

DZIENNIK GAZETA PRAWNA

OBJECTIVE INSIGHTS, RESPONSIBLE JOURNALISM

SPECIAL EDITION LONDON 2023

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What causes certain countries to experience an incredible developmental acceleration at certain points in history? A group of researchers dealing with the so-called Asian developmental states (South Korea, Hong Kong, Singapore and Taiwan) concluded in the early 2000s that the decisive factor is pressure, consisting of three main factors. Their effect contradicts many common intuitions and explains why Poland may yet surprise us, especially in circumstances which, in theory, should not inspire excessive optimism in anyone. Talking about leadership in Europe, or our country becoming a second South Korea, would obviously be a gross overstatement. Nonetheless, today, Poland may well be called a European tiger, poised to take a leap precisely at a time when blood is literally spilling all around it. In fact.

The Worse, the Better

The three elements of developmental pressure mentioned in the study by Richard Doner, Bryan Ritchie and Dan Slater are: first, a tense internal situation; second, a strong external threat; and third, lack of easy sources of so-called 'rents' for power to feed off of, such as e.g. valuable raw materials. It would seem that these factors are hardly conducive to development. Nothing of the sort: a country faced with such challenges finds itself, like Lewis Carroll's Alice, in an enchanted land where it must move forward quickly to have any hope of maintaining the status quo and run nimbly to even move at all. The tense domestic situation means that the government must ensure the wellbeing of its citizens in order to survive. A decline in living standards would be met with the outbreak of a massive wave of discontent. In turn, the external threat creates an impetus for military technology, which in time also affects investments in civilian technology, especially in case of countries that potentially might have to face a very large hostile army. The only thing that can save them in such a scenario is a really massive technological advantage.

One rather controversial fact should also be mentioned here: the political tensions (strong polarisation, difficulty in finding consensus) historically experienced by the Asian "tigers" often led to the emergence of authoritarian or semi-authoritarian governments, which made a sort of a bargain with the public: economic development in exchange for support and no attempts to control the authorities. For both moral and political reasons, countries looking to emulate this model should be wary of such drastic measures as, for example, the repressions during General Park Chung-hee's dictatorship in South Korea. It is worth noting here, however, that it is quite typical for developmental states to be dominated by one strong party, which the opposition at times accuses of undermining democratic principles, but which, thanks to objectively occurring development of the country and the absence of a reasonable alternative vision, is able to remain in power for many years. There is, however, one condition: the country must actually develop.

Interestingly, in Poland such an approach is, according to many commentators, a trademark not only of the currently governing Law and Justice party, with its social generosity, expansion of the army and industry and reform of the judiciary, but also of the opposition party, the Civic Platform, with its policy of hot water on tap and some nervous reactions of the prosecutor's office to media criticism of the authorities. At present, however, the political dispute is mainly about which party will be responsible for building the new "Polish model", which will guide the country's development in the reality that will emerge after the war in Ukraine.

The second factor is the external threat. All Polish governments have maintained a cautious or openly defensive attitude with regard to Russia. There is no denying, though, that Donald Tusk's cabinet, somewhat inspired by Germany's policy, at some point lost this vigilance; the Law and Justice party, which is currently in power, keeps mercilessly chastising them for it. Nevertheless, both parties share a far-reaching consensus as to the significant threat from the east. Having said that, the unprecedented scale of military procurement and investments in armaments is



Tigers Like Pressure

Poles understand better and better that, in political terms, due standing is not gained as a reward for being a docile partner, but in recognition of victorious confrontations. Not necessarily bloody and destructive confrontations, but confrontations nonetheless

indeed a speciality of the Law and Justice government, which sometimes causes consternation among analysts associated with the opposition. Indeed, this year alone Warsaw will spend at least three percent of GDP on armaments. The purchases will include several hundred HIMARS launchers as well as Abrams tanks and dozens of F-35s. Poland is also buying one thousand K2 tanks from South Korea, in addition to a sizeable number of K9 self-propelled howitzers, FA-50 combat aircraft and K239 Chunmoo rocket launchers.

Military procurement includes not just off-the-shelf goods, but also investing in cooperation with partners and in-house programmes. The WB Electronics Group has already started supplying the Polish army with Gladius system reconnaissance and combat drones; the total value of the programme is PLN 2 billion. Also in the pipeline is the Polish Borsuk combat vehicle project, worth several dozen billion PLN, with first deliveries already scheduled for next year. The Polish-British consortium has also embarked on implementing the Narew air defence programme, worth several dozen billion PLN (it is not yet known how many vehicles will ultimately be delivered to Polish units; still, it is one of the largest projects

in the history of the Polish armaments industry). At the same time, Piorun systems produced by Mesko plants and Krab gun-howitzers from Stalowa Wola are becoming the export stars of our industry.

Not Wearing Older Siblings' Hand-Me-Downs

As regards the civilian economy, the crucial area for Poland is IT technology. Warsaw is trying to leverage this field in particular to extricate itself from the trap of dependent development, which is somewhat reminiscent of the practice of older siblings' clothes being handed down to younger ones, if we substitute production types for clothes. In a nutshell, the geo-economic centre tries to keep for itself the highest-value-added industries where, at a given stage of overall technological development, profits can be maximised while minimising inputs. Something new emerges soon, and the centre tries to snatch it up, leaving the old-type production to the periphery. In the nineteenth century, England produced textiles on a large scale. Today it specialises in financial services and education, while T-shirts are produced by Bangladesh. The smallest ones in such an economic family are the periphery, the middle

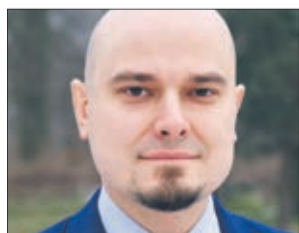


Photo: Gordian Heinrichs/Press mat.

MICHAŁ KUŹ

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Unloading of Korean K2 tanks and K9 howitzers bought by Poland. The port of Gdynia, December 2023



Photo: Adam Wazława/PAP

meanwhile, should be focusing on manufacturing cars, excavators and buses – and indeed such factories have been emerging here for some time. At the same time, however, thanks to the extraordinary skills of Polish programmers, a famed “tiger leap” into the IT industry is also possible. Poland would then become Europe’s Silicon Valley, while Germany would remain an assembly plant for heavy machinery. For the time being, such trends are not yet overly evident in macroeconomic data; moreover, it is unclear how the global economy in this sector is going to be affected by development of artificial intelligence. However, a ranking by the well-known technology company HackerRank singles Poland out as the third best country in the world in terms of programmer capabilities. The data also shows that IT-related professions enjoy more prestige in Poland than in the old European countries. Even now, the industry employs 430,000 people and accounts for approximately 8 percent of GDP. And giants such as Google, Samsung, Facebook, Amazon and Intel are increasing their presence in Poland. Overall IT investments are growing exponentially (16.8 percent in 2021). At the same time, Polish cities are becoming key investment centres for Europe, and are ranked in the top ten in almost every category of the latest economic ranking of the “fDI Intelligence” periodical.

Beyond Germany and Russia

As a country, Poland is not hostile to any of its neighbours. Foreign Minister Zbigniew Rau emphasised this in his recent parliamentary exposé. What caught the attention of commentators, such as for example former diplomat and Atlantic Council analyst Daniel Fried, was that the Polish minister had also found some warm words for the Russian opposition, suggesting that a Russia other than that of Putin was possible. In addition, Fried, in the spirit of American progressivism, pointed out that it would be best for the future of NATO if Poland and Germany overcame their mutual animosities.

From the American perspective, such a wish seems natural. From a Polish perspective, it is just as natural to strive for a policy of one’s own, rather than continually just fitting into a niche between Germany and Russia so that the rest of the West can be comfortable. It is not without reason that Polish home-grown political projects, from 1918 onwards, involved attempts to build regional cooperation

that would not be unequivocally aligned with either Berlin’s or Moscow’s interests. It is hardly surprising that the moment when foreign policy of both these centres failed is seen by some of the Polish elite as a developmental opportunity. And this is by no means about revanchism, especially with regard to Germany, but about peacefully leveraging one’s strengths and presenting oneself to one’s allies in the best possible light. Also, by observing relations between the developed countries, the Poles understand better and better that, according to the philosophy of Hegel, a German philosopher after all, true “recognition”, the so-called *Anerkennung*, i.e. in the political sense, recognition of one’s strong position by other players, is not obtained as a reward for being a docile partner, but in recognition of victorious confrontations. Not necessarily bloody and destructive confrontations, but confrontations nonetheless.

The errors of German policy towards Russia have been understood and recognised, and Berlin itself is now offering comprehensive assistance to Ukraine, including military assistance – all true. But is a return to building the so-called continental axis really out of the question anymore? In Germany, politicians from the *Putinverteher* group, i.e. people who “understand Putin”, still retain power and influence, and their policy from the time of Willy Brandt onwards has largely consisted of slowly balancing Anglo-Saxon influence through European political cooperation, raw materials from Russia and sales to Chinese markets. Economic considerations are the deciding factor in this. The German economy, as the recent OECD report points out, is not very innovative and doesn’t invest enough in research. It relies, as Janis Warufakis puts it, on so-called mid-tech, i.e. technological solutions on a medium level of sophistication. And in order to be competitive in this particular area, raw materials are necessary, preferably on the cheap. These are usually found in countries whose elites oppress their citizens. In a way, this enables them to sell off their natural resources without asking anybody’s opinion and without care for either political stability or economic development in the long term (the so-called raw materials curse). All this heavily suggests that Berlin is only waiting for the Putin regime to collapse and for someone like Navalny to settle in the Kremlin to return to business as usual.

Central and Eastern Europe will understandably be sceptical about such measures.

Let’s call it as it is, today Russia represents neo-totalitarianism, and truly pro-democratic Russian politicians are for the most part already in the same place to which Boris Nemtsov was sent in 2015. Navalny, by contrast, if his statements were to be followed diligently, seems to be but a slightly more economically liberal Russian imperialist. Russian society at large still has an eminently negative attitude towards political pluralism. Nevertheless, the Oscar for a documentary film on Navalny and support his organisation is receiving from Germany clearly demonstrate that the West holds certain hopes about this politician. All we can do is to appeal to our Western partners, especially those in Washington, not repeat past mistakes and not seek new premature resets in relations with Russia and ill-considered “leadership partnerships” with Germany.

The fact that Russia is moving ever closer to China, while France, as in the 1960s, is adopting a wait-and-see attitude, puts Poland and Central Europe, or more broadly, Central and Eastern Europe, in a unique geopolitical position. These are the countries that are the West’s direct resource in the confrontation with the Sino-Russian bloc, which for the time being offers no hope of breaking up. In addition, these countries are increasingly competitive economically, and politically – increasingly assertive and determined to defend their position as actors.

Poland’s vision of cooperation within the framework of the Three Seas Initiative and the Bucharest Nine allows the countries of the region to hope that something in their history will finally change. It allows them to dream of a policy more independent of the powers that want to communicate over the heads of the people in our region. For the United States, in turn, cooperation with Central and Eastern Europe facilitates driving a wedge into possible Eurasian arrangements that threaten its interests. For if Washington elites decide to once again blindly pin their hopes on a transatlantic reorientation of Germany and a liberal democratisation of Russia, they will do so in contradiction of the lessons of history and, to a certain extent, at their own risk. On top of that, they would be stuck with increasingly less innovative, entrenched economies. Today, Europe’s future can hardly be found in its western half. The key region, the beating heart of the continent, is to a greater and greater extent its geographical centre. © P

ones are the semi-periphery, and the centre is the big sibling.

Today, a good example of a country semi-peripheral to the American centre, strong and good at what it does, is Germany. They don’t have their own Apple or Google, but they produce excellent cars, excavators and machines for industrial production. The problem is that it is increasingly difficult to make good money on mid-level technologies, unless you save on raw materials.

Following the logic of switching production types, Germany should be switching to microchips just about now – and indeed an Intel factory is being built there. Poland,

SELF-PROMOTION

DEBATE

“Strengthening the Bridge to Freedom”

Jarosław Fuchs,
Vice President
of the Management
Board,
Bank Pekao S.A.



Paweł Kurtasz,
Chairman of the Board,
Polish Investment &
Trade Agency



Dariusz Szwed,
acting CEO of
PKO Bank Polski



Robert Śleszyński,
M&A, Strategy &
Investor Relations
Executive Director,
PKN ORLEN



Wednesday, May 24, 2023, 5.25 pm

Read more about „Poland. Bridge to freedom” event on pp. 40-41

Silence and Efficiency

Poland's vision as a world power and Washington's future lead partner in Europe, one enjoying the benefits of economic and technological cooperation with the US, is tempting. Yet one has to ask how realistic it actually is

Witold Sokala

In the course of his visit to the United States in April, prime minister Mateusz Morawiecki was explicit about his dream of Poland's new position in the emerging world – in conversation with Vice-President Kamala Harris during their bilateral meeting, and when speaking at the Atlantic Council. Some commentators promptly accused him of playing in-house pre-election games. Given the current public mood and opinion, the looming threat of Russian aggression, and the as-yet unresolved war along our national border, the notion is a bestselling poll booster. Under the circumstances, who wouldn't be interested in becoming best buddies with the greatest military power on the planet while welcoming an influx of American investment back home? Especially since the

potential alternative is somewhat meagre, European integration doing far from well and the Germans and French continue to shoot themselves rather spectacularly in the foot time after painful time. Since tying lead politicians of the opposition to the Berlin-and-Brussels option is a piece of cake, it should come as no surprise that pro-government media keep harping on the motif, with the intent of reinforcing the following sequence of connotations in the constituency's collective mind: "The United Right – alliance with Americans, security and prosperity. The opposition – hats off to European Union bureaucracy and the Germans, servility to Russia, trouble." And it matters not one bit that the reality is considerably more intricate and nuanced – the dichotomy makes a perfect flogging whip before the upcoming autumn elections, not least since the opposition have

Joe Biden
and Andrzej Duda
meet during
the US President's visit
to Poland in February 2023

shown a propensity to seek pitfalls for Law and Justice (PiS) in EU institutions. Inclinations to idealise the Union and its main actors in the process are another factor, resulting in a repression of facts pointing to unquestionably unfortunate trends in key Western states. The phenomenon has thus come full circle, as the other side's propaganda has an easy job in showcasing such "eyes wide shut" among many of the liberal elites as proof of foreign agent influence, gaining notches of support in the process.

Change is underway

It is, however, noteworthy, that the true stakes extend well beyond the results of upcoming elections. The strategic pause in our region – if not across the globe – is approaching its inevitable end, forcing us to bid farewell to old paradigms which formed and shaped our perception of international politics and the Polish *raison d'état* over these past decades. This, in turn, requires of us a capacity to observe the "American" and "European" options through the prism of giant development trends and a longer-term perspective, rather than current interests or party and tribal preferences.

Critiquing Germany is a pivotal theme many politicians and supporters of today's opposition consider unpalatable (and, in all likelihood, unthinkable), no matter whether out of intellectual habit or something akin to opportunism. Be that as it may, the attitude smacks of disregard for the blatant fact that Berlin has for some time now been objectively harmful to long-term European integration and economic development interests (having adopted an enormously egotistic operational model that is clearly dysfunctional to a number of other states).

The Sick People of Europe

The aforesaid manifested itself in migration and energy policies forced down the throats of European Union partners when Angela Merkel was Chancellor. The shock bred by Russian aggression against Ukraine has modified Germany's mind-set only to a certain extent. While one can admittedly continue tying one's hopes



to the lesser partners of today's ruling coalition – liberals of the FDP and/or the Greens, they are not the ones setting the tone for Germany's strategic actions, a fact that will in all probability remain unchanged for the foreseeable future.

With Chancellor Olaf Scholz at the helm, the domineering SPD is joyfully forging ahead into the same old bloopers. Far from symbolic only, evidence includes the final nuclear shutdown. While well-nigh suicidal, the act is a perfect match for the ideological insanity represented by a considerable share of the German and European public, and – first and foremost – of contemporary interests behind multiple industrial lobbies across Germany. True, the decision was heavily criticised by expert communities and some politicians of the CDU/CSU opposition party. And what of it? Nowadays, Berlin has a long-standing tradition of experts having the public ear under circumstances more or less typical for Poland as well – experts are heeded only if and when making statements convenient to those in rule, if not outright commissioned by them. Christian democrats reek of insincerity a mile away, criticising the SPD for something they had themselves been doing when in government, abandoning the atom as well as displaying inclinations to pursue business as usual with Russia. To be precise: while there are other parties in Germany than those mentioned herein, the intentions of those with any chance for joining the government – the extreme left and right – are even worse in terms of interests represented by the Federal Republic's neighbours and partners.

Meanwhile, France – the European Union's second strongest country – seems to be testing transatlantic solidarity (case in point: president Emmanuel Macron's Beijing trip, and opinions he voiced when in China) while hip-deep in domestic disputes. On a side note, complete disregard for Taiwanese sovereignty aspirations (and implied indifference towards other small and medium-sized nations) in favour of an easier accord and cushier business deals with Xi Jinping's violent and oppressive regime, coupled with police batons and rubber

bullets as pivotal arguments in the retirement system debate, are all symptomatic of French political elites bidding a spectacular farewell to what used to be the flagship piece in their international soft power: the value triad of “liberté, égalité, fraternité”. Some analysts claim that Macron has hit a dead end in his home policy, and is desperately seeking favourable media coverage as a counterweight in foreign strategy. While plausible, such developments point to strategic incapacity, as annoying the Americans serves neither the French economy (with its firm ties to US trade, and sensitivity to American sanctions) nor security (while Russia is no threat to France, Paris will find itself unable to protect its “soft underbelly” – the broadly defined Middle East or sub-Saharan Africa – without close cooperation with American armed forces or its intelligence service). Meanwhile, Marine le Pen's movement is ostensibly the most likely alternative for Macron and his centre-left faction. Should le Pen take over, she will in all probability not boost French commitments to transatlantic relations or European integration.

Consequently, Germany and France alike will be gradually waning in terms of political and economic importance, their fundamental interests and paths drifting apart. It is highly plausible that Paris will (willy-nilly) ultimately decide to reiterate the British solution, slackening its ties to Europe as such in favour of attempts to restore the geographically fragmented Francophone commonwealth. Said commonwealth would be based on the relative attractiveness of the cultural and administrative model, the influence of powerful state and private corporations, and – primarily – efficient diplomacy and intelligence services, as well as high-quality, expeditious armed forces (with a prestigious nuclear component to justify France's aspirations to international power ranks, if only to a certain extent). Guaranteed by civil nuclear use, the energy security of metropolises would be of some importance to the mix as well. In contrast to the British, the French would – if part of such a project – likely try to juggle China and the United States for as long as reasonably possible. All Berlin would then be left with would entail restoration of the Holy Roman Empire of the German Nation – a circle of states and statelets under complete political domination, hailing chiefly from Central and South Europe, with relics of symbolic autonomy, this time as a backdrop for its own, increasingly uncompetitive economy.

What Will Happen in America

Such a scenario opens the floodgates for the United States' European policy, as many countries of the Old Continent will be unwilling (or outright unable) to make themselves part of French or German circles of influence. This will most certainly be true for Scandinavian states, which, although close to Germany in terms of civilisation and economy, are greatly attached to their particular development models, not to mention extraordinarily pragmatic. This, in turn, means that while playing on the team, one does not necessarily have to identify oneself with it to the extent of embracing a willingness to follow its downward spiral out of the league.

In terms of security, Sweden and Finland's amazingly swift abandonment of their traditional neutrality policies in the face of the threat of military confrontation with Russia was as clear a beacon as can be. Helsinki has recently sent out another signal, opening a domestic nuclear power plant at the exact moment the last German facilities were approaching shutdown. While largely coincidental, the moment was hugely symbolic.

Should Washington indeed make a play for Europe, making hay while the sun is shining is a great temptation – the hay in question standing for the development of ever-closer relationships with North European states, not least because they may prove valuable as partners (to the US as well as Canada) in the Arctic policy, whose significance is about to skyrocket. Our neighbours from across the Baltic Sea, on the other hand, will be keen to attract the US as a counterweight for hazard number one: Russia, and challenge number two: Germany, the latter dragging them down. An already visible phenomenon, they will also make a play for restoring old (pre-EU) ties to the British. The effect of scale, coupled with that of “closing off” the Baltic Sea (and, in consequence, securing its eastern shores: Lithuania, Latvia and Estonia) will in turn warrant Poland joining the arrangement. Harbingers of our turn in that direction have been al-

ready observably outlined in Helsinki and Stockholm. While of slightly lesser importance to our neighbours in the north, the US ought to be keen on expanding their area of influence to include Romania and – of course – Ukraine, as a point of departure for the Black Sea and an opening for considerable human, industrial, and resource potential, not to mention a potentially attractive sales market. The key phrase being “ought to”.

Judging by its policies, Joe Biden's administration seems to be of a similar opinion. While one may complain that the US could do more and do it faster for Central and Eastern Europe, they are doing whatever they consider beneficial to the US; holding that against them makes little sense. Even should they decide to offer greater support to us (and/or Ukrainians), one would do well to bear in mind that governmental policies are a result of external requirements on the one hand and current in-house conditions on the other, the latter including such factors as parliamentary compromise, or the requisite to respect the personal emotions and needs of constituents who are not necessarily willing to wait patiently in line for their money.

As we see it, blatant threats include the United States' potential shift towards isolationism. While indeed objectively suicidal – to American economic interests in particular – it is far from impossible, since a large (and ostensibly growing) part of the constituency are in favour. Whenever millions of voters begin straying from the straight and narrow, there will always be politicians more than happy to surf the wave, even if privately aware of the reefs ahead.

The US's (much more realistic) shift towards a confrontation with China in the Indo-Pacific with a resultant shift in their entire focus to that region would also translate into the possible collapse of any alternative centres of power in Europe. The scenario has many supporters on the other side of the Atlantic, as observably confirmed by the rhetoric of multiple candidates potentially in the running during the next US presidential elections. We cannot afford to disregard the danger. Be that as it may, one has to admit that prime minister Morawiecki did his best when in the States, persistent in explaining the close connection between warding off Russia and keeping China at bay.

The Polish Story

Regrettably, our prime minister's visit passed well-nigh unnoticed by the lead movers and shakers in the American media community. We ought to see that as a reminder of the humongous asymmetry in mutual relations, and suppress any brash self-satisfaction of becoming another United Kingdom or Israel in US policy (believing your own propaganda is any politician's black scenario). We are far from any such rank, the road ahead long and requiring fundamental policy changes.

We should also bear in mind that Poland is nowadays benefitting from a time of extraordinary economic upsurge, one that will not last forever. It largely ties in with our geopolitical position, one predestining us for the role of an essential trans-shipment location for military aid dispatched from the West to Ukraine in combat, as well as for our own contribution to said aid. Regardless, the war in Ukraine will be over, in a year or five. While Russia may emerge weaker or even divided, it will certainly not vanish altogether. Concurrently, certain conditions may produce the effect of the US losing its sense of having something of consequence to earn along NATO's eastern flank. Pivotal focus will shift from supplying tanks and ammunition to the capacity for doing business on war destruction removal and restoration, as well as later on the use of resources the vast intermarum is brimming with. Nobody can guarantee ex officio that our wartime contribution to military or political assistance will in any way translate into a strong position once a new hand is dealt. This is not how the world works.

Consequently, the great power of domestic armed forces or aid-related distinctions are not the key to preserving Poland's high status in regional play, or gaining substantial benefits from the same, regardless of choices ostensibly made by the United Right these days. At least, that is not all there is to it. Business compatibility with the United States will be considerably more important, the United Kingdom, Canada and any interested Nordic countries a close second – players who will, in all likelihood, intend to remain active in the region, and, in contrast to, e.g. the Germans (not to mention the Chinese), will have the

capacity to come up with some kind of a win-win proposal for Poland. This is where we have a lot to work on, beginning with the completely inefficient education and science system; not only underfunded, it is also based on striving for “paper” ratios and indices, bureaucratic correctness, and ideological indoctrination. We are therefore facing actual issues of the so-called brain drain effect (the most creative individuals leaving the country) coupled with a replication of the most dysfunctional behavioural patterns, Turanian and Asian rather than Anglo-Saxon and Nordic in provenance. As a result, many of our politicians and managers are completely unaware of and unused to standards that are key to the American or Scandinavian competitive market edges. All of the aforesaid is further aggravated by the state's excess role in the economy, the politicising of all decisions (in the worst possible sense of the term – based on a propensity to seek temporary benefits arising from party and/or clan membership), something that the Anglo-Saxons, for one, simply cannot fathom. And so on, and so forth.

Programmes Above and Beyond Party Divisions

In order for Poland to gain long-term capacity for becoming a subject rather than merely an object in Central European playoffs – and gaining desirable benefits for its security and the prosperity of its citizens in the process – three fundamental conditions have to be met. Firstly, the American and Nordic relations direction would have to be permanently approved and accepted by all major political powers. The Law and Justice party and their acolytes must thus make an actual effort to improve their credibility in the field, since the rhetoric or indeed practice of these past months have not fully concealed the former deeds of the people in power today. Suffice to recall the ostentatious convention of assorted Salvini and Orbán in Warsaw, Poland's prime minister in attendance, on the eve of Russian aggression against Ukraine, or action formerly taken by the Antoni Macierewicz coterie, which in all actuality resulted in the fragmentation and paralysis of Polish special forces. The Citizens Coalition (KO), Poland 2050 and the Left, on the other hand, should summarily quit dreaming of the entirely unrealistic “Union of universal happiness”, and admit that it will not come to pass in the life of today's generations. In consequence, they should also abstain from criticising Law and Justice en masse for that party's assertiveness in terms of Polish relations with the European Union and Germany – all such criticism results in is letting the opponent score while curbing developments essential to the good of the country.

Secondly, internal ponderings on who it would be coolest to team up with – such deliberations are often used as a smoke screen for passivity or out-and-out larceny in domestic policies. It is high time politicians rolled up their sleeves and began working to modernise the country, in order to make it an attractive location for bilaterally beneficial investments rather than a source of cheap labour in other people's assembly plants combined with a workable sales market. Aforesaid investments should be flowing in from the United States, Taiwan, Sweden, the United Kingdom, South Korea, Japan, and Finland – as well as Germany. Germany is not going anywhere and will continue influencing our position for years to come. The point would be to learn how to make deals with our western neighbours, making American leverage a useful tool. This item comprises a postulate of urgent improvements to our diplomacy and special services – another appeal beyond party line divisions. Sound impossible? Take a good long look at the Anglo-Saxon or even Nordic model.

Last but not least, we would do well to talk less of our hypothetical position as an international power, and do more to develop actual implements of influence – in such countries as Ukraine and Belarus, as well as in the European Union and NATO partner community. This talk makes us look ridiculous (and that's one thing), while triggering adverse reflexes in our neighbours, who are far from willing to replace Russian domination with one of the Polish variety. “Greater silence gets you farther”, as one of the few adages worth taking over from the Russians goes, even if they are themselves better at preaching than practicing it. ©

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Photo: Jakub Szymczak/KPRP

Katarzyna Pełczyńska-Nałęcz
interviewed by Marek Tejchman

President Emmanuel Macron has announced that the time of plenty is coming to an end. Does war mean that we need to remodel the workings of our economies and society?

The conflict is bound to be long-lasting. It may have different phases: hot, suspended, mixed. But due to the very nature of the Russian regime, it will not expire. Today, there is no sign that Russia could ever abandon its imperial lust, become predictable and democratic, cooperate with the West on a friendly basis. Even if a change of power were to occur there, the new leader would probably be a son of the regime, someone who acts in accordance with the logic of the system. It is also important to be aware that the war with Russia is but a part of a bigger picture. There is a fierce competition going on with China concerning technology, as well as economic and geopolitical-military superiority. We too are a part of this game. We see the global leadership of the United States, the core around which the collective West is built, being undermined. It is our place in the world, and therefore its fate is also ours.

Does the rivalry this collective West is engaged in resemble that of the Cold War era?

Once again, we see a clash of two superpowers - except this time it is the US and China. We - Europe and Poland - are trying to keep some distance from this confrontation, because we hope that cooperation with Beijing will allow us to remain globally competitive. But in truth, we cannot say that we do not care about the rivalry of the great powers, that we simply want to live our lives. On the global chessboard, Russia, China and many other countries of the so-called global South are declaring "check" today. If the West is to survive, it must carve out an existence for itself in the world. And this must be done together, not each on its own.

How?

In these times of war, an unexpected unity and joint action by the West has taken place: successive rounds of sanctions, a strengthening of transatlantic cooperation, Finland and Sweden's decision to join NATO. We have provided unprecedented support - military, financial, intelligence and information - for Ukraine, which is fighting this war not only for its own sake. All this is worth appreciating. However, these joint actions are not something that is impossible to reverse. Since Russia is unable to achieve a quick military victory, it has in a sense returned to its pre-war strategy, designed to divide, disorganise and weaken the West by pitting one against the other. The mechanisms of hybrid warfare, which we have temporarily forgotten as we focused on military action, remain in operation. Interference with our parliamentary elections is almost a given. We must be ready for political corruption, feeding radicalisms and populism,

Collective or Anarchy

The US wants Europe to be a partner, not a teenager that needs to be constantly looked after. It cannot be that we invest in education, health, comfort of living and social welfare, while the Americans arm themselves for us



Photo: Wojtek Górecki

KATARZYNA PEŁCZYŃSKA-NALĘCZ

Director of the Strategie2050 institute, associated with the Poland2050 movement. In 2012-2014, undersecretary of state at the Ministry of Foreign Affairs, and in 2014-2016 ambassador of the Republic of Poland in Russia.

or disinformation attacks. There is a certain asymmetry of potentials here: Russia has a much greater platform for hybrid influence in the West because we have public debate and elections. No such thing in Russia. We need to understand that democratic systems are less adapted to current realities. They do have their weak points.

