gas pipeline, stressing that this project has a negative impact on the EU gas market and destroys EU solidarity. The issue of the need to provide support to the countries of the Western Balkans in the process of EU integration was also discussed35.

Both countries pay special attention to bilateral relations and cooperation in the area of security policy, including within NATO and in various regional formats (especially B9 and the Poland-Romania-Turkey triangle). The issues of the growing Polish-Romanian economic cooperation and the possibilities of its development as well as the directions of economic, infrastructure, transport and cyberspace cooperation within the framework of the Three Seas Initiative were discussed.

The head of Polish diplomacy also met with the Prime Minister of Romania Viorica Dăncilă. She expressed her conviction that good cooperation will help both countries to face challenges such as Brexit and the future of Europe after the exit of United Kingdom from EU structures, or migration36.

In January 2019, the first ever Romanian presidency of the Council of the European Union began, lasting six months – until the end of June. The Romanian presidency was carried out under the slogan: cohesion is a common European value, defined as unity, equal treatment and convergence. The Presidency program focused on values such as: Europe of Convergence, Security Europe, Europe as a Strong Global Actor and Europe of Shared Values37.

In connection with the takeover by Romania of the presidency of the EU Council, Poland had its expectations. They were mainly related to the fact that Romania was responsible for conducting negotiations on the new EU budget after 2020. One of the important events that was to take place during the Romanian Presidency was also Brexit, but the UK’s exit from the EU was postponed until later 2019. Poland expressed hope that Romania would accelerate the work on the amendment of the gas directive, which is supposed to hinder the creation of Nord Stream 2. Romania, together with 13 other Member States, including Poland, takes the view that Nord Stream 2 is harmful to the Union.

The European Commission expressed some concerns about the efficiency of the Romanian presidency due to existing social and political divisions. The concerns were connected to a dispute between the President of Romania, Klaus Iohannis and the ruling coalition composed of the Social Democratic Party (PSD) and the Alliance of Liberals and Democrats (ALDE). The concerns expressed by the President of the European Commission also concerned threats to the rule of law and the independence of the judiciary in Romania, as well as insufficient fight against corruption. The position expressed by the President of the European Commission, Jean Claude Juncker, was badly received in Bucharest. The Prime Minister of Romania, Viorica Dăncilă, rejected his criticism in Brussels in November 2018, assuring that compliance with the rule of law is ensured in Romania, and that the country understands what the Presidency is well prepared for it. The statement of the President of the Commission was also negatively received by some other European countries.

The president of Romania himself, just before the country took over the presidency in the EU, emphasized that although the democracy lesson is one of the most important things that Bucharest has learned, democracy is not something given forever and requires constant work for its protection and promotion. Iohannis warned that enacting a reform of the justice system, which the ruling majority demanded, could lead to the application of article 7 against Romania, as it was the case with Poland. It seems that regardless of the divisions and differences of opinion appearing on the Romanian political scene, what connects both Romanian and Polish politicians – and which also coincides with the opinion of the President of the European Commission, Jean-Claude Juncker – is opposition to strengthening the formula of Europe of two or more speeds. The indivisibility of the Union is for all of these parties one of the key values of the European project.38

From the beginning of the Presidency, the acceleration of work on amending the EU gas directive was visible. Romania has submitted amendments – a compromise proposal to the draft amendment to the EU directive. The second amendment, after being amended by the German-French amendments, was adopted on the 8th of February, at the meeting of the EU Council Permanent Representatives Committee (COREPER), as the Council’s common position on the amendment, and on the 20th of February COREPER accepted determined a week

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earlier, within Trilogue,\textsuperscript{39} with the European Parliament compromise version of the amendment to the gas directive, which comes into force before the completion of Nord Stream 2. Agreement on the directive became possible, among the others, thanks to the change of position from Germany, which for a long time opposed the application of EU legal rules to the Russian project\textsuperscript{40}.

The adopted version of the amendment is the result of an intra-EU compromise and is more lenient than the original proposal of the European Commission. At the same time, it is the first document clearly confirming the jurisdiction of the European Union in the case of Nord Stream 2 – the application of the EU law to a part of the gas pipeline running in German territorial waters. This means that all gas pipelines, including those imported, and parts of the sea within the Community, will be covered by the EU energy package\textsuperscript{41}. Earlier, it was not possible to submit such amendments because both Austria and Bulgaria, holding the Presidency before Romania, blocked any changes to the Directive. Although, as the Minister of Energy of Russia Aleksandr Nowak said, the amendments to the EU gas directive will not pose a threat to the further construction of the gas pipeline, the application of particular provisions of the third package will complicate and most likely delay its implementation and application. In addition, exemptions from the application of EU law to existing (Article 49) or new (Article 36) gas infrastructure may only be granted if they do not have a negative impact on competition, the functioning of markets or security of supply to the EU. In the case of Nord Stream 2 it would include markets of Central European countries\textsuperscript{42}.

The implementation will be crucial for the effectiveness of the directive and its provisions. There are still a lot of issues to be determined and clarified, e.g.: clearly defining the procedure for determining the legal regime of the entire gas pipeline, defining the moment of completion of a given investment – whether it will be the moment of its construction, commencement of gas transport or filling up with raw material, which countries in the case of individual gas pipelines will be considered as the one for which the investment has an impact – and therefore with

\textsuperscript{39} On the 12\textsuperscript{th} of February, a Trilogue took place in Strasbourg, representing the ITRE Committee and the Romanian Presidency in the presence of representatives of the European Commission representing the European Parliament - the final version of the amendments to the Directive.


\textsuperscript{41} The legal regime of the entire gas pipeline - including parts from the end of German territorial waters to the border with Russia - will require a separate clarification guaranteeing the application of EU law within the limits set out in the Directive and German consultations with the Russian side, and possibly also negotiating and signing an intergovernmental agreement (IGA) EU-Russia on this subject.

\textsuperscript{42} In addition, the final version of the directive provides a role for other Member States where the gas market will be affected by the investment. A record was made, e.g. of requirement to carry out (non-binding) consultations with them by the state in which the first connection of a given infrastructure to the EU network is made before making the switch-off decisions. At the request of these Member States, the European Commission will also be able to become an observer of bilateral consultations with a third country (in the case of Nord Stream 2, German-Russian) on the rules for implementing the provisions of the Directive. See: A. Łaskot-Strachota, The gas...; W. Jakóbik, The Romanian relief...
which countries it will be necessary to consult. It will also be important to determine how the impact of Nord Stream 2 will be tested against competition in individual EU markets. However, the decisions already taken, in connection with the adoption of amendments on the initiative of Romania, are an important step on the road to sanctioning the most sensitive issues from the point of view of the energy security.

During the Romanian presidency, the 15th anniversary of Poland's accession to the EU took place. On this occasion, the Polish Prime Minister, Mateusz Morawiecki, organized the High Level Summit "Together for Europe" in Warsaw on the 1st of May with the participation of countries that joined the EU in 2004 and in subsequent years. The participants adopted a joint declaration on the future of the EU. The declaration included the role of the common market, the budget for the next financial perspective, as well as the issues of internal and external EU security, the Eastern Partnership, further EU enlargement, among the others for the countries of the Western Balkans and climate threats43.

As the Prime Minister emphasized, this declaration shows the coherence of all signatories. The discussion between leaders of the countries were concerned with the new institutional cycle after the European elections, the Brexit issue and the ongoing negotiations on the multiannual EU budget. During a joint conference with Romanian Prime Minister Viorica Dăncilă, the head of the Polish government assessed that the countries of Central Europe are the engine of economic growth for the entire EU. He also stressed the differences in problems and challenges in different parts of Europe.

Romanian Prime Minister Viorica Dăncilă described the Joint Declaration signed in Warsaw as an important pillar in building the future of the European Union. As she said, for Romania, becoming a member of the EU constituted a period of development, modernization, economic growth and a visible improvement of citizens' quality of life. Currently, as the Prime Minister is convinced, Romania is one of the most active promoters of continuing consolidation of the European integration process. At the same time, she stressed that the EU needs a budget, "which is sustainable and robust, which will promote continued convergence as well as a unity of actions and that will respond to new challenges and objectives at European level"44.

Connected with the Romanian Presidency, on the 9th of May in 2019, on Europe's Day, an informal meeting of the Heads of State and Government of the European Union was organized in Sibiu. At the summit, the leaders adopted a joint declaration for the next 5 years on the future of the European Union, which is to be a "commitment to future generations", where Europe is to be a "responsible and global leader". As EU leaders pointed out, a united Union has more power in an increasingly restless and challenging world. The Declaration included 10 commitments to help meet the challenges facing the EU. These include readiness to

defend one Europe – from east to west, from north to south. It was also pointed out that there is no place in the EU for divisions that undermine the common interest. The leaders announced in the declaration that the principle of justice will always be observed in the Union, be it in the labor market, in social care, in the economy or in digital transformation. The readiness to further reduce the disproportions between member states and to help the neediest in Europe has been declared, putting people ahead of politics. “We will give ourselves the means to match our ambitions. We will provide the Union with the means necessary to attain its objectives and carry through its policies.” - it was emphasized in the declaration.

Leaders announced that they would protect EU citizens and ensure their security, "investing in soft and hard power" and "cooperating with international partners". The announcement of cooperation with partners around the world also appears in the context of maintaining and developing international law-based order, to take full advantage of new trade opportunities and collectively address global issues such as environmental protection and combating climate change. The document also referred to elections to the European Parliament, which took place on the 28th of May, 2019. The document ends with the words: "This is a spirit of Sibiu and of a new Union of 27, ready to face its future as one."

As assessed by dr. Mirosław Bieszki from the Conference of Financial Enterprises, the summit in Sibiu was "vague", and in 10 points of the final declaration there were no "specific and outlining the future of the Union" manifestations. As he said, these issues can be more precisely defined only after the European Parliament elections.

From the point of view of Poland’s interests, the most important issues were: adequate principles of external border protection policy, so that the refugee and migration crisis would not threaten European cohesion any more, as it did in 2016; strengthening the common market and combating economic protectionism – ensuring the freedom to provide services, transmission and economic policy, and the expansion of the Schengen area in the context of the freedom of movement of both people and the transport of goods. The structural funds of the EU are also important for both – Poland and Romania. Poland and Romania would like the funds, especially those for agricultural policy, not to decrease in the future EU financial framework. However, the Polish party expressed the conviction that a coherent policy on this issue of 13 EU countries that share Poland’s position and

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which recently signed the Warsaw Declaration, guarantees that the budget will be the best for the countries of our region ⁴⁹.

As Prime Minister of Poland, Mateusz Morawiecki said before the meeting, one of the important topics of the summit would be the issue of combating inequalities between EU countries and within these countries. The Polish Head of the Council of Ministers also stressed the need to increase funds for innovation and security, both in anti-terrorism and online. It was also emphasized that European security should be absolutely consistent with NATO, which is “our leading, major defence alliance”⁵⁰.

The summit in Sibiu had a symbolic dimension. It took place 15 years after the largest EU enlargement to the east, in a country that 30 years ago was still on the other side of the Iron Curtain. This summit is to be the beginning of the road to the creation of a new EU strategy until 2024. The adoption of the declaration did not end the EU summit. The leaders furthermore discussed the outline of the EU strategy until 2024.

Final conclusions

As the Prime Minister of Poland, Mateusz Morawiecki, said at a meeting with the Prime Minister of Romania in May, 2018: "Romania is one of the absolutely key partners for Poland, both in the field of economic and commercial cooperation, but also in the field of defence, cultural policy and broadly understood European policy"⁵¹. In diplomacy, the declarative sphere is often more extensive than the reality. In Polish-Romanian relations it is different. This does not mean, however, that in the relations between our countries the potential of bilateral cooperation is fully exploited, and that there are no issues that need to be developed or supplemented.

In the current period of the 21st century, relations between Poland and Romania are developing very well and, most importantly, based on the existence of many common interests, increasingly ambitious cooperation projects are being undertaken, such as the Three Seas Initiative, cooperation in the B9, or a tripartite dialogue Poland-Romania-Turkey. Cooperation within them has not only a positive impact on the bilateral relations, but allows raising regional issues in the EU to a higher level. Therefore, it is important to continue to strengthen cooperation under multilateral initiatives, which allows us not only to show the potential of Central European countries and the effective implementation of our interests, but also enriches the development of the entire EU.

For Poland and Romania, cooperation with the US as well as with the EU are the key two pillars of security, including energy security, as well as the pillars of economic development and investment growth. In turn, the eastern flank of NATO is an area of major importance for strengthening European and transatlantic security in the near future. The most important areas of multi-layered Polish-

⁴⁹ The EU summit in Romania. Prime Minister Morawiecki: We are at the moment when we will develop a new strategy for Europe. In the politics, https://wpolityce.pl/polityka/445882-unijny-szczyt-w-rumunii-zdjecia (20.06.2019).
⁵⁰ Ibidem.
⁵¹ Prime Minister Mateusz Morawiecki: We want to build a strong European Union...
Romanian cooperation at the end of the second decade of the 21st century also include: strengthening the position within EU structures, especially in the field of budgetary policy and common EU agricultural policy, cohesion policy and energy security, cooperation for addressing such EU challenges as Brexit, the issue of accepting refugees from the Middle East and North Africa, and the question of leadership in the EU. The aim of our policies is also to act effectively in relation to a Europe with many speeds, so that the interests and needs of Central European countries are not pushed to the margin of the EU. Cooperation in the fields of economy, digitization, defence, investment, infrastructure and rural development is also important.

The accession of Bucharest to the Schengen area would have a positive impact on the intensification of relations with Poland. For this to happen, a country applying for Schengen must demonstrate that it is able to effectively defend the external borders of the community and cooperate with other countries in ensuring internal security. Poles have used free borders since 2007. Currently, there are more and more prospects for Schengen accession of Bulgaria and Romania. European parliamentarians argue that both countries have met the conditions to join Schengen in 2011 and already share some of the responsibilities associated with belonging to this zone. Despite this, residents can not enjoy the resulting benefits. For a country to join Schengen the unanimous consent of all Member States is required, which in this case is lacking. Accession of both Romania and Bulgaria to Schengen area would be extremely desirable, especially as, according to a report prepared by one of the European Parliament’s committees, border controls between Bulgaria and Romania and other European Union countries, hinder the development of trade and lead to economic losses52.

Speaking with one voice, the countries of Central and Eastern Europe, especially Poland and Romania, which derive their interests from common historical experience and which similarly perceive both threats to European security and challenges related to the future of Europe, are able to take better care of their interests in the EU and in the global arena, rather than acting alone. An example of such a joint action is, let us say, the Romanian initiative on amendments to the EU Nord Stream Directive, or joint efforts to secure a favourable EU financial framework. In turn, the most important added value of such forms of cooperation as the Tri-Sea Initiative is to provide political support at the highest level for investments that have so far remained a neglected field in the cooperation of the Central European countries. The Tricity is therefore pro-European and complementary to existing regional cooperation formats. Poland and Romania may have an important role to play in Western European structures as a catalyst for cooperation and promoter of the convergent interests of states in the region of Central and Eastern Europe.

52 EP: Romania and Bulgaria should join the Schengen area. “They met the conditions”. Polish Radio, https://translate.google.pl/#view=home&op=translate&sl=pl&tl=en&text=PE%3A%20Rumunia%20%20Bulgaria%20powinny%20do%C5%82%C4%85zy%C4%87%20do%20strefy%20Schengen.%20%E2%80%9CPrzynios%C5%82ni%C5%82%C4%85zy%C4%87%20do%20strefy%20Schengen.%20%E2%80%9D. (01.07.2019).
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The EU Member States and the Crisis in Ukraine: Towards an Eclectic Explanation

André Härtel

Abstract: The decision of the European Union (EU) to adopt and extend far-reaching sanctions against the Russian Federation came as surprise to many critics of the Common Foreign and Security Policy (CFSP). Especially in light of the history of EU-Russian relations and the deep divisions between member states when it comes to Russia-policy the Ukraine Crisis has become a turning point. This article tries to trace the roots of the EU’s response to the crisis by looking at the level of the member states. In analysing three «most unlikely» cases (Germany, Italy, Austria) one-dimensional IR explanations are rejected. One needs to look for an eclectic approach instead. I argue here that Germany's surprising leadership role during the crisis can be understood by personal, learning-based and normative factors. Italy and Austria did not change national Russia-policy and their «critical consent» to EU-sanctions is based on a yet firm but increasingly more fragile commitment to the European project and order. Based on the findings the article concludes with a sceptical note on both the sustainability of the EU’s current Russia-policy and European foreign policy development as such.

Keywords: EU, Germany, Italy, Austria, EU-Russia relations, foreign policy, sanctions, intergovernmentalism, Ukraine

Introduction

The so-called Ukraine Crisis and especially the annexation of Crimea in March 2014 and the Russian intervention in parts of Ukraine's Donbas of the same year represent the hitherto biggest crisis in European foreign policy since at least the war in Kosovo.

Contrary to other crisis situations, the EU has come up with a unified and as of yet sustainable position based on a sanctions regime towards Russia. This departure from earlier behaviour is all the more puzzling because of two facts: First, European foreign policy still represents a sort of conglomerate of different actors’

1 André Härtel is Associate Professor for German and European Studies at the National University of Kyiv-Mohyla Academy (Ukraine). E-mail: andre.haertel@gmail.com.
2 The debate about terminology is as old as the conflict itself. The formulation «Ukraine Crisis» (see f.e. Wilson 2014) has been predominantly used in Western discourses from 2014 onwards (with the EU now using «conflict in and around Ukraine») although it is rightly criticized for creating the wrong impression that the conflict is mostly homegrown («civil war») and that the events unfolding inside Ukraine from late 2013 onwards caused everything that followed. The author prefers the formula «Ukraine-Russia conflicts», but decided here to follow the scholarly mainstream for comparability reasons.
foreign policies and is as of today heavily intergovernmentalized as an EU policy area. Second, EU-Russian relations have traditionally been very divisive for the EU because of diverging and in some cases diametrically opposed member state interests, different historical and cultural ties, and consequently also policies (Leonard and Popescu 2007). Therefore, the central question analysed here is: Why and how did EU member states in the case of the Ukraine Crisis find to a unified and as of now sustainable policy?

Challenging existing research, I will argue here that explanations looking at the EU from a unitary perspective and highlighting either interest-based or normative aspects are not convincing. Instead I will argue that the EU’s surprisingly coherent policy in the Ukraine Crisis can be understood best by analysing the policies of those member states which we would traditionally have expected to counter any anti-Russian measures. Therefore the EU’s position is the result mainly of policy change in the most important Russia-friendly EU-state (Germany) and the «critical consent» of smaller Russia-friendly states (such as Italy and Austria). Only such an intergovernmental perspective allows us to assess both the eclectic nature of foreign policy-making during the Ukraine Crisis and the degree of fragility inherent in the EU’s current policy consensus on Russia and Ukraine.

The article stands at the crossroads of several debates in the field: First, it contributes to ongoing discussions on the maturity and «actorness» of European Foreign policy in light of new geopolitical circumstances. Second, the article takes clear side in the debate on the dynamically evolving structure of EU foreign policy-making, in which the level of the individual member states and their national foreign policies is assumed to be still paramount for any analysis. It tries to add to current research analysing the relationship between national and supranational foreign policy-making. Third, a regional or policy-specific perspective is obvious. The article contributes to an understanding of the EU’s policy-making and crisis management on the intersection of both EU-Russia relations and the European Neighbourhood Policy (ENP).

The article is divided into three sub-sections. The first one will briefly discuss the role of EU member states in the Common Foreign and Security Policy (CFSP) in general and in EU-Russian relations more specifically. In a next step existing explanations for the EU’s behaviour in the Ukraine Crisis will be critically evaluated. In the third and central section an alternative eclectic explanation will be outlined using a «most unlikely»-methodology by analysing the cases of Germany, Italy and Austria.

The EU Member States and the European Foreign Policy Conglomerate

The nature of EU foreign policy is one of the most interesting debates in IR and will remain so for the foreseeable future (f.e. Aggestam 2016; Bialasiewicz 2016; Delreux 2016). On the one hand most observers remain critical of the EU’s capacity to act as an autonomous actor beyond external trade relations and especially in the security field. The mainstream of the discipline would, on the other, now object to Henry Kissinger’s famous «telephone-number»-critique. The EU is active with missions in many world regions and has developed an impressive range of international policies in fields such as climate policies, development or human rights. It is also increasingly perceived as an actor in its own right by other major powers (Giegerich 2010, p. 454). Russia’s harsh reaction to the EU’s offer of an Association
Agreement to Ukraine in 2013 has been only one example for the attention others increasingly have to pay to the EU as a foreign policy actor over the last years.

However, when it comes to decision-making a standard volume’s characterization of the EU’s foreign policy as «multilevel», emphasizing that there is no necessary zero sum-game between the level of the EU’s supranational institution’s and those of its member state’s foreign policies, sounds still a bit euphemistic (Keukeleire and Delreux 2014, p. 17). Even the Treaty of Lisbon, which aimed at making the Union a more «coherent and effective actor» in the foreign policy domain, does not in any significant way change the «Grundnorm» of CFSP. All member states are still equal and decisions have to be taken in unanimous fashion (Ibid.). Among EU specialists foreign policy is therefore consequentially subsumed under the policy-mode of «intensive transgovernmentalism» (Wallace and Reh 2010, p. 109), meaning it represents one of those EU policy areas where the Council (meaning the member states) sets the active direction and dominates clearly over a marginal Commission and Parliament.

In practice this has understandably led to a procedurally complex area of EU politics where the member states are clearly predominant, and consensus-searching coordination is paramount. Empirically we can observe that as in other areas of formal unanimity, effective policy-making needs strong coalitions including at least two of the so called «big three», i.e. Germany, France, and Great Britain (Keukeleire and Delreux 2014, p. 134). In crisis situations smaller informal groupings, such as headed by France during the Russian-Georgian War and Germany in the Ukraine Crisis, take the lead with others silently agreeing and often being even happy to delegate policy-making (Seibel 2015). There is also ample reason to speak about a Europeanization of national foreign policies during the last years and therefore a basis for improved cooperation (Wong and Hill 2011). Yet, a possible veto is always looming in the background and therefore determines policy.

Especially in terms of its relationship towards Russia, the EU – due to the member states’ diverging interests on the matter – is famous for its inexplicit policy designs and lack of strategy (Forsberg & Haukkala 2016, p. 228). The influence of EU internal rifts has been most obvious in crisis situations of EU-Russian affairs. During the Second Chechen War from January to June 2000 the EU could only agree on «limited» and mostly symbolic sanctions in the form of a reshuffling of TACIS funding and the suspension of a new science and technology cooperation agreement. In 2008, during the Russian-Georgian War, and especially after the subsequent Russian recognition of Abkhazia and South Ossetia, the EU could converge only on the freezing of negotiations on a follow-up to the Partnership and Cooperation Agreement but not on any sanctions (Ibid., p. 129/162).

**Paradigmatic Explanations of EU State Behaviour in the Ukraine Crisis**

How have scholars so far explained the behaviour of the EU and its member states during the Ukraine Crisis? The existing approaches can be roughly categorized using the central IR-theoretical dichotomy between the «logics» of «consequentialism» and «appropriateness».

**The logic of «consequentialism»**

In the «logic of consequentialism» realists and neo-realists occupy a predominant position. Scholars using this framework explain the EU’s reaction and
the emerging, surprising consensus among the member states on a relatively tough sanctions regime with the «shock» caused by the annexation of Crimea and the Russian intervention in Donbas. Russia, according to this logic, was finally recognised as a revisionist power willing to change Europe's post-Cold War order by force – even by formerly friendly EU governments (Auer 2015; Rynning 2015). However, the degree to which Russia was seen as a genuine security threat immediately after its outbreak and during the Ukraine crisis in reality varied considerably. Whereas some (but notably not all) states geographically exposed and with ample historical experience of Russian imperialism such as Poland and the Baltic states were willing to put security first and pushed the issue on NATO's and the EU's foreign policy agenda (Zajaczkowski 2017; Vilson 2017), other and especially older EU states were much more hesitant at first (with the exceptions of the United Kingdom and Sweden) and arguably did not feel very much threatened directly by Moscow (Sjursen 2017, p. 26).

From a neo-liberal perspective the EU’s reaction seems odd or irrational at first – a reason why scholars use it mostly to explain the somewhat «softer» reaction of Brussels to events in Ukraine in comparison to that of Washington (Serhan 2017). Central here is the relatively strong dependence of many EU member states on Russian energy commodities, amounting to almost 100% for some, and the high degree of interdependence between the Russian and many European economies. Indeed the neo-liberal approach does not go easily together also with the often prescribed «primacy of economics» in EU foreign policy and with the more general trend of an «economization» of many member state’s foreign policies. On the other hand, some scholars have shown that the Ukraine Crisis, contrary to expectations, has not only shown that the vulnerability of EU energy interests vis-à-vis Moscow has been somewhat overstated (the Russians need to sell too and have so far not included energy deliveries in counter-sanctions) but that it has also given new momentum to debates and policy frameworks aimed at more energy autonomy and effectiveness such as the Energy Union (NYT 2014; Treffer 2015). Furthermore, the temporary success of EU-facilitated schemes to make Ukraine more autonomous from Russian gas deliveries (via redirection of capacities from Slovakia) seems to have convinced EU policy-makers that even the regional (geo-)economic fallout from the crisis can be managed.

Part of the explanation why the EU and its member states were able to manage the economic consequences of the crisis and therefore prioritize the (geo-)political dimension is institutional in nature. It is argued here that other than for example during the Russian-Georgian war EU institutions were not as easily brushed aside this time and played an important role in the coordination and management of sanctions-vulnerabilities via general equal distribution of risks, compensation schemes for farmers, stress test gas supply disruptions and intelligence provision. That, together with the pivotal German contribution to keep everyone informed about the high-level coordination of the response, in turn created the necessary trust and expectancy security for smaller or doubtful member states to come along (Natorski & Pomorska 2017).

The logic of appropriateness
The so far dominant explanation for the EU’s response however fits a constructivist framework and hints at the influence of a shared normative script and the direct challenge Russian policies in Ukraine posed to it. Helene Sjursen for
example speaks about a moment of «normative convergence» of EU governments on principles such as sovereignty, self-determination and human rights of Ukrainians preparing the ground for a coherent and firm EU reaction to the crisis. This normative script, says Sjursen, convinced even sanctions-critical states such as Austria or Hungary that there was no alternative to the proposed policy line. Furthermore, it is hinted here at certain dynamics in the gradual development of a European foreign policy identity in which compliance with international law and a prior coordination on the level of the EU's institutions (before the national level) is allegedly already part of many national decision makers' cultural script (Sjursen 2017).

A second, complementary constructivist explanation is more centred on the reflexive impact and the nature of Russian domestic and foreign policy. Here it is argued that the events of 2014 and the subsequent actions of both sides represent only the climax of a longer process of alienation between the EU and Russia – a «reinforced normative contest». The Ukraine Crisis, it is argued, has led to a sharpening and perceived irreconcilability between two types of orders: here the EU with its self-image of a «civil power» seeing itself more and more in a fight against the apologetics of illiberal democracy inside and outside its borders, there a Russia which tries to project its domestic vision of a Russian-ethnicity centred authoritarianism («Russkij mir») abroad. Especially Russian foreign policy, building on a strategic vision of a pluralistic international order, for whose implementation the use of force has become a legitimate instrument, nowadays presents the starkest normative contrast to the EU's values (Kurowska 2014). From this perspective, Russia under Putin has developed into an anti-thesis to «civil power Europe» creating a negative spiral between both actors.