What policies do we need?

Everybody would love an easy recipe, but there is no such thing. At the highest level, what we call the European way of life, based on prosperity and the belief that win-win cooperation takes care of everything, peace and stability are the result of economic cooperation, public money is invested in comfort of living, education, health, not in the military, must change. This way of life has no chance of surviving. The only question is whether it will change in a planned and controlled manner or crumble under the pressure of reality. I advocate the former. This is what Macron was talking about when he called the passing era a time of plenty.

So what now?

Let's start with the narrative. Beyond the real dimension, there are political emotions. We know how many things today are being determined by those. It is necessary to build a new political imaginary in Europe. This narrative cannot just be about

preserving the status quo or the end of something good, because that won't enthrone anyone. It must be a story about something new, about something we are striving for. I think every country needs to have its own narrative about this. It's about making the transition to a new European way of life happen in a positive, hopeful mood. This is a huge task. We, Europeans, have lost the ability to talk about a better future because we had a swell present. Today, China, India and other Asian countries can talk about the future. We keep focusing on the past, the lost past. This will not get us anywhere. We need to talk differently - about a circular economy, about using goods in a better, more efficient way, about enjoying the forest more than the next car. This is a huge challenge that cannot be ignored in this day and age. Without an ambitious positive goal, we won't know where to go.

Where does weapons production fit into this new narrative?

I talked about the imaginary, now let's move on to what is happening in the real world. First of all, we need to ensure our energy security. Our economic and climate priorities overlap today: we need to wean ourselves off Russian supplies. In Poland, this means a shift to renewables (perhaps also nuclear power) and more distributed energy sources. Families, housing cooperatives, villages, but also small and medium-sized businesses should be able to produce energy for themselves more cleanly and cheaply. We also need more military capability. Which means not only purchasing weapons, but also expanding the arms industry. Today, the constraint on aid to Ukraine is - apart from money - the lack of production capacity. We don't have enough missiles, munitions, drones, etc. Europe should have a common strategy here. It represents an investment effort, but potentially also new jobs and a boost to growth. At the same time, we have to remember that we are in a constant economic war with Russia. At the beginning of the invasion, we introduced sanctions without calculating our own costs, driven by impulse. And then it turned out that some of them hit us more than they did Russia, as for example in case of the coal sanctions. For Russia it was a mosquito sting, and for some European economies - a heavy blow. The strategy of economic warfare requires constant vigilance as to where the front is, which units to drop and which to withdraw at any given time, where to go on the offensive and where to consolidate. Europe is learning this war

and has already lost several battles to Russia. It is necessary to learn from this and to treat this state of affairs as an economic-war situation.

Are the actions of the European Commission moving in the right direction as it is?

Many things are moving in the right direction. The decision to set price caps on petroleum products and oil is a good one. The key, however, will be its implementation - whether the EU and the G7 manage to impose these caps on the rest of the world. A lot also depends on the willingness of the member states - and this is another difficulty for the European Union. We are fighting this war not as a single country, but as a series of entities that have to reach a consensus in order to act accordingly. Which usually takes time and sometimes proves entirely impossible.

Germany is constantly accused of failing to consult the rest of the EU countries on its aid programmes, of using its financial potential to pursue selfish policies and of failing to take into account the interests of smaller countries.

In an economic war, strategies must be thought out several steps ahead. One must also appreciate an opponent who is prepared to use his resources in a determined and radical manner. Germany has indeed focused on saving its own economy at the expense of EU solidarity. Their underlying belief is that national protectionism will solve the problem of this war, which it will not; instead, it will undermine the supreme good, which is the cohesion of the collective West. This does not change the fact that the stability of the German economy is very important. If Germany plunges into recession and loses its competitiveness on global markets, it will pull other countries down with it. It would be advisable for us in Poland to understand this too.

Should our response not be to seek to strengthen the EU institutions at all costs in order to restrict this German potential?

Higher-level politics, that is, the mechanism whereby we give up part of our sovereignty to acquire even more sovereignty, is even more relevant in this new era than in the previous one. I would posit that without the European Union, our sovereignty would be seriously threatened. Not only by Russian aggression, but also by the economic and technological dominance of Asia and the USA. French, German and Italian sovereignty is also at risk. The ability of these countries to impose and enforce the eco-

nomie rules of the game will diminish dramatically if each plays separately.

How can we maintain the cohesion of the Union while avoiding domination of the strongest?

It is worth looking at what EU leadership looked like in the previous era. The Union has a long history. It included periods of strong national leadership - German or German-French. Many things in the EU have been pushed through because certain countries have more clout.

So a strong European Commission holding back the German-French tandem is a myth?

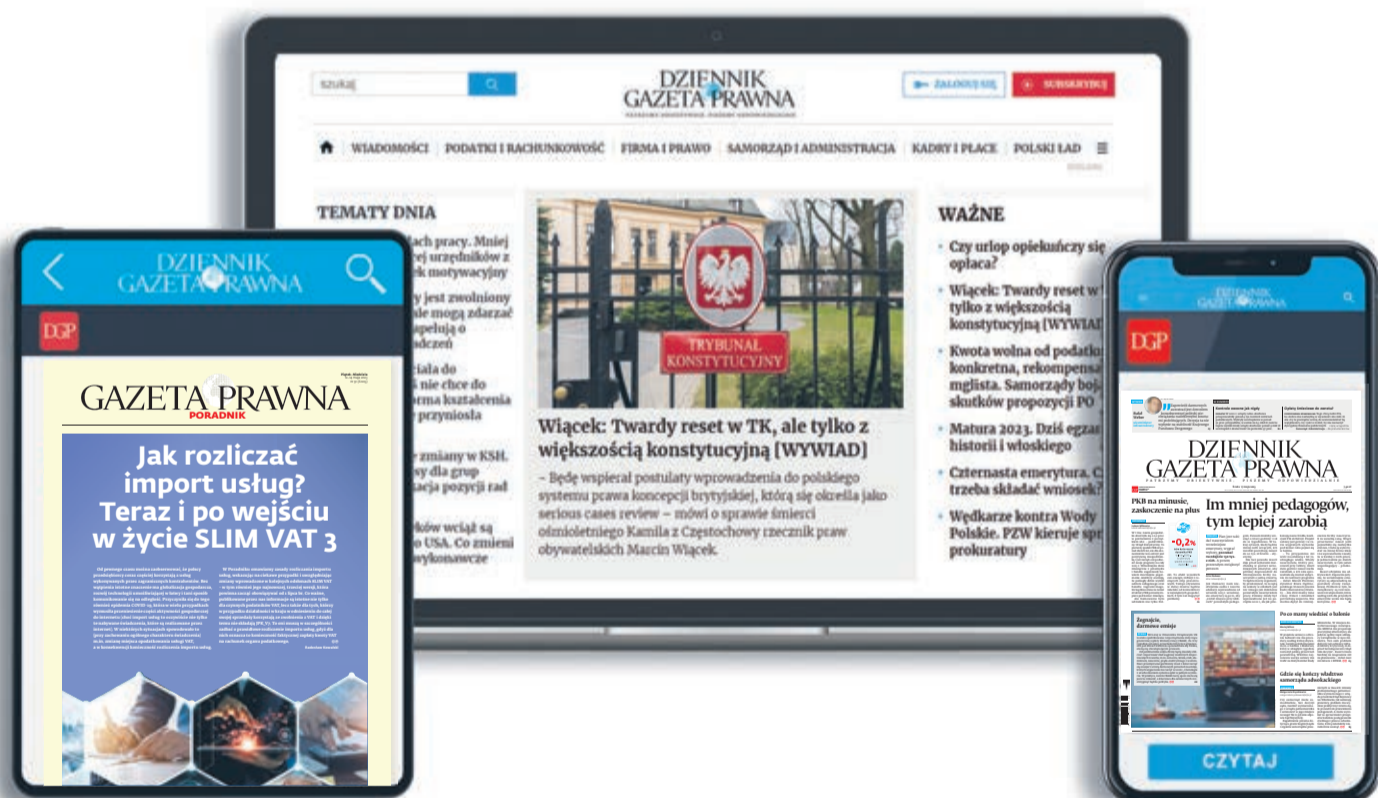
There were times when strong EU institutions held back Germany and France, but there were also times when their national interests were pursued. Our region joined the EU from a catching-up position. We could not set our own conditions. In my opinion, today's EU institutions are nowhere near as weak as people say. A lot has been achieved: joint purchases of vaccines, a ground-breaking fund based on the credibility of the EU budget, subsequent rounds of sanctions. All that would not have been possible without strong European institutions. Massive changes have occurred in terms of national leadership. We have a confused Germany, a weakened France, Italy undergoing turbulences. And then there is our region, whose aspirations far exceed the former role of a disciple. It is therefore no longer possible to maintain the one- or two-nation leadership we experienced in the past. What is needed today is either collective leadership, where there are more players, or variable-geometry leadership, where players specialise in different solutions. Other options are either anarchy or outsourcing leadership to the United States.

Should we try to build security mechanisms alongside the US?

Military leadership was outsourced by Europe to the US. Today, the US is here. Will they be here tomorrow? There is no such guarantee. It is certainly desirable that they remain on the continent for as long as possible and that their level of involvement is as high as possible. Which does not change the fact that today, the US wants Europe to be a partner, not a teenager that needs to be constantly looked after. The war with Russia is fought on our continent, not in America. Even if we want as large a US presence here as possible, this should not absolve us of the obligation to build our own military capabilities. It cannot be that we invest in education, health, comfort of living and social welfare, while the Americans arm themselves for us. Military capability is an essential attribute of strength and sovereignty in our world. Unfortunately, as it turns out, humanity has not yet grown up enough to make it but a relic. Poland and Europe must be determined to invest more in security. Otherwise we will not survive as sovereign states. ©

Collaboration: Maria Lipińska

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The Union Is at Risk of Irrelevance

Diversity is still a strength of the EU, a driver of innovation and competition. Let's not fight it with attempts at centralisation, which is doomed to fail

Dalibor Rohac interviewed by Sebastian Stodolak

The war in Ukraine is the largest armed conflict in Europe since World War II. Fortunately, on a much smaller scale. Do we have the European Union to thank for this?

In part, yes, but I also think that without the post-war disarmament of Europe's most aggressive countries and the protective umbrella extended by the United States, things could have been worse. The European Union and the US have strengthened and complemented each other with regard to ensuring peace on the Old Continent.

Excellent! We have identified the first benefit of the EU's existence. Can you point out, say, three others?

Of course. The first thing is economic cooperation, abolishing tariffs, reducing protectionism, reducing regulation. In short: a common market that allows companies to operate freely throughout the Union. The second thing is that the EU has evolved into a certain model of functioning and an institutional model that was attractive to post-Soviet countries which, in their desire to join the Union, have implemented some good reforms.

And the third...

The EU is - still - an organisation that allows member countries to preserve their particularities. This diversity is a great value that allows Europeans to broaden their perspective and learn from each other.

I ask about the positive aspects of the Union quite deliberately. In your book "Governing the EU in an Age of Division," you say that "The Union is not a state and should not strive to become one. Nor should it aspire to be a superpower." You also write that it is necessary to "dismember the EU." This sounds like Euroscepticism. Except I am not a Eurosceptic.

But you believe that the direction being imposed on Europe by its elites is wrong.

We should perhaps start with the fact that the European project itself carries different meaning for different people. Liberals would like to see the EU as a federalist structure, imposing constraints on nation-states, though not necessarily a state-like structure itself. There are also those who believe - and this is the dominant perspective in Brussels - that governance at the level of nation-states should be replaced by a more centralised formula. We also have the Christian Democrats, who are somewhere in the middle with their idea of subsidiarity derived from the social doctrine of the Catholic Church. There is a disagreement in Europe as to what shape the Union should ultimately take. And this disagreement is not inherently a bad thing. Rather, it is an enduring, inherent aspect of the EU. Europe has never been centralised. Even the Roman Empire was governed through sophisticated institutional structures, not a simple decree from Rome. Power was always fragmented at some level.

In the US, individual states have a lot of autonomy and differ markedly from each other, but they also form a strong state. Why can't Europe be like that?

While citizens of Texas and California may disagree on specific policies, there is a consensus at the meta-level as to what is and is not the job of the federal government. In contrast, there is no such consensus in the European Union. In this situation, the minimalist formula of classical liberals seems reasonable: we want European institutions to operate only in those areas where they bring substantial outcomes that could not be achieved at the level of individual states. And on the condition that governments have similar preferences for the purpose and manner of supranational action.

Excellent. But isn't that an argument that could lead



Photo: press materials

DALIBOR ROHAC

economist affiliated with the American Enterprise Institute, researcher at the Wilfried Martens Centre for European Studies, a think tank of the European People's Party

you to exactly where you want to run from? What do you mean?

Let's consider security. Isn't an enemy like Russia a good argument for a common European army? And after all, an army is one of the attributes of a state, which you do not want the EU to become...

Okay, I agree. Such a demand is not fundamentally unreasonable. But let's take a closer look at it. Do countries have similar preferences with regard to how such an army should function?

No. It is often said that a common European army would be in fact managed by the most influential EU

country, Germany. The Poles might want that.

This is really not something I worry about. Countries will not cede the control of their most important asset, just like that, to be used, for example, to patrol the Italian coast or to search for terrorists. Nor is a European army necessary for the armies of individual countries to cooperate in certain areas, such as the defence of the EU's eastern borders.

One of the arguments for EU federalisation is the need to compete against the economic superpowers - the US and China. Are the individual countries of Europe able to compete against them on their own?

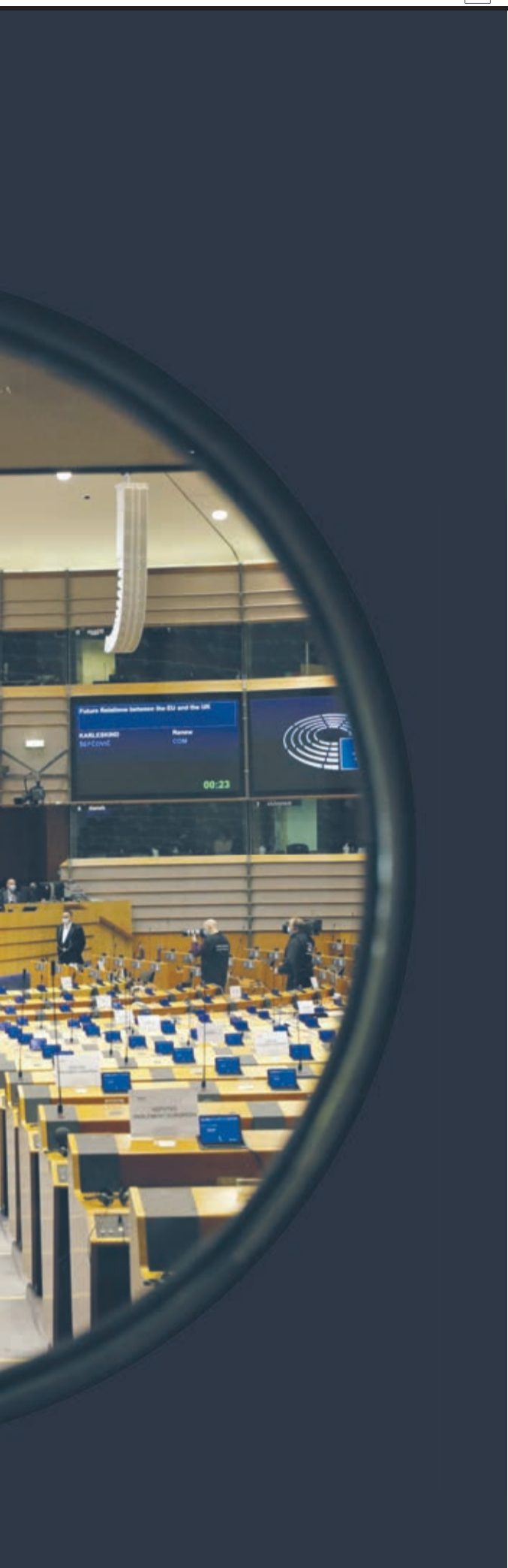


Photo: Olivier Hoenig/EPA/PAF

The euro is one of those projects where politics trumped economics. It is the child of the same intellectual currents that push for stronger integration at all costs. Let's remember that people from completely different camps - both the left-wing Paul Krugman and the right-wing Milton Friedman - have cautioned against such an idea because of the deep structural differences between the economies of the member states and the lack of institutions, such as a fiscal union, that would ensure smooth functioning of the monetary union in the long term. So the argument for Poland joining the euro zone is relatively weak - as weak as it was when the euro was adopted by Slovakia, where I'm from.

You don't seem to suffer excessively because of it?

Slovakia is a small economy, and there were very real concerns in our country that we would end up on the margins of the European decision-making process. By becoming a member of the euro zone, we have joined the club of decision-makers, we have a real voice in important matters. Poland hardly needs to fear that it would be pushed away from the table if it remains outside the euro zone. Especially since your country has strong ties with the US - this alone makes you a force to be reckoned with. The introduction of the euro in Slovakia also had a political fallout. Shortly after joining the monetary union, Slovaks faced the prospect of participating in the bailout of bankrupt Greece and co-creating stabilisation mechanisms for countries in crisis. This came as a surprise to them; after all, we were not the ones who caused these crises! As a result, the centrist government of the time collapsed, and leftist populists took power for the next eight years. What was supposed to strengthen cooperation with the EU has, in a sense, diminished it. Over the past decade, the euro tended to be a source of conflict, and I don't see an easy way to change that. A fiscal union will be very difficult to implement. It was impossible to forge even under the exceptional conditions created by the pandemic. The countries of the North will not want to finance the South, and the South will not want to become dependent on the North.

So if you were Polish, you would not hurry to adopt the euro?

No, I would not.

There is another important argument for strengthening integration. Global problems, like climate change. Isn't saving the world worth sacrificing a little sovereignty to Brussels?

I am not convinced that a centralised plan to combat climate change would solve the problem. Each country chooses its own decarbonisation path, tailored to its own capabilities and circumstances. Germany is so averse to nuclear power that even in the time of Russia's war with Ukraine, it prefers to increase consumption of

coal-based energy. Poland, on the other hand, is going to build a nuclear power plant. I believe that coordination of policies is necessary only in the areas where the preferences of nations are aligned. Central planning of the energy transition is a mistake. Nuclear energy enables the most effective reduction of CO₂ emissions, successive countries are turning towards it, but the EU itself does not support it. This is telling.

Many critics of the EU offer nothing in return, do you?

I don't want the EU to disappear.

But you do want a deep reform.

Yes. I want the EU to become a platform based on common principles, enabling the solution of problems that are unsolvable at the national level. The list of such issues would be relatively short.

You would throw away the Lisbon Treaty?

I am a realist. We won't get rid of the treaty or institutions like the European Parliament or the European Commission. However, I do believe that we can achieve quite a lot. There is a provision in the Lisbon Treaty concerning the possibility of strengthened cooperation within the EU. This does not necessarily imply a deeper integration. It applies to areas such as defence, energy, economy. The key thing is that this cooperation should not be mandatory. In my vision, the Union is a network of smaller and larger integration agreements between countries, not a doomed attempt to implement the same solutions for everyone. You can be in the EU, but you don't have to be in the euro zone. You can be in Schengen, but you don't have to be in the EU. You can be a member of the common market, but you don't have to join other structures. Such optionality would reduce the scale of tensions. As it is, people are feeling that things are being imposed on them.

And where would we get the catalogue of rules that every EU member would have to agree to?

It already exists. It is the famous four freedoms that form the framework of the common market: free movement of goods, services, capital and people. The European Commission should uphold them, and that should be its fundamental task. Nothing more is needed. At present, all too often, the EC shows much more initiative when introducing new regulations, the consequences for which it bears no responsibility. And one more comment on the European treaties: it is better not to change them anymore. So far, every attempt to revise them has resulted in more complexity.

How could your proposal be put into effect?

This can only be done on a mental level: it's all about changing the political culture by rejecting the assumption that more central integration is always a good idea. Even now, many pro-

jects inside the EU are carried out outside the treaties and do not involve all countries. EU functioning should be based on building various coalitions. The most successful ones would attract additional countries and grow larger. Others would fade away.

How is this model you propose different from a situation where the EU does not exist?

The model without the EU would entail the risk of disintegration of the common market, and the common market, or common interests, is the basis for any cooperation, including political. Existence of the EU should also come with the option of expelling a member state if it does not meet the basic requirements. Currently, no such expulsion procedure exists.

Yes, and that's why disciplining the member states is difficult. Poland is being punished for violations of the rule of law by being denied funds. This resembles disciplining children by taking away their pocket money. Is this approach supposed to cement the Union?

I share these doubts. However, let's keep in mind that the EU budget is small compared to the budgets of member states. Let's not overestimate its importance. I also do not believe that expanding the EU budget is a good idea. Historically, aside from infrastructure spending, it has been spent on things that are questionable to say the least. In turn, in the areas where it could serve the economies - such as research and development - it has been extremely stingy.

From your perspective, the conflicting interests between countries that the European Union seeks to dispel should be accepted. Do I understand this correctly?

Yes. The belief that these conflicts can be overcome is linked to the belief that some kind of European identity can be built. But while there may be some civilisational references common to all Europeans, such as the legal tradition of Rome, or Christianity, these are not enough to produce something akin to a European nation. The processes through which national identities emerged took many decades. And even then, coercive government intervention was often necessary. France had a plethora of local languages up until the 19th century, making it difficult to forge a French nation. At a certain point, the government simply imposed the requirement to learn French. Now imagine what would happen if Brussels were to start openly fighting national identities today...

The Americans were able to build a common identity somehow.

Having fought a civil war in the process. Besides, Americans had a sense of uniqueness and a common destiny: they were the people who emigrated from their homeland and sought their fortune in a foreign land, or their descendants.

Interestingly, proponents of a common identity rarely refer to history; they usually talk about the future and common challenges, such as the need to combat climate change.

I don't think this approach is likely to work. There is nothing uniquely European about global warming. It's a global problem. Why would that be constitutive to a European identity?

Because the European project has become not only an economic and political project, but also a moral one. We want to spearhead the progress.

Such a perception of the EU stems from a leftist vision in which our destiny is guided by some objective processes and that one must be on the "right side of history." And European elites know which side that is. I doubt it. Such an approach leads to pushing for unattainable goals and consequently to eroding trust in institutions. Some imperfections in life must be embraced. Kant wrote that "from such crooked timber as humankind is made of, nothing entirely straight can be made." He was right. Historically, Europe has benefited from being diverse. That diversity is still the EU's strength, a driver for innovation and competition. Let's not fight it with attempts at centralisation, which is doomed to fail. Civilisations that centralised ultimately ended up languishing.

How do you see the future of the EU in 10 years, if centralisation tendencies prevail? Should we expect more "exits"?

I think that the EU will not fall apart - at least as long as it protects the common market, for example. The UK did not become a paradise after Brexit. Many of the problems blamed on the EU still persist because their real source lay in national policies. There is nothing appealing about Brexit. It is far more likely that the EU would simply become irrelevant. EU institutions will continue to exist, but member states will not care about their voice and whatever rules those institutions would attempt to impose.

So there is a risk that the EU will become an anachronistic, bureaucratic overgrowth with no real relevance to the operation of the countries of Europe?

I believe so. We have to accept that people disagree, that they have different visions of the future and values - and build the EU on that foundation. Our continent could resemble 19th-century Vienna, full of cafés where intellectuals with ground-breaking ideas hung out. Although they outraged their contemporaries, they were free to develop. It was a dynamic environment conducive to innovation and progress. The way to reconcile disparate interests is through the market, where each can win. If the EU focuses on this, and curbs its centralist ambitions, its future could be bright. ©

We should ask ourselves the question: in what aspect do we want to compete with them? In my opinion, it makes sense to build prosperity and competitiveness in Europe by creating a good legal and regulatory environment. If I were convinced that the way to do this is to transfer more power to European institutions, I would support it. But I don't believe that centralising power over the economy would work that way. Nor do I believe that harmonising economic, social and tax policies is a good idea.

the other hand, introduction of the common market had to include elements of harmonisation, such as product standards. Otherwise it wouldn't have worked. Besides, the common market still doesn't really function in the area of services. This area is heavily regulated by member states. It's hard for them to give up their own, often protectionist, regulations. The idea that architects from Greece should be able to freely design houses in France triggers resistance from interest groups.

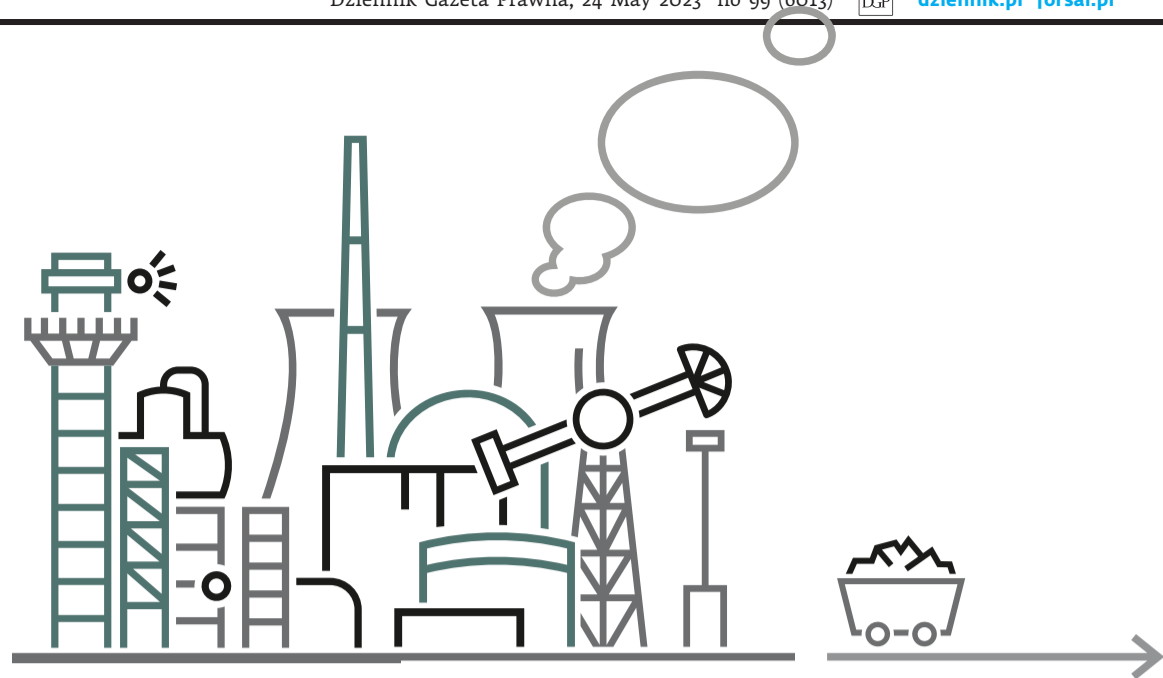
There is also the monetary union. If we are not aiming to build a European super-state, how should we view this project?

Why?
What if we harmonise it all in the wrong way? Europe as a whole would suffer. On

PARTNER CONTENT

Countries that represent over 90 percent of the world's GDP and nearly 70 percent of the global population maintain that their goal is to achieve carbon neutrality.

The European Union, the United States, the United Kingdom, Japan, Australia, and Korea have set a target of reaching carbon neutrality by 2050. China has set a slightly longer-term goal of 2060, while India aims to achieve carbon neutrality by 2070.



Orlen Group

European corporations have already initiated their transition towards a greener future. Orlen, too, is actively engaged in developing new business segments that align with the green transition, and invests in onshore and offshore wind farms, photovoltaics, hydrogen technologies, nuclear power, and biogas.

The transition to a greener economy is a complex undertaking due to the significant scale of action required and the ongoing development phase of many solutions. Recognizing the urgency, the European Union is actively promoting technologies within its member states that offer the fastest and most effective reduction of CO₂ emissions. This serves as a roadmap for European companies when planning their medium- and long-term investments. The accelerated transformation presents significant challenges, necessitating substantial investments and unwavering commitment from all stakeholders involved. Corporations, including leaders in the oil industry, are updating their strategies to address the new realities. Their goal is to adapt to these changes by harnessing the potential of the transformation and green energy.

The global energy mix will shift towards an increased reliance on electricity and hydrogen. Even prior to the commodity crisis, projections indicated that these sources could contribute up to 32 percent of final energy consumption by 2035, with electricity and hydrogen accounting for half of the energy mix by 2050. The remaining 50 percent is expected to be comprised of bioenergy, gas, oil, and, least of all, coal.

Renewable energy sources (RES) will play an increasingly vital role in the global energy landscape. Over the next 15 years, the share of renewables in the energy mix is projected to double. Depending on the development scenario, renewables have the potential to contribute from 80 to 90 percent of electricity generation by 2050, with solar and onshore wind emerging as the primary contributors.

The Orlen Group is actively aligning itself with the global shift towards sustainability. The company has committed to achieving climate neutrality by 2050 and has outlined a series

of tasks to be accomplished in successive stages leading up to this goal. In February of this year, Orlen announced an updated strategy that outlines its plans until 2030. The strategy is centred around investments in renewable energy, expanding its own extraction capabilities, and driving projects that promote environmentally-friendly practices, such as biogas and biofuels. Additionally, Orlen is actively pursuing the development of hydrogen technology, modern petrochemicals, and safe nuclear power. To support these initiatives, the Orlen Group has allocated approximately PLN 320 billion (equivalent to approximately EUR 70.7 billion) for strategic projects by the end of this decade. These investments will not only transform the Group by protecting the environment and mitigating climate change but also contribute to the growth of the national economy. They will modernize the energy and fuel industry, generate new jobs, and foster the development of cutting-edge technologies.