Yet, the normative script comes with two severe fallacies. First, it does ignore the sheer size of the EU and the many different perspectives and also normative scripts especially in regard to Russia. In a situation where, at least theoretically, any smaller member state might bring the sanctions regime to the brink, it is far from enough to look upon convictions and beliefs in a superficial or across-the-board manner. Additionally, a concentration on the year 2014 and the aftermath of the «shocks» of annexation, the downing of MH17 or Russian intervention might be misleading. As the conflict in Ukraine goes on it also normalizes, which might lead to a reversion of earlier observable normative trends. Second, the above mentioned positions do negate the existence of normative contests inside many EU member states. Here, we can observe a clear overlap between positions on the crisis (or Russian imperialism and authoritarianism more specifically) and a larger cultural contest between globalized liberal groups and nationalist globalization sceptics (Shekhovtsov 2018). In some EU member states, such as in Austria, this contest and with it a clear normative ambiguousness on EU-Russia policy has arrived on the level of government already (see below). Furthermore, there seems to be considerable debate about norms in regard to the conflict even inside the Western and European political mainstream, where a faction adhering unambiguously to international norms clashes with a position convinced of a «norm» demanding «respect» for traditional Russian great power interests and zones of influence. The latter position is exemplified by the renewed debate about Russia's alleged

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3 I owe this insight to Rafael Biermann of Friedrich-Schiller University Jena and the discussions at the Workshop «Legal Norms, Moral Values an National Interests» in Berlin, February 2018.
«humiliation» after the end of the Cold War (f.e. Klußmann 2009; Sarotte 2014; Majumdar 2017), when the West – arguably against earlier agreements – decided to expanded NATO eastwards, recognized the independence of Kosovo and (temporarily) supported Georgian and Ukrainian NATO membership.

Towards an Eclectic Explanation

Current explanations for the EU’s and its member states' behaviour during the Ukraine Crisis share different problematic aspects. First, they mostly remain inside the strict framework of one IR theoretical approach and miss upon the opportunity to combine several approaches operating on different levels (such as system- and individual) in order to find a more sophisticated explanation for the EU’s surprising decision to adopt a sanctions regime against Russia and stick to it over the years. Second, none of the above outlined approaches emphasizes the personal component, although it has become rather obvious during the Ukraine Crisis that several key personalities, such as Angela Merkel and Vladimir Putin, have played a pivotal role in determining the course of events despite significant structural constrains and political opposition. Furthermore, current approaches outlined above also lack a more dynamic perspective regarding EU foreign affairs, member states' foreign policies, and the conflict as such. Especially after years into a conflict the chance for missing out on significant «real time»-developments and a foreign policy-learning curve on behalf of actors is very high. Last but not least, the very significance of the level of the individual member states' foreign policies towards Russia and Ukraine is not reflected here and the EU is mistakenly treated too often in state-like or unitary fashion (see preceding chapter). If we take the permanent, structurally induced chance of a sanctions-collapsing single veto serious we have to look deeper into the decision-making of specific key member states for an answer on our central question.

Therefore, this paper heads towards a more eclectic explanation for the EU’s policy-making during the Ukraine Crisis by analysing member state policy deliberation using three different case studies – Germany, Italy and Austria. All cases are «most unlikely» in character since they cover countries which traditionally belong to the more Russia-friendly group among EU member states and were less expected at the beginning of the crisis to prefer (or even propagate and upload to the EU-level) a policy-approach based on political and economic sanctions. The case of Germany is given priority here due to the central role the country plays inside the EU and European foreign policy in general and specifically during the Ukraine Crisis. All cases will be analysed using a simple strategy: first, naming the sources of the special relationship of the country under scrutiny with Russia; second, a short overview on the observable domestic policy debate and the development of policy; and, third, a discussion of the question why the specific country chose to support EU policy and the sanctions regime.

Germany's Pivotal Position and Policy-Change

Among the EU’s big three Germany is by all means the European powerhouse less expected to easily compromise its relationship with Russia. Both countries are connected by close political and economic bonds, built upon a tragic bilateral history, and a strong sense for how much European stability hinges upon their peaceful interaction. With their so called «Ostpolitik» Social Democratic
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Party-governments of the late 1960s and 1970s provided a paradigmatic shift and ultimately a policy tradition in the relationship between Soviet Union/Russia and Western Europe. «Ostpolitik» was building on the hope that economic and political concessions would bring long-term change (Mischke & Umland 2014; Härtel 2014). The late Soviet regime’s constructive role in Germany’s reunification and the gratitude coming with it then paved the way towards a special relationship between Germany and the post-Soviet Russian state (Stent 2000). Moreover, close political relations were and are supplemented by economic ones: Germany not only consumes around 40% of its gas and oil from Russia and is one of its biggest investors, projects such as North Stream 1 and the planned North Stream 2 have raised the spectre of an exclusive German-Russian geostrategic partnership ignoring (again) Central European interests (Szabo 2015).

Against this background, the leading role of Germany inside the EU framework in managing the Ukraine crisis as such and in organizing a legalist-inspired response to Russian aggression has to be interpreted as a significant policy change. Germany’s course is even more remarkable if one takes fair account of three facts: First, the country’s economic sensitivity to Russian counter-sanctions. Second, an unconvinced public. Third, a mostly critical if not openly defiant role of the Merkel-CDU’s smaller coalition partner, the SPD. In the shadow of their «Ostpolitik»-tradition and the more recent «modernization policy» both Frank-Walter Steinmeier and his successor Sigmar Gabriel only half-heartedly implemented the chancellery’s course. They frequently criticized the tougher US approach (Gabriel 2017) and called for moderation and even conciliatory steps towards Moscow (Schuller and Sattar 2017). Yet, Angela Merkel managed to successfully upload her unequivocal political approach to the level of the European institutions. Furthermore, she was also successful in managing an OSCE-monitored ceasefire agreement (although only in the second try); in ensuring additional NATO deployment towards the Baltics; in generating unprecedented bilateral and multilateral political and economic support for Ukraine’s sovereignty; and finally in upholding the sanctions accord ever since.

**Explaining German Policy-Change**

Trying to answer the question what kind of reasoning lay behind German foreign policy during the Ukraine crisis and why an almost turnaround in Russia-policy had been initiated both normative and interest-based, and even a combination of both approaches do not take us very far. First, Angela Merkel’s legalistic arguments in support of her own policy during the Ukraine crisis («principles and not the right of the stronger») (Bundeskanzlerin 2014) are at first sight very much in line with the post-unification German foreign policy consensus emphasizing the primacy of international law and multilateral cooperation. However, they did not guide or were of second priority for German policy in earlier instances such as after the Russian recognition of both Abkhazia and South Ossetia in 2008 (SpiegelOnline 2008). Second, there is also no indication that Germany’s threat perception vis-á-vis Russia significantly changed during the Ukraine crisis. Never mind some alternative voices inside the security apparatus and even in the SPD-led foreign ministry, there seems to be a consensus that Russian strategy in Ukraine is regionally focused and that the country might return to «calculable rivalry» (Seibel 2015). This to some degree contrafactual thinking very much
corresponds with the economically focused nature of German foreign policy and the Bundesrepublik’s «Handelstaat»-tradition (Hellmann et. al. 2014), and with the increasingly debated lack of Realpolitik-thinking (Maull 2014; Özdemir 2017). Following this reasoning, an alternative explanation could of course be found in a new, dynamically evolving and crisis-accelerated role perception of German foreign policy. Such a development towards «more responsibility, no idle pacifism» (Gauck 2014) and strategic thinking is demanded by German intellectuals already for some years. However, such voices are still underrepresented and more conservative German policy-makers, such as defence minister Ursula van der Leyen or Norbert Röttgen, the head of the Bundestag’s Foreign Affairs Committee, still find it hard to convince both colleagues and public to match NATO’s defence spending target, not to speak of engaging Germany in additional theatres, such as Syria.

A more convincing explanation has to integrate additional aspects and levels of analysis ignored in the literature so far. Much speaks for thesis that a combination of personal factors and policy learning processes provide a much deeper understanding of Germany’s policy choice during the Ukraine Crisis than others. First, there is Angela Merkel’s personal involvement that ultimately placed her in the role of key decision-maker and broker between the parties to the conflict and the EU member states. To some degree that leadership role came natural to her after the reputation she had acquired internationally and in managing several international crises before. However, given Germany’s extraordinary relationship with Russia and the domestic opposition Angela Merkel’s policy choices faced, especially at the beginning of the crisis, a central role for the German chancellor was unexpected here and seems to have been Ms. Merkel’s deliberate choice. Her motivation can be understood looking at her peculiar personal background, socialization and belief system (Packer 2014). Here, she contrasts much more sharply with the Russian president than any of her post-unification predecessors. Both Helmut Kohl and Gerhard Schröder developed close personal relationships with their Russian counterparts and were willing to put the value of a close strategic partnership above all other concerns (Rahr 2005). Therefore, German and with it EU policy towards Russia might have looked much different in case of other personal constellations – a thesis much supported by the unchanged and highly debated professional occupation and staunch public support of late chancellor Gerhard Schröder for Vladimir Putin even during the Ukraine Crisis (Joffe 2017).

Still, in terms of policy change also Angela Merkel had earlier resisted to fully enact the strictly legalist approach – characterized by her insistence on international law, territorial integrity, support for human rights, state building and democratization – in the framework of EU-Russian relations or in cases of Russian interference in the countries of the Eastern Partnership. Therefore certain events or developments occurring in EU-Russian, German-Russian relations or in the international and domestic conduct of the Russian regime seem to have changed Angela Merkel’s earlier, more ambivalent Russia-policy and convinced her in formulating the unequivocal approach we could observe from March 2014 onwards.

A complementary learning-perspective makes best sense here, a process during which the chancellor «updated [earlier] beliefs based on lived or witnessed experiences, analysis or social interaction» (cited in Dunlop and Radaelli 2013). From the beginning of her chancellorship in 2005 a range of events seem to have gradually eroded the belief of Merkel and her foreign-policy staff in the chancellery
that Russia can finally be reconciled with Europe’s post-Cold War order and be engaged to «modernize» (or better Europeanise) domestically (Rahr 2017). Among these events are first of all the war in Georgia and the subsequent Russian recognitions of both Abkhazia and South Ossetia, which Angela Merkel already back then coined as a «violation of international law» and «unacceptable» (Bundeskanzlerin 2008). Only shortly after it became obvious to her and the conservative German foreign policy-establishment that Russia was increasingly paying lip service to the agreed «modernization policy» domestically (Bundestag 2012) and to pan-European designs internationally. Instead Vladimir Putin strove to build an exclusive political-economic project in the Post-Soviet Space (Merkel: «Russia's behaviour points into another direction» (Süddeutsche 2010; Guardian 2011)) and also assertively began to use key economic assets in neighbourhood countries to enforce political compliance (Tagesspiegel 2013). In the years preceding the Ukraine Crisis more frequent violations of human rights amounting to their complete disregard and defamation (SpiegelOnline 2010; Welt 2012; BBC 2015) occurred in Russia. These and the pressure on German political foundations operating in Russia were not lost on the chancellor, whose direct critique (RP-Online 2012) led to a significant deterioration of the relationship already before 2013. The Ukraine Crisis was then nothing less here than the final tipping point at the end of a chain of events: both the annexation of Crimea and Russian military intervention in the Donbas destroyed what was left of trust between Putin and Merkel and even left the latter with a strong feeling of having been «deceived» by the Russian president (Barkin 2014; Bundesregierung 2017). In short, Merkel had painfully learned that Russia had developed into a revisionist power which had to be contained.

Finally, the learning-based approach and the lack of trust Merkel felt toward Putin strongly interact with the above mentioned and now widespread perception in the European political mainstream that Russian domestic and foreign revisionism have led to an ideational contestation between two kinds of normative orders. That crucial change in the normative environment for German Russia-policy made a range of new policy options – essentially a replacement of the long-standing «primacy of economics» by a «primacy of politics» in German-Russian relations⁴ and a focus on the preservation of European and international order – possible. Although significant parts of the German political elite⁵, business community (Härtel 2014; WiWo 2018) and public⁶ were still willing to hold on to a special treatment for Russia and therefore critically assessed the sanctions-regime, Russian actions in Ukraine left them with few arguments in the public discourse.

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⁴ That has been the way Stefan Meister, DGAP Berlin, was summarising Germany’s changing Russia policy at a joint closed workshop with the author in Kyiv in November 2017.

⁵ Critical towards sanctions is a majority of the Social Democratic Party, the AfD, Linke and some influential Free Democrats such as Wolfgang Kubicki (Schult and Weiland 2018). A solid support for sanctions can only be found among the Christian Democrats and the Greens. An East-West divide reflecting public opinion has been manifesting itself in an East German Laender Prime Ministers call for the termination of sanctions (Eichhorn 2018).

⁶ Public opinion on Russia and German/EU-Russia policy has been very dynamic since early 2014 and seems to correlate significantly with attitudes towards other international actors such as the United States. In 2014 and 2015 a majority of Germans supported sanctions, although only one third of East Germans. Since 2016 overall support for sanctions and a distancing from Russia seems to get weaker (Die Zeit 2014; Reuters 2016).
Other most unlikely cases: Italy and Austria's Policy of «Critical Consent»

The German position and the leadership provided by Angela Merkel have been pivotal for finding an agreeable policy on the level of the EU, to mobilize bigger member states more hesitant at the beginning (France) and to convince those smaller member states which would under different circumstances be unlikely candidates for a support of anti-Russian sanctions. The logic here is obvious: To reject German and later German-Franco leadership on the Ukraine Crisis as a policy issue – especially given the priority with which Germany has been treating it from the beginning – would have its prize for other member states, leading eventually to isolation or even some form of punishment. Much also speaks for the fact that the early agreement on sanctions has also been a result of the shock waves the annexation of Crimea sent through the Union (as the downing of MH 17 helped to bring consensus on 3rd stage sanctions in August 2014). Yet, with the crisis lingering on for almost four years in 2018 the shadow of these early events is withering and a certain normalization and call for business as usual has set in. There must therefore be additional explanations for why all 28 member states, and especially the traditionally more Russia-friendly, agreed to prolong the sanctions regime every six months.

Italy traditionally had a very strong relationship with Russia especially due to the considerable trade flows, its investments, and the energy partnership which Rome developed with Moscow after Silvio Berlusconi came to power in 2001. When it comes to the economic partnership Italian decision-makers of both the centre-right and centre-left had been happy even to work with the Russians outside the EU framework, such as in the case of South Stream with an intense cooperation between ENI and Gazprom (Brighi 2011). Yet, only the centre-right under Berlusconi, who very fast became a true friend of Vladimir Putin, went so far to defend Russia's Chechnya policy in light of strong EU criticism (Ibid.). Another country belonging to the most unlikely category when it comes to anti-Russian policies and sanctions is Austria. Whereas both Germany and Italy belong to the group of «strategic partners» of the Russians according to the 2007 ECFR classification Austria was put into the category of «friendly pragmatist». However, certain, especially domestic developments have since distanced Austria further from Brussels and thereby opened a strategic space for Russia to further «cultivate» the traditionally close relationship.

Initial Positions on the Ukraine Crisis

It is no surprise then that Italy from the very beginning of the Ukraine Crisis had been a very reluctant supporter of anti-Russian sanctions, not the least because economic measures were expected to hit the Italian economy with losses of approximately 5 billion US-Dollars. Even in light of its eventual consent the government of Matteo Renzi did what it could to avoid giving Moscow the impression of a more than temporary measure. Rather, Italy – exemplified by Matteo Renzi’s courting of Vladimir Putin at the Expo 2015 – perceived itself as a moderator and open channel during the conflict (Bonacquisti 2015). For example, both Renzi and foreign minister Gentiloni suggested autonomy-solutions for the Donbas based on the example of certain Italian regions (Economist 2015). Additionally the country put its hopes on Italian EU High Representative for Foreign Affairs and Security Policy Federica Mogherini to act in Italy’s interest in
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non-confrontation. However, over time and especially after the emotional fallout from the annexation of Crimea and the downing of MH 17 had been somewhat alleviated voices speaking out more openly against the sanctions became ever stronger. Especially the rising populist left and right (Five Star Movement, Lega Nord) did not hide their pro-Russian leanings with the Lega’s Matteo Salvini even demanding the recognition of Crimea as part of Russia (Bonacquisti 2015). Among more mainstream forces the former Prime Minister Silvio Berlusconi called for Italy ending its support for anti-Russian measures (Horowitz 2018).

Austria took a very critical approach from the very beginning in terms of anti-Russian EU sanctions, highlighting first of all its considerable economic interests in both Russia and Ukraine especially in agriculture, banking, machine building and the energy sector (Lahodinsky 2017). Much of the blame for the Ukraine crisis was accredited by Austrian politicians to Ukraine’s weak governmental structures and failed EU neighbourhood policies rather than to Russian aggression (Pollak 2015). This critical approach is shared by the wider political spectrum in Austria although it has been especially the right-wing populist FPÖ which lately openly agitated against the sanctions. It should not come as a surprise then that in this kind of Russian-friendly political climate frequent visits of FPÖ-politicians to Crimea or the safe heaven Vienna provided to pro-Russian Ukrainian oligarch Dmytro Firtash have not caused much public havoc (Kurier 2017). In 2017 however many experts expected Austria to become a serious problem for the EU’s consensus on sanctions. Sebastian Kurz, the new ÖVP-chancellor and former foreign minister, had been closer to the German Social Democrat’s position than to Merkel’s line even before the election and in 2017 supported Sigmar Gabriel’s proposal for a one-sided step-by-step reduction of sanctions. On top of that, his new coalition partner, the FPÖ, outright promised to veto anti-Russian sanctions (Mayer 2017).

In contrast to Germany, both Italy and Austria never intended to change their Russia-policy significantly after the outbreak of the Ukraine Crisis. Instead both governments called for moderation, at least rhetorically criticized sanctions as a policy-approach and tried to keep up formal appearances in their relationships with Russians through state visits etc. Yet, a vetoing of the EU’s Russia-policy seems never to have been a serious option. What are the underlying causes of this policy of «critical consent» towards the EU? I will argue here that both Italy and Austria’s positioning during the Ukraine Crisis are the consequence of two competitive trends: First, a dominating trend characterized by both countries prior self-definition as EU members and consequently supporters and beneficiaries of Europe's post-cold war international order. Second, a weaker but nevertheless significant trend characterized by growing elite-level anti-EU sentiments and a connected ambition to regain lost autonomy in international affairs.

Trend 1: Europeanization, Marginalization and Foreign Policy Provincialization

Italy has since the Second World War been keen to balance between its ambition of being accepted among the bigger European powers and the reality of

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7 I owe many insights here to Dario D’Urso, an Italian public consultant, and his presentation entitled „Italy and the Conflict in Ukraine: a Reluctant Approach“ at a December 2015 workshop at the National University of Kyiv-Mohyla Academy.
being a medium power in need of a stable international environment and order (Brighi 2011). Although on the surface European integration was enthusiastically supported, in fact Italy always tried to make as much use of both EU membership and a good relationship with the US to enhance its own status and autonomy. After the Cold War however Italy's ambition and relative geopolitical position gradually came under pressure from two sources: First, German unification and EU enlargement relativized the country's geopolitical weight as one of the bigger founding states of the EU and manifested its status as a middle-sized member state. Second, Italy's growing economic troubles and weakness made it, especially after the Euro crisis, part of a southern EU crisis belt. Under the current conditions of increased multipolarity and US withdrawal from Europe one can argue that Italy's «balancing act» has become even harder to perform. Therefore, the EU has become Italy's only geopolitical stability anchor (Tocci 2018) and chance to «punch above weight». Indeed, Italian policy-makers' answer to the increased international marginalization of their country has been a quest for more, not less European integration, especially in the field of foreign and security policy (Italian Presidency 2014, p. 11). A remarkable evidence for that trend has been Italy's insistent lobbying for a joint EU permanent seat in the UN Security Council, a strategy meant to counter German designs for an own seat and to increase Italy's weight via the EU (Falchi 2006). At the same time scholars argue that Italian foreign policy has especially under Matteo Renzi become less ideologized and more globalization-oriented and «neo-liberal» (Brighi 2016), a tendency easily explained by both Italy's economic worries and the growing influence of the EU as a political and economic standard-setter. A second major consequence of Italy's reduced international weight is the limitation of its foreign policy agenda. Here the Ukraine Crisis and even bilateral relations with Russia are a fringe topic. Instead, migration and international financial governance or debt management are the major concerns. The dominant current foreign policy discourse is the management of Libya's failed state and the refugee influx it meant for the country. All those topics are furthermore highly interconnected with both EU-policy and a successful CFSP (Tocci 2018).

In Austria's case scholarly debates on its foreign policy have long been dominated by the neutrality clause inscribed in the country's constitution since it regained its sovereignty in 1955. Over time however Austrian neutrality has become a very flexible concept. «Active neutrality» allowed Austria already in the 1950s to join international organizations such as the UN or the Council of Europe. The concept was even more narrowed down when the country joined the EU in 1995 and thereby also agreed to fully participate in the CFSP (Luif 2003). Today a convincing argument can be made that Austrian neutrality has in fact been reduced to «military impartiality» since it does not correspond to the challenges of the Post-Cold War World such as globalization and competitiveness (Gebhard 2013). Instead the EU has become Austria's main international focus even before becoming a member in 1995. In many ways this development was without alternative for Austria, which ceased to be a frontline state of the Cold War and for which the envisaged enlargement of the EU opened up significant economic opportunities. At the same time the loss of its «special status» meant that Austria shared the Italian experience of marginalization becoming just one of several smaller EU states without significant economic or political weight. Although
support for the EU has never been as enthusiastic here as in other member states it is argued that Austrian elites were «baptized» into the EU and that especially its two Council presidencies in 1998 and 2006 contributed to a significant Europeanization of both its foreign policy and general identity (Plassnik 2013). Rather than sticking to neutrality-traditions Austrian policy-makers now perceive their country to be an unequivocal part of an EU-sponsored European order. In fact, it is telling that Austria, despite its above mentioned special relationship with Russia and much more frequent criticism of US foreign policy, did not ever «blink» in international order-relevant questions such as Kosovo or the acquisition of heavy military equipment (Malek and Luif 2013). Even the current government including the EU-critical FPÖ acknowledges that «the future of Austria is firmly connected to the project of European peace and unity» and that Austria is a «small export-oriented country in need of a functioning international legal order» (NV/FPÖ 2018, p. 22/24). In the Ukraine Crisis therefore, Sebastian Kurz, despite his calls for a moderate EU-approach towards Moscow also as chancellor, has made clear already as foreign minister that the stability of the Union and the existing international order are Austria's foremost interest: «EU states have to pull together here» (Mayer 2016). At the same time observers and scholars note that membership in the EU had a profound impact on Austrian foreign policy. Being «soaked up» by the EU, it is argued, there is a growing disinterest in foreign policy issues other than those connected to big business preferences (Bischof 2013) and a «dangerous tendency towards self-provincialization» (Plassnik 2013).

Both Italy's and Austria's lasting consent to the German-led sanctions policy in the Ukraine Crisis can be traced back to their prior self-definition as EU member countries. That relates to the EU as both Italy's and Austria's preferred framework of European and international order and to a support of EU-inspired foreign policy norms such as international law and multilateralism. At the same time both countries' preference for the EU and acquiesce on the Russia portfolio has a very rational background: Italy and Austria are marginal actors both in political and economic terms. To challenge bigger EU member states' designs on an issue lacking much priority for themselves would mean an unnecessary risk of isolation.

**Trend 2: Polarization, Euroscepticism and New Foreign Policy Ambitiousness**

Italy and Austria however also share certain additional characteristics which represent either very recent phenomena (the rise of populist parties to power) or recurrent features from the past (international ambitiousness) but in any case resemble an opposite trend to the one just mentioned. These developments deserve attention since they might gradually erode the above mentioned firm orientation towards the EU and a common foreign policy.

In Italy especially the frustration over the EU's handling of the migration crisis but also the ongoing economic malaise of the country have resulted in both an upsurge of populist parties and growing anti-EU sentiments (Debomy et. al. 2018). In 2018 Italy is for the first time governed by a coalition of parties, the Lega Nord and the Five Star Movement, critical of the EU and at the same time openly pro-Russian. Italian populists of the right and left perceive their country as increasingly dependent on both the EU and the US. By propagating a special relationship with Russia a counterweight is sought in order to regain lost international autonomy for Italy (Guardian 2015). A critical link between
international marginalization and the domestic situation is however seen also by moderate Italian forces. Matteo Renzi during his tenure as prime minister already sought a «more prominent role» for Italy. Playing on equal terms with France and especially a perceived neo-hegemonic Germany in a new «big three format» was mainly seen as a necessary instrument to influence EU policy along Italian economic preferences (Greco 2016).

In Austria comparable developments can be observed and might be even more manifest than in the Italian case. The Austrian public and political elite are known for their more pronounced Euroscepticism (Öberkirch & Schild 2010), a feature bringing the country much closer these days to its Central East European neighbours than to the central and western «old» group of EU member states. Criticism towards the EU has even seen an upsurge in the last decade (European Commission 2015) due to widespread dissatisfaction with the ongoing crises and ineffectiveness of the Union, and partly explains the renewed success of Austria’s main Eurosceptic force, the FPÖ. This ideological component should be carefully assessed. Experts see a significant increase of anti-EU, anti-Western and anti-liberal discourse in Austria especially since the beginning of the migration crisis and a reciprocally growing «understanding» for both Russian authoritarianism and foreign conduct (Gressel 2015). At the same time experts argue that the Austrian political establishment and public care much less, then for example their German neighbours, about the wider geopolitical repercussions of Russian revisionism or the general security environment.8 Austria therefore is a prime example for the largely globalization-related normative contest inside many member states – which often has direct repercussions for Russia’s public perception – mentioned above. In front of this background the recurrent debate on Austria’s neutrality is remarkable. Notwithstanding the developments mentioned above any attempts to finally rid itself of the neutrality clause after the end of the Cold War met with considerable domestic resistance as the concept is still very popular among the public and therefore sacrosanct for most political parties and especially for the centre-left. The new ÖVP-FPÖ government even promised a kind of renaissance of the neutrality-concept in Austrian foreign policy (NV/FPÖ 2017). Austria is seen here as a «historic hub between East and West» which should «promote rapprochement between the West and Russia» (Ibid., p. 22). Indeed the government seems to be willing to pay more than lip-service to that ambition. A striking example has been Austria’s May 2018 offer to Russia to mediate in the Syrian conflict (Lehne 2018). Although the Russians refused the offer it seems to be a confirmation of a long-time observer’s statement that Austria internationally meanders between «an inferiority complex and delusions of grandeur» (Plassnik 2013).

Contrary to the rational background of their ongoing consent with the EU’s new Russia policy during the Ukraine Crisis certain, comparable developments in both Italy and Austria point towards an inherent fragility of that very consent. Both countries experience a populist upsurge running on an anti-European if not anti-Western platform. Therefore Italy’s and Austria’s new governments are not only more critical or openly hostile to anti-Russian sanctions but seem to intend to use the Russia portfolio for the sake of their battle against Western, EU and German

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8 I have to thank Gustav Gressel (ECFR) for sharing his views on Austria’s current political developments and culture.
hegemony». For now this trend seems still far from taking the upper hand but its sustained presence and perpetuation might erode rational decision-making in the long-term.

Conclusions

The aim of this article was to answer the question why the EU was able to come up during the Ukraine Crisis with a comparatively coherent and unexpectedly firm response towards the Russians and why this policy has become sustainable over time. The analysis provided here is based on the fact that EU foreign policy is still dominated by the «Grundnorm» of the equality of all member states and that therefore the opposition of one member state to the suggested and later confirmed policy scheme would be sufficient to upend it.