Orlen moves towards clean energy

Renewable energy sources and small-scale nuclear power are set to play a pivotal role in Orlen's transformation. By 2030, Orlen aims to have over 9 GW of installed renewable energy capacity. The company plans to invest PLN 70 billion (approximately EUR 15.5 billion) in new energy and renewable sources during that period. In just seven years, Orlen anticipates that as much as one third of its EBITDA will be generated from renewable energy sources. Furthermore, Orlen has committed to reducing emissions intensity of its power generation by 40 percent by 2030 and completely phasing out coal-fired power generation by 2035. The Group is actively focusing on the development of offshore and onshore wind power and photovoltaics, and is preparing for the construction of Small Modular Reactors (SMRs), which will be a vital component of the future energy mix, providing reliable and stable power capacity.

Offshore projects are considered crucial for their scale and efficiency, and Orlen recognizes their significance. In collaboration with Canadian company Northland Power, Orlen is currently constructing its first offshore wind farm with

a capacity of up to 1,200 MW, to be commissioned as early as January 2026. The project remains on schedule, with all major contracts already signed, encompassing the supply of offshore substations, foundations, turbines, cables, and the construction of the onshore energy receiving station. In 2023, Orlen will commence activities at the construction site, followed by the foundation installation in 2024 and tower installation in 2025.

The company has recently applied for new permits in the Baltic Sea, recognizing the immense potential of this basin. The Baltic Sea is characterized by its relatively shallow depths and favourable wind conditions. Orlen's interest extends beyond the waters of Poland to encompass the entire Baltic Sea region. Lithuania, Latvia, and Estonia also have ambitious plans for offshore wind development. In September of this year, Lithuania will hold its first tender for offshore wind projects, and Orlen intends to participate in this opportunity. With its ownership of the Mažeikiai refinery and network of service stations in Lithuania, Orlen aims to leverage energy generated from offshore wind turbines to decarbonize its refining assets in the country.

Orlen also recognizes the importance of developing onshore wind and photovoltaic farms as part of its renewable energy strategy. This year, the company has launched two photovoltaic farms: Wielbark in the Warmińsko-Mazurskie voivodeship with a capacity of 62 MW, and Gryf in the Wielkopolskie voivodeship with a capacity of 25 MW. These installations, requiring an investment of approximately PLN 260 million, generate green energy that can power nearly 43 thousand households. Orlen plans to expand the Wielbark farm by increasing its capacity to 70 MW by the end of this year. Next year, the company intends to construct additional photovoltaic installations with a combined capacity of around 68 MW near the Gryf farm. One of these installations, called Mitra and situated in Przykona on post-mining land, has already obtained the necessary permits. The 65 MW farm is projected to provide electricity for over 30 thousand households.

The Orlen Group is also actively building a portfolio of onshore wind farms. Presently, the

Group operates ten onshore wind farms with a combined installed capacity of approximately 0.7 GW. Orlen's approach to expanding its renewable energy segment involves organic development as well as acquisitions. This includes acquiring pre-existing projects or operational wind farms. Market purchases will be a permanent element of the company's strategy moving forward.

Large potential of small reactors

Renewable sources, which are weather-dependent, will be stabilized with gas blocks. However, Orlen is going further to ensure a steady supply of green energy to the domestic market. In collaboration with Synthos, the company plans to invest in small nuclear reactors, each with a capacity of 300 MW. These reactors offer several advantages, including simplified designs and the ability to manufacture their components externally as prefabricated parts, which can then be transported to the site. This streamlined approach reduces construction time, costs, and complexities associated with larger-scale nuclear projects. The use of small modular reactors (SMRs) allows for a reduction in reactor power, resulting in thinner structural steel and concrete requirements. Once all necessary permits are obtained, the construction of SMRs can be completed in as little as three years. The shorter investment time leads to lower capital costs, and identification of suitable locations for small nuclear units is easier.

Orlen Synthos Green Energy has made the decision to adopt

boiling-water reactor (BWR) technology for its small nuclear reactors. BWR technology has been established for many years, with over a hundred units currently in operation worldwide, albeit at a larger scale of around 1,000 MW each. In collaboration with GE and Hitachi, the reactors will be scaled down to 300 MW while maintaining the same technological solutions. This approach facilitates a faster certification process with regulatory authorities, and time is of the essence due to cost considerations. A similar 300 MW unit is planned for construction in Ontario, Canada. The contract for the Canadian project has already been signed, and certification efforts are underway. The completion of the Canadian project is anticipated in 2028. All documentation developed for the Canadian unit will be directly adapted by engineers at Orlen Synthos Green Energy for the project in Poland. Orlen expects that its reactor will be ready for operation not long after the Canadian one. The estimated operational lifespan of the reactor is projected to be at least 60 years.

Development of hydrogen technology

Orlen is also actively preparing for the hydrogen revolution. By 2030, the company aims to produce approximately 130 thousand tonnes of hydrogen. To achieve this, Orlen is planning the construction of ten hydrogen hubs in Poland, the Czech Republic, and Slovakia. The distributed production model of

The energy crisis, which began even before the outbreak of the war in Ukraine, has demonstrated there is no turning back from the energy transition, and Russia's invasion only confirmed that a shift away from fossil fuels is necessary. With that in mind, we have updated our goals this year, and we are accelerating progress towards their achievement. By 2030, we will invest about PLN 320 bn, including in projects designed to enhance energy supply security for Poland and Central Europe. As much as 40% of our total capex will be allocated to green projects reducing dependence on fossil fuels. The achievement of these ambitious but realistic goals will allow us to deliver stable profits. We want to share the profits with our shareholders. Our efforts will also boost economic growth and create thousands of new jobs.

Daniel Obajtek,
CEO and President of the PKN ORLEN
Management Board





going green

these hubs will help minimize logistics costs. The company is committed to investing PLN 7.4 billion (approximately EUR 1.6 billion) in hydrogen technology over the next seven years. This substantial investment will enable Orlen to produce hydrogen for its internal processes while also offering it on the market as a fuel for heavy transport.

The Orlen Group currently produces and consumes over half a million tonnes of hydrogen annually. At present, this hydrogen is classified as grey hydrogen, primarily derived from natural gas through steam methane reforming technology. Additionally, the Group's Czech plants produce hydrogen through gasification of crude oil residues. This hydrogen is utilized in refinery processes for fuel product purification and desulfurization, as well as in the chemical segment. Orlen is actively working to expand its production of renewable hydrogen through pilot programmes. The company is fully committed to the intensive development of renewable hydrogen production, as outlined in its hydrogen strategy announced last year. The goal is to have 540 MW of new low- and zero-emission hydrogen capacity by 2030, representing approximately 50 percent of the company's total production. Over the long term, Orlen aims to increase the share of green hydrogen to around 80 percent.

Orlen is actively pursuing partnerships to foster the development of hydrogen initiatives. In 2021, the company established the Mazovian

Hydrogen Valley, a collaborative platform that brings together 37 partners from the academic, business, and financial circles. This initiative aims to integrate the expertise of different stakeholders, enabling the accelerated development of large-scale hydrogen projects.

Biogas and biomethane projects

The Orlen Group aims to produce more than 1 billion cubic meters of biogas per year and over 3 million tonnes of biofuels by 2030. To achieve these goals, Orlen plans to invest more than PLN 10 billion (approximately EUR 2.2 billion) in the biogas segment and more than PLN 15 billion (around EUR 3.3 billion) in biofuels over the next seven years. The company is interested in establishing both biogas and biomethane plants. The investment approach will vary, encompassing various ownership formulas, including Orlen's own projects, partnerships, and franchises. Orlen considers an optimal capacity of these units to be no less than 2.5 MW. Biomethane plants will be constructed in areas where connection to the gas grid is feasible, while biogas plants generating electricity will be built in locations where grid access is available but gas grid connectivity is not possible. Additionally, facilities producing liquefied biomethane, known as bioLNG, will be established where the end product can be transported via tanker trucks.

The construction of biogas and biomethane plants presents significant opportunities for the domestic agriculture and agri-

food processing sectors. These facilities enable the management of waste and by-products that currently hold negligible value, often posing a burden within agricultural production and processing. Through biogas production, these materials can be effectively utilized, transforming them into valuable resources. The resulting product, known as post-ferment or fermented organic matter, exhibits excellent fertilizing properties. Biogas and biomethane hold tremendous potential in meeting emission reduction targets. The combustion of biogas is typically regarded as a zero-emissions process. However, when emission-generating substrates are used in its production, the utilization of these substrates for biogas production can be seen as an emission-reducing activity. Consequently, the resulting biogas can be considered to have negative emissions, contributing to the reduction of overall greenhouse gas emissions.

Own upstream assets as the basis for energy security

The Orlen Group has ambitious plans to increase its gas production from the current 7.5 billion cubic meters per year to 12 billion cubic meters per year by the end of the decade. To support this expansion, the company is prepared to invest around PLN 70 billion (approximately EUR 15.5 billion). The development of upstream activities in stable markets, including in Poland and Norway, is seen as a crucial factor in ensuring energy security. With the expected increase in gas demand in Poland, projected to reach around 30 billion cubic meters by 2030, the upstream segment becomes a vital area of focus for Orlen. It is anticipated that the upstream activities will generate an EBITDA of PLN 90-100 billion (approximately EUR 19.9-22.1 billion) by 2030. This segment's contribution is significant, accounting for a substantial portion of the Group's overall financial results. The Group's strategy aims to achieve a total result of over PLN 400 billion (around EUR 88.3 billion) within the next seven years. The combination of upstream assets from Orlen's acquired companies, Lotos and PGNiG, which have operations in both Poland and Norway, is expected to bring about substantial synergies.

Orlen's exploration and production activities extend to multiple markets, including Poland, Norway, Pakistan, the United Arab Emirates, and Canada. The company's production portfolio consists of approximately 74 percent gas, while the remaining 26 percent comprises oil and NGLs (natural gas liquids) - liquid products derived from natural gas production and processing. In terms of reserves, the Group's combined 2P (proven and probable) oil and gas reserves total around 1.28 billion barrels of oil equivalent (boe).

Despite the challenges presented by the Polish hydrocarbon market, the Orlen Group remains committed to developing domestic production. While the large and easily accessible reserves have largely been depleted, the remaining deposits in Poland are small and fragmented. However, Orlen has gained extensive experience over the years and has become adept at operating effectively in this complex environment. Through the utilization of digital tools and advanced technologies, Orlen has managed to overcome the difficulties and successfully extract hydrocarbons from underground reservoirs. This operational efficiency has allowed the company to maintain a stable production level of approximately 4 billion cubic meters per year.

Norway is the main foreign market for the Orlen Group's exploration and production activities. The acquisition of Lotos and PGNiG has bolstered Orlen's presence in the country, where both companies have been engaged in production activities. The Baltic Pipe gas pipeline, with an annual capacity of approximately 10 billion cubic meters, connects the Polish transmission system to deposits located on the Norwegian continental shelf. Orlen aims to maximize the use of its reserved capacity, around 8 billion cubic meters, to transport gas produced by the company itself. Orlen is actively expanding its footprint in the North, with a strong focus on Norway. The company currently holds 98 licences in Norway, with PGNiG Upstream Norway has interests in 64 licences and Lotos Norge in 36, two of which are shared by the companies. The Norwegian market holds significant promise, and investors appreciate the favourable and stable political, legal, and tax environment that Norway offers.

A future for green petrochemicals

Orlen recognizes the potential of the petrochemicals and base plastics market, which is projected to double in value by 2030 according to global forecasts. In line with market trends, the company is investing in this segment and considering new projects both domestically and abroad, also in collaboration with partners. With regard to petrochemicals, the Orlen Group plans to allocate approximately PLN 40 billion (over EUR 8.8 billion) by 2030, of which PLN 5 billion (over EUR 1.1 billion) will be dedicated to green investments. The company aims to reduce the segment's emissions by 25 percent within that timeframe. This reduction will be achieved through various means, including the implementation of energy-efficient solutions, the adoption of carbon capture and storage technologies, and the utilization

of low- and zero-carbon energy sources.

The Orlen Group currently offers a portfolio of 40 petrochemical products that are supplied to over 60 countries worldwide. Among these products, specialty items account for 16 percent of the portfolio. However, the Group aims to shift this composition in the coming years. With a focus on advancing its product offerings, Orlen intends to increase the share of advanced products to 25 percent by 2030. The shift, combined with the current investments in capacity expansion, is expected to drive results of the segment. The Group anticipates that EBITDA generated from its petrochemicals area will double from PLN 3 billion (approximately EUR 662.5 million) in 2022 to PLN 6 billion (approximately EUR 1.33 billion) in 2030.

Installed recycling capacity is also set to increase. Unipetrol, the Czech subsidiary of Orlen, signed an agreement last year to buy the Italian-Czech company Remaq, which is a leader in recycling in Central and Eastern Europe. It produces new petrochemical products from waste, which is part of a closed loop economy. Currently, Remaq operates four plastic regranulation lines with a combined capacity of nearly 29,000 tonnes. However, the Group's plans involve expanding its recycling capacity to over 300,000 tonnes by the end of the decade. This growth will be achieved through potential further acquisitions and organic growth. Increasing recycling capacity has several advantages, including a decrease in the consumption of raw materials such as gas and oil. Such reduction in resource consumption becomes particularly relevant given the energy crisis in Europe following the conflict in Ukraine caused by Russia.

Orlen is exploring the possibility of constructing a new large petrochemical complex in Gdansk, in collaboration with Saudi Aramco, which acquired a 30-percent interest in the Gdansk Refinery. Currently, a feasibility study for the project is being developed. The proposed complex aims to produce both base and specialty petrochemical products, thereby maximising the value chain. Selecting Gdansk as the location for the new plant offers numerous advantages, including its proximity to the existing Gdańsk Refinery and access to the sea. The Group has already commenced the construction of a marine terminal worth over half a billion zloty, which will enable the handling of over one million tonnes of products starting from 2025. This terminal will facilitate various operations, including the shipment of petrochemical products to overseas markets.

The merger of Orlen, Energa, Lotos, and PGNiG has significantly expanded the development potential of the combined entity. With this strengthened position, the company recognizes the opportunity to pursue new petrochemical investments beyond the borders of Poland. The merged entity is attracting more potential partners seeking to cooperate with Orlen. This consolidation has not only bolstered the company's reputation but also strengthened its operational capabilities, enabling easier access to financing for future investments.

We are well prepared for the challenges that come with the energy transition. Following its successful mergers with Lotos, PGNiG and earlier with Energa, PKN Orlen has become the largest company in Central Europe. This has greatly enhanced our ability to invest and harness cutting-edge technology. Orlen is simultaneously growing its business in several key areas, relying on sustainable and responsible business practices. We are investing in renewables, small-scale nuclear power, hydrogen technologies, biogas, and alternative fuels. We are fully aware the transition requires effort, both financial and organisational. As a strong multi-utility group, we are well positioned to meet these challenges, setting the tone for Poland's green transition



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Michał Kuź

Today, it is a truism to suggest that Germany has been committing political errors over the past few decades. Yet save a tiny expert community, few realise how deeply these errors are rooted in German history or the German way of perceiving reality. The process of building energy interests-based relations with the Soviets (in later years: Russia) can be traced back to the 1960s, the intents and mindset under consistent criticism from Washington.

The End of Ostpolitik Draws Near?

The Druzhba (Friendship) oil pipeline was stage one, commissioned in 1964 and criticised from the word go by the Kennedy administration who duly forced Berlin into a ban on importing large-scale pipes potentially useful to building new installations. Yet Willy Brandt's notorious Ostpolitik had the capacity to sidestep such obstacles; oil imports expanded to include gas imports in the 1970s. The bitter truth Poland chooses to disremember is that Brandt's Eastern Policy was not designed around ardent gestures or reconciliation with the Polish nation. Its main purpose was to develop relations with Moscow, allowing contemplation of peaceful unification while affording Berlin greater autonomy in relations with the United States. This is all blatantly visible in multiple interviews with and declarations by Egon Bahr – stern political realist and associate in Brandt's cabinet.

Ronald Reagan attempted to convince Germany to restrict gas imports from the USSR time and again in the 1980s, the United States then engaged in an ersatz war with Moscow in Afghanistan. Yet to no avail; by 1989, Eastern gas would cover a massive third of German demand. And that is but a piece in the bilateral Berlin-Moscow relations puzzle, culminating, as it were, in a green light for reunification during the legendary Two Plus Four Conference (1990).

Consequently, here we have over half a century of economic interdependencies developing, the process not greatly impacted by the watershed of 1989; nay, it had even, in a sense, served to bolster it. Furthermore, Christian democrats had joined social democrats in aspiring to a potentially favourable partnership with Moscow. New documents came to light in 2022, clearly proving that back in 1991, Helmut Kohl had been speaking out against the independence of the Baltic States and Ukraine, been adverse to NATO expansion, and seen the collapse of USSR as a historical calamity. What's more, Kohl tried to persuade François Mitterrand to subscribe to his point of view – yet Mitterrand hesitated. It is common knowledge that George Bush Sr – and Ronald Reagan and Margaret Thatcher before him – had an entirely different take on the matter.

Yet given the context, it does not come as much of a surprise that Kohl's political child Angela Merkel blocked the roadmap of NATO membership for Ukraine and Georgia in 2008, both countries later attacked by Russia. Radosław Sikorski, contemporaneous head of Polish diplomacy, had had no doubt: such actions could have only arisen from a special relationship with Moscow. In all actuality, these relations had been undermined – literally and metaphorically – by war in Ukraine, and the never-fully-clarified damage to gas pipelines on the bottom of the Baltic Sea. Beforehand, the schema had been somewhat habitual: the United States and Great Britain pushing to expand boundaries of Western political structures; France not saying “NO” immediately, yet always wanting to negotiate something in return. Germany sticking to the policy of prevalent zones of influence in Europe, especially in the Russian context, unless pressure from Washington resulted in other measures, well-nigh by force. Can Germany's Eastern policy, thus defined and deeply rooted, finally come to an end?

Shortly after the war broke out, Chancellor Olaf Scholz announced a radical change to Germany's political course and an increase in the armaments budget, his exposé swiftly declared a true *Zeitenwende*, historical breakthrough. It is by no chance that in the German language, that particular word, last heard in the context of German reunification of 1990, is reserved for epochal events. The problem is, such mission would require a large-format politician in modern times – and while a lot can be said about Olaf Scholz, calling him an eminent statesman would be a stretch. While an efficient party politician and excellent organiser, he spent most of his career in the shadow of other players

The Great Return of the German Matter

War in Ukraine ought to bring about a breakthrough in German politics, comparable to the Fall of the Berlin Wall. Woe to Germany, woe to Europe and woe to NATO should that not come to pass, should the process of deputinising elites fail, should new quality not arise



MICHAŁ KUŹ

with more distinct leadership qualities. He was mainly known for long and boring speeches, and a curious and conceited way of communicating with the media. Expert for German affairs at the Centre for Eastern Studies Anna Kwiatkowska also points to his youthful left-wing radicalism and anti-Americanism.

Failed Exam in History

Prior to war in Ukraine, German relations with Russia were founded on a triad: firstly, on seeking sources of cheap energy in order to salvage the competitiveness of an otherwise poorly innovative economy built up on so-called mid-tech – the manufacturing of very high-quality yet not terribly advanced industrial goods; secondly, on gratitude for facilitating unification, Moscow being seen as a guarantor of stability across the region; and possibly most reprehensible for Germans themselves, the third pillar may actually be the most realistic one, involving something that could – in international relations theory vernacular – be referred to as balance of power – gradual liberation from under Anglo-Saxon influences, followed by equipoise and subsequent evolvement of a continental alternative.

Continental tendencies were evident in the case of Wilhelmine Germany, the Weimar Republic, and – obviously – Nazi Germany. Yet when unravelled today, writings by the father of German geopolitics Karl Haushofer (1869-1946) are deeply striking in their contemporaneity: Haushofer was aware of the tremendous potential of Russia and China, the latter somewhat surprising and not necessarily evident at the time. He saw Germany's future in the development of a continental axis through to Beijing. Such ideas became an inspiration for German politicians of multiple generations and many factions, including Haushofer's own student Rudolf Hess who would go on to become deputy chairman of the NSDAP. Hess' celebrated flight to England, Haushofer's son's involvement in an attempt to overthrow Hitler, and his wife's Jewish roots all caused the thinker to fall into disfavour after 1941. Briefly imprisoned, he was even interrogated

by the Allies with the intent to disclose his potential liability for war crimes – yet the investigating officer ultimately ruled the suspicion out. Haushofer ended his life by committing suicide with his wife in 1946, the circumstances never fully clarified.

I am discussing this particular individual at length for the following reason: while the very notion of geopolitics had been harshly censored in Germany for years, whenever I encounter confessions by most avid *Putinverstehers* (those who comprehend Putin), they veritably exude Haushoferism. The Kremlin's notorious golden boy and minister-president of Saxony Michael Kretschmer wrote some time ago in *Die Welt* of the need to develop economic space from Lisbon to Vladivostok. Kretschmer is a CDU politician. And the number of such *Putinverstehers* is even greater in the SPD, the ruling party. Gerhard Schröder has been portraying continental economic space in similar terms for years, both as chancellor and Putin's paid lobbyist. Minister-president of Mecklenburg-Western Pomerania Manuela Schwesig went as far as to establish a special-purpose vehicle foundation Gazprom has been using to transfer dozens of millions of euros – all to the end of avoiding American sanctions.

The situation was similar in China's case. During the final weeks of its Presidency of the Council of the European Union, Germany was pushing with all it had to approve the trade agreement with Beijing. Also, after war in Ukraine had broken out, Olaf Scholz acted to preserve good relations with Beijing by allowing China to purchase a terminal in the Hamburg sea harbour.

Hans Kundnani is a contemporary scholar evidently aware of Haushoferism revisited, as it were, blended with Berlin's more ambitious perception of its role in the European Union and an upsurge of anti-Americanism. According to multiple assessments of German politics, Kundnani's brilliant 2014 book *The Paradox of German Power* proved prophetic. Pursuant to the main proposition, while Germany is visibly making an effort to remain part of the collective West, the “German matter” is returning in practice before our very eyes as the issue of a country that



German Chancellor
Gerhard Schröder greets Russian
President Vladimir Putin,
Hanover, 10 April 2005

PHOTO: CARSTEN REHDER/DPA/PAP

– to quote Henry Kissinger – is “too large for Europe, yet too small for the world”. In other words, unable to reconcile its former global aspirations with its true status of a *de jure* rank and file EU and NATO member, Germany has trouble fitting into the global order. As a result, German politics has become inconsistent and destabilising, especially for peripheries of the current geopolitical West – countries such as Poland or Ukraine. On the one hand, Germany is economically benefitting from the shift of Western structures to the east; on the other, it fears that such developments will upset the balance of power across Europe in the long run and weaken its influence, placing “Trojan horses of the US” (to quote a European Commission official referencing Poland) on the geopolitical chessboard. The same thing goes for Ukraine; fearing geopolitical consequences of unconditional Russian defeat, Berlin is not in favour of Kyiv’s overwhelming victory.

In the olden days, German decision-makers – suffice to mention Helmut Kohl in times of the perestroika – would have kept such thoughts to themselves, harmonising their actions with policies represented by other vital players. Today, however, as Kundnani rather judiciously points out, Brexit and the Greek crisis have caused certain processes to pick up tempo. Having boosted the German sense of agency in the European Union, both developments have encouraged the tendency to focus on oneself and one’s own vantage point as a result.

It goes without saying that German politicians and numerous mainstream commentators stand in fierce opposition to the above narrative – support for the West is embedded in German political DNA. It has become something of a paradox for contemporary Germany that even when Berlin’s elites take action to challenge the European Union or NATO’s coherence, they find themselves unable to clearly articulate the fact, save the extreme left and right. Heiko Maas, at the helm of German diplomacy at the time, may have taken the matter the furthest of all the leading decision-makers, having penned a 2018 piece for *Handelsblatt* wherein he claims a need for

emancipation from US influence, a need more profound and older than the dislike for Donald Trump. Incidentally, Maas was later credited with a rather curious statement after the former president’s supporters had stormed the Capitol in January 2021, proposing that Germany offer aid in rebuilding American democracy “along the lines of a new Marshall Plan”. He is also famous for having ostentatiously mocked Trump in wake of the latter reviling German dependence on Russian natural resources in the UN.

Yet nothing about Maas’ reactions should raise eyebrows, after all. During Trump’s presidency, the German ego had been rather casually caressed by some of America’s liberal circles repulsed by their president’s shenanigans. In an interview with *Politico*, Assistant Secretary of State in the Clinton administration James P. Rubin went as far as to call Angela Merkel “the leader of the free world”.

Pursuant to a rather uniquely bifurcated mindset, Germany considers itself an archetypal Western democracy (greater than the US) on the one hand – yet on the other, it has to build its geopolitical position based on two powerful authoritarianisms – Moscow and Beijing. This goes beyond purely cynical hypocrisy. I have seen this many times: countless Germans are in a genuine quandary, incapable of reconciling their declared identity with their country’s hardline interests or aspirations to the position of a global player. As a result, German elites are torn between what is referred to in the international relations theory vernacular as constructivism, and so-called structural realism. Indignant when presented with inconvenient historical analogies, they accuse opponents of unjustified Germanophobia or chauvinism, pointing fingers at Poles as blind supporters of Jarosław Kaczyński. Anything – just to avoid admitting that Germany had made a certain “bet with history” and has just lost it, as aptly put in the *Frankfurter Allgemeine Zeitung* by eminent historian Professor Martin Schulze Wessel.

In an optimistic scenario, the aforementioned bet boiled down to the following statement, more or less: “Just like Fukuyama, we believed in the end of history, so doing good business with Russia or China

would no longer be an issue, as we are all travelling in the same direction, speed the only difference”. At the end of the day, Germany is beating its chest today, as if confessing, “We were mistaken, so sorry, but it was you Americans after all who inspired us with that end of history concept”. Olaf Scholz himself has recently offered such a version of the aforementioned bet, more or less, along with its consequences, in the magazine *Foreign Affairs*. Yet if interpreted pessimistically, the bet might read roughly along the lines of “We may have renounced open violence, but not our geopolitical dreams; we intended to resort to other methods to turn Germany into a world power, even at the expense of a pact with Xi and Putin”. Today we know that be as it may, that bet has been lost. Let me just add that Joseph Nye, the man behind the “soft power” phrase, did not believe that particular realm to include strictly economic measures. Akin to military action, energy resources, technology exports, trade barriers – or the lack thereof – are all distinct “hard power” area components. Heedless ventures into such territory will ultimately result in bloodshed.

At this juncture, we have reached another truth Germans may find unpleasant. Mass repressions; cult of the individual; a system wherein two-thirds of the people are, in all actuality, employed by the state; full vassalisation of the media; omnipresent violence; and making any actions of the powers that be dependent on the despotic will of a single man – all that takes contemporary Russia beyond authoritarianism, making it truly totalitarian. Meanwhile, Germany, not least in the words of its present-day chancellor, continues stressing that what we are all facing is “Putin’s war” average Russians cannot be blamed for. This is something of a carbon copy of Hitler being demonised at the expense of whitewashing “regular Germans” – as if our western-flank neighbours were incapable of grasping that while developed legal cultures do not stipulate collective responsibility, phenomena such as totalitarianism cannot be considered the product of a single sick individual. Just one step separates such belief from a claim that if that individual were removed, the situation would remedy itself. It would similarly take very little to conclude that the individual in question is a freak of nature, that similar events had already occurred in the past under blatantly unique circumstances, that they are not entirely real, and that they most certainly cannot be repeated.

As it is, totalitarianism is a disease of the whole of society; to regain international trust, that society will have to process its disease in full. Waiting for Putin to be replaced with another personage before returning to business as usual would resemble leaving Admiral Karl Dönitz in office as President of the Reich in 1945, complete with the Nazi legal system, the Nuremberg Laws, repressions and terror, just to avoid further bloodshed and political instability in a Europe that Hitler had rather efficiently organised. That said, even the extraordinarily impressive effort post-war Germany had made in working on its identity does not necessarily mean that desired fruit shall be brought forth.

Waiting for a German Churchill

Something has obviously ruptured in German-Russian relations. As pointed out by Sebastian Plóciennik of the Centre for Eastern Studies, the trade exchange between Germany and Russia took a sharp downturn in December 2022 (the export and import values dropped by 60 and 56 percent, respectively, in comparison with December 2021). This may be a harbinger of a successful decoupling of the German and Russian economies. Yet as a political scientist, I fear that decoupling will not be followed by political deputinisation. Schröder and Kretschmer continue declaring that business with Russia will have to be revisited. The CEO of Germany’s largest energy corporation (RWE) Markus Krebber, on the other hand, has been referring to nuclear energy as redundant and appealing for the construction of new power plants, fired mainly with natural gas. Yet Krebber fails to offer any suggestions as to cheap gas sources. Germans have not even been discouraged by Putin having (according to unofficial reports) rejected the American proposal to re-establish the state borders of February 2022, Russia keeping the Kremlin and avoiding liability for war crimes. Chancellor Scholz is focused on diplomacy, Berlin shilly-shallying as usual when deciding whether to offer any military assistance to Ukraine, doing so only under humongous pressure and well-nigh shaking a fist at its adversaries. Such

was even the response of Germany’s former ambassador to Warsaw, the relatively fondly remembered Rolf Nickel, who said that Poland’s five minutes to rearrange its relations with Berlin would soon be over. No wonder voters are confused, given the attitude of their leaders. According to a recent Ipsos survey of all larger European countries, Germany has the highest number of respondents declaring that war in Ukraine is a purely Ukrainian problem.