Reflecting on so far existing explanations it was found that neither a purely rational nor normative account could provide a convincing answer on why the EU fundamentally changed its Russia policy during the crisis and was able to sustain this change over time. Seen from a rational perspective, threat perceptions vis-á-vis Moscow did not really change especially in the bigger member states. On the contrary, a strong interest-based bias towards a more moderate approach in a majority of EU member states explains inefficiencies of the EU’s conflict management role and a lack of a long-term vision in regard to Ukraine. On the other hand, normative explanations, which emphasize the unity of Europeans as a value community («civil power Europe») challenged by Russian illiberalism and revisionism, seems too global in order to take necessary account of national differences in what is deemed appropriate if it comes to Russia. For example, there is, even if one ignores the pro-Russian right and left-wing populists, a considerable faction of elite and publics across Europe who would place the norm of their «respect» of Russian great power interests ahead of any international law- or European values-based beliefs.

If we look at Germany and the leading role it took as an earlier strategic partner of the Russians in bringing up the sanctions regime we get to a more convincing, eclectic explanation for EU policy. It concentrates on the personality, personal impact and belief system of Chancellor Angela Merkel, who took on a deliberate leadership role during the EU’s management of the Ukraine crisis steering through a legalist approach, and on (her) policy learning when it comes to Russian foreign and domestic policy. Both factors – especially in light of considerable domestic and foreign opposition to Merkel’s course at the beginning – were instrumental in the EU’s observable policy change even if one has to admit the facilitating role of a normative context characterized by the «shock» the Russian annexation meant for almost all European governments.

At the same time the initial and ongoing consent to the EU’s anti-Russian sanctions demonstrated by smaller, traditionally rather Russia-friendly member states such as Italy or Austria can only be explained if one carefully assesses both their foreign policy discourses and behaviour since the Cold War, and recent domestic developments. It has become understandable that both Italy and Austria are reluctant followers of Brussels’ current Russia-policy and would prefer a more moderate or outright different course especially in terms of sanctions. Both however, despite some clear announcements and threats to the pro-sanctions camp, did not make use of their veto so far. In both countries the dominating
rational for their behaviour in the Ukraine Crisis can be found in an ongoing prioritization of the EU-sponsored continental order and connected foreign policy norms. This rational has however come under significant pressure by a more recent trend combining domestic populism and profound EU-criticism. The case of Austria in particular makes clear that one should remain cautious today especially in regard to the prevalence of material factors in interpreting state behaviour. The upsurge in Euroscepticism, nativism and anti-Western sentiment the country has experienced in recent years can have a potentially more damaging impact on Austria’s EU-policy in the near future.

Regarding the debates mentioned at the beginning the analysis provided here demonstrates the following. The Ukraine Crisis on the one hand seems to confirm the thesis that European Foreign policy has grown up in spite of its structural shortcomings. In fact all the «unlikely cases» studied here prove that there is a substantial awareness on the level of member states that the EU-sponsored order and its normative foundations serve everyone’s best interest. At the same time the centrality of Angela Merkel and her pivotal personal contribution to the EU’s response to the Ukraine Crisis are proof of the fact that this consensus is not yet permissive. On the contrary, in face of a plurality of foreign policy interests and cultures among the member states it hinges on agency and perpetuation in comparable crisis situations. Second, it again confirms that for European foreign policy, in the absence of centralized decision-making and a pre-defined «national» interest, coherent and assertive policy designs necessitate the deliberate leadership role of at least one of the bigger member states and its foreign policy apparatus. The analysis demonstrates that this is already harder to achieve than in the past and will be even more complicated in the future. Aside from Brexit the perceived hegemonic role of Germany correlates highly with a more critical attitude of smaller member states towards common policies. Last but not least, the EU is despite its coherent approach in the Ukraine Crisis far from becoming an effective shaper of both EU-Russian relations and the ENP. For a true vision and more effective operative designs the EU foreign policy-«conglomerate’s» message is still too reflective of its inner divisions.

The question remains how sustainable such a fragile policy consensus, which obviously hinges on very different factors in different national contexts such as personalities or foreign policy agendas, can possibly be. In terms of the pivotal German position and her leadership the ouster of Angela Merkel after the 2017 elections to the Bundestag would have been critical. Yet, despite her re-election the German chancellor is a somewhat weaker figure now than during her last two terms. Furthermore, German leadership on any issue could, as seen here in the Italian and Austrian cases, easily become interpreted as hegemonic ambition and therefore rejected by other member states. At another front the current facilitating normative context on the salience of international law might crumble in face of rising anti-liberal movements or a turn towards more geopolitical ambiguousness in France or Germany, especially in light of Donald Trump’s increasingly anti-European policies. In terms of the necessary coalitions of EU member states in policy fields of unanimity both Brexit and the political marginalization of Poland inside the EU are dangerous blows for the cohesiveness of the pro-sanctions camp and might have severe mid-term consequences for the likelihood of a vetoing coalition. On the other hand both the EU’s ability to come up with a genuine
Energy Union Strategy (2015) and an improvement of member state coordination in defence matters (joint procurement) has significantly lowered the ability for Russians to make use of diverging material interests and therefore veto potential.

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Between EU Membership and the Sanctions Regime against Russia: Factors behind the Collapse of Estonian Transit Sector

Viljar Veebel, Raul Markus

Abstract: The article aims to investigate the main factors behind changes in the transit flows in Estonian transit sector. Towards this end, the current study used not only previous academic works and official statistics but also a comprehensive survey among leading businessmen, scientists and policy makers in the Estonian transit sector. According to our analysis, the main factors behind the fluctuations and decline of the Estonian transit sector were: first, the impact of European integration; second, changing relations with Russia; third, the changes in infrastructure and, fourth, the changes in global and regional trade flows. However, the European dimension appears also in second, third and fourth categories, as trade relations with Russia, infrastructural developments and general trade flows depend from European policy preferences and developments. Our latest analysis has also high importance in terms of assessing the rationality, profitability and sustainability of the expected realization of the Rail Baltic railway line and the Tallinn-Helsinki underwater tunnel. The article addresses also the political risks and security threats related to increasing trade flows from Russia.

JEL Classification: F1, F5, P4

Keywords: Transit, European Union, Russia, sanctions, Estonia

Introduction

Estonia’s (as it is also the case for all the three Baltic States) geographic location between the Russian market and the wealthy Western European countries

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provides a good basis for the country to exploit the potential and gains arising out of economic transit transport. Until the mid-2000s, this has indeed taken place, and transit flows have steadily increased in Estonia. However, since the accession to the EU, transit volumes have substantially decreased and transit flows have become extremely volatile. The drop has been particularly drastic since 2005, which leads to the central question of our current paper: **how important has been the EU membership and related political and economic activities for changes in Estonian transit flows?** The importance of the current research is even higher in light of the expected construction of the Rail Baltic railway line, which adds significantly infrastructural capabilities, but on the other hand needs also growing volumes of trade to be economically sustainable (Veebel, Ploom, Markus 2018). Additionally, political risks need to be assessed as well, as growing transit flows related to Russia which may be beneficial in economic terms, could lead to growing risks to be impacted or manipulated by the Russian side into trade economic benefits for political compromises (Veebel 2017). Next to several existing quantitative studies that analyse the dynamics of transit flows of goods in Estonia (e.g. Pukk 2011; Pukk et al. 2014), the aim of the current article is to systematically investigate the factors behind the changes in the transit flows in Estonia, focusing on the last two decades in a qualitative manner, and to estimate the outlook of the Estonian transit sector over the next decade. The study is based on a qualitative survey among transit sector entrepreneurs and experts to study the main factors behind the changes in the Estonia’s transit flows. With the aim to understand whether the impact of some factors could be over- or underestimated, the results of the conducted survey are compared with expert opinions and the results of other studies, like the study of PricewaterhouseCoopers published by Tender and Kalmer (2014), or a survey published by Lend et al. (2008).

The present study is structured as follows. Section one provides the background of the survey by identifying the turning points in the Estonian transit sector. The dynamics of transit flows over the last two decades will be analysed and both the main trends and factors influencing the transit volumes in Estonia in various periods will be identified, based mostly on previous studies. Section two briefly explains the structure and the methodology of the current survey and provides the main characteristics of the sample. Section three describes the results of the first part of the survey by summarizing the views and expectations of the Estonian entrepreneurs and experts, as far as the situation in the transit sector and the main factors behind the changes in the transit flows in Estonia over the last two decades are concerned. Section four presents the results of the second part of the survey and discusses the future outlook of the local transit sector. The final section is dedicated to our concluding remarks.

1. **Identifying the turning points: Transit flows in Estonia between 2000 and 2018**

The Estonian transit sector is mainly divided into railway-based transit and port-based transit. The transport of transit goods takes place mainly in the multimodal transport chain either in form of ship-train or train-ship (Pukk 2011). Other forms of transit transport like transit by cars or transit goods flow passing through Estonia through the airports, or even other combined transport chains like car and ship or train and car are only secondary options (Devoino 2017). Since the
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restoration of independence of Estonia in the early 1990s until 2005, this strategy has mostly paid off, as the volumes of transit goods transported by rail and through the ports have steadily increased except a small setback in 2003 and a slight decrease in transit of goods by rail in 2005 (see Figure 1). At its peak, the share of the transit sector in the country’s GDP reached over 10 percent (see Pukk et al. 2014). Based on the methodology developed by PricewaterhouseCoopers in the framework of a sectoral survey, the logistics sector, with transit being its main constituent element, had an impact of 12.7% on the Estonian economy in 2012 (Pukk et al. 2014).

In the literature, the increase in transit volumes in Estonia in early 2000s has been mainly associated with the rapid growth of transit of oil products, as Estonia used the typical model of the Baltic transit transport in which oil and petroleum products from Russia are transported to the Baltic Sea ports and loaded and shipped there (Saarniit 2006; Pukk 2011). Next to this, the opening of a modern coal terminal in Muuga Harbour in 2005 was assessed as a main positive factor (Saarniit 2006). The accession to the European Union in 2004 and its associated necessity to follow the Common Market regulations started to have growing impact on Estonian transit flows from the year 2004: first, the growth turned to stagnation in 2005 and then to decline starting from 2006 (Veebel and Markus 2018).

Accordingly, the year 2006 constitutes the first turning point in Estonia’s transit flows, a peak after what the previously increasing trend started to invert to a decreasing trend. Having in mind the survey conducted in the framework of this study, it could be expected that until 2006 the overall assessment of the survey participants on the Estonian transit sector should be positive, and in 2007 and 2008 respectively negative. However, the Estonian transit sector faced some setbacks between 2000 and 2006 which means that most likely some problems could be identified already during that period on the basis of the assessments of the survey respondents. This applies particularly to the assessments of the survey respondents operating in the railway sector, as in 2006 a fundamental shift occurred in the sense that transit volumes in ports started to exceed transit volumes by rail in Estonia.

Next to the impact of European Union accession, the drop in transit flows in 2007 and 2008 has also been associated with deterioration of international relations with Russia starting from 2007 onwards and the reduced demand of the markets in 2008 (Pukk 2011 and Veebel 2015), the inability of Estonia to react and adjust to global trends (Laidvee 2008), but also Russia’s plan to reroute transit flows from ports the neighbouring countries to Russian ports by 2030 (Pukk et al. 2014). What makes this period particularly interesting to investigate in retrospect is the question of whether local entrepreneurs and experts had already then sensed the long-term difficulties and problems of the Estonian transit sector.

The second turning point appears to be in year 2008, after which the downward trend reversed once more to a positive trend. Some authors have associated the improvement in transit flows in 2009–2010 with the recovery of demand both in ports as well as rail (see Pukk 2011).

Based on Figure 1, the third turning point took place in the year 2011, after the situation in the Estonian transit sector worsened substantially and the transit volumes have basically not recovered since then. To illustrate that: the share of the transit sector in Estonia’s GDP nowadays is a bit more than a half of what it was in mid-2000s (Pukk et al. 2014). More recently, in 2018, the volume of transit of goods
by rail has to some extent increased again (Statistics Estonia 2019a). Considering
the slight improvement in the Estonian transit sector in 2009–2011, it could be
expected that the assessments of local entrepreneurs and experts for this period
potentially reflect some optimism, whereas from 2012 onwards their assessment on
the transit environment in Estonia is most likely rather pessimistic. The decrease in
transit volumes of goods transported through Estonian ports and by rail after 2011
onward has been linked to many factors. It has been stated that decline in transit
flows is the result of the development of Russian ports and the rerouting of cargo
flows (Pukk et al. 2014).

Figure 1: Dynamics of the transport of transit goods on rail and in ports in 1996–2018
(million tonnes).

![Graph showing the dynamics of transport goods](image)


However, decline in transit flows from 2014 to 2018 has been also associated
with the sanctions war between EU and Russia caused by the Crimean annexation
in 2014 and the ongoing conflict in Eastern Ukraine. For example, Oja (2014a)
argues that although the overall impact of the EU-Russian economic sanctions
remains modest for Estonia, the local transit sector could be one out of two sectors,
next to the gas sector, which could seriously suffer from the deterioration of the
political relations between Russia and the EU. Simson (2017) assesses that the
sanctions have negatively affected Estonia’s economic growth between 2015 and
2016, particularly the transit sector, tourism, and industry in general.

Next to the external factors, experts have also pointed to the more
fundamental and long-term problems related to the local transit sector. Oja (2014b)
stresses that for quite some time already the value added provided by the transit
sector is decreasing. This drop is by its nature structural and there is nothing to
suggest that the transit volumes will recover in the coming years. Vare (2014) argues that several negative trends became visible already before the Ukrainian conflict erupted in 2013–2014. He also states that the attitude to transit is negative in Estonia, which also affects the country’s transit flows. Furthermore, some politicians have argued that due to a missing national transit policy, a significant part of potential delivery capacities were transferred to Finland and Latvia (see Korb 2016).

This statement stems from a study by PricewaterhouseCoopers from 2014, stressing that, based on the World Bank’s logistics performance index, Estonia does not have significant qualitative advantages vis-à-vis Latvia and Finland, as far as the main logistics components such as customs, infrastructure, international shipments, logistics competence, tracking and tracing, and timeliness are concerned (Tender and Kalmer 2014). Another study of PricewaterhouseCoopers (2017) states that Estonia has lost trade volume while at the same time, its neighbouring countries have benefited from an increase in global trade volumes and that the competitiveness of Estonia as a transit corridor is relatively weak due to high prices. Last but not least, some local entrepreneurs have strongly criticised Estonian politicians who supported stronger EU sanctions against Russia and suggested cutting political and economic relations with Russia to a minimum (Vedler 2018). At the same time, other entrepreneurs take the view that Estonia should forget about the Russian transit flows because they are not recovering anyway and new market niches in the Western countries should be found (Poverina 2018). In general, there is also a reference in the literature that the railway infrastructure charges (including waterway transport charges) in Estonia having increased significantly in 2006–2013, making Estonia’s transit corridor more expensive than that of Latvia (Pukk et al. 2014). The role of the price increase of Estonia’s transit corridor in redirecting the trade flows to Latvia and Finland has been also stressed by another study (PricewaterhouseCoopers, The Cost-Benefit Analysis of Railway Infrastructure 2014). However, it must also be noted that as most of transit flows originating from Russia depend on political will of Russian administration and the actual costs are only one part calculation, while political motives and preferences form the second one (Veebel and Markus 2016). All this leaves open the question of what factors have influenced the Estonian transit sector the most, and whether some patterns could be identified when investigating the factors behind the changes in the transit flows in Estonia over the last two decades.

To answer this question in more detail, the following periods are differentiated over the past two decades based on the dynamics of the transit flows in Estonia: 2000–2006, 2007–2008, 2009–2011, and the period from 2012 onwards.

Based on previous studies, the following potential factors behind the changes in the transit flows in Estonia over the last two decades are identified: (1) the effect of the European Union membership and the EU-Russian economic sanctions exchange; (2) changes in the transit volume of oil products; (3) changes in local infrastructure in Estonia; (4) dynamics of political and economic relations with Russia; (5) changes in market demand and Estonia’s inability to react and adjust to global trends; (6) the development plan of Russian ports; (7) dynamics of railway infrastructure charges in Estonia; (8) the unilateral nature of Estonia’s transit flows; (9) and changes in competitiveness of the Estonian transit sector. However, the respondents to the survey also suggested including several additional factors in our
list, such as (10) changes in container transit in Estonia, and (11) changes in the value added in the transit corridor of Estonia. Last but not least, global financial and economic crisis (12) seemed to play also significant role to trigger decline of transit flows, however it was not part of survey, but was identified based on statistics and earlier studies.

The assessed impact of all these factors will be investigated in a dynamic way over the period selected in the survey. Next to that, the survey offers an insight into the dynamics of the main transit partners of Estonia, assessed by local entrepreneurs and experts. This reveals another dimension of the potential factors that could have an impact on the development of the Estonian transit sector. Most partner countries included in the survey were selected on the basis of statistical data provided by Statistics Estonia. These countries are Russia, Belarus, Kazakhstan, Ukraine, Uzbekistan, Turkmenistan, Latvia, Lithuania, and Tajikistan who are Estonia’s main partner countries in rail transit and Russia and Finland as the main partner countries in transit through ports. Next to that, authors of the survey have included China and Sweden as countries with a significant potential in the future.

2. Overview of the sample and methodology

Our study on dynamics and the main factors behind the changes in the transit flows in Estonia over the last two decades is based on a qualitative survey which investigates the views and expectations of local entrepreneurs and experts in Estonia, as far as the developments in the Estonian transit sector are concerned. To understand whether the impact of some factors could be over- or underestimated, the results of the survey are compared with the results of other studies. Next to that, two interviews with local experts are conducted to analyse and discuss the results of the survey.

The written survey consists of two sections, focusing respectively on the assessment of the situation in the transit sector in Estonia in various periods, the dynamics of factors that could potentially have an impact on transit flows in Estonia over the last two decades and on the changes in the structure of main transit partners for Estonia (Survey Section 1, Annex 1), and the assessment of the outlook of the Estonian transit sector over the next decade and the estimated impact of various factors that could potentially influence Estonia’s transit flows in the near future (Survey Section 2, Annex 1). Furthermore, Survey Section 1 covers both the whole period considered (i.e. 2000–2018) as well as differentiates between the sub-periods defined on the basis of the turning points identified in section 1 of the current article (i.e. 2000–2006, 2007–2008, 2009–2011, and a period from 2012 onward). The detailed survey questionnaire is available in Annex 1. In general, the most common rating scale in survey designs, the so-called Likert scale with scores 1–5, was used in the survey with 1 representing the negative end and 5 representing the positive end. The only exception is the question 6a(1) in Survey Section 2 with 1 representing the answer that the company definitely continues to operate in the transit sector in the future and 5 representing the answer that the company definitely does not continue to operate in the transit sector in the future.

Next to this, multiple-answers or open-ended questions were used to identify the changes in the structure of Estonia’s main transit partners (in both Survey Sections 1 and 2 the respondents were asked to list the main transit partners in various periods in the following way: the most important transit partner as 1, the second-important
transit partner as 2, and the third-important transit partner as 3) and to assess the outlook of the Estonian transit sector over the next decade (respondents were asked to write answers to several questions in the Survey Section 2).

Throughout the survey, differentiation was made between entrepreneurs and experts in the sense that some questions are modified, depending on that whether entrepreneurs or experts are asked to answer the question. For example, whereas the entrepreneurs were asked about the main transit partners of their companies in corresponding periods, the experts were asked about the main transit partners of Estonia in corresponding periods. Where it appeared reasonable, differentiation was also made between transit of goods by rail and through ports. The survey sample consists of 24 respondents, of which 16 respondents represent companies operating in the Estonian transit sector, and 8 respondents are experts in transit-related issues in Estonia. The companies included in the survey were mainly selected on the basis of the membership at the Estonian Logistics and Transit Association. The experts included in the survey were selected on the basis of their publications, presentations and research studies. The survey was conducted between February and May 2019. The results of the survey were collected and analysed in May 2019 and the first results of the survey were revealed in June 2019. The survey response rate was 58%. However, the number of respondents to each question varies because of the modification of the questions with the aim to differentiate between the assessments of entrepreneurs and of experts.

3. The results of the survey: Factors behind the changes of transit flows

In our study, survey questions No 1a, 1b and 1c assess the state of the Estonia’s transit sector in general, between 2000 and 2018. These questions allow us to identify overall trends in the Estonian transit sector, as the entrepreneurs and experts see them. In this respect, the results of the survey questions overlap with the main concern expressed by various sources in Estonia according to which the local transit sector has faced serious problems over the past two decades. All survey respondents have chosen only the scores “1” (referring to very problematic; 9 respondents) or “2” (referring to problematic; 3 respondents) to the question on the developments in the Estonia’s transit sector between 2000 and 2018 and the dynamics in transit flows in general (i.e. survey question No 1a).

As far as the factors behind the changes in 2000–2018 are concerned, one definitely cannot get over Russia: from the range of many options, all respondents marked either “EU-Russian economic sanctions” or “the dynamics of political and economic relations with Russia” with the score 1, referring to the most negative impact of these factors on transit flows between 2000 and 2018 (see, Figure 2).

This is particularly interesting, because the EU-Russian economic sanctions could, at best, have a negative impact on the transit flows in Estonia only on the recent decade; however, in reality the sanctions were assessed to leave a negative trace to the Estonian transit sector during the whole period. Controversially, the impact of Russia’s plan to reroute transit flows from the ports of the neighbouring countries to Russian ports by 2030 has not gained particularly negative feedback by the Estonian entrepreneurs and experts, and was assessed to have no impact (i.e. the assessment’s score was 2.9 which is the closest to the category “no impact”). Next to Russia, in overall the survey results refer to problems linked with the unilateral nature of Estonia’s transit flows, combined with the changes in the transit
volume of oil products: according to the survey score, these factors were assessed to be more problematic than the others. At first sight, these answers could refer to more fundamental problems of the Estonian transit sector, however, at the same time the respondents have somewhat surprisingly disregarded changes in the overall competitiveness of Estonia’s transit sector and the changes in the value added in Estonia’s transit sector (i.e. the score of the survey for these factors was close to 3, referring to the category “no impact”), although these factors could be interpreted as potential reflections of structural problems of the Estonian transit sector, too.

Figure 2: Answers to the survey question No 1b: “What is the impact of the following factors on the transit flows in Estonia between 2000 and 2018” (1 refers to significant negative impact, 3 to no impact, and 5 to significant positive impact).

Furthermore, the assessment that changes in competitiveness of the Estonian transit sector have not particularly affected the national transit sector negatively over the whole period observed is somewhat surprising in this light that according to the World Bank’s Logistics Performance Index (LPI) for Estonia, which also indirectly refers to the overall competitiveness of the Estonian transit sector, the main components of LPI (e.g. infrastructure, international shipments, customs, logistics competence, timeliness, and tracking & tracing) have gone through significant changes. For example, the scores of all the main components reached bottom in 2012, have increased in 2014 (in some cases the increase continued until 2016), but slightly then decreased in 2018 (see, Figure 3).
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![Logistics Performance Index (LPI) for Estonia](image)


Next to that, in an international comparison with the neighbouring countries and competitors in the area of transit, Estonia’s LPI in 2018 is clearly lower than, for example, in Finland and Poland (Ibid.). Not surprisingly, Russia, Kazakhstan and Belarus were mentioned as the most popular transit partners of Estonia or of Estonian companies between 2000 and 2018. In general, those results are in accordance with statistical data for the period 2000–2018 (Statistics Estonia 2019). The survey questions No 2–5 continue to examine potential factors behind the changes in the transit flows in Estonia. Thus, first, differentiation is made between four sub-periods: 2000–2006, 2007–2008, 2009–2011, and a period from 2012 onward. Next to that, differentiation is made also between the state of the Estonia’s transit sector in overall, and the situation of a particular enterprise or a company in selected periods (see questions 2a and 2a(1); 3a and 3a(1); 4a and 4a(1), and 5a and 5a(1)). Again, the score 1 refers to “very problematic”, 3 to “moderate concerns”, and 5 to “no problems at all”. These results of these survey questions are highlighted in Figure 4.
Figure 4: Answers to the survey questions 2a and 2a(1); 3a and 3a(1); 4a and 4a(1), and 5a and 5a(1): “What was the state of transit sector in Estonia/your company respectively in...” (1 refers to “very problematic”, 3 to “moderate concerns”, and 5 to “no problems at all”).

Figure 4 indicates that the respondents’ assessments on the developments in the Estonian transit sector and on the situation of particular company linked to the transit sector in Estonia go basically hand in hand, except the last period observed (i.e. from 2012 on). The survey respondents suggest that there were no particular problems in the early 2000s, but from 2007 on the Estonian transit sector faced already significant problems according to their assessment, and the situation has not significantly improved during the short-time recovery period in 2009–2011 (the closer is the score to 1, the more problematic the factor is assessed to be). Somewhat surprisingly, those experts who have participated in the survey seem to be more pessimistic about the state of the sector in 2007–2008 by comparison with the entrepreneurs, but more optimistic about the recent developments from 2012 onwards in the local transit sector. However, at the same time, the entrepreneurs assess that, specifically, the situation of their own companies has gradually improved and the problems have decreased over time (again the closer is the score to 1, the more problematic the factor is assessed to be).

In order to have a better overview, on the assessments of the dynamics of various factors, those factors are divided into three categories:

- First, factors related to Russia, referring to EU-Russian economic sanctions, the dynamics of political and economic relations with Russia, changes in the transit volume of oil products, and Russia’s plan to reroute transit flows from the ports of the neighbouring countries to Russian ports (see Figure 4(a)).
Second, factors that could be classified as fundamental (or even structural) changes in the Estonian transit sector, such as changes in the unilateral nature of Estonia’s transit flows, changes in competitiveness of the Estonian transit sector, changes in market demand and Estonia’s inability to react and adjust to global trends, and changes in the value added in the Estonia’s transit corridor (Figure 4(b)).

Third, factors associated with more sector-specific and detailed topics, like dynamics of railway infrastructure changes, changes in local infrastructure in Estonia, and changes in container transit in Estonia (Figure 4(c)).

Figure 4(a): Answers to the survey questions 2a and 2a(1); 3a and 3a(1); 4a and 4a(1), and 5a and 5a(1): Factors related to Russia (1 refers to strong negative impact, 3 to no impact, and 5 to strong positive impact).

In this light, the overall picture becomes more varied. Figure 4(a) indicates that from 2007–2008 on the negative impact of most topics related to Russia seems to decrease over time and to become less and less significant in each subsequent period, of course, this does not apply to the negative impact of the EU-Russian sanctions. However, as already mentioned, other topics related to Russia seem to affect less and less the transit sector in Estonia, based on the assessments of Estonian entrepreneurs and experts. The roots of such an assessment are difficult to identify only on the basis of the survey. For example, this may controversially indicate that either the Estonian transit sector is currently undergoing some reorientation from Russia to other partners and is, therefore, not so vulnerable anymore as far as Russia is concerned, or that the Estonian entrepreneurs and experts are finally accepting the fact that Russian market is lost for the Estonian transit anyway, and they do not assess the impact of Russian-related issues so negatively anymore. Therefore, this question definitely needs to be investigated further.
Next to that, our survey results confirm the previous statement that the impact of Russia’s plan to reroute transit flows from the ports of the neighbouring countries to Russian ports by 2030 is assessed to be not so important, based on the views of Estonian entrepreneurs and experts. Only one respondent constantly scored this factor as having significant negative impact on the Estonian transit sector.

Figure 4(b): Answers to survey questions 2a and 2a(1); 3a and 3a(1); 4a and 4a(1), and 5a and 5a(1): Factors linked to general trends and conditions of Estonia’s transit sector (1 refers to significant negative impact, 3 to no impact, and 5 to significant positive impact).

The dynamics of our survey assessments on factors that could be classified as fundamental (or even structural) changes in the Estonian transit sector in various periods over the past two decades also reveal some thought-provoking results. On the one hand, Figure 3(b) indicates that the changes in competitiveness of the local transit sector is assessed to cause more and more problems over time from 2007 on, and the same applies to changes in the value added in Estonia’s transit corridor. The unilateral nature of the Estonian transit flows, which was estimated to have a relatively negative impact on the Estonian transit sector in overall, is assessed not to be problematic anymore from 2007–2008 on.