All of the above suggests that critics of present-day Germany are perhaps expecting too much of it. Without strong connections to Russia and China, Germany has no chance of preserving its position of an economic power. Consequently, one cannot demand of a country under regular clerical leadership to engage voluntarily and full-heartedly in a clash with the Chinese-Russian bloc to save Ukrainians, Balts or Poles. This would require a visionary leader, capable of understanding that one cannot remain on the political fence for all eternity. Be that as it may, Germany will be weaker in the new post-war world, either facing a stronger Central and Eastern Europe, or a neo-imperial predatory Russia who has lost trust in its former partner. Under present circumstances, with former glory reinstatement not an option, choosing the lesser of the two evils and saving one’s reputation would ostensibly be merited.

Winston Churchill, the leader of a vast yet visibly crumbling empire, had faced a similar choice during World War II. Anyone concerned could plainly see that the ultimate outcome of the giant global conflict notwithstanding, the British Empire would lose, as the post-war world would either be American and thus anti-colonial, or Axis Power-dominated and thus marginalising the British. The Nazis were well aware of the situation, which is why they intended to offer the United Kingdom a deal: in exchange for support or relative neutrality, Berlin would, in all likelihood, let London keep some of its overseas colonies. This is exactly why the aforementioned Hess had travelled to Great Britain: in something of an act of desperation, he attempted to re-engage in peace negotiations with Churchill. Hitler having disassociated himself from Hess, with rumours spreading about his mental disorder, seems to have been nothing but a diplomatic ploy.

Just like England joining World War II, Germany is now in need of a leader with the capacity to deconstruct its dreams of power, economic power included, all in order to preserve its Western identity. Otherwise, it will have to face the nightmare of revisiting the so-called isolated German path. War in Ukraine affects the German matter in a similar way to World War II having affected the United Kingdom. Not a full-blooded global player, Germany cannot afford to treat the EU as a springboard to such status. History makes it one of the many European states who have to accept that the European Union is evolving and changing before their very eyes. And Scholz is most definitely not, and never will be, Churchill. He is too deeply rooted in the current post-Merkel arrangement. Friedrich Merz looks hopeful – owing to his pro-Atlanticism, nonconformism and dislike of old deals in Germany’s politics rather than any remarkable charisma. Yet Merz would also need a partner with a more progressive and youthful profile, though equally anti-Putinist and pro-Atlantic. The only party who had filed a motion with the Bundestag to withdraw from the Nord Stream 2 project prior to Russian invasion, the Greens could become such exact partner for the reformed CDU. I would be very happy to see a CDU-Greens coalition in the wake of the next elections. It would also be the most promising alliance in terms of Germany, NATO and the EU’s future.

I am also afraid that the SPD will have to undergo profound internal change. In all actuality, the whole country will be forced to face deputinisation and long-term reflection. It goes without saying that Germany has already once made a genuine effort to process its past, the attempt deserving high praise with no mockery or downplaying. Yet something went very wrong there. For some reason, paying no heed to alarm bells ringing, Berlin contributed – economically and politically – to the development of a new, strong, oppressive regime in Europe, visibly totalitarian in nature. While there are no direct perpetrators this time, Germany is unquestionably complicit. Such is the painful truth nobody can dilute with words or cover up with diplomatic gambits or ploys, uncoincidentally referred to recently as *scholzizing*. ©

Photo: aquatlaso/stockphoto/Getty Images

The “strategic pause” we experienced after the fall of the Berlin Wall is consigned to history and there is no going back. **The events of the last months are just a prelude to many different sequels**

Witold Sokala

Vladimir Putin probably “only” wanted to expand and strengthen his power. Inadvertently, however, he has set in motion processes which he can clearly no longer control, and which will probably not only eventually sweep him off the Kremlin throne but also strip Russia of the remnants of its imperial status. As a side-effect, the war unleashed by the Moscow camarilla will certainly bring about a profound transformation of the entire global order. Before we can grasp its final shape, it is worth noting what has changed in the international security environment during these dramatic months. It seems that the good old steam engine of history has turned into a superfast TGV.

Two Plus Two

Many experts admittedly knew it beforehand but the community was still taken by surprise. The first, fundamental lesson of the morning of 24 February 2022 is: nations are not always ruled by rational politicians. If Putin were rational, if he had been able to set adequate goals for his intelligence services, read their reports and draw conclusions, this war would never have happened.

In the weeks leading up to the attack many analysts who, after all, have much less access to information than the Russian dictator, were saying things that Putin should have known. For example, that Russia is in fact much weaker than is commonly believed, militarily and economically, and especially technologically. Furthermore, that Ukraine, on the contrary, is militarily stronger and far better prepared than in 2014, when it lost the Crimea and some of its lands in the east of the country. And finally, that the West, despite its internal disagreements and the long-standing insidious effect of Russian propaganda, is likely to react to a potential attack much more strongly than it did six years earlier. It was easy to infer, not from declarations but from actual preventive actions, and to justify: many politicians and experts in many NATO and EU countries were fed up with the Russian diversion openly practised in their backyards, from interference in electoral processes to physical attacks on civilian and military infrastructure. The conclusion was simple: with military aggression, Moscow will definitely lose far more in many ways than it stands to gain.

However, all these otherwise smart people used these truths to support a conclusion that turned out to be false. They said, Russia will not attack, the military concentration

(Brave?) New World

is just a bluff, a flexing of muscles, another episode in the information wars, the Kremlin may be thieves and murderers but they are not idiots.

And yet there were two groups of commentators who were certain that war would break out. First, those few who knew what was really going on because they had at least indirect access to classified sources (either NATO intelligence based on eavesdropping on the Russians’ internal communications or direct Russian sources related to the military or special services). The others were those who, like the majority, had access only to unclassified data but either knew little, or thought in old stereotypical terms, or interpreted facts in a way that defied elementary logic. It turned out that they were right. The attack took place and those who drew true conclusions from false propositions, or knew more than they should have known, can now bask in the glory of prophets.

I am not convinced by the belated regrets of those who put two and two together and, playing by the book, came up with four, not five or three point four. This is a lesson and a warning to analysts and, above all, to the public. It should serve as a reminder that

politics is not mathematics; that we need to factor in the irrational much more consistently; and that we should not put too much trust in those who have “recently made a prediction” because it may not be the product of their genius but the outcome of being someone else’s mouthpiece or merely the effect of a one-time stroke of luck.

This story is an important lesson for decision-makers in different parts of the world: the more powerful you are and the more lavished by the court, the more at risk you are of internal disinformation. The events unfolded in a seemingly simple way well known from history. The entourage makes a guess what the ruler wants to hear and, for opportunistic reasons, they tell him just that with complete disregard for the truth. Russian intelligence lieutenants could, and probably did, report how things really are with the West and Ukraine, while mechanised infantry lieutenants reported on what was wrong among their ranks and deep in the garrisons. But the reports became more optimistic at the level of majors, and eventually only good news came from the mouths of the generals surrounding the Tsar. The decision to attack was based

on good news. The cold shower came, as we now know, after just a few dozen hours, and has only cooled steadily since then.

Everything that analysts betting on the “Moscow is bluffing” hypothesis were saying just before the war turned out to be true, even more than expected. The strength and quality of the resistance exceeded the wildest expectations, perhaps even those of the Ukrainians themselves. So did the magnitude of the response from the West. No matter that the aid is apparently being cynically dosed out so that Kyiv does not lose the war, but also so that it “does not win too much”, at least for the time being. That aid is at least sufficient to show that Russia is a weak, backward and dysfunctional actor in international relations.

End of Illusions

The most important outcome of the events we have been witnessing, and partly participating in, may be the widespread loss of illusions about Russia, on several levels. On the political level, it has become apparent that Russia is an absolutely unreliable and unpredictable country. It is obvious that after the pandemic, the whole world needs time to lick its wounds, and the last thing it dreams of is a major conflict and the demolition of supply chains and the energy and food markets. Figuratively speaking, diplomats of many countries have been explaining to the Russians for years how to eat with a fork, but those civilising efforts have failed as the Russians still barge onto the table with their shoes on, break vases and sugar bowls, and slurp directly from their plates. Thus the Russians have helped the “rest of the world” understand what only the immediate neighbours of the Russian empire, who had suffered on many occasions, already knew.

The lesson on the military level is that history, both old and quite recent, can teach us nothing because when the Tsar commands, throngs of poorly armed and trained recruits continue to push into enemy positions crying “hoorah”, and their tanks muddle through minefields which have neither been scouted nor cleared. Losses? Widows get furs to wipe away their tears and the public gets even more crude propaganda. For now, the cocktail of stories about fighting Western fascism, fear of power and generations of trained opportunism is still working. Polls and the Runet suggest relatively high support for Putin and his “special military operation”, but sooner or later it will crack under the pressure of imminent economic meltdown. Western sanctions, especially technological ones, are ruining Russian industry. Hence, for example, the famous relaxation of technical requirements for Russian-made cars (no chips to be had, so they no longer even have to have ABS, airbags or active seatbelts) and, much more importantly, the deterioration in the scale and quality of arms production, which was a vital part of exports, conducive to building political influence. Russia’s crown jewel, that is, its oil and gas exports are also failing. They account not only for almost half of the government revenue but also many jobs and the sense of existence of entire cities or regions.

The cumulative effect is the impending collapse of Russia as a state. There are more than 30 private military companies operating in Russia today (incidentally, they are less and less tightly controlled by the Kremlin), which supply cannon fodder to the front and pacify domestic protests. This suggests that a part of the elite are already preparing for the inevitable: a new time of troubles, a period of internal, probably bloody chaos, and a “redistribution of wealth”, such as control over raw material deposits and the relatively few processing plants fit (once the brawl is over) for lucrative re-entry into the international economy. In this scenario, control of Russia’s nuclear potential is a real treat, not so much to be used for its original purpose as to be monetised. Nothing new under the sun. More than one Russian fortune was made in just this way after the implosion of the USSR.

These developments are, no doubt, prompting China, but especially the West, to get ready. After losing all illusions that a return to some kind of “business as usual” with the rulers of the Kremlin is possible, the focus of the West’s policy shifted a few months ago from seeking ways to freeze the conflict again (the same as in 2014) to building the (political, economic, military, and espe-

cially intelligence) capacity necessary to manage the anticipated internal crisis in Russia. The United States was the first to do so, and now other allies are gradually joining in, including those who have traditionally been non-hostile towards Russia (to put it euphemistically). This, however, takes time, which is bought by dosing military aid out to the Ukrainians. When the top leaders feel that the time is right, the process will get a boost.

One more thing worth noting is that this war and its strategic consequences are reinforcing the “de-globalisation” scenario, initiated by the pandemic and further stimulated by the China-US rivalry and the risk of it moving into a “hot phase”. The formation of regional, more compact economic and logistics blocs, the reindustrialisation of many Western countries, the nervous search for alternatives to hydrocarbons in energy: these are just some of the manifestations of this megatrend.

A Chance for Europe

Meanwhile, important transformation has taken place on the Old Continent. First of all, Sweden and Finland have decided to abandon their time-honoured neutrality and join NATO. Never mind that their accession is being delayed, for domestic political reasons, by politicians such as Recep Tayyip Erdoğan in Turkey or Viktor Orban in Hungary. The die is cast. This will completely change the balance of power on NATO’s eastern flank and in particular in the Baltic region. Finally, the Central and Eastern European countries are rearming by putting in significant efforts and with a green light and help from the US.

At the same time, the balance of power in the European Union is shifting. Germany has discredited itself, which will not go unnoticed, although for tactical reasons, not everyone is saying that out loud. After all, in the last decade, Berlin has created at least two extremely troublesome security situations for Europe, each time driven by poorly concealed selfishness (which could be understood and, under certain conditions, even forgiven) and by a dramatic lack of imagination and incompetence. Case one is the “herzlich willkommen” policy, designed to save the German and European labour market and pension systems through an influx of migrants theoretically willing to work. In reality, it has mainly caused an additional overload of social systems and a dangerous stretching of the capacities of counter-intelligence and police services, and brought back phantoms of political radicalism with a xenophobic tinge. Case two is the long-standing game of making Europe dependent on Russian gas (and oil to a lesser extent). Of course, Germany wanted to gain, economically and politically, as the main hub and distributor, and part of the plan was the suicidal decision to shut down German nuclear power, which was cynically exploited for ideological and propagandistic effect. After the outbreak of war, it became clear that ashes had to be heaped upon heads and apologies had to be made, although in Germany this process was slow and inconsistent, and the hopes of preserving at least part of the dreamed-of “Russo-German empire”, pushing the Americans out of Europe and bringing the remaining unruly countries to their knees, were still alive. The game played around the handover of Leopard tanks to the Ukrainians was symptomatic, and the list is long, including the only seemingly naïve decision to sell shares in the Hamburg port to Chinese companies, resulting in a bitter quarrel between the government coalition, the secret services and their political superiors.

Others are watching this German circus and figuring out what to do next. It seems to be increasingly likely that the European “centre of gravity” will shift further east, to a coalition of pro-American countries in the region, with an important function for Poland at least as a geographical lynchpin, and with an important economic, civilisational and military role of the Swedes and Finns on the one hand and the Brits remaining outside the EU on the other. As an aside, this has not been actively countered by either France (concerned about Russian tactical sabotage in the Middle East and Africa, where the Kremlin continues to bring in “instructors” and money) or Spain (mindful of both its Latin American and domestic interests, as Russian services have been all too active in supporting separatism against Madrid and organised crime groups). Surprisingly, even

the new Italian government headed by Giorgia Meloni has turned out to be anti-Putin, even though the coalition supporting it is swarming with Kremlin-linked politicians. This is probably the result of a rational calculation that faced with a weaker Germany, it makes sense to keep good relations with the Anglo-Saxon powers, and to effectively limit behind-the-scenes Russian influence on the Old Continent.

The outcome seems quite positive. In addition to eliminating dependence on Russian energy supplies, which will only be good for Europe, there is the fairly strong campaign of solidarity aiming to eliminate or neutralise Moscow’s agent of influence, which has been on an uninterrupted rise since Soviet times. There has also been a turnaround in the approach to the integration aspirations of Ukraine itself, but also those of Moldova and, in the longer term, perhaps even Belarus and the countries of the Transcaucasus. For all this, the credit in fact goes to Vladimir Vladimirovich and his band of murderers. All this would never have happened without their troublemaking politics.

Time to Draw Conclusions

In the face of a tangible common threat, the solidarity of the Central and Eastern European states has increased significantly, as has the pro-Atlantic attitude of their peoples (the victory of Petr Pavel in the Czech presidential elections is one example). The case of Poland provides food for thought, as the government has for years financially supported and publicly pampered nationalist far right groups, counting on an electoral advantage, and eventually cooked up trouble for itself in the form of Putin’s influential allies. The region looks to Washington and London with more hope today than ever before, and not as a humble client who will settle for beads, but rather as a demanding ally with a sense of common interest who will not hesitate to enter into lucrative cooperation with such exotic partners as South Korea or Taiwan.

In the shadow of the war in Ukraine, which seems distant for them, the countries of the global South are also experiencing their moment of geostrategic reflection. Strong anti-American (or even anti-Western) resentment is a significant piece of the puzzle there, but the sentiment in the street is one thing and the cool calculation of the elites is another. This is why a wide variety of countries, from India through the Sunni monarchies of the Gulf to many Latin American and African states, are refraining from unequivocal support for Ukraine but are also not at all keen to actively work for the benefit of Russia. On the other hand, many of them would have no way of helping Putin, so that consolation prize for Russian propagandists, who claim that well over half the global population is cheering them on in their fight against imperialism, is just empty words and a band-aid for their own battered souls.

This does not mean, however, that the West can rest easy. Russia may no longer be an attractive point of reference for any serious government, but China remains in the game, and it is China that the US, the UK, the EU countries, as well as Japan, South Korea and Australia will have to deal with in earnest. Beijing evidently understands where the sequence of events unfolding over the past year is leading, and wants to be ready both for the collapse of Russian statehood and a new round of competition with the Western world. Surely, China has already concluded that it makes no sense to start a war for which one is not properly prepared; that outdated Cold War-era weaponry is no longer effective on the modern battlefield; that the strength in numbers means little in comparison with genuine quality, while information warfare and the aspiration to win the minds and hearts of the global public is just as important, if not more important, than the square kilometres of ground conquered.

So let us not get carried away with further illusions. The Russian-Ukrainian war will end one day, in a way that is still difficult to predict today. But the “strategic pause” we experienced after the fall of the Berlin Wall is already consigned to history and there is no going back. The events of the last months are just a prelude to many different sequels, probably even more dramatic. The genie has been let out of the bottle. ©



This war and its strategic consequences are reinforcing the “de-globalisation” scenario, initiated by the pandemic and further stimulated by the China-US rivalry and the risk of it moving into a “hot phase”

PARTNER CONTENT



Our economy participates in and benefits from all major global trends.

“Its strength is its companies”, says

Leszek Skiba, president of Bank Pekao S.A.

The Polish economy ON A ROLL

What is the current condition of the Polish economy?

After the first quarter of 2023, we now have a positive surprise. Despite the fact that the result was slightly below zero, i.e. we have had a decline in GDP, the Polish economy is getting through the current crisis – resulting from rising energy prices, war, various major world events – quite well. Poland’s economy is in good shape. Its strength is its companies, which are very flexible, but also moving forward, adapting to difficult situations in such a way as to survive and grow. These features show their strength. Polish companies are neither excessively reliant on loans nor overly focused on some specialities that may be risky. They are trying to be anti-fragile, that is, to survive. However, they do not present a passive attitude, there is dynamism in it, we see growth, development. Banks would like to have such good customers as Polish companies that can manage their debt, internal and external financing. Polish companies are also achieving very good margins, earnings and profitability. Polish exports are more diversified than those of other Central European economies, e.g. the Czech Republic, Slovakia and Hungary. We are not focused on some narrow areas, like the automotive sector. Thanks to our companies, the Polish economy is growing and even when there is a crisis, the decline is moderate.

What about the banking sector?

As for the banking sector, in general one can say – aside from the Swiss franc issue – that it is healthy and growing. It is certainly very modern in terms of technology; Polish banks stand out in the world when it comes to the applications they offer. For instance, the Deloitte Digital Banking Maturity report shows that we are at the forefront of the

world as an entire sector and, of course, as our bank, Bank Pekao S.A. The good health of the sector is also evidenced by indicators such as a low cost-to-income ratio, well below the European average, and high profitability. The Polish banking sector is highly capitalised, stable and secure. Its weakness is the issue of mortgages denominated in Swiss franc. The banks had to write off quite a large amount of provisions from the pool of profits and capital, which, in a way, hamper their growth. It is going to be much more difficult for the banking sector to generate large amounts for lending to meet the needs in the coming years, i.e. investments by companies, but also the energy transformation or public sector demand. Banks’ profits are needed to meet capital requirements so that credit levels grow.

How are global trends materializing in Poland? Such as digitisation, energy transformation, changes in supply chains?

The Polish economy participates in all these major trends, and they are, in principle, very positive for our country. This is the wave on which Polish companies and the Polish economy are surfing. Starting with changes in supply chains, because we are seeing a shift from mainly Asian countries, where goods are produced, to places closer to global centres, namely Europe and the US. Already in 2021, the export surge and investment boom of Polish companies has been due precisely to increased demand for local products from European companies. The trend is for regionalisation, weakening of globalisation, shortening of supply chains, searching for partners who can supply components previously sought in Asia. In the case of Western European companies – in Central Europe, mainly in Poland. The energy transformation brings a huge wave of new investments, including in

renewable energy sources, and there is an ongoing discussion about nuclear, offshore projects or onshore wind power. Huge sums of money are involved, as much as a trillion zlotys [about USD 240 billion at the current exchange rate - ed.], of course, spread over years and by sector. This wave of investment will support economic growth in Poland. We also hope that thanks to it, energy prices will be lower and thus the competitiveness of the Polish economy will increase.

When it comes to digitalisation, Polish companies, including banks, are trying to be flexible, modern and use new technologies to do so. It is important to be aware of the strengths of Polish companies, non-financial and financial ones. The secret of Polish companies lies in the fact that they can often produce more flexibly, cheaper, sometimes more quickly, but above all with greater attention to customer needs. I think this is their greatest strength: process innovation, customer orientation. Here Polish companies stand out, they are very responsive in the sense of responding to demands. They are willing to put in a great deal of energy to really produce what the customer needs. And with that, they win. Digitisation is part of this activity.

How does Bank Pekao S.A. participate in these global processes happening in Poland?

Bank Pekao S.A. is a universal bank, serving individual customers as well as companies. For us, it is important to accompany the customer, including around the world, in other countries if need be, to be flexible. Of course, the first task is finance the Polish economy, to support the development of Polish companies and important processes, such as the energy transformation. We see the risk of lending slowdown due to some banks

problems with the CHF portfolio. This makes access to bank financing likely to be a hassle in the coming years.

What will Poland’s role in the global economy be, given this reshuffling we are witnessing?

Poland is an important country in Central Europe, the Three Seas region, a place that benefits greatly from regionalisation and the trend of shortening supply chains. Our country and this particular region are good places that any global investor who wants to locate production closer to Europe, in a price-wise attractive location, should think about when considering pulling out of Asia. The security of supply chains and the Three Seas Initiative are important from the Polish perspective. It is worth considering that the goal should be an increasingly deeper economic integration and building a single integrated economy of the Three Seas

Bank Pekao S.A.

Founded in 1929, it is one of the largest financial institutions in Central and Eastern Europe with PLN 293 billion in assets (about USD \$71 billion at current exchange rates). With the second largest network of branches, Bank Pekao serves more than 6.4 million customers. As a leading corporate bank, it serves every second corporation in Poland. It has been listed on the Warsaw Stock Exchange since 1998 and participates in several local (including the WIG 20) and international indices (including MSCI EM, Stoxx Europe 600 and FTSE Developed). Pekao is one of the most dividend-paying listed companies in Poland, paying out a total of PLN 20 billion over the past decade.

Three Seas

The Three Seas Initiative serves to strengthen ties in the wider Central European region, between the Baltic, Adriatic and Black Seas. It was established as a forum for cooperation among 12 countries: Austria, Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia.

Call-out

Polish companies are trying to be anti-fragile, that is, to survive. However, they do not present a passive attitude.

countries. Of course, we are aware of a certain competition between the states which make it up. However, this greater integration, in terms of regulatory aspects or infrastructure, would be important for investors.

What role can Poland play in supporting transatlantic cooperation? Incidentally, the United States has observer status for the Three Seas.

There is certainly a need for discussion between the States and Europe on how to formalise trade relations. There used to be a lot of talk about a trade agreement. The question is: is this the best answer? Today we see discussions about industrial support programs, whether announced by President Biden or by Europe. The dispute over new measures of trade policy further provokes discussions about whether these programs go a bit against integration initiatives. Regardless of how this discussion ends, in the case of Poland, energy issue are very important: we have the Westinghouse nuclear project, there are discussions about the SMR reactor program that Orlen Synthos Green Energy has announced. It seems to me that it is in the field of energy that Polish-American cooperation can have a real effect.

We have examples of significant American investments in Poland, including in the area of cutting-edge technologies.

Yes, because Poland is seen as attractive. An American investor looking for a place to invest in Europe is eyeing central Europe. It is important that the brand of Central Europe be further recognised as an integrated economic organism that can be an alternative to faraway Asia, not only because of geographic diversification. Poland can take more for itself from this growing pie, and neighbouring countries will naturally gain as well.

How does Ukraine rank on this new global economic map?

It’s a difficult discussion, because there are, of course, a number of conditions and questions – when the war will end, in what condition Ukraine will emerge from it, and what the scale of European support will be in the reconstruction of the country. Nevertheless, Ukraine’s natural place after a positive end to the war will be economic integration the Europe, especially with Central Europe. JPO

Our Future Will Depend on Green Mindset and Effective Change Management

**“NEVER LET A GOOD CRISIS GO TO WASTE”
– CHURCHILL USED TO SAY. A CRISIS IS, AFTER ALL,
ALWAYS AN OPPORTUNITY TO START THINGS ANEW
– DIFFERENTLY, MORE COURAGEOUSLY, BETTER**

JERZY BUZEK

Member of the European Parliament, Prime Minister of Poland 1997–2001



The only certain thing in life is change” – Heraclitus of Ephesus came to this conclusion over twenty five centuries ago. In this age of rapid technological development – but also of the many challenges we face – we can be sure of one thing: our tomorrow will be very different from our today. Thus, things will be “different”; but are we able to define “how”. Peter Drucker, who is much closer to our time than the pre-Socratic Greek philosopher, offers an answer here – as well as a bit of advice. This Austrian-born American, considered by many to be a pioneer of modern management methods, is the author of another well-known quote: “the best way to predict the future is to create it”.

“The Wind of Change” vs Hurricanes (Should the Changes Not Happen)

Indeed, it could be said that these are the words that guide our energy transition efforts in the European Union. We feel responsible for future generations – for the future of our children and grandchildren. We don’t want them to have to fight wars over access to water; we don’t want catastrophic heatwaves,

droughts, and fires on the one hand, and hurricanes or floods on the other, to cause crop failures and famines; we do not want global warming to continue. And yet, unfortunately, it is still progressing dramatically.

In December 2015, at the conclusion of the United Nations Climate Change Conference (COP21) in Paris, the entire world solemnly agreed to strive to reduce the increase in the Earth’s average temperature well below 2° C compared to pre-industrial levels, aiming for 1.5° C. Nearly eight years later, however, data from the Intergovernmental Panel on Climate Change (IPCC), among others, demonstrate clearly that we are much closer to 3° C than the postulated 2° C. Decisive actions are therefore required – here and now!

The EU is very serious about its commitments under the Paris Agreement – hence the European Green Deal (EGD), announced at the end of 2019. The overarching goal of this unprecedented flagship programme of the European Commission led by Ursula von der Leyen is climate neutrality for the EU by 2050 at the latest and, leading up to this, a higher, minimum 55% reduction target for greenhouse gas emissions by 2030. Both goals were supported by all twenty-seven EU Member States and recorded in the historic European Climate Law of 2021. Thus, in the EU, CO₂ emissions abatement is no longer just a matter of will and political declaration, but a binding legal requirement.

European Green Deal – a Task for Three Decades

Importantly, from the outset, the EGD was conceived not only as a just transition strategy, but

also as a long-term comprehensive strategy for economic development and growth for the European Union as a whole. It is intended to: strengthen the EU’s resilience and attractiveness, including for investment; bring a quantum leap increase in innovation; create forward-looking jobs, including for the younger generation, in a productive, modern, digital, resource-efficient and circular economy; and develop green “industries of the future”, green technologies, brands and entire supply chains.

The idea is to make the EU sustainable economically, environmentally and socially. This goes far beyond energy and climate policy alone, embracing virtually all sectors of the economy: industry, small and medium-sized enterprises, transport, construction, heating, the service sector, international trade, agriculture, or forestry.

From COVID-19 to War in Ukraine

With the outbreak of the coronavirus pandemic, there was some talk that COVID-19, and the economic downturn it caused, would hold back the implementation of the Green Deal. Quite the opposite has happened: by a joint decision of the European Commission, the European Parliament and the Member States, the EGD has been made the flywheel of the European Union’s grand economic revival plan; a stimulus to boost environmentally friendly development, accelerate the transition to green energy or open up more widely to clean technologies. Such a path of action seems to follow Winston Churchill’s famous adage: “Never let a good crisis go to waste”. A crisis is, after all, always an opportunity to start things anew – differently, more courageously, better; a chance not to reach for old solutions, but rather look to the challenges of the future and focus on what could ensure prosperity for 25–30 years.

The belief that there is no simple return to the pre-pandemic world is also reflected in the EU’s “Next Generation EU” Recovery Fund – worth a whopping EUR 750 billion – set up in response to the recession caused by the coronavirus. Together with EU’s 2021–2027 multi-annual budget, it totals EUR 1.8 trillion, of which a minimum of EUR 600 billion is dedicated to EGD-related investments and projects. Why? The Reconstruction Fund is a pro-development loan to be repaid by future generations of Europeans until the end of 2058. So it is their future that we must think about when planning how to spend these funds. We have recognised that while recovering from the effects of one crisis (health-economic), it is important to protect our children and grandchildren from another (climate-environmental). This is all the more important as there is no vaccine for global warming and its catastrophic consequences, and there never will be.

These past months, however, have shown us that it is not just stopping climate change that is at stake in the context of the energy transition. Equally crucial, for example, is the urgent need to cut off Vladimir Putin’s criminal Russian regime from the money it needs to continue its full-scale, genocidal war in Ukraine. Hence, the new REPowerEU Plan, envisaging the EU’s earliest possible departure from imports of energy resources from Russia – coal, natural gas and oil. This is to be helped by, among other things, increasing the share of renewable energy sources (RES) to 42.5 percent – and eventually even 45 percent – by 2030, a significant shortening of supply chains and strengthening the EU’s strategic resilience and self-sufficiency with regard to raw materials as much as possible.

Who can afford climate isolationism?

At the same time, the European Union is aware that we are responsible for less than 10 percent of global CO₂ emissions; despite our best intentions, we alone will not stop global warming and save the planet. Will others join us? In this context, even if there are some concerns in the EU about some of the protectionist elements present in the US Inflation Reduction Act (IRA), I am pleased that the United States, under the leadership of President Joe Biden, is firmly joining our green march. We must act together; after all, we share common values.

In the EU, we understand that no member state is an island, that we are “doomed” to cooperate. The same goes for the world at large – no one responsible can afford the comfort of climate isolationism or inaction. This also applies to entrepreneurs – in addition to political leadership, we also need a kind of “green” mindset from CEOs. Dialogue is important here: a Silicon Valley company might learn a lot from innovators in Finland or Poland and vice versa.

So let’s talk, let’s exchange good practices, experiences, and ideas for the energy transition – planet Earth and future generations are worth it. Let us repeat: “The only certain thing in life is change”. True, but we can – and should – manage it more and more consciously and responsibly. ©



Photo: Eloi Omella/E+/Getty Images

It's Not the War

Sven Smit
interviewed by Marek Tejchman

What is the current crisis like and how does it differ from the crises of the last 20-30 years?

Our experience has mostly been shaped by relatively short business cycles, in between which there were upturns. Of course, this has varied from country to country and region to region, but these cycles have always been demand-driven, meaning that we were buying less, either because we would become cautious or run out of money. Demand-side business cycles included the stock market crash in 1987, the recession in the early 1990s, the dot-com bubble in 2001, the financial crisis in 2010, and then COVID. Even during the COVID pandemic, which was the biggest crisis we have been through, we were concerned about how we were going to carry on, and we stopped spending money. Then we heard about vaccines and we realised that you can shop from home during lockdown because there is an e-commerce market, and so sentiment improved. Basically, the impact of a demand-side crisis on the economy is largely psychological. When we start to worry, we stop spending; when we get optimistic,

we start spending again. We are currently facing a situation of limited supply. At the same time, there is a lot of money and liquidity in the economy, which leads to high inflation.

What do you mean by a "situation of limited supply"?

Energy, commodities and food are in fundamentally short supply. If energy is expensive, other things become expensive. If energy prices in Europe are high, aluminium smelters cannot work. High gas prices force fertiliser factories to close. Animal feed becomes expensive, and farmers decide to reduce milk production. This is how these mechanisms work. The first feature of a supply-side crisis is that a shortage of goods causes prices to rise, and people cannot get what they want. The situation in the energy market is at the root of the current problems. The war has amplified our problems, but it is not the main reason.

Is the war that started on 24 February 2022 not the source of the problem?

It is for the European market, of course. The gas shortage is a real, physical problem. But look at oil. Russian oil is sold to China or India, and we, Europeans, get sup-

Over the years,
we have invested too little in traditional energy sources
and we have been too slow in developing alternative ways of generating energy



SVEN SMIT

Chairman of the McKinsey Global Institute, Senior Partner at McKinsey

plies from the Middle East. Generally, there is as much crude as there would have been without the war.

So what happened?

Over the years, we have invested too little in oil and gas production and we have been too slow in developing alternative ways of generating energy. Our analyses show how investment in oil and gas production has been falling over the past seven years. The market was at an equilibrium point, with no spare production capacity, and when shortages occurred, even temporarily, the price skyrocketed.

Politicians say the problem is how the price of energy is set, and they claim it is not an orderly mechanism.

Any supply-side crisis brings a temptation to experiment with price controls, commodity rationing or similar concepts. However, let's go back to the nature of the crisis. In a supply-side crisis, the solution is not a psychological one. Naturally, supplies of oil, cobalt, lithium and other raw materials have to be found. Depending on what they are, this could take two years or a decade. Another solution, of course, is to reduce demand by means of interest rates. When interest rates rise, at some point people can no longer afford to pay for products and demand falls. This solves the issue, but it solves it at a lower point of prosperity for people.

So the main reason for inflation and the crisis is the underinvestment in the energy and mining sector and the too slow transition to RES? But why has this problem blown up now?

I have been wondering about this myself. We knew that there were problems in the energy market. We were making a lot of mistakes, limiting our potential in oil and gas without developing renewable energy on the right scale. A strong energy market has surplus capacity, which makes it immune to supply shocks, a hard winter or the outbreak of war. It was the same in the 1970s, when OPEC's actions caused a shock because there was no surplus of potential oil supply in the market to create a safety margin. It took more than a decade to restore stability in energy supply.

Thanks to the technological transition of Western economies?

Not at all. The great transition consisted of reducing our dependence on OPEC. We found oil in other regions and started producing it there: North Sea oil, Gulf of Mexico oil, etc.

We no longer have North Sea oil.

But we can find it elsewhere. It took us two cycles in the 1970s to find the solution. It

may not be a perfect analogy, but I can see two similarities: an energy supply crisis which affects the prices of food and commodities, and which is accompanied by a geopolitical crisis. Back in the 1970s, it took us 20 years to solve the geopolitical crisis and more than 10 years to solve the oil and gas supply problem.

This gives us an idea of how long the current crisis might last.

Of course, it can last for as long as no appropriate action is taken.

What should be done?

We need to restore supply by increasing production of basically everything.

But this requires long-term investment.

This means that we need to create the right conditions for such long-term investment, in both renewable and traditional energy. It is clear that we cannot get out of this crisis without oil and gas, and at the moment, it is impossible to reduce their consumption even further. Unless we restore the supply of commodities, energy and food, the problem will last a decade. We also need to invest long-term, heavily and sustainably in RES. Unless there are serious announcements about increasing supply, we will continue to experience many complications in the market.

By serious announcements, do you mean a situation such as Brazil, for example, declaring an increase in oil production?

Yes. Or an announcement to open gas fields in the eastern Mediterranean or in many other regions, for example in the United States. In order to put such resources into operation, the West must clearly declare that it will buy such supplies.

But Western societies do not want fossil fuels.

Yes, this is a dilemma. We want to complete the energy transition and solve the supply crisis at the same time. What makes this crisis different from the 1970s crisis is first and foremost that the current energy prices are unacceptable to society. In my home country, the Netherlands, which is after all one of the richest countries in the world, the poorest people cannot have an acceptable standard of living with these prices.

President Macron said that the "era of abundance" was over.

We must, of course, find a model for sustainable, inclusive growth, but we have to grow. Each additional point of additional economic growth generates more financing capacity to fund the transition than the growth creates addi-



That Caused the Crisis

tional carbon that you have to transition.

The faster we grow, the better we protect the environment?

This also works the other way round. Every point of growth we lose reduces our ability to pay for the transition, and it does so more than it reduces our carbon emissions.

So putting the brakes on the economy will not solve the climate problem?

No... High energy prices are hitting the poorest and the middle class. Due to rising housing costs, rising rents, expensive food, those on the lowest incomes are not experiencing 10, but 30 percent inflation. The poorest segments of society cannot finance the energy transition.

This means that we need a new social contract.

From my point of view, we need to update the social contract. The transition will not be possible otherwise. You cannot say that you want different food without considering affordability. You cannot

say that you want different houses or different infrastructure without considering affordability. You cannot say that you want different, clean energy without considering affordability. Energy poverty affects 20, 30 percent of people in Europe. But there are regions of the world where it affects almost everyone.

Look at food. People want healthier, organic food. There isn't a single person who doesn't want healthy food for their family. Except that the poor cannot afford it. Nowadays people have to buy the cheapest calories.

We need large, long-term investments in energy transition and energy production, but we live in a time when money has real value. There is no such thing as cheap money. After 2008, we lived in a strange era where money was everywhere, so politicians and entrepreneurs got used to it. Now they are surprised to see the cost of money rise.

You can have cheap money if you have a supply because

then you don't trigger an inflation wave. However, it would be an absurd situation if the economy was provided with cheap money for years, and at the same time, a reduced energy supply.

What does the current crisis and its nature mean for business?

I talk to many entrepreneurs. Some call it an issue congestion problem or a polycrisis. Usually, you deal with one problem, as was the case with COVID, and then maybe two smaller problems. Now we have a problem with China and Russia, we have interest rates, we have fiscal deficits, we have global baby boomers leaving the workforce, we have aging. We do not have a new narrative that addresses these is-

sues. We are calling the last 30 years the era of markets in our paper. The narrative was clear, black and white. Ronald Reagan started it, now entrepreneurs are overwhelmed by the number of problems and ambiguities. One can think of China as the source of great income or the greatest uncertainty for profit. It is the same with the supply crisis that if it ends, everything will be fine. There are many areas of uncertainty. None of us have experience with such a situation.

What does this mean?

There is no strategy of action for such circumstances. You have to fix demand, secure two or three supply chains. You can always save money and build up a buffer. You can hedge your balance sheet when interest rates

are high so you don't lose money. But that is not the solution. Of course, it is clear that innovation will always work in the market and you should invest in it. Coal storage will become cheaper. Nuclear energy will go mainstream. Solar energy will possibly get cheaper again or we will build new gas pipelines. It is innovation that will get us out of this crisis, but the problem is, of course, that we need large-scale investment in energy supply here and now. Without energy supply, all these innovations cannot be financed.

Many people are saying that this next wartime winter will be tough for Europe.

Discussing this winter or next winter will not solve the energy crisis of

the next decade. For now, countries are taking tactical action. Rich countries will ultimately pay twice as much for gas as before. The burden will be borne by poorer countries. But the rich countries will not feel it, which is one of the reasons why all the changes that should have happened in the 1970s did not happen. My biggest worry is that we might just get through this winter and then get through the next winter thinking everything is fine. But it isn't fine.

What should we do?

We have to solve the commodity and energy supply problem at its root and accelerate the automation of economies. Then we may enjoy a golden age. ©

Collaboration:
Maria Lipińska

PARTNER CONTENT

The Polish Bridge to Freedom

Between USD350 billion and as much as USD750 billion – that is how much it could cost to rebuild Ukraine after the war. However, even if that happens, the world will not go back to the way it was before 2022. Indeed, Russian aggression has given rise to a whole new era of political and economic relations. Countries that want to play a major role in the new reality really need to act now by choosing partners wisely, shortening supply chains and competing for new contracts.

Between East and West

Since the beginning of Russia's war, Poland has supported Ukraine, both in humanitarian terms, and diplomatically.

"We were a communist country until 34 years ago. Over a quarter of a century, we have introduced democratic governance and become an important member of NATO and the European Union. Today, we support Ukraine with

all our might so that, after the end of the war, it can repeat Poland's path to freedom and its economic success. The government, business and Polish society have all been involved in helping. Since the outbreak of the war, PKO Bank Polski has been helping financially, as well as by preparing special banking services for Ukrainian citizens and organising transport for refugees," says Dariusz Szwed,

acting CEO of PKO Bank Polski, Poland's biggest bank.

Poland acts as a bridge between Ukraine and the West, helps transfer funds and supports its eastern neighbour in its efforts to join the EU.

"We see needs and challenges that no longer concern just our region, but are becoming a topic of importance for the whole world. We intend to work actively

with our stakeholders and the private sector to build a platform to support the reconstruction of Ukraine. PKO Bank Polski can play an important role in structuring and distributing funds from EU or private programmes. In our favour is our scale of operation, as well as our membership in organisations such as the WSJ CEO Council, which brings together 300 CEOs of the world's most influential companies. PKO Bank Polski is the only Polish company to be a member," adds Szwed.

Just as important as reconstruction is emergency relief and keeping the Ukrainian economy running. Ukraine's business sector is largely driven by organic growth. In order for it to increase productivity and revenues, it needs funding.

"In order for Ukrainian banks to provide short-term business loans, they need instruments from international institutions to hedge their high credit risk. Examples of such instruments are the guarantee lines that Kredobank has recently obtained from the EBRD and the EC," says Jacek Szugayew, CEO of Kredobank, which is part of the PKO Bank Polski Group.

Investments

In terms of both business and public perception, Poland is a key player. After the war broke out, investors became more wary of the economies of Central and Eastern Europe due to their outlying position.

"We remain competitive and attract a lot of foreign direct investment. Our economy is in low debt; our public finances

are in good shape compared to the rest of the EU. Corporate and household debt as a proportion of GDP has declined in recent years. Companies have high profitability and good liquidity," says Dariusz Szwed of PKO Bank Polski.

Contrary to appearances, Poland's proximity to the developed countries of Western Europe and the former Eastern Bloc, on trade routes that have been disrupted in recent years, is an advantage of the country's location. European businesses now see Poland as an attractive option for relocation.

Energy

Stronger investment activity will also be supported by investments in energy. In the case of RES, this is evidenced by numbers from the largest bank in Poland. Last year, PKO Bank Polski increased green financing by 54 percent. The bank has a portfolio of more than PLN 2.4 billion of loans granted for wind and photovoltaic farms.

Poland also represents the interests of the former Eastern Bloc countries in the EU when it comes to the manner and pace of European energy transition. It needs to be equitable and take into account the capacities of nations that broke free of Russian influence and Russian energy policy only at the tail end of the twentieth century.

The experience to date is a good foundation for the further development of international cooperation, especially since it has never been more important. Countries like Poland, together with stable financial institutions, can be key to building a bridge to a free and rapidly growing Europe.

Deglobalisation Is an Opportunity for Poland

Poland is a country that has benefited from globalisation.

The past 30 years, during which capital has been flowing into our country while at the same time our manufacturing base, exports and the value of foreign investment have kept growing, have placed us firmly among the beneficiaries of free trade. Today, however, we have an opportunity to cash in on friendshoring and deglobalisation

Piotr Arak PhD,
Director of Polish Economic Institute

Joining the European market in 2004 was a huge opportunity and hundreds of thousands of Polish companies took advantage of it. Therefore, today, when it is becoming increasingly clear that global trade is never going to be what it used to be, we need to look at protectionism or trade wars with caution. Russia's aggression against Ukraine, as well as the hard lockdown in China's Shanghai, have clearly demonstrated how geopolitical events can negatively affect the functioning of global supply chains.

Limitations with regard to global trade do not necessarily have to be good for Poland. Many countries are watching the tensions between the US and China closely, fearing secondary sanctions that could limit the opportunities to be pursued in both China and the US for European business. The introduction of additional subsidies to decarbonise the US economy is perceived by many as an opportunity to move some manufacturing away from Europe and to the US. Additionally, Germany and France's recourse to state aid could lead to distortions of the single market as Central and Southern Europe may not be able to afford state aid on the scale employed by the EU's largest economic duo.

Globalisation Has Been Slowing Down for a Long Time

Free trade as we knew it is gradually ceasing to exist, but the process of globalisation slowing down started with the onset of the financial crisis of 2009. Global trade stopped growing. China no longer based its growth on exports, but rather on its own internal investments (its own credit).

Attempts to ratify a free trade agreement between the USA and the EU were unsuccessful, and the agreement with Canada has only been ratified in 16 EU Member States. Since Barack Obama's presidency, we have been struggling to fill the positions of WTO arbitration court judges, and the process of marginalisation of this institution got turbocharged under Donald Trump; things have not changed with the advent of Joe Biden's administration.

The US has turned away from the free trade of the 1990s, moving towards a greater security of supply and production of some of the strategic goods within its borders, even if it means higher costs. Both US and European industrial policy are following this path.

After the pandemic restrictions in China were lifted, the operation of global supply chains largely returned to normal, and Polish companies learnt how to function under the circumstances of

war across the eastern border and with greater uncertainty and volatility in the markets. However, with the pandemic, many voices began to emerge that noticed an opportunity for Polish business, in the form of shortening supply chains. The question that has often arisen over the last three years is: how could Polish business benefit from larger orders or investments from international companies in light of increasing risk pricing of shipments from China or Russia.

Friendshoring is a process whereby we choose to trade with friends who share similar geopolitical loyalties. This does not mean reaching a perfect agreement on values, but rather a commonality of interests and the fact that one does not seek to invade one's neighbours.

Friendshoring May Be a Thing in Poland

Declarations made by companies in the qualitative survey carried out by ING Bank suggest that relocating production from Asia will be a gradual process and is already being put into practice through diversification of suppliers. According to company declarations, over the medium to long term, foreign investments can be expected to increase.

At the level of macroeconomic data, we see that in 2022 the value of FDI transactions in Poland amounted to PLN 118.7 billion, which was PLN 4.5 billion (3.8 percent) higher than in 2021. This was another record year in terms of the value of investments in Poland. Which, given the decline of foreign

investment in developed countries, is a good sign for us.

In a Reuters survey commissioned by Maersk, Poland is indicated as the number one destination of choice for European companies when deciding to relocate to a country other than their country of origin (23 percent of indications; followed by Germany - 19 percent, Turkey - 12 percent, the United Kingdom - 11 percent and the USA and Vietnam - 10 percent each). For European companies, presence in the Polish market may serve as a foothold for further investments, including in Ukraine.

At the Polish Economic Institute, when in April 2023 we asked companies about their expectations and experiences regarding business relocation, it was evident that a lot of businesses see opportunities for themselves here. Over three-quarters of businesses (76 percent) believe that Poland would benefit from EU or the US building new supply chains in politically friendly countries. In particular, trading companies (80 percent) and construction companies (79 percent) agree with this statement.

As many as 77 percent of companies are convinced that friendshoring would improve Poland's energy security. This proportion reaches 78 percent among representatives of manufacturing companies, and even more among representatives of trade (82 percent) and construction (80 percent). The war-induced energy crisis resulted in high energy prices, which in turn constitute one of the major barriers to doing business today.

More than half of those surveyed (52 percent) see potential benefits of friendshoring for their own company. Creation of new supply chains by the EU or the US in politically friendly countries could be particularly beneficial for large players (74 percent).

So far, 26 percent of the surveyed companies have had contact with investors who had diversified their supply chains in the last three years. Most commonly, they represent the trade sector (34 percent), the TSL (transport, shipping and logistics) industry (27 percent) and construction (26 percent).

Slightly more than a quarter of the total number of companies (27 percent) plan to be a member of a supplier network within the framework of the new supply chains being established by the EU or the US. These include primarily representatives of large companies (46 percent).

An Opportunity, But a Threat As Well

The friendshoring question has an important sectoral dimension as well: there are more opportunities in high-tech industries, automotive, machine manufacturing and logistics, fewer in light industry (clothing, footwear) and energy-intensive industries - due to Asia's cost advantages and expensive energy in Europe. This creates an opportunity for Polish companies to move up the ladder of global value chains and for an increase in Polish added value.

It would be wrong, however, to expect that in these new economic realities we would be inundated with massive investments. It will be a slow and gradual process, driven by decisions to discontinue deliveries or cooperation with Asian partners after contracts or product lines run out. It will take several years. For the time being, the evidence of this trend happening is rather anecdotal - new investments that for all we know might have been located in Poland anyway.

Friendshoring is certainly a narrative that might be beneficial for Central Europe, as long as it does not turn into German and French protectionism within the EU. More tariffs or free trade distortions in the EU and the US could lead to weaker growth in the global economy. This risk has to be borne in mind. So far, free trade has been a clear opportunity for us. That is why we cannot move from an era of liberalism to an era of protectionism.

Regionalisation of supply chains and diversification - yes, but customs duties and illegal state aid - no. ©



Germany and France's recourse to state aid could lead to distortions of the single market as Central and Southern Europe may not be able to afford state aid on the scale employed by the EU's largest economic duo

PARTNER CONTENT

Digital maturity of companies in Poland. Towards Industry 4.0.



DR HAB. PAWEŁ
POSZYTEK

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Thus, the use of advanced technologies, and especially those based on artificial intelligence, determines the competitive advantage on the modern, global market. The unprecedented pace at which these technologies are developing leaves no other choice; only those who successfully complete their digital transformation and achieve digital maturity will survive, for it is digital maturity that constitutes a quantifiable indicator of digital transformation. Not every transformation, however, necessarily results in the improvement of the operational efficiency of companies. Finally, it needs to be underlined that the notion of Industry 4.0 is directly linked to the concept of the industry of the future that in an integrated way utilises and is based on modern technologies, i.e. where all IT solutions and artificial intelligence coexist to create one common digital ecosystem within the entire company.

In 2023, a survey was conducted in Poland involving entrepreneurs cooperating with the regional councils of the Future Industry Platform – a total of 234 entrepreneurs from all over Poland completed the online questionnaire. The survey included mainly representatives of local companies, from medium-sized or small towns, operating on the domestic market, with a turnover of less than EUR 1.1 million per year. 43% of them were service companies, 26% – production companies and 31% – production and trade companies. More than two-thirds of enterprises were companies with less than 50 employees. The survey revealed that only 10% of the companies surveyed pursue an existing strategy of digitalisation and transformation towards Industry 4.0, with management model based on its principles and adapted accordingly. In half of the cases, the companies' strategy foresees the development and adaptation of production according to Industry 4.0 principles, yet they remain merely in the planning phase. The other 40% of companies are not yet considering a transformation towards Industry 4.0, and are simply focused on staying in business. Only 6% of the companies surveyed stated that their transformation towards the industry of the future is already at an advanced stage. The others (46%) are most likely operating under long-established principles and have not yet started such a transformation. More than 60% of the surveyed entrepreneurs declared that their company follows the traditional organisational model (meaning personal management and task delegation), while more than 30% are gradually



Digital transformation is the fundamental process through which companies become modern organisations able to tackle the challenges of the fourth industrial revolution. With its full automation of production processes coming in parallel with the rapid development of Big Data, artificial intelligence, the Internet of Things, and increasing computing power, the fourth industrial revolution shapes today's labour market.

introducing some solutions to improve organisational processes. The surveyed companies are not yet advanced in implementing digital solutions. One in three companies is introducing intelligent solutions and autonomous systems in selected areas in order to anticipate and diagnose potential malfunctions in the production/service process. However, almost 60% of respondents still use basic technology solutions and software. 60% of respondents stated that their company does not use integrated data collection for various processes, and that its data is collected and analysed independently (separately by particular departments), while 30% declared that they have partially implemented smart technologies for data processing and analysis (mainly for optimisation purposes).

According to the survey, training is a prerequisite for digital transformation. More than half of the companies surveyed (55%) provide training programmes for targeted teams/employees, while 15% run comprehensive training programmes for the entire staff.

In addition to company strategy and employee training, the product or service itself becomes one of the key elements of digital transformation. The products of 62% surveyed companies (goods and/or services) are mostly simple in nature – they do not require implementing advanced technological solutions. In the remaining cases, the manufactured products are at least

to some extent equipped with data collection and analysis systems (e.g. sensors). Only 5% of products feature complex data integration and analysis, allowing autonomous decisions to be taken by systems featured into the product.

Moreover, more than half of the entrepreneurs do not collaborate with a specialised organisation that would help to implement digital transformation and Industry 4.0 solutions, whereas one in three organisations engage in such collaboration sporadically (no permanent collaboration established).

The three biggest difficulties in the process of steering a company towards the industry of the future are: a lack of financial resources necessary to bring the change to the company (47%), lack of experience in the digital transformation process of companies (41%) and lack of knowledge or access to reliable information on the industry of the future (30%).

The survey also showed that entrepreneurs profit from cooperation with others – the most frequently desired forms of support for the development of the company towards Industry 4.0 are: observation of good practices in other companies with similar characteristics or from a similar industry; the possibility to consult organisational and business changes with experts in Industry 4.0; and networking meetings that serve as a space for exchanging experience and ideas with other companies.

The survey also demonstrates that the approach to digital strategy and training, and the digitalisation of the product or service, varies depending on the size of the company. Micro-enterprises are more likely to implement the traditional organisational model based on personal team management and day-to-day task delegation (82%), while only 46% of medium-sized and large enterprises operate in this manner. The larger the company, the more willing it is to streamline organisational processes towards intelligent management. Micro and small-sized companies are also more likely to use basic technology solutions and software to maintain continuity of the production line or service (68% and 60%, respectively). In contrast, medium-sized and large companies are more likely to use advanced technological solutions capable of autonomous and intelligent decision-making systems in order to maximise productivity and resource efficiency. More than 14% of medium-sized and large companies use complex and integrated data collection tools that are linked to digital systems for automatic data analysis and decision-making. This is the case of only 5% of small-sized enterprises.

In terms of training, micro-enterprises are less likely to have staff training programmes for developing the competences of the future (43% of them do not provide training). Small, medium-

sized and large companies train their employees significantly more often.

The main objective of micro-enterprises is rather to survive and stay on the market, so their management strategy mainly involves ad hoc activities and the proactive search for new directions of development; they are not yet considering transformation towards Industry 4.0 (57%). Larger companies are more likely to adopt a strategy that includes developing and adapting production towards Industry 4.0, even though this vision usually remains incoherent and covers only targeted areas of company functioning.

Overall, the dominant response among micro-enterprises (68%) was that they have not started the transformation towards Industry 4.0 so far. Small-sized enterprises most often indicated that they have already made progress towards Industry 4.0 in some areas, but are still in very early stages. 12% of medium-sized and large companies reported that their digital transformation is already at an advanced phase.

Differences in attitudes towards the idea of digital transformation can also depend on the type of company activity. Personal management and the traditional organisational model is observed more often in service (67%) than in production companies (50%). Considering the three types of company activity, production companies seem to be the most advanced in their transformation towards Industry 4.0, with 42% indicating that some changes have already been implemented in certain areas. On the other hand, service and production companies mostly responded that they had not yet started the transformation in this direction (almost 50% of responses in both cases). In the case of manufacturing companies, 60% stated that their development strategy implicates the growth and adaptation of production to the Industry 4.0 principles, although this vision is not yet coherent and covers only targeted operational areas of the company. Among service companies, only 46% agreed with this statement, while the same number indicated that the company's main objective is to survive and stay on the market.

If we were to adopt a simple, yet meaningful and comprehensive model for assessing the level of digital maturity of Polish companies based on the data obtained and presented above, we should refer to a three-level scale. The first level represents the traditional model of company functioning. The second level a targeted use of modern technologies in the company, and the third level indicates the use of modern technologies in an integrated and holistic manner which allows for full automation of the company's processes. Overall, the survey revealed that Polish companies are placed somewhere between the first and second level which means that they still have a very long way to go to achieve a satisfactory level of digital maturity.

The New New

OPINION



Photo: Justin Lane/EPA/PAP

The world economy's bad run has continued, with minor breaks that could mislead some observers, since the 2007–2008 Global Financial Crisis (GFC). Somehow the world recovered, though it did not go unscathed. It was then that piles upon piles of public money were first pumped into the financial sector while governments bailed out distressed private financial institutions on a massive scale, often becoming their dominant shareholders in the process. Some have remained invested to this day. The debate about the strategy of bailing out banks on the taxpayer's dime was short and stormy. What helped to calm the mood was a relatively quick recovery in the markets and the fact that the worst-case scenario had been avoided: a collapse of the global financial system and the break-up of the eurozone.

The last phase of the decades-long great moderation with low inflation, cheap money and limited volatility continued after the GFC, albeit in a weakened condition, for barely a decade. Then came COVID-19, and after the pandemic, war. It triggered fiscal stimulus on an unprecedented scale, designed to bail out consumers, producers and everyone else as necessary to meet popular expectations. And that was that.

We are now left with huge debt, low growth, high inflation and central banks that have shaken off the illusions that inflation was temporary and got down

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to work in line with their mandate. The great moderation is gone for good. Instead, the world faces the burden of fiscal stimulation clashing with monetary tightening.

Governments and Fiscal Stagflation

The post-crisis structural change in the global economy undoubtedly involves a bigger role for the state. The top-down governance system known from 1939–1979 is back in a modern guise. This time, however, its gist is the transfer of money creation from the central bank and commercial banks to governments which are handing out subsidies, fiscal shields and guarantees left, right and centre. As a result, at a time when the economy is moving inexorably towards recession, there is no credit freeze that would only be natural in a well-functioning market economy.

The explosion of government credit guarantees, justified by a “series of extraordinary events”, has

led to an explosion of debt (guarantees are contingent liabilities on the government balance sheet). By controlling the growth of credit and money creation and by dictating the direction of investment through guarantees for special purpose loans, the government controls the growth of nominal GDP. This means that it has a strong incentive to keep inflation at elevated levels for as many years as necessary to keep the debt-to-GDP ratio in check. This is exactly the debt that accumulated over the period from the GFC to the war in Ukraine.

This is why, even with a slowdown in real GDP and higher interest rates, global public debt – as calculated by the IMF – fell to 92.1 percent of global GDP at the end of 2022 compared to 99.7 percent at the end of 2020. Despite the decline, it is still about 8 percentage points higher than before the pandemic.

Alongside public debt, the global economy has also amassed a mountain of private debt. According to IIF estimates, the global debt of non-financial institutions since Q3 2020 has risen from USD 81.9 trillion to USD 86.6 trillion within one year alone, equivalent to 97.9 percent of global GDP. Understandably, the sensitivity of the real economy to rising interest rates and market volatility is extremely high under the circumstances.

In the next decade, or perhaps even two decades, average inflation in developed economies will fluctuate between 4 and 6 percent and

Normal



and private debt is only a backdrop in this picture; an important one, but still a backdrop.

Toothless Central Banks

What hinders central banks the most now that they have got rid of the post-pandemic hesitation about the weight of inflation in the balance of risks? They are hindered, sometimes aggressively hindered, by governments that have been stimulating the economy at the expense of mounting debt.

Two researchers who have recently demonstrated this emphatically are no newcomers to the field of fiscal theory of trend inflation. Francesco Bianchi and Leonardo Melosi have studied the impact of uncontrolled fiscal expansion on the policy mix and ultimately on fiscal stagflation. They did so quite early, even before presenting an updated version of their paper at the annual Jackson Hole symposium, with reference to the now classic 1981 work by Sargent and Wallace, *Some Unpleasant Monetary Arithmetic*. Now, in an environment of fiscal expansion on an unprecedented scale, in the aftermath of a pandemic, during the war in Ukraine and the energy crisis, when governments are pumping money into the economy, the conclusions of their research have become more relevant than ever before.

The policy mix model constructed by Bianchi and Melosi where fiscal policy takes the upper hand suggests that pessimism about the effectiveness of monetary policy is well justified.

Without adequate support from fiscal policy, the classical response of the central bank to an increase in inflation in the form of interest rate hikes must lead directly to fiscal stagflation where the central bank tries to neutralise the effects of fiscal expansion but can never keep up with it. With powerful fiscal stimulation, the effectiveness of monetary policy drops dramatically and the potential return of inflation to the target is definitely beyond the reach of monetary policy.