This confirms that some reorientation and restructuration is taking place in the Estonian transit sector. Problems related to the changes in the global market demand and Estonia’s inability to react and adjust to these global trends have been highlighted particularly for the period 2009–2011, which seems to be justified in the context of the recovery from the recent global financial crisis. It is worth noting that one survey respondent also directly mentioned a negative impact of the global financial crisis on the Estonian transit sector during this period. Among the factors related to more sector-specific or detailed topics such as dynamics of railway
infrastructure charges, changes in local infrastructure in Estonia, and changes in container transit in Estonia, the negative impact of the dynamics of railway infrastructure charges seems to concern the Estonian entrepreneurs and experts more and more (see Figure 3(c)). The impact of changes in the local infrastructure over various periods of time seems to concern the survey respondents the least, however, this factor could be somewhat underestimated by the survey respondents, because logistical infrastructure constitutes “the lifeblood of the economy”, as one high-level expert in Estonia has rightly observed.

Figure 4(c): Answers to survey questions 2a and 2a(1); 3a and 3a(1); 4a and 4a(1), and 5a and 5a(1): Factors linked to more detailed topics of the Estonia’s transit sector (1 refers to significant negative impact, 3 to no impact, and 5 to significant positive impact).

At the first glance, further results of the survey oppose the idea of transit reorientation taking place in Estonia in this respect that based on the survey results Russia is assessed to be the main transit partner of Estonia/of Estonian companies during the whole period (in most cases ranked as No. 1 in the questions 2c, 3c, 4c and 5c). However, again, what may to some extent dismiss the argument is that in latter periods the range of countries that have been mentioned as main transit partners of Estonia has somewhat widened, covering not only Russia, Belarus and Kazakhstan, but also, Finland, Sweden, Latvia and Lithuania. To sum up, first, the survey results to some extent support the idea of the reorientation or restructuration of the Estonian transit sector, referring both to the assessment that negative impact of most factors related to Russia’s behaviour seems to be less and less significant in each subsequent period, and that potential diversification of the transit partners of Estonia has taken place over time. Second, the fact that simultaneously the EU-Russian sanctions were assessed to have strong negative effect on the Estonian transit sector in 2000–2018, but Russia’s plan to reroute transit from the ports of the neighbouring countries to Russian ports was assessed rather not to have an impact on the transit in Estonia could refer to a more challenging problem of being able to identify long-term consequences of various policy measures. In its essence, the long-term consequences of the latter could be as dangerous as of the former; however, this risk is not fully recognized by the respondents to our survey. Last but not least, the impact of potential changes in the
local infrastructure should not be underestimated. Constant and systematic development of the network of roads, ports, railways, airports and so on, constitutes a necessary precondition for stable and transit-friendly economic environment.

4. Assessment on the outlook for the Estonian transit sector for 2019–2029

The aim of the second part of the survey is to estimate the outlook of the Estonian transit sector over the next decade. Again, the survey respondents were asked to anticipate the overall state of the Estonian transit sector between 2019 and 2029, as well as to evaluate the factors that could potentially have an impact on transit flows in Estonia over the next decade.

Overall, the Estonian transit entrepreneurs and experts seem to remain pessimistic about the outlook for the Estonian transit sector. Again, all survey respondents have chosen only the scores “1” (“very problematic) or “2” (“problematic”), however, this time majority of the respondents selected the score “2” to the survey question No 6a. At the same time, six out of eight entrepreneurs assessed that they are highly likely operating in the transit sector also in 2019–2029, and two companies couldn’t answer the question (see the survey question 6a(1)). This may indicate that the survey respondents are actually not so pessimistic about the outlook of the Estonian transit sector anymore over the next decade as it may appear at the first glance, and that despite some problems the Estonian companies and experts still see the potential of the national transit sector.

As far as the assessment of factors behind potential changes in 2019–2029 is concerned (see survey question No 6b), most of the factors are expected to have slightly more negative impact on the Estonian transit sector in the near future in comparison with the period of 2012–2018, except for the negative impact of the EU-Russian sanctions, which is expected to decrease. Also, the neutral or slightly negative impact of the changes in the local infrastructure is expected to turn to a positive one, most likely because of the expected Rail Baltic project (see Figure 5). The latter overlaps with the Rail Baltic Global Project Cost-Benefit Analysis, arguing that Rail Baltic should improve the freight shipment potential by rail both for the import/export traffic of the Baltic countries as well as transit traffic in the region, referring mainly to trade of Finland and Poland with other countries in the Nordic-Baltic region. Based on the report, the improvement is expected to occur particularly from the removal of break-of-gauge barrier on the border of Poland and Lithuania, and from the established intermodal logistics terminals in Muuga, Salaspils, Kaunas and Vilnius (Rail Baltica… 2017).

Over the next decade, the range of the partner countries is expected to somewhat increase according to the survey, as some “new” countries with a huge potential have been named in the survey, such as China. This is, in principle, in accordance with the view that the negative impact of the unilateral nature of the Estonian transit sector on the sectoral development is also expected to decrease in 2019–2029, as indicated in Figure 4 (the farther is the score of 1, the less problematic the factor is assessed to be). At the end of the questionnaire, the respondents were asked to assess the potential transit volumes in the Estonian transit sector in the future and to share their view of what needs to be done (or what should not be done) to improve the state of the Estonian transit sector,
including their recommendation about the policy measures (see the questions 6d, 6e, and 6f).

One policy recommendation concerned the revision of the EU-sanctions, and two other policy recommendations were suggesting to strengthen cooperation between the government and the entrepreneurs operating in the Estonian transit sector, or to consider tax cuts for the companies operating in the logistics and transit sector.

**Figure 5: Answers to the survey questions No 5b and 6b:**

“What is the impact of the following factors on the transit flows in Estonia…” (1 refers to strong negative impact, 3 to no impact, and 5 to strong positive impact).

![Figure 5: Answers to the survey questions No 5b and 6b](image)

Most of the experts agreed that competition within the Baltic region over the transit flows is intense, and in this respect any efforts to gain advantages for Estonia must be highly valued. However, the need to have a broader and more balanced view in this matter was stressed. The biggest challenge for the Estonian transit sector in the near future is the short-sighted attitude toward the development of local infrastructure as logistical infrastructure constitutes “the lifeblood of the economy”, as already mentioned, and unfortunately rail transport has across time
remained in the background in Estonia, as far as investments in rail transport are concerned. The EU funds have contributed to the improvement of local infrastructure in Estonia, however, this cannot last forever, and compared to, for example Poland or Ireland, Estonia has not paid much attention to the improvement of the local infrastructure.

In this context, experts have also stressed the importance of the Rail Baltic project to the recovery of the transit flows in Estonia. Since the project is not focused on transit flows from Russia but from Finland and Poland, its potential for increasing transit flows is significant for Estonia. Last but not least, experts were pessimistic about the recovery of the transit flows between Russia and Estonia in the future, and have welcomed the trend to focus on other markets. In this respect, also the potential of other forms of transit transport like transit goods flow passing through Estonia through the airports should not be underestimated.

Conclusions

The aim of the current study was to investigate the factors behind the changes in the transit flows in Estonia over the last two decades and to estimate the outlook of the Estonian transit sector over the next decade.

Both external and internal factors were considered. The study was based on a qualitative survey on the expectations and views of local entrepreneurs and experts in Estonia conducted in the first half of 2019. Overall, the survey confirmed the main concern expressed by various sources in Estonia that the local transit sector has faced serious problems over the past two decades.

Research results were mixed: on the one hand, the survey assessments have shown that local entrepreneurs and experts consider Russia partially responsible for this. On the other hand, when going in more detail and assessing the impact of various factors on the state of the Estonian transit sector in various periods, such as 2000–2006, 2007–2008, 2009–2011, and a period from 2012 onward, the results of the survey allowed drawing some interesting conclusions. First, the reorientation or restructuring of the Estonian transit sector (referring to the assessment that negative impact of most factors related to Russia’s behaviour seems to be less and less significant in each subsequent period, and that potential diversification of the transit partners of Estonia has taken place over time) seems to take place which is a good news for the country, considering the fact that until now Russia has been an extremely unstable transit partner for Estonia.

However, second, unfortunately the impact of potential changes in the local infrastructure may have been somewhat underestimated in Estonia until now, since the country has not constantly and systematically developed the network of roads, ports, railways, airports and so on. Today, this could seriously backfire Estonia when it attempts to restructure and re-orientate its transit sector.

Furthermore, thirdly, the Estonian transit sector might face a challenging problem of not being able to identify long-term consequences of various policy measures, for example, the consequences of Russia’s plan to reroute transit from the ports of the neighbouring countries to Russian ports, or overestimate the outcome of other measures, such as the EU-Russian sanctions imposed during the Ukrainian conflict.

In this light, as far as the prospect of the local transit sector in the future is concerned, one of the biggest challenges for the Estonian transit sector seems to be
the short-sighted attitude toward the development of local infrastructure. Until now, Estonia has not paid much attention to the systematic improvement of the local infrastructure, but should do that soon. The Rail Baltic project could contribute to the recovery of the transit flows in Estonia, because it is not focused on transit flows from Russia but from Finland and Poland.

References:

Annex 1: The survey questionnaire

Part I of the survey: Your assessment of the state of transit flows in Estonia, the problems Estonian transit sector is facing and the main transit partners of Estonia

1a: What was the state of the transit sector and the transit flows in Estonia in 2000-2018 altogether?

<table>
<thead>
<tr>
<th>Very problematic</th>
<th>Moderate concerns</th>
<th>No problems at all</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2</td>
<td>3</td>
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</tbody>
</table>

1b: What is the impact of the following factors on the transit flows in Estonia between 2000 and 2018?

<table>
<thead>
<tr>
<th>Factor</th>
<th>»1” Strongly negative</th>
<th>»2” Moderately negative</th>
<th>»3” No impact</th>
<th>»4” Moderately positive</th>
<th>»5” Strongly positive</th>
</tr>
</thead>
<tbody>
<tr>
<td>The EU-Russian economic sanctions</td>
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<tr>
<td>Estonia’s political and economic relations with Russia</td>
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<td>Changes of transit volume of oil products</td>
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<td>Estonia’s inability to adjust to global trends</td>
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<td>Changes in local infrastructure in Estonia</td>
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<td>Dynamics of railway infrastructure charges</td>
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<td>Unilateral nature of Estonia’s transit flow</td>
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<td>Competitiveness changes of Estonian transit sector</td>
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<td>Changes in container transit in Estonia</td>
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<td>Changes in the value, added in the transit corridor</td>
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</table>

1c: Entrepreneurs to respond to the question: Who are 3 main transit partners of your company during the whole period 2000-2018 investigated? Experts to respond to the question: Which countries were 3 main transit partners of Estonia during the whole period 2000-2018 investigated?
2a: What was the state of transit sector and the transit flows in Estonia in 2000-2006?

<table>
<thead>
<tr>
<th>Very problematic</th>
<th>Moderate concerns</th>
<th>No problems at all</th>
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<td>1</td>
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2a(1): How would you characterise the state and wellbeing of your company and the dynamics of the transit flows of your company in the Estonian transit sector in 2000-2006?

<table>
<thead>
<tr>
<th>Very problematic</th>
<th>Moderate concerns</th>
<th>No problems at all</th>
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<td>1</td>
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2b: What is the impact of the following factors on the transit flows in Estonia in 2000–2006.

- The EU-Russian economic sanctions
- Estonia’s political and economic relations with Russia
- The development plan of Russian ports
- Changes in the transit volume of oil products
- Estonia’s inability to react and adjust to global trends
- Changes in local infrastructure in Estonia
- Railway infrastructure charges in Estonia
- Unilateral nature of Estonia’s transit flows
- Competitiveness of the Estonian transit sector
- Competitiveness changes in container transit
- Changes in the value, added in the transit corridor

2c: Entrepreneurs to respond to the question: Who are 3 main transit partners of your company in 2000-2006? Experts to respond to the question: Which countries were 3 main transit partners of Estonia in 2000-2006?

3a: What was the state of transit sector and the transit flows in Estonia in 2007-2008?

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<thead>
<tr>
<th>Very</th>
<th>Moderate</th>
<th>No problems at all</th>
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2 Please note that following questions 2, 3, 4 and 5, cover the same questions for four different periods: 2000-2006, 2007-2008, 2009-2011 and from 2012 onwards.
Between EU Membership and the Sanctions Regime against Russia: Factors behind the Collapse of Estonian Transit Sector

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<th>problematic</th>
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3a(1): Entrepreneurs to respond to the question: Characterise the state and wellbeing of your company and the dynamics of the transit flows of your company in the Estonian transit sector in 2007-2008?

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3b: What is the impact of the following factors on the transit flows in Estonia in 2007-2008?

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<td>Moderate positive</td>
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<td>Changes in container transit in Estonia</td>
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3c: Entrepreneurs to respond to the question: Rank 3 main transit partners of your company in 2007-2008? Experts to respond to the question: Which countries were 3 main transit partners of Estonia in 2007-2008?

4a: What was the state of transit sector and the transit flows in Estonia in 2009-2011?

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<tr>
<th>Very problematic</th>
<th>Moderate concerns</th>
<th>No problems at all</th>
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</table>
4a(1): Entrepreneurs to respond to the question: How would you characterise the state and wellbeing of your company and the dynamics of the transit flows in the Estonian transit sector in 2009–2011?

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<th>Very problematic</th>
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<th>No problems at all</th>
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4b: What is the impact of the following factors on the transit flows in Estonia in 2009-2011?

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<tr>
<th>Factor</th>
<th>„1“ Strong negative</th>
<th>„2“ Moderate negative</th>
<th>„3“ No impact</th>
<th>„4“ Moderate positive</th>
<th>„5“ Strong positive</th>
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4c: Entrepreneurs to respond to the question: Rank three main transit partners of your company in 2009-2011? Experts to respond to the question: What do you think which countries were the three main transit partners of Estonia in 2009-2011?