Does this mean that a responsible central bank should simply shrug and capitulate? Not at all.



The responsibility for painting the post-crisis economy into the corner of fiscal stagflation ultimately rests with the government. Policy makers need to understand this. The sobering truth would not hurt those of us who vote for politicians promising handouts.

It is supposed to carry out its mandate. However, economic research clearly shows whose court the ball is now in when it comes to optimising the policy mix (the mix of monetary and fiscal policies in the right proportions) – and it is not the central bank's court, provided that the central bank fulfils its mandate.

The responsibility for painting the post-crisis economy into the corner of fiscal stagflation ultimately rests with the government. A central bank alone, even a good one, cannot get the economy back on track. Policy makers need to understand this. The sobering truth would not hurt those of us who vote for politicians promising handouts.

What are the consequences in the global economy of external supply shocks (first the GFC, then the pandemic and the Russian war) and the delayed effects of a policy of negative real interest rates and even negative nominal interest rates combined with a massive issuance of public and corporate debt?

The transmission of persistent supply shocks to price processes in economies where demand is falling remains a predictive question open for debate. Systemic and institutional economic set-up may provide a hint. Economies are either low-inflation or high-inflation regimes. In the former case, a fall in demand and a slowdown in observed GDP leads to the extinction of inflationary pressures; in the latter, it does not necessarily

do so, which makes the stagflation scenario more likely.

The US and the eurozone are predominantly low-inflation regimes. Their central banks can hope to bring inflation down without causing recession as long as they manage to prevent inflation expectations from getting unanchored. However, some EU countries, unfortunately including Poland, are high-inflation regimes. Anti-inflationary measures of their central banks and governments need to be more decisive.

Where Will the Conflict Take Us?

Central banks have come under intense criticism. They must work hard to defend their independence, which has in some cases been hard-won. The foundations of the central banking model based on a strategy of direct inflation targeting (DIT), widely practised around the world, have started to crack. No wonder, especially if you compare the targets and actual inflation. Two pillars and pioneers of the DIT, the Reserve Bank of New Zealand (RBNZ) and the Reserve Bank of Australia (RBA), are now serious about a critical self-assessment, including their own contribution to rising inflation.

The RBA announced a comprehensive, wide-ranging review of monetary policy (purpose, mandate, instruments, communication, corporate culture and organisation). Most importantly, the RBA Treasury Department hired external experts (experienced economists familiar with central banking) to lead the review in lieu of insiders. The review report is due in March 2023.

The RBNZ has gone even further. Shortly after a highly critical article co-authored by former RBNZ Governor Graeme Wheeler accused the RBNZ of mistakes leading to rising inflation, the current RBNZ Governor Adrian Orr acknowledged in a special statement that its policies have contributed to inflation. The RBNZ launched an additional review of monetary policy, beyond the cyclical review that takes place every five years.

These banks feel the pressure of public opinion. They do not shy away from responsibility for high inflation. They are able to admit mistakes in their judgement. They are willing to draw critical conclusions. They are not looking for an excuse. They are not stretching facts to spread blame all around. They want to improve what they can at home. There is no shame in taking responsibility, looking critically at the role of the institution you lead in events that affect the lives of many people. Rather, it is something to be proud of.

It is evident how much the criticism of central banking has mounted under the impact of the highest inflation in decades. Ricardo Reis of the LSE is undoubtedly right: if you miss the target, it is your fault, whatever you say.

The problem, however, is the question: What are the consequences of the widespread and prolonged overshooting of inflation targets by central banks, whether or not they are at fault? In my opinion, no matter what the banks do now, we will soon part ways with the strategy of direct inflation targeting. No politician and no central banker will be long-lasting and significant overshoots of the target: who would want that?

If I were to predict the preferences of politicians and central bankers after this crisis, I would bet on nominal GDP targeting, which has already been widely discussed in the literature and rejected in practice as mandated central bank targeting.

The coming years will bring low growth and elevated inflation, as well as enormous uncertainty and a range of structural changes, which will require reassessment of many model economic parameters (such as the neutral interest rate NAIUR).

Unlike the Taylor rule, which is the theoretical basis for DIT but requires inflation forecasting, knowledge of the observed GDP and estimation of unobservable potential, the nominal GDP target, or NIT (nominal income target), only measures the level or growth of nominal spending in the economy. You simply target an increase in overall spending, a simple and pleasant task that the central bank in fact shares with the government. This is the target they will choose for us, with the usual approval of some members of the economics community.

Going back to normal after many years of disruption in the global economy is never going back to the way things were. We are in for the new normal.

nominal GDP growth will not exceed 6 to 8 percent. Interest rates will remain below nominal GDP growth and will no longer rise on the scale last observed in the 1970s and 1980s. The rates will not rise because that would kill the indebted global economy and push developing countries into mass bankruptcy and insolvency.

We are thus facing a long period of financial repression, shifting resources from savers to debtors and from older to younger generations. The repression, however, cannot be too harsh as it would trigger protests, possibly government bankruptcies and a crisis of mature democracies. Hence, the savings drain will be slow and spread out over time.

Central banks, which formally control inflation, not nominal GDP, stand weak in the clash with debt-producing governments. Unlike central bankers, governments are popularly elected and pursue objectives supported by the majority. Under the prevailing conditions of permanent crisis, the objectives are clearly defined: cap energy prices, offer state aid to vulnerable businesses and citizens, spend on security, reduce inequality, etc.

This outlook for the post-crisis global economy in the long term is supported by the assumption of permanent fiscal stagflation, occurring with a time lag and not yet felt in the labour market (classic stagflation equals low growth + high inflation + high unemployment).

A sequence of extraordinary events occurring over more than a decade has precipitated the current crisis in the global economy. The build-up of public

In the past few decades, this sequence of events has occurred in the global economy more often than we would like. It does not bode well for the future

Inflation, Interest Rates, Crisis

Lukasz Wilkowicz

Is there a crisis or not? Fears that someone had poured sand into the cogs of the global economy are widespread. For the time being, however, all we have experienced are the problems of one large bank in Europe, relatively easily resolved (by bringing it under the wing of a larger competitor), and a couple of US banks, small by American standards. One of them – Silicon Valley Bank, the one where the troubles started – also found a new owner (or at least the bulk of its business did).

To get some perspective, let's review the crises of recent decades.

Interest Rates Climb to High Heaven, Debtors Descend to Hell

The 1970s were marked by expensive oil and high inflation. In the Western countries, inflation was at a level similar to the one we are experiencing now. And in the developing countries – emerging markets in today's parlance – it was even higher. But the 1970s was also a period when oil exporters enjoyed windfall profits and 'parked' them in Western banks. These banks had to do something with all the money, so they lent – precisely to developing countries. The loans were, of course, denominated predominantly in dollars.

All that worked nicely as long as interest rates in the US were kept low. But in 1979, the new head of the Federal Reserve, Paul Volcker, decided to try a radical crackdown on inflation, then exceeding 20 percent, and sharply raised interest rates. By the early 1980s, they rose to almost 20 percent. The debt of developing countries bore variable interest rates, so repayment instalments went up dramatically. And borrowers, one after another, became insolvent, with all the consequences for their own economies: currency devaluation, recession, rising unemployment.

The most vivid example of this was Mexico, which by 1982 had managed to 'build up' a foreign debt of USD 80 billion, which at the time amounted to more than half of its annual GDP. Debt costs had grown so much that in the summer of the same year the government informed the International Monetary Fund and the US authorities that it was unable to repay the loans. Shortly afterwards, private banks in Mexico were nationalised to prevent their bankruptcy. The country was bailed out through short-term loans, but even so, within a few months, the peso had lost half its value, inflation exceeded 100 percent per annum and GDP began to fall. It took almost a decade to recover from those issues, and was only possible after the Brady Plan was launched (although Mexico did experience another crisis in the mid-1990s).

Poland was also among the borrowers in the 1970s. For us, the problems started earlier, and the restrictive monetary policy of the USA only reinforced them. We finally recovered from the debts incurred by Gierek three decades later, when we repaid the Brady bonds.

According to the IMF, between 1980 and 1981, the rate of global economic growth was around 2 percent. In 1982, it was 0.7 percent. A poorer result was

only 'achieved' in 2009, after the outbreak of the global financial crisis.

Complicating Finance

More about that in a minute. For now, let's stay for a bit in the 1980s, the era of predatory capitalism, Reaganomics, deregulation and Michael Douglas as Gordon Gekko – and the development of the junk securities market in the US.

You did not need a high rating, strong balance sheet, stable revenues or profits, and you could still raise capital from investors, often for a management buyout of the company from the incumbent owners. After suppressing inflation in the early 1980s, the rates in the US were lowered to 5-6 percent. This boosted the popularity of junk bonds. But when the end of the decade saw a series of rate hikes to almost 10 percent, demand for this type of securities came to an abrupt end and there was considerable turmoil in the corporate debt market.

Around the same time, the severe phase of the savings and loan crisis was also starting in the US. Savings and Loan Associations (S&Ls), which mainly financed house purchases, experienced a period of explosive growth when the US deregulated the sector in the early 1980s, by, for example, lifting restrictions on interest rates on deposits and loans (loosening of operating conditions was intended to help S&Ls, which were already struggling after the rate hikes of the late 1970s and early 1980s). Since it was possible to charge customers more, it was also possible to take more and more risks – mainly in the property market. But when rates went up again, the expansion came to an end. Within a few years, more than a thousand S&Ls vanished from the market and American taxpayers spent over USD 130 billion to cover their losses.

Americans are not the only ones who have learnt that real estate financing plus high interest rates is a recipe for crisis. The beginning of the 1990s brought a series of crises in the Scandinavian countries, which started precisely with the property bubble.

The last decade of the 20th century was riddled with crises like very few others. Developments in technology and financial markets have made it easier and faster than ever to conclude transactions. Liberalisation of regulations have enabled free flow of capital. And capital wanted to flow from places where it was cheap and abundant to where it expected high rates of return. In other words, to – by then – emerging markets. To Asian tigers, for example. Initially, it supported high economic growth (which was particularly impressive when compared to Japan, which had been struggling with recession for several years). But 1997 saw the collapse of a number of Southeast Asian countries, which were heavily indebted, had tied their currencies to the dollar, and, at the same time, had insufficient exports to ensure the stability of these currencies. The financial markets were obviously in shock, the tigers in recession.

With time, the problems of Asian countries spilled over to other continents. Brazil found itself in trouble. And Russia, having stopped servicing its debts to foreign countries, went bankrupt. The Russian crisis was one of the reasons for the major economic

downturn in Poland (but also helped us to reduce our dependence on our eastern neighbour, except for raw material imports). Some of the splatter even reached the USA, where a large hedge fund, Long Term Capital Management (LTCM), which had invested heavily in Russian bonds, had to be bailed out.

Blowing Bubbles

The crises of the second half of the 1990s were no longer so tightly tied to interest rate fluctuations in the major economies. In the following decade, it changed, though. The LTCM case had already made the US central bank willing to cut interest rates slightly for the sake of improving the atmosphere in the financial markets. And two years later, when the burst of the dotcom bubble, i.e. a drop in stock prices of the first generation of companies whose hopes were pinned on the development of the world wide web, resulted in a recession in the US, the Fed decided to cut rates on a scale not seen there for two decades (previously, the main rate dropped to the level of around 1 percent only briefly, in the early 1960s). And it kept them very low for several years. This helped to feed another bubble – this time in real estate.

And since the financial market kept developing (read: more and more increasingly intricate instruments were used; supposedly to mitigate risk, although in reality they rather served to conceal it), the bubble had a dual nature: banking and real estate. When the Federal Reserve finally decided to tighten monetary policy because the economy was heating too much and inflation was accelerating alongside it, the bubble began to deflate. It ended with the subprime crisis, the collapse of Lehman Brothers and the Global Financial Crisis. In Anglo-Saxon countries, its name is spelled with capital letters for a reason.

Since the crisis was global, it naturally reached Europe as well. Here, too, at first interest rates were rising (albeit with a year-and-a-half delay compared to America), and when, after Lehman, one by one the banks began to collapse, it became apparent that the crisis would extend not only to the financial sector but also the public sector. Some governments were already heavily indebted; quite a few added to their liabilities by bailing out their banking sectors. There was also the special case of Greece, where only then was it noticed that the whole country was living on credit and meticulously hiding it. In the end, however, the reckoning came: at the outset, public debt was well over 100 percent of GDP (and subsequently it even exceeded 200 percent; recently, inflation has helped somewhat and the debt has shrunk to 180 percent).

It took quite a few years, head of European Central Bank Mario Draghi's "whatever it takes", rate cuts to zero and even lower, quantitative monetary policy easing and – let's admit it – a not inconsiderable number of reforms intended to increase the safety and prudence of the financial sector, to emerge from the global crisis. But Europe only managed to come out of zero interest rates recently – in the middle of last year. In America, while a series of rate increases did happen in the second half of the past decade, it did not have a crisis dimension this

time. And when the pandemic broke out, rates were cut again immediately.

Not just the banks

And this brings us to the current situation. A surge in inflation, the likes of which the world hasn't faced for decades, caused an obvious reaction from central banks – they opted for large hikes in short-term interest rates. In the financial markets, this translated into a spike in bond yields, i.e. a rise in long-term rates. The problem is that increased bond yields also mean a decline in their prices (particularly sharp this time, as the starting point for the yield rise was around zero, and not infrequently even below that), which translates into losses for their holders. And the large bond portfolios are held by banks, among others. They differ from investment funds, pension funds or insurance companies in that they have long-term assets, i.e. bonds, on one side of their balance sheet and short-term liabilities, i.e. deposits, on the other.

As long as the bonds don't have to be sold, there is also no question of realising losses, i.e. actually showing them in the profit and loss statement. But as word began to spread about potential bond problems at US regional banks, customers began to withdraw money from them. And several of them – Silicon Valley Bank being the first – actually found themselves pushed to the wall. As soon as problems arise in one part of the financial sector, people immediately start looking for other weaknesses. In Europe, Credit Suisse was found to be weak. It was quickly handed over to UBS. Then, for a while, the market's attention turned to Deutsche Bank.

However, interest rate hikes will not only affect banks. They will impact debtors even harder, whether we are talking about a mortgage payer, a corporate investment or a government burdened with a debt in dollars. World Bank data shows that in 2021, the total external debt of low- and middle-income countries had exceeded USD 9 trillion. If the loan bears a variable interest rate, the effect can be seen almost immediately. If – as is the case with many mortgage loans in Western countries – the instalment is fixed and periodically revised, the rate hike starts to hurt when the interest rate is updated.

Such is the case of debtors who want to roll over debt that is about to mature. Until now, debtors' problems have remained in the background, overshadowed by those of financial institutions. However, this may be changing, especially because the situation of debtors is not improving at all: high prices for food and energy resources are translating into greater living costs and expenses for heavily indebted countries. After that, the spiral does not need to be fuelled any further.

It is evident that the heads of the major central banks have become somewhat afraid of what they might bring on by raising rates to fight inflation. Not so long ago, Jerome Powell, Chair of the Fed, was suggesting that it would take a recession and a rise in unemployment to overcome inflation. He saw the problems of a few banks and got a bit more cautious. He probably doesn't want to take the blame for the next crisis. Which doesn't mean, however, that it can be avoided. ©

Poland 2023

5 years on the list of global developed markets

Since
2018

Polish capital market
classified as developed
by FTSE Russel

1991

Rebirth of Polish capital market

1817

First exchange
established in Warsaw



gpw.pl

Katarzyna Zajdel-Kurowska
Former Executive Director
at The World Bank interviewed
by Paweł Czuryło

Where are we in the business cycle now and what is the condition of the global economy?

The economy is definitely in a cooling phase. The fat years are over. Clearly, two developments have contributed: the pandemic and the war. But even if these events had not occurred, the economy would still have entered a slowdown.

Why?

Commodity and food prices were rising even before the pandemic, in part due to adverse climate change and global population growth. The pandemic and the war have amplified these trends and added negative factors. Whether a global recession can be avoided depends on how long the war lasts, what impact it has on inflation, and whether the major central banks continue to raise interest rates.

Some statements from central banks seem to confirm that they are aware of an imminent sharp slowdown in the economy. Could interest rate hikes be smaller than expected several months ago?

This could be the case. There are such voices at the European Central Bank and the US Fed. Concerns about rising unemployment and recession could put the brakes on the rate hikes. Central banks started to tighten their policies too late and ignored rising inflationary pressures before the outbreak of the war, and they are now concerned that demand may shrink too much.

Could the smaller appetite of central banks mean that high or "merely" elevated inflation will stay with us for longer?

Many factors seem to suggest this. Rising food and commodity prices, rising manufacturing costs, disrupted supply chains, the cost of the energy transition: all this drives inflation. Rising inflation, in turn, drives wage expectations, which then again drive manufacturing costs. It is a classic price-wage spiral that will not be stopped easily.

How to try and stop the spiral?

Unfortunately, the two options are: further rate hikes and cooling

inflation expectations or spending cuts and no wage increases. Neither solution is popular with politicians, so only a miracle could save the day.

Governments in many countries are saying: first we had to protect citizens and companies during the pandemic crisis, and now during a war.

Nobody expected a global pandemic or the outbreak of war. These are classic examples of "black swans": phenomena whose probability is small but whose impact is enormous. To avoid chaos, fiscal and monetary policies had to be relaxed, that much is obvious. However, some support schemes continued too long, resulting in the current rise in inflation and debt.

Are you expecting a wave of spending cuts in many countries?

Yes, especially countries with high debt. Over the years, organisations such as the World Bank and the International Monetary Fund have put a lot of effort into mobilising governments to increase budget revenues in order to build a strong foundation for economic growth. Unfortunately, this is a very slow process and revenues in many developing countries are growing much more slowly than spending. Vulnerable groups had to be protected during the pandemic so budget spending increased and so did debt.

The World Bank has recently published its latest International Debt Report 2022 and the conclusions are very worrying. The poorest and developing countries will be hit the fastest by rising debt servicing costs and falling government revenues, which could push them deeper into a debt spiral. This could be a rerun of the past as the problem recurs every decade or two: an increase in poverty and social unrest, and the consequent need to cancel the debt of those countries. The process started during the pandemic, when many countries fell into the debt trap. The time of war is also bad for many countries: due to rising market risk, their debt servicing costs rise (driven by rising interest rates and depreciation of local currencies), and more and more

Poland is evolving into an advanced economy. It is almost there: according to the World Bank classification, Poland is a high-income country. **IT is still dependent on foreign investors and needs to pursue a prudent economic policy and avoid mistakes that could discourage investors**

We Must Make No Mistakes



Photo: Grant Ellis/press materials

Poland cannot avoid a slowdown, which is already there. There is the price-wage spiral, and inflation was rising in Poland even before the war. It was driven by rising food prices, manufacturing costs, the cost of services, and now that everyone is feeling the impact of inflation, workers are demanding an increase in wages. This means that high inflation is here to stay for a long time, unless companies start cutting costs, including cutting jobs. This either means rising unemployment or persistent inflation.

countries are turning to international institutions for debt restructuring.

The debt will have to be restructured, but given the debt structure, it will be more complicated than in the 1980s or 1990s.

How does Poland fare in comparison?

Poland is an open economy, and all these factors affect it.

The private sector will be the first to cut costs. Global corporations in the USA have already announced cost cutting programmes, which may impact their subsidiaries and investments in other countries. In the longer term, government salaries and employment may be frozen, which is a global trend. This is because governments will fund social spending for as long as possible and cut investments, which will be bad for economic growth. The slowdown may be softer but the recovery will be more difficult and take longer.

On top of that, general elections will take place in some countries, which will probably influence politicians' decisions.

There are always elections somewhere in the world (laughs). I have recently followed the US Congressional elections, and the trends are similar: politicians are more likely to promise social spending than to reduce it, with the consequence that investments are cut because the effects are not immediately visible.

Money from the National Recovery Plan would certainly help Poland.

The plan was developed to support investment. In the absence of that money, Poland is still waiting at the station while other trains are leaving. Investments in RES, among

others, will now be more expensive than a few years ago.

Won't countries like Poland grapple with demographics, which may have a negative impact on the competitiveness of the Polish economy?

Indeed, Polish society is ageing, which will inflate social costs and the cost of pensions. This can be counteracted by an open immigration policy so it is a good thing that Poland opened up its labour market to residents of neighbouring countries a few years ago and now the Ukrainians have arrived. Hopefully, after the war, the Ukrainians who are now fighting the Russian aggressor will return to Poland.

What are the key risks facing Poland?

The biggest risk is that the armed conflict will spill to the West. Let's hope it doesn't happen, because there would be no winners in another war.

Poland is evolving into an advanced economy. It is not yet there but it is close. For example, according to the World Bank classification, Poland is a high-income country. Poland is still dependent on foreign investors and needs to pursue a prudent economic policy and avoid mistakes that could discourage investors.

Some economists are talking about disinflation. Is there any hope that inflation will start to fall in 2023?

Inflation may fall year on year in some months due to the base effect, but it is now closer to 15-20 percent while the inflation target is 2.5 percent. Actual inflation is far above the target. The price-wage spiral shows how important it is to keep inflation low, which is good both for producers and consumers. We should make every effort to bring inflation down to the target, which may mean that wages will grow slower than inflation.

How do we do that?

There is no easy solution. You can raise interest rates quickly, which would have negative economic consequences, so politicians both at home and abroad will not go for it. Everyone is afraid of a rapid cooling of the economy, so central banks are cautious to take action. I don't think any central bank will decide to go for big interest rate hikes.

The economic slowdown and the end of the war could bring inflation down the fastest, globally and in Poland.

Investors are still choosing Poland, even though we are a front-line country.

There could be more investments such as the recently announced Mercedes investment in Jawor. Poland benefits from shortened supply chains. Companies want to have trusted partners who will deliver components for production.

Poland is a great place to invest: aside from the war, we have a relatively large population, good access to raw materials and to the sea. I expect more investments to come. Manufacturing costs are still lower in Poland, and many companies are closing factories in Asia and shortening supply chains. A smart economic policy would encourage this. We must make no mistakes. ©



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The Zloty Gains Strength

On 10 May, the final day of the May meeting of the Monetary Policy Council, the body that governs interest rates in Poland, the dollar cost less than PLN 4.12, a drop of 6.3 percent compared to the last day of 2022. Over that time, the zloty had gained over 3.7 percent against the euro, with the exchange rate falling to just over PLN 4.53 for the first time in a year. The zloty has not had such a good start to the year since 2017. Against the euro – here, due to economic ties, changes are smaller than for the dollar – the zloty has become the strongest it has been since the Russian aggression against Ukraine in February 2022

Lukasz Wilkowicz

Poland is not the only country whose currency is appreciating rapidly. For the Hungarian forint or the Mexican peso, the scale of appreciation since the beginning of the year was even greater, however in a three-month perspective, the appreciation rate is already very similar, and on a monthly basis, the zloty is proving to outperform both of these currencies.

“There are some strong fundamental factors driving the appreciation. First of all, in a short period of time we have moved from a deficit on the balance of payments current account to a surplus. In short: there are more exporters who want to buy the zloty than importers who want to sell it”, explains Piotr Bielski, economist at Santander Bank Polska.

In 2022, exports in euro terms were 21.5 percent higher than the year before. But the dynamics of imports was 27 percent. In February this year (most recent data available), exports were 10 percent higher than a year earlier and imports fell by 5 percent.

“This reflects the effect of cheap raw materials, a very significant improvement in terms of trade, and thus a rapid improvement in the trade balance”, adds Michał Dybuła, chief economist at BNP Paribas Bank Polska, explaining the shift from a deficit to a surplus in commodities turnover, which in his opinion was the

main reason for strengthening of the zloty.

According to data from the National Bank of Poland, for the whole of 2022, Poland had a deficit of EUR 19.5 billion in the balance of payments current account. In the first two months of 2023, there was a surplus of EUR 4.7 billion. The goods trade deficit of EUR 24.1 billion for the whole of 2022 has turned into a surplus of EUR 3.8 billion in January-February.

Poland is a regional powerhouse when it comes to the surplus in services turnover. In 2022, the surplus amounted to EUR 36.5 billion, and in early 2023 it reached EUR 7 billion. At the same time, there is a constant deficit in primary income: last year it amounted to EUR 29.7 billion and in January-February this year, EUR 4.7 billion. To a large extent, this reflects profits generated in Poland by subsidiaries of foreign direct investors. Some goes to them as dividends or interest on loans to Polish subsidiaries. That said, a large share is retained in the country and therefore does not contribute to the demand for the zloty.

“The zloty has strengthened based on real capital flows”, emphasises Ernest Pytlarczyk, chief economist at Bank Pekao. “More and more often we have been hearing about foreign banks that are not speculating in our market, but have large amounts of money to exchange, resulting, for example, from foreign direct investments”, he adds.

Between 2016 and 2022, the first five years of the Law and

Justice government, the inflow of direct investment into Poland averaged EUR 15 billion a year (this amount includes re-invested profits). In 2021-2022, it was already over EUR 30 billion.

“We are seeing the near-shoring trend more clearly: production is being moved from Asia to Europe, for example, to strengthen supply chains that were disrupted during the pandemic. This is a field for mergers and acquisitions, but quite often also for ‘greenfield’ investments. This trend has a positive impact on the perception of our market. Poland is still a very attractive place to locate production and business, with highly qualified employees. Competition against cheaper Asian markets has turned a new page”, says Paweł Bukowiński, managing partner in EY’s strategy and transactions department.

Foreign investors may also be enticed by the domestic stock and bond market. WIG20, the main index of the Warsaw Stock Exchange, has gained 6.7 percent since the beginning of the year (the dollar version of this index has gone up by almost 13 percent since the beginning of the year and by 19 percent over the last 12 months). The TBSP index, which presents the quotations of Polish government bonds in a synthetic way, gained 6 percent. Previously, it had been falling for two consecutive years.

The bonds are gaining partly due to growing expectations that the National Bank of Poland would start cutting interest rates soon. The National Bank of Poland’s main rate has been fixed at 6.75 percent since September last year. Inflation in April stood at 14.7 percent, compared to 18.4 percent two months earlier. However, it is still at levels not seen for more than two decades. The NBP’s target is for the consumer prices growth to be as close as possible to 2.5 percent per annum.

At the same time, high inflation causes the real effective exchange rate of the zloty to go up. Economists at Bank Handlowy, the Polish subsidiary of US-based Citigroup, recently looked into this. “From the perspective of economic competitiveness, it is not so much the market exchange rate that is important, as rather the real effective exchange rate (REER). It reflects changes in the value of the zloty against a basket of currencies of the main trading partners (hence the term ‘effective’) after adjusting for differences in inflation between Poland and other countries (hence ‘real’). The REER’s appreciation is driven by both the nominal appreciation of the currency and higher inflation at home than abroad”, they explained in a report for clients.

“In 2018-2021, the CPI-adjusted REER exchange rate remained relatively stable, not deviating significantly from the average for the period. Things have changed significantly in recent months, however. In April, the REER exchange rate quotation reached its highest (i.e. strongest) level in over a decade, with the upward trajectory starting with a strong increase in Poland’s CPI vis-à-vis its trading partners”, they pointed out.

The real effective exchange rate calculated based on the CPI – consumer inflation – went up more steeply than the rate estimated based on the PPI – prices of industrial output sold. Here,

we returned to levels recorded two years ago (last summer the exchange rate was the weakest since 2004, i.e. since Poland’s accession to the European Union).

The zloty could have strengthened even more. The way to avoid it is the exchange model used by the authorities for currencies flowing into Poland from the European Union. Although funds from the National Reconstruction Plan are blocked, Poland is the largest beneficiary of structural funds. Since 2004, the country has consistently recorded a positive balance in transfers from the EU. In the first quarter of this year, it amounted to PLN 2.6 billion (over half a billion euros). The surplus is not exchanged on the market in its entirety. In part, the exchange is carried out bypassing it – by the National Bank of Poland. The consequence is an increase in the country’s foreign exchange reserves. In April this year, they were worth USD 178 billion.

In April alone – when the appreciation pressure was particularly evident – reserves increased by USD 7.7 billion. In euro terms, the increase amounted to 5.6 billion. This may indicate an increased scale of foreign currency sales by the government at the NBP.

However, according to one of the domestic analysts, this does not mean that the market exchange, made through the Bank Gospodarstwa Krajowego, is non-existent. “No one has statistics on how much of the EU money goes through that state-owned bank. But you can see BGK in the market. The inflow related to EU funds continues all the time”, says DGP’s interviewee.

In the past, the central bank has made no secret of its intention to help exporters through a weak zloty. The MPC has recently stressed in its communications that “inflation could be reduced faster if the zloty strengthened, which in the Council’s view would be consistent with the foundations of the Polish economy”.

In addition to monetary policy, the exchange rate may also be influenced by politics – and the prospect of the parliamentary elections in the autumn. This is not only about the results of the elections, but also about the election campaign and the promises made on all sides of the political scene during the campaign. Poland’s public finance deficit in 2022 was 3.7 percent of GDP. For this year, it is expected to rise to more than 5 percent of GDP.

“As long as the growth prospects for the economy are good and the country’s rating remains high, we are still regarded as a very attractive investment destination. Should it turn out, for example, that there are high tensions in the budget and thus fiscal pressure increases, it would naturally translate into growth prospects for our economy, including inflation expectations, related to the cost of financing and, finally, expectations as to the growth potential of the economy. Economic policy is important for a country’s attractiveness to investors, but you have to really ‘mess up’ to radically change their attitude towards a 38-million-strong, fast-growing country that is a member of the European Union”, believes Paweł Bukowiński of EY. ©

Moody's: A2 S&P: A- Fitch: A-

Poland's ratings remain high despite the turbulent times
Moody's A2 S&P A- Fitch A-
for the first half of 2022.



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You Don't Buy a Cow to Get a Glass of Milk

The debate concerning Poland's adoption of the euro resurfaced in the wake of the war in Ukraine. Some stated that adopting a common currency would protect the Polish economy against the weakening of the zloty while reducing the risk of direct Russian aggression. Such arguments are far from convincing because the cost-to-benefit balance for speedy accession to the eurozone has not changed significantly.

The zloty weakening against the euro following the start of the war in Ukraine should not become a cause for concern, or indeed a material argument in favour of a serious and irreversible decision like adopting the euro.

Firstly, the phenomenon of a local currency weakening in response to a negative shock is natural and desirable in equal measure, one of the key arguments in favour of preserving local currencies. Currency exchange rates function like a shock absorber, facilitating relatively painless economic adjustments while softening the impact of the destabilised environment. Secondly, the weakening of the zloty against the euro has been rather limited, given the scale of economic shock and geopolitical risk. On average, the zloty/euro exchange rate dropped by a mere 3 percent this year over the previous year; even during the market panic peak, the scale of the zloty's depreciation against the common currency did not exceed 10 percent compared to pre-war levels.

This scale of local currency weakening carries no essential negative macroeconomic implications. In particular, it does not significantly hinder the struggle against high inflation rates. Available estimates suggest that sustained weakening of the zloty by 10 percent would increase the inflation rate by 1–1.5 percentage points. It can thus be concluded that average annual depreciation of the local currency against the euro by a mere 3 percent would contribute no more than half a percentage point to the inflation rate. One might point out that the effective exchange rate of the zloty had been weaker, mainly given the currency's depreciation against the dollar. Yet this was the outcome of the euro weakening against the dollar, which in turn translated into the zloty depreciating against the US currency. Poland adopting the euro would not be a relevant safeguard against this.

NATO, Not Euro

Does paying in euro rather than the local currency make one invincible? Does eurozone membership offer defence against military aggression? While this is not, strictly speaking, an economic matter, even an economist knows that the answer to these questions is "No".

In this particular case, it makes sense to focus on the strongly pro-European yet pragmatic Nordic states. A long-standing presence in the eurozone, Finland decided that this in itself was not a sufficient "guarantee" of security, and decided to join NATO in defiance of its long-held neutrality. Faced with the threat of Russia's imperialist aspirations, Sweden, too, found it expedient to relinquish neutral status, making a swift and immediate decision to join the North Atlantic Alliance. Nonetheless, it is noteworthy that the country did not concurrently engage in any discussion regarding the euro. Could it be that the pragmatic Swedes have been

PIOTR BUJAK

Chief Economist, PKO Bank Polski



UNDER CURRENT CIRCUMSTANCES, REPLACING THE ZLOTY WITH THE EURO IN THE FORESEEABLE FUTURE DOES NOT SEEM THE OPTIMAL CHOICE

eurozone member economies in the early days of Russia's aggression offers no robust guarantee that adopting the common currency stands for security.

Common Currency Does Not Warrant Success

New arguments in the aftermath of the war in Ukraine change nothing in terms of assessing the cost-to-benefit ratio of adopting the euro. Over 20 years old today, the eurozone's history is not an unblemished string of success. Recent decades of enduring crisis-related shocks and painstaking efforts to restore post-crisis equilibrium in the eurozone have served to confirm uncertainties concerning the bloc's imperfect structure.

The eurozone's issues have remained unresolved. Excessive debt incurred by multiple member states, including Italy – the third largest eurozone economy – makes it very difficult for the European Central Bank to respond to current runaway inflation, among others. Driven by concerns regarding the condition of structurally weak member states, the process of raising interest rates has been severely delayed. The ECB approved the first interest rate increase only in July 2021, over one year later than the Central and East Europe (CEE) region, nine months after the process of monetary policy restrictions had been initiated in Poland. In addition, the process of raising interest rates in the eurozone had to be preceded by the introduction of a special-purpose mechanism protecting "weak links" against an excessive upsurge of debt service expenses.

The spread of inflation rates across eurozone member states has reached around 20 percentage points, and CEE is the region with the most acute price increases. This is ample proof that while inflationary shock associated with the Russian aggression driven energy crisis has affected all European economies, the degree of impact varies and the shock is therefore asymmetrical. This automatically gives rise to the question whether – given current conditions – the struggle with inflation in Poland would be easier and more effective if it were waged by the European Central Bank ECB instead of the National Bank of Poland. It is highly unlikely. In this context, one might conclude outright that the new circumstances arising from the war in Ukraine reinforce arguments against hasty adoption of the euro.

Poland's Sound Bottom Line Requires Discipline

Struggling with grave dysfunctions, the eurozone is no guarantor of macroeconomic stability. This requires hard work in the form of proper macroeconomic policy and activities aimed at building sturdy and healthy foundations for a highly competitive economy. Poland's economy is performing very favourably in this regard. Significantly reduced foreign debt and an improved international investment position; perpetually low increases in unit labour costs in contrast to competing economies; a sound balance of payments condition benchmarked against the region's major economies; a fiscal deficit among the lowest in the EU; little public debt; limited private sector leverage; no excess loan boom over a number of years (with a decline in the credit-to-GDP ratio over recent years); real interest rate levels matching the EU median; these are not the characteristics of an economy that is

vulnerable to crisis within or beyond the eurozone. Poland came out ahead of all European Union economies in the European Commission's most recent Macroeconomic Imbalance Procedure for 2021. With only one imbalance recorded, the already available 2022 data indicate that it has been eliminated. Poland's economy was in the lead of the Macroeconomic Imbalance Procedure ranking in previous years as well.

It should be emphasised that remaining outside the eurozone requires greater macroeconomic policy discipline in order to preserve a similar measure of resilience to global external shocks. As part of the eurozone, one can count on greater leniency, as well as the ECB's interventionist asset purchases and other "anti-crisis" measures. Staying out means one is forced to adopt better macroeconomic discipline or doomed to pay a higher risk premium under shock conditions – or struggle through currency crisis under a black scenario. Without a healthy, competitive economy or macroeconomic stability, the state's proprietary currency can become a catalyst of crisis rather than an effective adjustment mechanism.

Benefits of Remaining Outside the Eurozone

It is noteworthy that while not a common currency member state, Poland enjoys most of the benefits related to the eurozone, which stretches across the vast majority of the EU market. Managing the exchange rate risk for a single exchange rate against a common currency is far less costly than the same process for 20 currencies. Moreover, eurozone member states are not in a position to increase their competitiveness against Poland's economy through discretionary devaluation or market depreciation of local currencies. For these reasons, Poland has been able to recently increase its trade volume with Germany much more and at much higher levels than France – a country at the heart of the eurozone, and Germany's close neighbour as well.

Adopting the euro is no formula for success. Under current circumstances – prevailing dysfunctions in the eurozone, multiple asymmetrical shocks affecting European economies, and Poland's considerable macroeconomic stability – replacing the zloty with the euro in the foreseeable future does not seem the optimal choice. Yet the field for manoeuvre in Polish macroeconomic policy is significantly limited with no room for breeding "twin deficits". In the aftermath of drastic monetary policy restrictions (the highest and swiftest interest rate increases the National Bank of Poland (NBP) has introduced for over 20 years), the key role goes to fiscal policy. Even a moderate rise in fiscal deficit may prove a challenge in conditions of blatantly tight financial conditions worldwide (the end of an era of inexpensive and easily accessible money). In such a context, access to European Union funds becomes crucial. Access to tens of billions of euros in EU funding is becoming more important than ever before in terms of preserving macroeconomic stability and investor confidence. An influx of EU money would make it much easier to proceed with significant risk-free market investments of strategic importance to Poland, including energy transformation and defence projects. Paradoxically, Poland's closer ties to the EU are conducive to keeping the Polish economy outside the eurozone. ©



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The Euro in Poland? It's Time for a Radical Shift in Perspective

Some of the important benefits resulting from Poland joining the eurozone could be achieved **by just making a credible declaration of intent to apply for membership**

Since the 2015 parliamentary elections, the ruling camp has been amending the law in a manner that, in sum, can be described as institutionalising economic and political populism. If the opposition does not win the 2023 elections, the Polish model of capitalism, severely weakened by politicisation, statism and monopolisation, will undergo a permanent and probably irreversible transformation, resulting in lower development dynamics and greater vulnerability to crises.

Notably, the decomposition of the existing capitalism model would then proceed under the continued influence of the delayed impact of the pandemic, the war in Ukraine and high inflation. In such circumstances, a renewed, stronger focus on the European integration process would be the best way to mitigate these risks. This is why it is becoming so important to advocate measures aimed at Poland joining the eurozone.

Stronger Ties With the European Union

Regardless of the traditionally cited benefits, four arguments in favour of membership are now playing a key role: 1. reinforced entrenchment of Poland's systemic transformation legacy and a Polish variant of the EU model of capitalism; 2. reduced risk of polexit and withdrawal of EU institutions and standards from Poland; 3. lower debt servicing costs and reduced likelihood of a financial (currency or banking) crisis; and 4. smaller expenditures required for any specific increase in armament levels. A significant part of these benefits could be achieved by simply making a credible declaration of intent to apply for membership.

The above arguments are even more important in an election year. Forcing the current government to engage in a serious and honest debate on the euro would test the sincerity and credibility of its official intentions to remain in the European Union, as well as to obtain funds under the NRP (Recovery and Resilience Facility). Moreover, it would force the government to fill its hollow platitudes about defending economic and political sovereignty with enough substance to enable a meaningful pre-election discussion on Poland's strategy in the face of current powerful geopolitical challenges. It would be good to get the ruling coalition to articulate whether there is an alternative to stronger EU ties in this situation, what it is, and, above all, what the cost of such an alternative would be.

Historic Threat to Poland

A good general framework for this type of discussion is still provided by the so-called political globalisation trilemma, included in the well-known concept by Prof. Dani Rodrik of Harvard University. The essence of the trilemma is that at any given time, only two of these three elements – economic globalisation, political democracy and the nation-state

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– can co-exist. This concept was recently referenced in a book by Klaus Schwab (President of the World Economic Forum) and Thierry Malleret, who assume that it is equally applicable to international economic integration. In their view, “Combining economic integration with democracy implies that important decisions have to be made at a supranational level, which somehow weakens the sovereignty of the nation-state”.

In other words, if you are not willing to compromise on the scope of democracy and the prerogatives of the nation-state, you must limit economic integration. Rodrik's trilemma confronts countries with a very difficult choice indeed. It may be noted with some irony that, despite the extreme complexity of the current international situation, the originality of the Polish ruling camp's contribution to the attempted solution of the trilemma only manifests in its inadequacy and harmfulness. This unique 'originality' lies

in the fact that the current government is willing to give up not just one goal (integration), but also a second (democracy), contenting itself with, or consciously choosing, only the third goal (the nation-state).

The historic threat to Poland can also be explained by the concept of the 'narrow corridor', presented in the well-known book by Prof. Daron Acemoglu and Prof. James A. Robinson. Namely, if the current process of reversing the achievements of the transformation is not interrupted, Poland will be pushed out of the 'narrow corridor' of the favourable, very difficult to achieve balance between the 'power of the state' and the 'power of society' which it managed to reach after 1989. Subsequently, pushed away from the countries of the 'Shackled Leviathan', Poland may become a case of the 'Despotic Leviathan' or the 'Absent Leviathan', but may also find itself among the countries combining the negative elements of both cases. Thrust out of the 'narrow corridor', Poland will also not be able to build the characteristics of a 'resilient society', as analysed by Prof. Markus Brunnermeier in his book. Moreover, it would be very difficult for it to find a place in the 'College of Nations', i.e. among countries respecting democracy, civil rights and free commerce, the creation of which James Rickards proposes in his book *Sold Out* in opposition to authoritarian countries.

Avoiding Isolation

The need to accentuate these important new benefits of eurozone membership would perhaps not be so pressing were it



not for the current government's deliberate course towards isolation and autarkic authoritarianism. This prospect, in turn, would be at least a tad less dangerous if it could be assumed that, at the very least, macroeconomic policy is being conducted in a competent manner and not subordinated to the electoral cycle. The reality is, however, that President Adam Glapiński has unfortunately crossed the 'Rubicon of politicisation' of the National Bank of Poland (NBP). Importantly, the erosion of central bank independence did not occur as a result of pressure exerted on the president by the ruling camp, as was the case in Turkey, for example. Instead, it is a case of him voluntarily meeting the expectations of political power. It could be said that the incompetent monetary policy and, as a result, its low effectiveness in the fight against inflation, as well as the manner in which the central bank is managed – not according to standards – necessitate perceiving the President of the NBP as an additional strong argument in favour of joining the eurozone. Interestingly, there are also signs which may indicate that, despite the extreme anti-EU rhetoric of the NBP President, he does not attach all that much importance to pursuing an autonomous monetary policy to protect national interests. The announcements released after the meetings of the Monetary Policy Council on 7 December 2022 and 4 January 2023 imply quite clearly that monetary policy is being effectively left in the hands of major foreign central banks. This is because the MPC assumes that interest rate increases implemented abroad will be the main mechanism through which the disinflation process in Poland is going to be affected. If the Polish central bank is prioritising such, so to speak, free-riding, it acknowledges at the same time that national business cycles in the EU are synchronised, thus fulfilling an important criterion of the optimum currency areas theory. If so, then the MPC is advocating abandoning autonomous monetary policy and handing it over to the ECB to manage. If not, then much more focus should have been given to this issue. It should also be added that, given the current high inflation, the – already highly questionable – argument about the pro-inflationary effects of adopting the single currency has lost considerable weight.

Besides the politicisation of the central bank and the unreliable policy of the NBP, another factor that poses a great risk to the medium-term prospects of the Polish economy is a lack of transparency in public finances. It is unlikely that the current government will seek to restore such transparency. The Supreme Audit Office is weakened and can hardly be expected to act with sufficient effectiveness. The European Union, in turn, has loosened its requirements concerning the state of public finances in connection with the pandemic. This unfortunately results in more and more funds being expended outside the budget and in a discretionary manner, subordinated to political criteria. This will become an increasing problem mainly for two reasons. First, the forthcoming elections will push the authorities even more strongly towards a budgetary policy serving to benefit their electorate.

If, on top of that, there was to be an attempt to implement Jarosław Kaczyński's idea of a quantum leap in the share of defence spending (up to 5 percent of GDP), it would have to be accomplished at the cost of massive cuts in other public expenditures or at the cost of significantly prolonging the disinflation process. The public finance situation would be even more ambiguous had the current ruling coalition not backtracked in time from the introduction of very ill-prepared radical changes to the tax system (the so-called 'Polish Deal'). Thus, as in the case of monetary policy, the manner in which fiscal policy is conducted also clearly makes an argument for efforts to join the eurozone. Another separate problem is the lack of coordination between monetary, fiscal and macro-prudential policies, which is to be addressed by the Financial Stability Committee (FSC) set up after the global crisis of 2007-2009.

Prevalence of Not-So-Current Views?

The Polish debate on joining the eurozone is still stuck on the same arguments that became prevalent in reaction to the Greek or, more broadly, to the eurozone crisis at the beginning of the last decade. Subsequent attempts to revive public discourse did not have much effect, largely because the main political groupings ceased to take an interest in the issue. The legal barrier of having to amend the relevant constitutional provision played a significant role in this since – given the existing balance of political power – it seemed impossible to achieve. As a result, inertia ensured that the belief that there is an unequivocal preponderance of arguments against joining the eurozone became firmly entrenched in public discourse.

The reasons behind the perpetuation of this 'conventional wisdom' have not yet been convincingly explained by political science, sociology or social psychology. Unfortunately, economists have also made an unhelpful contribution here because, despite the significant changes taking place in the global and European environment, they were not keen to undertake in-depth research into the new cost-benefit balance of EU and eurozone membership. Thus, the views of opponents of Poland's accession to the euro area have not been subjected to sufficient criticism on theoretical and empirical grounds.

One point worth emphasising here is the role that the works and media statements of two well-known financial sector economists, Stefan Kawalec and Ernest Pytlarczyk, have played and continue to play in the dissemination of such views. The issue here is not to what extent the views formulated in their 2017 book 'The Euro Paradox' were consistent with the economic knowledge of the time. Much more relevant and disconcerting is the fact that, despite the profound changes that have taken place in Poland and abroad, as well as the resulting changes in risks, in a recently published extensive interview (Horizons DGP, 16-18 December 2022), these authors claim that the views expressed in their book are still fully valid. Moreover, the more complicated the reality proves to be, the more they double down on emphasising the role of the floating exchange rate in explaining economic processes in Poland. Not only do they see it as practically the only reason for the favourable economic situation after the 2007-2009 crisis, but they even tout it as 'central to the Polish economic model'. If one were to look for the main feature or central element of the Polish model, it would not be the floating rate, but rather a vibrant private enterprise sector, highly adaptive and focused on maintaining competitiveness. These qualities also invalidate the argument that eurozone accession should wait until Poland's GDP per capita is close to that of the most developed EU countries.

Notably, Kawalec and Pytlarczyk have not dispelled the fundamental doubts that arise after reading their book. Above all, their view that competitiveness can be permanently influenced by depreciation and that exchange rate changes are an automatic shock absorber for cyclical fluctuations remains unconvincing in light of recent research. It also seems logically inconsistent to assume that a floating exchange rate acts as a warning system in the economy, while at the same time treating it as an instrument of economic policy. In this context, it is useful to cite the recent opinion of Mario I. Blejer, former Governor of the Central Bank of Argentina ('Project Syndicate', 30 December 2022). His statement is an attempt to explain why the country has been experiencing recurrent macroeconomic crises for such a long time. Blejer believes the best explanation is 'Argentina's inability to build and sustain competitiveness without periodically implementing large nominal exchange rate devaluations'.

It is a pity that, in the aforementioned interview, Kawalec and Pytlarczyk omitted the important, albeit inconvenient for their line of reasoning, results of the 2020 study by Milan Škrbić and Davor Kunovac of the Croatian National Bank. Indeed, this is one of the few studies that attempts to directly address the question

of why the four EU countries under obligation to join the eurozone (Sweden, the Czech Republic, Hungary and Poland) are still delaying this decision. The study focuses on the cost of membership in terms of the loss of the autonomous monetary policy. The analysis shows that between these countries and the eurozone, there is a high correlation between interest rates as well as synchronicity of business cycles. Importantly, these cycles are predominantly influenced by the same common shocks. From this, the authors conclude that in the four countries studied, a common monetary policy would be an adequate substitute for national policies, so a wait-and-see policy cannot, in their view, be justified on purely economic grounds.

Kawalec and Pytlarczyk should also address the EU's already advanced search for new institutional arrangements that would strengthen the fiscal 'leg' of the monetary union. The most important thing, however, is that by significantly narrowing the perspective and overexposing their favoured arguments, Kawalec and Pytlarczyk almost completely omit the much more fundamental benefits for the Polish economy, which, in the new geopolitical situation, could arise from directing the country's development strategy towards future membership in the eurozone. By failing to address these benefits, the authors contribute to the further reinforcement of certain myths and half-truths that will sustain and strengthen the negative narrative about the eurozone.

On Certain Political Conditions

It could be optimistically assumed that, in view of the war in Ukraine, after the experience with the pandemic and high inflation, striving for closer cooperation with the EU and announcing the intention to join the eurozone would be one of the few goals shared by the current government and the opposition. This would also be supported by the 8 percentage point increase in support for Poland's membership of the eurozone (from 48 percent to 56 percent) that occurred between 2021 and 2022, which also signalled crossing the psychological threshold of 50 percent.

Unfortunately, instead of heeding the positive poll results, the government is stepping up its anti-EU and anti-German rhetoric and the president of the central bank is announcing that until the end of his recently started second term, the euro in Poland should best be forgotten. The position of the ruling camp, although very damaging to Poland's interests, is at least quite clear: regardless of the long-term costs to the economy and society, all that matters is staying in power. The big enigma, however, is why the opposition has so far largely stayed away from the issue of joining the eurozone. This is puzzling because advocating for the euro seems to be a good investment for political parties. According to Eurobarometer surveys, support for this decision increases noticeably in the three-year period after accession as compared to the three-year period preceding it. Such was the case in all five countries of Central and Eastern Europe that have already joined the eurozone. The opposition's position is also puzzling because, in addition to the four key arguments that were already pointed out at the beginning of the text, there are many other reasons for including the topic of the euro in the election campaign. Why would the opposition not, for example, be interested in bringing the following issues into the public debate:

- why was Croatia unafraid to join the eurozone and why are Bulgaria, and subsequently Romania, set to join relatively soon?
- why didn't Slovakia, after joining the eurozone (in the midst of the global financial crisis, no less, when it supposedly lost its exchange rate buffer and its interest rate buffer), fare worse economically than, for example, Poland, the Czech Republic or Hungary?
- why, despite the severe crisis, didn't Greece seriously consider leaving the eurozone?

d) would the 'mini-crisis' and change of government have occurred in the UK in autumn 2022 if it had remained in the EU?

The opposition should also demand an explanation for the following paradox: while the ruling camp is trying to position itself as an advocate of Ukraine's rapid accession to the EU, it is simultaneously pursuing a policy suggesting that the EU is alien to it. Not only culturally, but also in systemic, military and economic terms; all that in the context of the deglobalisation process, as a result of which regional integration groupings and the benefits of near-shoring and friend-shoring are becoming increasingly important. We ought to be asking why the government preferred to prioritise an anti-German campaign instead of focusing on opportunities to exploit these new trends in the global economy. We should also inquire whether, before launching such a campaign, anyone in the ruling camp tried to calculate the cumulative opportunity costs in the form of reduced future foreign direct investment inflows, an increased risk of exchange rate collapse, or an increase in debt servicing costs resulting from the demand for war reparations from Germany.

Among representatives of the opposition, there are more and more voices calling for a compromise with the Law and Justice Party on the issue of amending the Act on the Supreme Court, which would facilitate unblocking EU funds under the NRP (Recovery and Resilience Facility). In this vein, prominent lawyer and well-known public affairs commentator Prof. Marcin Matczak recently stated that receiving these funds is Poland's raison d'état and therefore warrants the adoption of certain provisions proposed by the Law and Justice Party (PiS). Regardless of the purely legal aspects, this position is not very convincing and even risky because Poland's raison d'état is to remain in the EU and to rebuild and strengthen its position within it. NRP funds are only a raison d'état insofar as they will serve this overarching objective.

The opposition seems to treat NRP funds as a substitute for the economic benefits of applying for eurozone membership itself – for the purposes of the election campaign, anyway. It would be far better to embrace the notion that participation in this important EU project is the right step towards deepening integration ties but nonetheless subordinated to the more strategic goal of eurozone membership. Treating NRP funds as an autonomous goal is politically risky, as obtaining them significantly increases PiS's chances of staying in power without guaranteeing a shift in the party's optics towards a less anti-EU stance. Nor should the opposition frame NRP funds as a remedy for a very broad spectrum of economic problems. The overemphasis on the potential benefit of lower inflation resulting from the strengthening of the zloty exchange rate should be regarded as a serious mistake here. Such an effect can be expected, but its scale is likely to be limited. Emphasising this effect, on the other hand, brings a risk that both the central bank and the government would be even more lax in fulfilling their duty to ensure the macroeconomic stability of the economy.

A qualitatively new combination of unfavourable national and geopolitical conditions in the economic and political environment makes it necessary to reconsider the balance of costs and benefits of Poland joining the Economic and Monetary Union. The prevailing threats under these circumstances, as well as the resulting opportunities, clearly support the announcement of Poland's intention to seek membership in the eurozone. Such an intention itself can bring tangible economic benefits. The upcoming parliamentary elections provide a very good opportunity to familiarise the widest possible cross-section of the public with arguments based on the latest research during the unfolding discussions. Experts, particularly in the field of social sciences, as well as journalists and other professional groups, are facing an extremely important task.

The Long Road to Green Acceleration

Marceli Sommer

At the end of March 2022, the government adopted the targets for the update of Poland's long-term energy strategy (the Polish Energy Policy until 2040 (PEP2040)), which was intended as a response to the EU energy crisis and the consequences of the Russian aggression against Ukraine. Almost exactly a year later, the finished draft, prepared by the Ministry of Climate and Environment, was placed on the government's agenda and on the same day was... removed from it. The situation repeated itself two weeks later. After that, there was no shortage of signals that the adoption of the regulation was just a matter of time. Anna Moskwa, who heads the ministry, offered assurances to this effect.

And yet, at the time of closing this edition of the DGP, the vote had still not happened and fewer and fewer people believe that the amendments to the most important energy policy planning document would be adopted before the parliamentary elections in the autumn.

Necessity and Reality

What is the reason for the project being kept locked in the government's freezer? First and foremost, the controversy over removing coal from Poland's energy mix. According to the new transition scenario developed at the Ministry of Climate and Environment (in cooperation with energy companies), this process is to be kick-started after 2030. As a result, in 2035, coal-fired power plants are to account for only 15 percent of energy generation (of which the most emission-intensive lignite-fired units are to account for 3 percent), and five years later for 8 percent (and the lignite segment for less than 1 percent). Such a course is causing huge controversy within the government's political base and is giving rise to fears of another battle over the future of coal a few months before the elections.

On the other hand, the majority of the ruling coalition does not want another frontal conflict with Brussels either. The administration is also aware that global economic trends and the implementation of EU regulations mean that the cost of sticking to the energy status quo would continue to increase and ultimately hit energy consumers with horrendous bills.

The result is an impasse: those in power do not want to risk conflict with the massive workforce of some 75,000 people employed in the mining industry and tens of thousands more whose jobs depend directly or indirectly on coal. At the same time, the search for a pragmatic solution – a Polish energy transition path – that successive governments have been trying to develop for years is becoming increasingly difficult.

Even the planned changes, which were met with political resistance, are considered by experts to be both late and still too conservative. Shortcomings indicated include insufficiently ambitious plans for the development of wind energy, hindered by, among other things, the regulations regarding the distance of turbines from residential buildings; those have recently been liberalised, but only slightly. On the other hand, the document is considered to be overly optimistic with regard to coal, including the assumed price relationship between coal, natural gas and emission allowances in the EU ETS, as well as timing of the first nuclear units, which according to the government are to be the key source of energy supply to replace coal-fired units.

The struggle to update the energy policy is just the latest example of how the transformation of Poland's coal-dominated energy sector remains a politically sensitive issue.

Over the past two decades, emissions from the Polish energy sector have decreased by one-fifth and the share of coal in the energy mix has dropped from over 90% to less than 70%. Nonetheless, EU and global market realities demand that this process be accelerated.

Nuclear Delays

Despite the tumultuous disputes surrounding the transition, our analysis of the data and planning documents produced by successive cabinets paints a picture of relative consistency at the state level, thanks to which the average emissions per kilowatt-hour of electricity generated in the Polish energy system has been reduced by around 20 per cent over the past 20 years. The pace and basic directions of change in the domestic market have been identified reasonably correctly.

One exception is the issue of nuclear power, with regard to which planners have been overly optimistic on more than one occasion. The cabinet most distanced from reality in this regard was that of Donald Tusk, who in 2009 predicted that nuclear reactors would account for 7% of the national mix by 2020, while the assumptions of the strategies prepared by the Ministry of Economy in 2004 and 2014 envisaged nuclear power to be present from 2025 onwards. In reality, it was only last year that the location of the first power plant and the technology supplier were formally selected.

However, the national government's approach to energy has a bad reputation among experts, and for a good reason. Successive variants of the government's strategy – regardless of whether it consisted of the right, the left or the liberal centre – have so far failed to deliver the progressive vision awaited by many, which would force the Polish market to accelerate the transformation significantly. Instead, it was the reverse, with the market often reacting to impulses from Brussels or the world faster than government planners.

The fact that government documents (or their drafts) that envisaged a soft path for reducing the share of coal in the energy mix have come to fruition is a testament not only to the correctness of the underlying analyses, but also to limited ambition. And the slow pace, although it has so far provided relative stability for the industries most vulnerable to transformational shocks, translates into the need for much faster emissions reduction over the coming years, with all the costs it entails.

EU Objectives

Politicians have only become fully aware of the need to rapidly revise forecasts in the current decade, aided by the EU's new climate targets. At the end of 2020, the EU27 unanimously agreed to cut greenhouse gas emissions by 55 percent (compared to 1990 levels) by 2030, while the costs of emissions in the ETS have skyrocketed as a result of the climate acceleration. Further signals, or rather alarm sirens by now, come from the events of the past year: first and foremost, Europe's response to the crisis in the form of an even stronger emphasis on decarbonisation – which this time is also intended to serve as a path to independence from fossil fuel supplies and price volatility in global markets.

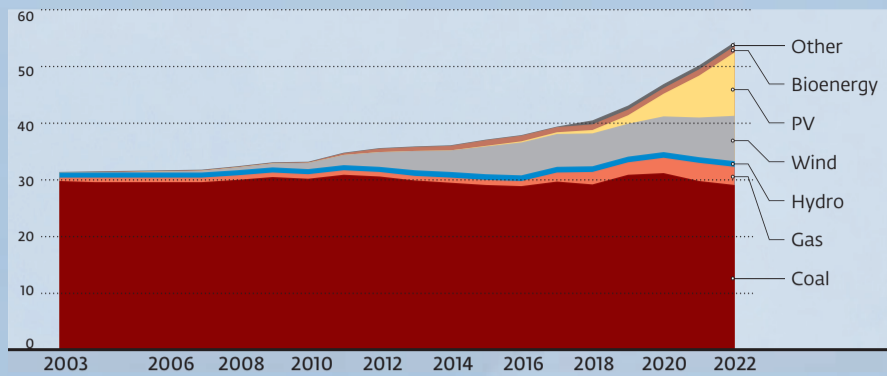
Awareness of the new realities, however, must also inevitably be reflected in the government's plans, as can be seen even in the criticised document that has been

in force since 2021. Government planners – as commentators have repeatedly pointed out – underestimated the dynamics of renewable sources development, which in practice expanded faster than the strategy adopted by the state. The scale of purchase of emission allowances costs, borne by the Polish energy sector, was also clearly underestimated. The high CO₂ price scenario predicted allowance prices of EUR 35 per tonne in the middle of this decade and EUR 54 in 2030, while the threshold of EUR 100 was breached this year and currently the price is over EUR 80 per tonne.