5a: What was the state of transit sector and the transit flows in Estonia from 2012 on?

<table>
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<tr>
<th>Very problematic</th>
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5a(1): Entrepreneurs to respond to the question: Characterise the state and wellbeing of your company and the dynamics of the transit flows of your company in the Estonian transit sector from 2012 on?

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</table>
5b: Please give your assessment (make X to the respective field) of what is the impact of the following factors on the transit flows in Estonia from 2012 on.

<table>
<thead>
<tr>
<th>Factor</th>
<th>&quot;1&quot; Strong negative</th>
<th>&quot;2&quot; Moderate negative</th>
<th>&quot;3&quot; No impact</th>
<th>&quot;4&quot; Moderate positive</th>
<th>&quot;5&quot; Strong positive</th>
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</table>

5c: Entrepreneurs to respond to the question: Who are 3 main transit partners of your company from 2012 on? Experts to respond to the question: Which countries were 3 main transit partners of Estonia from 2012 on?

Part II of the survey: Assess the future outlook of the Estonian transit sector over the next decade

6a: How do you estimate what will be the state of transit sector and the transit flows in Estonia in 2019–2029?

<table>
<thead>
<tr>
<th>Very problematic</th>
<th>Moderate concerns</th>
<th>No problems at all</th>
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<tbody>
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<td>1</td>
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</table>

6a(1): Please the entrepreneurs to respond to the question: How would you assess, is your company operating in the Estonian transit sector also in 2019–2029?

<table>
<thead>
<tr>
<th>Yes, certainly</th>
<th>Yes, with a high probability</th>
<th>I can’t say</th>
<th>No, with a high probability</th>
<th>No, certainly not</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
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</tbody>
</table>
Please the entrepreneurs to respond to the question: Characterise the state and wellbeing of your company and the dynamics of the transit flows of your company in the Estonian transit sector in 2019–2029?

<table>
<thead>
<tr>
<th>Very problematic</th>
<th>Moderate concerns</th>
<th>No problems at all</th>
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</table>

6b: What will be the impact of the following factors on the transit flows in Estonia in 2019–2029?

<table>
<thead>
<tr>
<th>The EU-Russian economic sanctions</th>
<th>„1“ Strong negative</th>
<th>„2“ Moderate negative</th>
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<td>Changes in the value, added in the transit corridor</td>
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<td>Rail Baltic project (track gauge of 1435 mm)</td>
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6c: Entrepreneurs to respond to the question: Who will be 3 main transit partners of your company in 2019–2029? Experts to respond to the question: Which will be 3 main transit partners of Estonia in 2019–2029?

6d: Assess the transit volumes and general trends in the Estonian transit sector in 2019–2029?

6e: What should be certainly done in Estonia to contribute to the development of the Estonian transit sector in 2019–2029 and what should be certainly avoided?

6f: What role should the state play in developing the activities in the Estonian transit and logistics sector?

**Book Review by Paul Dobrescu and Mălina Ciocea**

**Abstract:** This book is arguably the most comprehensive and detailed analysis of the crucial process of Romania’s post-communist transition. The author defines capital broadly, not just in terms of volume of money, but also as previously produced goods, that ensure the development of economic activities. This vision allows him to give a detailed description of the real economy of Romania, its problems and their possible solutions. The dense analysis manages to capture many of the structural weaknesses of the economy. The thin capitalization of public and private firms, Romanian or foreign, the low complexity of production, and modest value added, make exports dominated by intermediate goods, leading to low competitiveness. This leads to the assessment that the current state of the Romanian economy is specific to low- to middle-income developing countries, rather than developed economies. The impressive amount of data backing the analysis leads to sound conclusions.

**Keywords:** capital, competitiveness, post-communist transition, thin/thick capitalization

Florin Georgescu’s book exudes modernity: it is connected to contemporary debates and is integrated into the dominant theoretical trends of the moment, examining the Romanian experience through the lens of internationally circulated theories.

One such prominent source is the “magnificent, sweeping meditation on inequality”\(^2\), as Paul Krugman labelled Thomas Piketty’s book.\(^3\) In fact, Piketty is

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the author that Florin Georgescu quotes extensively, not so much for his ideas (the distribution of the newly created revenue between labour and capital, an idea with deep political roots, has been approached by Georgescu before the publication of Piketty’s work), but for the soundness of his analytical construction. For instance, Thomas Piketty et al. have developed a historical analysis of inequality, based on researching the tax records in developed countries over the course of several centuries. Given the extent of the research, the conclusions are difficult to refute. Florin Georgescu undertakes a similar task: “Our study, based on a long series of data over the last 27 years, can offer a historical perspective to the economic and social phenomena and processes we have analysed, which will contribute to designing and applying public policies meant to allow objectively necessary adjustments to building the Romanian society.”4 The data supporting the analysis is impressive: for instance, 650000 balance sheets turned in to the Ministry of Public Finances. To this ample empirical data, the author adds substantial analyses conducted before 1989 on various enterprises.

Another author that Florin Georgescu quotes frequently is Paul Volcker, former Chairman of the Federal Reserve, who managed to put a stop to high rates of inflation in the 70s, that threatened to bring to an end not just the American economy, but American society, as well. Martin Wolf said that “the financial crisis would not have happened if Volcker had been Fed chairman in the 2000s.”5 The Financial Times commentator remarked, with reference to Paul Volcker’s recent book: “sound money (by which he does not mean precise targeting of inflation) and sound finance are two of what Volcker calls his ‘three verities’. His third is ‘good government’.”6

Florin Georgescu is, arguably, the most experienced professional in finance and banking in Romania. His deepest beliefs are organically correlated to what has been called sound money and sound finance. The three volumes of this book stand proof to that. He argues the idea that the strongest pillar of democracy is capital, whose interests should be interwoven with the country’s interests.

We must remark on the broad definition given to capital, not just in terms of volume of money, but as comprising “all goods that condition the production of new goods and services”. This is a vision that Florin Georgescu shares with Virgil Madgearu, who defined capital as “the entirety of goods created through previous economic activity, destined to facilitate and achieve future production.”7 This places both authors in the tradition of economic thinking of the 20th century (Schumpeter, Samuelson and so on), which „sees capital as production factor.”8

Given the magnitude of the analytical effort, substantial analysis and the soundness of the conclusions, this book will become a reference for future research on the Romanian post-communist transition. The state cannot be absent from such ample processes. Florin Georgescu aims his criticism directly at the state, its activity

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6 Ibidem.
7 Georgescu, op. cit., p. 10.
8 Ibidem.
and vision for Romania’s evolution. For instance, when he asserts that privatization was a means to change ownership, rather than capitalize firms, or when he is critical of directing newly created value to capital, rather than labour, it is clear that he means that such decisions were the responsibility of the state. The same modern perspective is employed to analyse the relationship between the state and the market. Under the increasing influence of neoliberal thinking, most Romanian authors have supported the idea of the minimal state. Not Florin Georgescu, who shares the balanced view on the role of the state in the economy of other international authors, ten years after the financial crisis of 2008. In this respect, Dani Rodrik has said that “markets and governments are complements, not substitutes. If you want more and better markets, you have to have more (and better) governance. Markets work best not where states are weakest, but where they are strong.”

Florin Georgescu’s book has the merit of overcoming the rhetoric of macroeconomic balance, positive dynamics, and promising evolutions, words that have marred the debate over the last 30 years in Romania, which have been characterised by massive deindustrialization, amassing debts, and chaotic evolutions. Instead, Florin Georgescu proposes a radiography the health of the national economy, an examination of the roots of sustainability, and the factors that decisively influence an economy’s viability and competitiveness. The analysis is valuable because it looks into the depths of the economy and focuses on what has effectively been done. “Seeing that actors in the public space speak almost exclusively about fundamental macroeconomic indicators, such as gross domestic product, inflation rate, general government deficit, external debt, I have found it necessary to analyse the economy’s structural and qualitative aspects, especially the indicators for capital, arrears, financial loss and income inequality, whose evolution significantly influences the sustainability of macroeconomic stability.” Here lies the value of the book, which will ring true over decades and will guide research on the Romanian economy in the future.

The analysis reveals the multiple structural weaknesses of the real economy. Most are associated with current capital formation in Romania, whose focal point has been the creation and stimulation of the private entrepreneur, “based on neoliberal ideology guidelines”, that see the private entrepreneur as the main factor that would stimulate investments, promote innovation, and take risks. Such objectives could have been accomplished by privatization. The formula might have been correct, but it was applied hastily to respond to a political imperative: transforming former collective ownership into private ownership. This resulted into the former collective ownership being visibly diminished to the point of annihilation. The counterpart – prosperous, dynamic, competitive private ownership – failed to materialize. So did modern capitalism. Romanian capitalism was of the suffering, inefficient kind. “Following privatization, Romanian industry was destroyed. At this moment, economy is dominated by big corporations, especially foreign capital corporations. Local capital is mainly present in SMEs, in trade and services that create low gross value added (GVA) and maintain low

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11 *Georgescu, op. cit.*, p. XVIII.
The author speaks about “negative realities”. In our opinion, this is an understatement. Romania has semi-capitalism: semi-competitive, semi-productive, semi-satisfying capitalism. The wealth amassed before 1989 was distributed to small groups in privileged positions, and has not encouraged competitive economic structures. That is the reason why now islands of efficiency and prosperity are surrounded by underdevelopment and confusion. Trust, the real engine of free initiative, is hard to find. The conclusion is clear: Romania’s real problems are not institutional or image-related, but “the deeply embedded characteristics of economy and society, that place Romania closer to low- to middle- income developing countries than to developed economies.”

The author asserts that “capital is the main factor that influences economic growth.” As a result, the national priority, the aim of public policies in Romania, should be the means to increase capital – intensifying savings, accelerating investments, attracting foreign investment, and changing radically the volume and structure of exports. Transition triggered radical changes: the state ownership plummeted (from 55% in 1997 to 12% in 2016), while private ownership rose sharply (from 45% in 1997, to 88% in 2016). As a consequence, nonfinancial private capital became dominant. The analysis of the internal mechanisms of this transformation reveals several paradoxes. Firstly, the relationship between local and foreign capital: in 1997, nonfinancial local private capital represented 36% of total capital in real economy, while foreign capital was at 9% of total value. The data looks different for 2016: foreign capital represented 48% of total value, with Romanian capital amounting to 40%.

At first sight, the sector of local private firms is well developed and dynamic. In reality, given the number of SMEs, the sector is neither very stable, nor very dynamic. Furthermore, it is very polarized: the top 1% of firms generated 67% of total GVA and employed half of the number of workers, in 2016. In the case of corporations, foreign capital corporations covered significant ground: out of the 1700 corporations, foreign capital corporations (772 units) generated 28% of GVA, while local capital corporations (736 units) generated 10% of GVA. The worrying trait of the private sector is thin capitalization, especially among local firms, but also among foreign firms (where 51% are thinly capitalized). That is why the author proposes a reform of private capital firms, which has already happened in other former socialist countries. This reform would discourage the behaviour: private gain – public loss and ensure the normal correlation: private gain – public profit.

In Romania, value added in most economic sectors is low, sometimes discouragingly low. Florin Georgescu shows that in process manufacturing, apparently a more promising field according to statistics, GVA is at best at medium level. Even in those areas of process manufacturing where foreign capital is present, most investment is directed towards crude oil refining, metallurgy, food industry, textiles and clothing industry, cement, glass and ceramics products, and wood processing, which are activities with relatively low complexity, generating low GVA. The direct consequence is that export is dominated by these products. 60% of the Romanian exports, shows the analysis, is constituted of intermediate goods,
which are assembled in other countries. Consequently, products made in Romania cannot be efficient or competitive.

In today’s world, there are thickly capitalized countries: Germany, China, South Korea, etc. Acquiring capital requires a lot of work, effort and, above all, vision, supported by the determination to implement it. It is difficult to become an export-oriented economy. Trade surplus countries are vision-led, have combined the market strength with state-led strategy, and have understood that export is a must for capitalization.

In recent years, a significant gain for the debate on development has been the direct criticism of the excesses of hyperglobalization in the pre-crisis period, when “globalization became the end, national economies the means.” This is a new context, and Romania should be prompt in understanding that a development strategy should be its real priority. Because it is a structural construction, the development strategy is unique, and does not follow canon. It needs to respond to global development trends, but it relies on the internal economic, social and cultural realities, so it has to be realistic and adapted to the context. An imported development strategy is a contradiction in terms.

Florin Georgescu’s book is dedicated to Romania’s development over the last 30 years. It is the endeavour of an author who feels for Romania and who asks hard, sad and disheartening questions. A real debate on Romania’s development needs to follow the publication of this book. This is not a theoretical study, but an ample investigation which should stimulate a real change in public policies in Romania. Many of the book’s assessments, correlations, and findings could ground a government program, and even a country program. In this context, one of the important ideas in the book is that euro adoption needs to be accelerated. In the absence of a country program, the adoption of the euro could be the only driving force for development. In fact, Romania’s history teaches us that important developments have, most often than not, been the result of constraining contexts which have encouraged ample engagement.

References:


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About the author of the book:

Born in Bucharest in 1953, Florin Georgescu graduated from the Academy of Economics in 1976. He has a PhD in Finance, Money Circulation and Credit from the Academy of Economics (1989). Florin Georgescu had a research internship at the University of Missouri Kansas City with an Alexander Hamilton Scholarship, under the Fulbright Program (August 1991-May 1992). In 1992 he was appointed Secretary of State at the Ministry of Economy and Finance and later became Minister of Finance (1992-1996). In 2012 he was Deputy Prime Minister and Minister of Public Finance. He was Deputy in the Chamber of Deputies (1996-2000 and 2000-2004). Since 2004 he has been Vice Chairman of the Board and First Deputy Governor of the National Bank of Romania. He is a Professor and Doctoral Supervisor at the Academy of Economics, Bucharest. He has published extensively and is well-known as a prestigious academic.
Rien ne se crée sans les hommes. Rien ne dure sans les institutions.

Jean Monnet