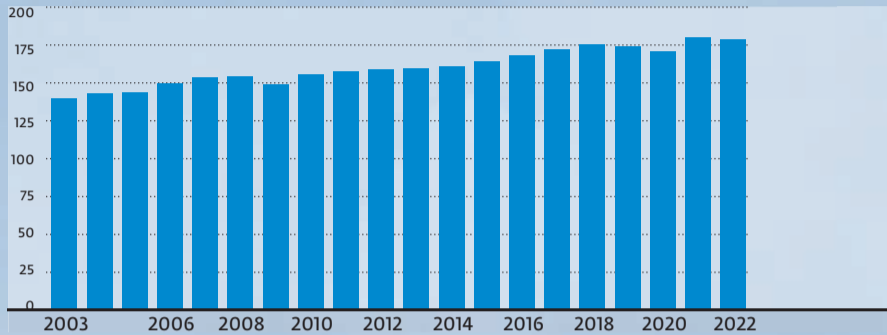
At the same time, as far as the process of phasing out coal is concerned, at nearly the halfway point of 2023 we are still a considerable distance away from the 51 percent share of coal in the mix as assumed in the government's strategy for 2025; today, the coal share is still over two-thirds. The need to break the government's block is therefore more pressing than ever, and each month of stalemate means a greater risk that instead of a controlled transition, we would have to undergo shock therapy. ©P



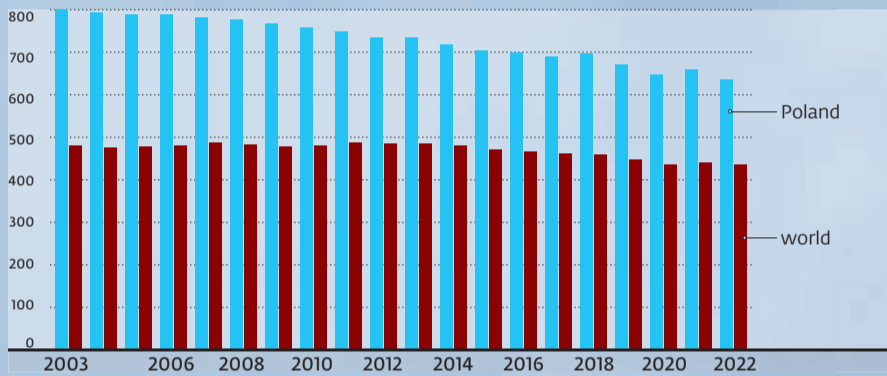
Infrastructure: generation capacity in the system (GW)



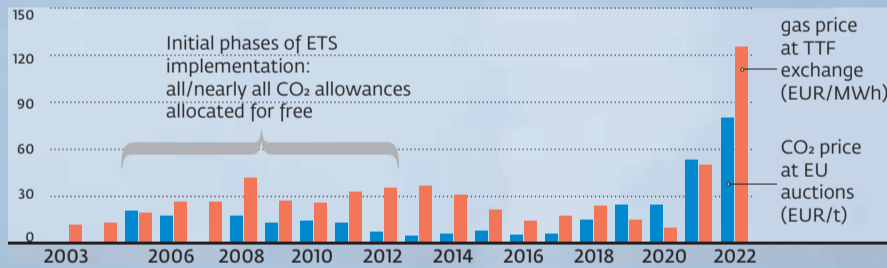
Energy demand in Polish economy (TWh)



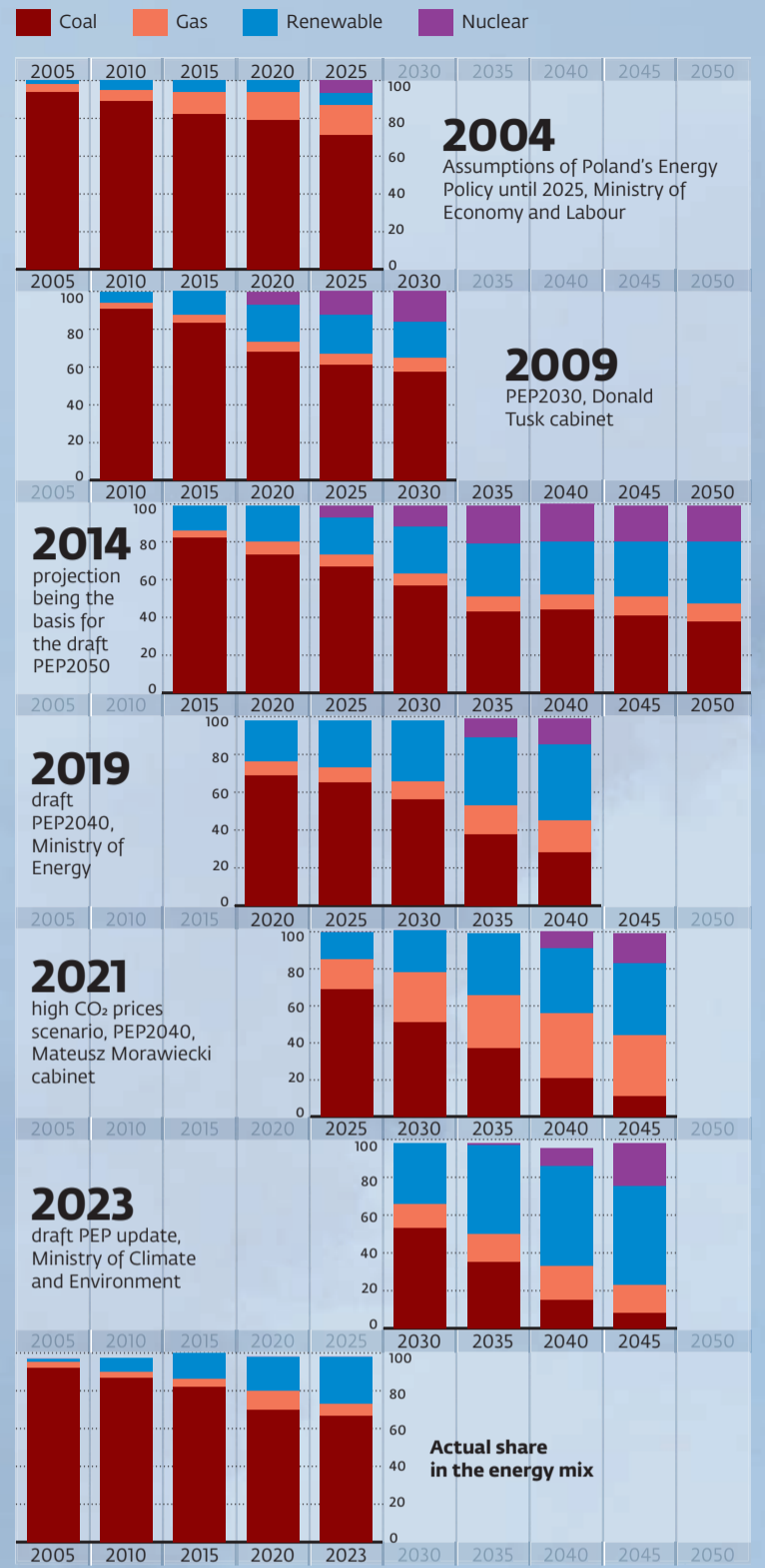
Average emissions intensity of energy mix (g CO₂/kWh)




Average CO₂ and gas prices



Poland's energy policy: how the vision of transition changed over time



Sources: Ember, KOBIZE, ICAP, The World Bank, government documents and studies 



The peak occurred in March 2022, in two waves. **Fifty thousand refugees passed through the city every day.** Just imagine what would have happened if the trains to take these people further into Poland had not arrived.



Photo: Lukasz Solski/East News

WOJCIECH BAKUN

President of Przemyśl

Wojciech Bakun in an interview with Paulina Nowosielska

How far is it from Przemyśl to the Polish-Ukrainian border?

About 10 km. Depends on how you count – from city limits or from the city centre.

Have you ever thought that you would have to deal with the consequences of a war being fought so close to your city?

No. Even in the darkest scenarios, I never thought that a full-scale armed conflict would break out, with rockets falling on Lviv, 80 km from Przemyśl, on the first day, causing a massive influx of refugees. Although, within the framework of the crisis management plans that cities prepare, we had such a scenario as well. What worked was creating temporary shelters in case of a mass population movement. Schools were prepared for this. A quick notice was enough for the city's education department to contact the directors of the educational institutions, who became responsible for setting up the dormitories. And what didn't work – or at least not immediately? We had not developed rules for coordinating the work of the volunteers. And we are not talking about a dozen or so people – over 2,500 volunteers worked every day in Przemyśl, a city with a population of sixty thousand.

A veritable army of people.

An army that had to be fed, lodged overnight, assigned to specific tasks and monitored to see that they carried them out. It included groups organised in radically different ways. Take, for example, the 300 scouts. We gave them a place to stay in one of the schools. They immediately divided themselves into task forces. They introduced a shift system. That was great. But at the same time, we had people coming in as a sort of "all hands on deck" movement. They just hopped into a car, and they were here. After a few hours, they asked with disarming frankness if there was a chance of some accommodation for them. In the first days of the war, some even arrived just as they had when left home.

That was a spontaneous act of kindness, coming from the heart, and you call it a problem?

I don't want to use the word "problem", but the mass kindness of the heart also had to be handled so that it wouldn't overwhelm us. Especially as these

The Pressure of Duty

people were really helping. Many said: "I've been here for a few days, I'm pushing myself to the limit, I eat crap, I'll manage to go on for another week, but I could use a roof over my head, because how long can I sleep in the car?"

Those were not outrageous requirements.

Absolutely not. But it was still 2,500 people who had to be managed so as to be deployed in the optimum way. Not only that – we still had to verify who they really were. They came to us from all over Poland, and often from abroad. We could not completely vouch for them. So, a vetting system had to be set up quickly.

Who fed them, vetted them?

We vetted them through a system created jointly with the police and the Border Guard. Over time, we put everyone who wanted to help through such a screening. Although, to be honest, it didn't work that way at the beginning. The vetting was random. Feeding? That was the least of the problems. We involved the schools. Parents and students took over cooking soups and making sandwiches. The principals managed their work efficiently. Schools operated 24 hours a day, with school kitchens working in shifts. We also received a great deal of help from Farmer's Wives' Associations. To be honest, I had no idea they had such a huge number of members. It turned out that we had several dozen such associations in the area. They had to be regrouped. Four were on duty each day. On the third and fourth day, global organisations appeared, including the American World Central Kitchen Foundation, which together with the city built the largest field kitchen, capable of serving up to 200,000 meals a day. At peak times, we handed out approximately 45,000–50,000 meals a day.

Do you remember the first day of the war?

Televisions showed the blaring sirens. How did it look from the perspective of Przemyśl?

For years, I've had my morning routine. I get up before 6, drink coffee, listen to and read the news. When I found out about the invasion, I went to the office. We convened a meeting of our internal crisis team. It was 7.30 a.m. I felt a responsibility for the people, but I didn't feel that deep human fear. Not even for a second did a thought occur to me that the conflict could spread beyond the borders of Ukraine. Right from the start, we assumed that the invasion would cause an influx of migrants though. We set the first criteria for action while waiting for an announcement from madam voivode, who is responsible for crisis management on behalf of the central authorities.

What is the main thought when setting such criteria?

We have to do everything as if the crisis is already there. Another thought – the wave of refugees could be so massive that we might not be able to handle it. Especially as we've had a real winter going. At night, temperatures dropped to minus ten degrees Celsius. Even before the meeting with Madam Voivode [provincial governor], we contacted our partner cities in Ukraine. We asked them what was going on. Apart from Lviv, where we heard that missiles had fallen in the vicinity of the airport, things were quiet – in Drohobych, Mostyska, Truskavets and Kamianets Podolskyi. They said: "we are at war". And we kept repeating that if

they need anything, anything at all, we are there for them. We kept repeating this, not yet knowing what was ahead.

In the first hours of the war, the Border Guards said there was no increased traffic at the crossings yet. But everyone felt it was the calm before the storm. Did you perceive it that way too?

No, absolutely not. The voivode received government guidelines as part of the management plan for our voivodship [province]. Reception points were designated. At 10.30 we heard: "get to work, you have to put them up". No instructions were issued, nor did we have any ourselves. We wondered what the hell a "reception point" was. We understood that it was supposed to be the refugee's first point of contact with a safe country. But what next? What specifically? We went to the train station. We already knew that crowds were gathering at Lviv station. We have a direct connection with it – just like with Kyiv or Odessa. We said to ourselves: there will be crowds coming in, it's cold. Surely people could use coffee, tea, water, a sandwich. So that's what we had at the start.

Who made it?

Water was supplied by the city. Coffee also came from our resources. Sandwiches were made by the schools, 200 to start with. Madam Voivode also appointed the deputy fire chief Daniel Dryniak, who is also our city councillor, to act as her representative. And thus, the two of us began to manage things. I designated 20 officials to get a grip on the system. Daniel pulled cadets from the firefighting school in Rzeszów. That was our starting resource. And we waited for the first train. It brought about 600 people. They were checked in, arrived at the main station. At first, I'll admit frankly, I was relieved. Nothing much had happened.

Nothing much?

Someone took a water, someone else a sandwich. Most people lined up to buy tickets. They bought them and started to travel further into Poland. I remember that we were sitting, looking at them. A few hours later there was another train and the situation repeated itself. On the first day only regular, scheduled trains were coming to Przemyśl, three a day. There were still sandwiches, water, people were passing through. And I even had this impression that they were tourists, only on a larger scale.

When did that change?

Very quickly. As early as the end of the first day, we received information about increased pedestrian and vehicular traffic at the border crossings in Medyka, 10 km away. We started a bus service. Two vehicles at first, on a shuttle basis. On the first day we admitted about a thousand refugees. On the second day the wave was rising. In addition to the trains, many people crossed the border on foot and in cars. And on the third day, the volunteers blocked access to the border. Everyone wanted to get to the crossing itself, to pick someone up, to rescue someone. Hence the quick decision to set up a car park at the former Tesco shop. It became a gathering place for those who offered transport and those who needed it.

And when did Przemyśl become a frontline town?

On the third, maybe fourth day. The original assumption was that the reception

points created on behalf of the government would mainly serve the border. The reception point in Przemyśl, on the other hand, was to serve the railway border. Therefore, a reception point for people crossing the border on foot or by car was installed in Medyka. The only thing is, it was situated in a school which could accommodate 150 people per day. Therefore, 95 percent of the people who reached Poland on any given day would board buses and end up at our station. Then they were joined by people from the Korczowa crossing, because the reception point there was also over capacity. Once we received ten thousand people in one day, we felt that this was something totally unprecedented.

How many people came to the city at the peak time?

The peak occurred in March, in two waves. 50,000 refugees passed through the city every day. We felt enormous pressure.

What kind of pressure, from whom?

The pressure of duty. We knew those people had to be helped. And we did not get a minute's break. We could not afford to slip up. All the various services – from the government administration, the voivode, the marshal, the city, the volunteers, the scouts – all had specific tasks, there was no room for error. We had 2,000 people per hour coming in. Just imagine what would have happened if the trains to take these people and distribute them further into Poland had not arrived, if we hadn't been able to send them off...

I guess the 200 sandwiches you started with were no longer enough?

Of course not. On the fourth day, four schools in the city were already working full time. The principals did an excellent job of dividing up the volunteers, making lists of people who wanted to volunteer. People worked in several-hour shifts, slicing onions, cold cuts, bread, packing. We had at least six crisis management team meetings a day. We looked at what wasn't working and what needed some tuning up. We had people in the office whose job was to call around our local – and then non-local – producers. We managed to get several thousand rolls from bakers in the first few days. Sokołów meat processing plant asked how much cold cuts we needed. Offhand, we said "a tonne". And a tonne turned up. I called a Ukrainian businessman operating in Poland: "Igor, here's the thing. I have rolls, cold cuts, but no cheese". "So how much do you need?" "Two tonnes". He sent the cheese. Over time, that changed.

How?

The companies started reaching out to us themselves. We had phone calls from all over Poland, even from other countries. A certain Polish candy powerhouse called me once: "Mr President, do you need chocolate?"

What did you say?

That at least half of the people who arrive are children. When they get a chocolate bar, a smile appears on their faces, if only for a moment. And I saw, for the first time in my life, what a truck full of chocolate looks like. Producers of bottled water acted in a similar way. They said: just let us know when, and we'll send it. ©

PARTNER CONTENT

Poland – an Invariably Attractive Place for Investment

Poland has been attracting foreign investors for years and this trend has not stopped even for a moment. We are a country with great potential, which is growing into a leader on the European economy, which is confirmed by the country's high positions in numerous rankings of investment attractiveness. The list of arguments describing why Poland is such a good place to invest is only getting longer.

The Unchangeable

The choice of the Polish market as a place to invest is supported by the size of the country. Poland is the largest country in Central and Eastern Europe and the 6th largest in Europe. An invariable advantage in Poland's favour is also its excellent location. The country's central location on the map of Europe makes it a strategic gateway. Thanks to its location at the intersection of the main north-south and east-west transport routes, Poland has been making use of its strong position on the logistics map of Europe for centuries.

Recently, Poland's location has proved to be important for another reason. COVID-19 and the war in Ukraine have disrupted numerous supply chains and trade routes around the world have collapsed. Therefore, the popularity of nearshoring, i.e. outsourcing to countries close to a given company, has increased. Even the largest companies have been forced to look for completely new, safer and closer directions for supplies. In such a balance of power, with the collapse of some global supply chains and uncertainty caused by the war, local suppliers of goods and services from countries with stable economies, of which Poland is one, have gained in importance. More and more investors appreciate the fact that Poland is a safe and at the same time perfectly located country, from which it is easy to distribute goods and be close to many regions of the world.

However, the location itself would be worth nothing if it were not for the Polish people – ambitious, hardworking, open to innovation and eager to learn, with strong work ethics and an entrepreneurial spirit. They have always been one of Poland's valuable assets, which is confirmed by numerous data. Year on year, Polish students occupy high places in the prestigious ranking of the PISA international assessment of students' skills. More than 90% of Poles aged 25-64 also have at least a secondary education. Companies starting their business on the Polish market can also count on consumers who are open to modern solutions. 63% of the population is under 50 and 25% under 25. Poland also has the largest inflow of foreign labour in the EU – it has issued the most residence permits for another year in a row.

An incentive for investors to choose Poland, which has been very much appreciated over the years, is the highest level of state aid available in the European



Photo: Shutterstock

Poland is passing the test of resistance to economic crises and this is in spite of many adversities - global turbulence, several years of market instability caused by the Coronavirus pandemic and the war that has been going on beyond our eastern border for over a year. **Our economy is successfully defending itself against a significant slowdown.** Even such significant events on a global scale have been unable to undermine our investment attractiveness

Union. This type of support can be obtained, in the form of cash grants, and exemptions from real estate tax and personal income tax (CIT).

Amenities offered by Special Economic Zones (SEZ) have become a real magnet for investors. Currently, they have become one of the most important mechanisms for attracting investments to Poland. However, SEZs are not only about capital investments and new jobs – they are also about increasing the competitiveness of the entire economy, transferring technology and know-how, as well as developing cooperation throughout the country.

Part of Poland's investment attractiveness is its developed infrastructure. We can boast about our extensive rail and road network, numerous airports and seaports, a large internal market (over 38 million consumers in Poland alone) and easy access to the European Union market of 500 million consumers.

Growing Investment Attractiveness

What has changed in recent years is the perception of Poland

by investors. The country is no longer considered just a source of cheap labour. Poland currently has a growing group of highly qualified staff, primarily among engineers and the broadly understood R&D industry, which is very much appreciated by foreign companies. Almost half a million people work in the Polish IT/ICT sector, which means that Poland has the largest pool of IT experts in Central and Eastern Europe. Poles invariably rank among the best programmers in the world. They also rank high in the world in terms of technological, data science and mathematical skills.

The country is a developing market for technology companies, which is confirmed by the location of more and more innovation centres on the Polish market. The Polish business environment also supports start-ups and the development of research and development activities. There are over 3,000 start-ups and over 130 VCs in Poland. The country has the 20th strongest start-up ecosystem in the world in the Global Start-up Ranking and 22nd in the Bloomberg Innovation Index.

According to ABSL data, Poland is the main centre of business services in the region, and now, due to the outflow of investments from the East, it is arousing even greater interest among investors.

An Attractive Market for Global Players

Among those interested in investing in Poland are the largest global companies – real world leaders. At the end of April this year, Microsoft launched the first cloud data processing centre in Central and Eastern Europe in Poland. In February of this year, the Volvo Group announced plans to open its Tech Hub (R&D centre) in Krakow. In December 2022, Mercedes chose Poland as the site of an electric van factory worth over EUR 1.3 billion. Such investments show that Poland is the undisputed leader in attracting the most technologically advanced investment projects in the region of Central and Eastern Europe.

However, Poland's attractiveness is confirmed not only by large investments, but also by its high places in the rankings. For the last 3 years, the country has

been in the top three on the continent in attracting foreign direct investments. This year, Poland also advanced to first place in the ranking of investment attractiveness of the countries of Central and Eastern Europe, China and Russia according to the AHK Polska survey. It also invariably ranks as one of the safest countries in the world according to the OECD ranking. Poland is one of the highest rated outsourcing directions in the world in terms of outsourcing of software development. It also ranks eighth in terms of the number of investment projects in Europe with the second largest year-on-year growth according to EY's ranking. Poland's ratings also remain at a consistently high level. According to Moody's, the country's long-term rating is still at "A2" and its outlook is stable. The other major rating agencies - Fitch and S&P rate Poland only slightly lower, at "A-".

First Contact for Investors - PAIH

The Polish Investment and Trade Agency (PAIH) offers assistance to investors interested in investing in Poland. The agency is responsible for contact with investors and offers full support to companies in the investment process. In 2022, foreign companies invested over EUR 3.7 billion in Poland with PAIH's support. The agency's experts show that Poland is a country of advanced technologies, which not only accepts know-how from companies established on the market, but is also a source of new ideas, which pays off in investments by such technology giants as Google or Intel.

PAIH also provides companies with comprehensive information on conditions for investing and doing business in Poland. It helps in finding attractive areas for investment and offers the organisation of on-site visits. In order to streamline and increase the comprehensiveness of investment project services, PAIH mediates in, among others, contacts with government administration. The agency offers assistance in identifying and establishing relationships with potential business partners. PAIH's relationships and cooperation with Polish companies is a significant advantage for investors looking for proven business partners.

For even more dynamic economic development, the Polish Agency announced the slogan "Poland. Business Forward" at the end of last year. It is the essence of PAIH's ideas and activities. An expression of the possibilities offered by a presence in Poland. This slogan is the driving force for action in a country with stable economic growth. It encourages the discovery of Poland's potential through cooperation with PAIH's qualified specialists.

Poland. Business Forward is a promise that Poland is the place to accelerate and move your business forward, and PAIH will be happy to help you achieve this.

Serhiy Hrabski
interviewed by Michał Potocki

Let's start with 24 February 2022. Did you expect it?

We started to look closely at the suspicious movements of the Russian army in March 2021. By analysing the situation, we came to the conclusion that it was merely a demonstration of force as their numbers would not be sufficient to occupy Ukraine. It looked like stretching troops along the border rather than a serious operation. We knew the operating principles followed by the Russians; after all, we had studied at the same academies...

So you know how they think.

Yes, because we studied the same stuff, and nothing has changed for them. It was only in the second half of January 2022 that some movements began, suggesting that they were planning something. The alarm rang when they formed second-line troops in the Belgorod region, near Kharkiv, but on the other side of the border. Another signal was the increased activity of reconnaissance and diversion groups. However, there were no signs until 23 February in terms of the numbers, quality and composition of troops that the Russians might start a war on such scale. This is why I see their attack as a kind of brawl. Let me elaborate: on 23 February at 11.30 p.m., I contacted friends in the Special Forces. They said that something had started in the east of the country and that a decision had been made to withdraw their men from there. I asked them to confirm by 2 a.m. that they were no longer in Mariupol or Severodonetsk. They did so and I went to bed. I was convinced that, given the circumstances, such a brawl was not possible. The Russians stood no chance. It was laughable! After all, not a single city with a population of one million had been taken by force since World War II. When I arrived in Lviv after the invasion began, as ordered by the leadership, I asked how many strikes there had been. They said, 186. I asked: Is this a joke? The answer was no, because even they did not understand what that attack had to do with the theory of offensive operation.

Strikes?

Massive fire strikes using, among other things, air force and missiles. For a territory like Ukraine, there should have been 400-600 strikes all at once. And there were 186 in the whole country. Our command system was not destroyed, nor were airfields or troop concentration points. The Russians hit and all they achieved was making people angry. Besides, there are objective measures of the number of forces required for an offensive operation. Such an army should be double or triple the size of the defence force. As such, they should have concentrated an army of about 600,000-700,000 men, but they only had 200,000. What was the outcome? Did they capture even one critically important point? They took Kherson, but Kharkiv, Sumy or Chernihiv were not occupied even for a moment. Their logistics were ill-conceived; medical security, ill-conceived; technical security, ill-conceived. They advanced as long as there was enough fuel. Then they ground to a halt. On 2 March it was clear that they had lost.

I have come across the explanation that the Russian operation was only expected to seize the Donbas and Kharkiv and the south of Ukraine, but someone squeezed Kyiv in as well for political reasons at the last minute.

Look at the map. [Hrabski pulls out his phone and launches a map app - ed.] Let me explain why the alarm rang with the concentration of their forces in the Kharkiv area. The Ukrainian forces were mainly deployed in the Donetsk and Luhansk regions, and here you can see the shortest distance between the border and the Dnieper River...

You are showing the section between Kharkiv and Kremenchuk.

From Kharkiv through Poltava, Kremenchuk, Horishni Plavni. It would have been logical to strike here, it would have torn Ukraine into three parts. It would have been impossible to withdraw from left-bank Ukraine as there is a cascade of lagoons on the Dnieper. Forces in the Donbas and in the south, squeezed in from the Crimea, are also blocked. All of left-bank Ukraine is in their hands. You can then try to force Kyiv's hand. An attack from the Polesia and Volhynia in Belarus was rather unrealistic.

Russia has not prepared for such a war, their capabilities are shrinking. We enjoy the support of the civilised world. **But it will still be very hard**

Marshes?

Yes, and a limited road network. This is what we were thinking: the Russians are concentrating troops in the Bryansk, Kursk and Belgorod regions to launch a perfectly logical strike. They would have needed twice as many forces, but they could have tried. Whatever their plans were, some incomprehensible political factor was at stake. As a military analyst, I will not analyse it.

Some articles and books published in the US claim that the Americans knew everything and warned you but you didn't want to believe them until the end. If that had been the case, the head of military intelligence Kyrylo Budanov would not have described these plans publicly as early as November 2021. But I am interested in your opinion.

You have to consider the capability of their intelligence. The Americans have the full picture, they know the colour of the toilet paper in the Kremlin. They knew about the project under the name "Conquest of Ukraine". The Americans are bold now, but at the time they shared their knowledge with great caution, which is understandable from an operational point of view as they did not want to burn their sources. Ukraine was penetrated by Russian agents. I have no doubt that they knew.

country would stand up for themselves. Besides, there are well-established rules of operational warfare. A tank brigade can enter a big city. So can an infantry brigade. But the Russians operated with battalion tactical groups until the last moment. What are 800 men? They can enter the city, but what next?

Since 2014, analysts have stressed that Russia's long-term goal is to control the land corridor to the Crimea. This has happened. While the defence of Kyiv was a victory, you seem to have suffered a defeat in the south.

Indeed. I have studied the situation of the Crimea for a long time. If you look at the maps of Pyotr Wrangel's 1920 operation, the maximum range of his troops overlaps with that of the Russians in 2022. They reached Kakhovka, Huliaipole and Orikhiv. And that was that. They couldn't move any further because there are only two supply routes there. It is possible to concentrate a large number of troops, but it is impossible to push them simultaneously through the bottlenecks connecting the Crimea with the Kherson region. Moreover, the triangle in the Kherson region, where the Russians are now stationed, is untenable. The same was true of the Ukrainians. Our people were in the steppe with no supply routes. Whatever resistance points they set up,

Wars Are Won



SERHIY HRABSKI

Colonel of the Armed Forces of Ukraine, retired, founder of the Union of Participants in Peace Operations

I also have no doubt that they were suggesting to us what was going to happen. And I have no doubt that the Ukrainian Armed Forces reacted. Playing by the book, if a potential enemy carries out massive manoeuvres in the territory of a neighbouring country, you have to respond with the same. Our army was deployed to its destinations on 14-16 February. The main strike groups were deployed to new dislocation points on 16-18 February. The Russians did not believe it, just as they did not expect our nation to be so united. They did not consider how many people had gone through the ATO [the anti-terrorist operation conducted in the Donbas since 2014 - ed.] and that there was a huge buffer called operational reserve. For some reason they thought that it would take us days to respond, while we were ready to fight within hours. The operational reserve had been developed according to the new standards, so the Russians were shooting blanks.

What was decisive to the successful defence of Kyiv?

The resistance of the population. The enemy thought that the attack would shock everyone. Meanwhile, tens of thousands of rifles were distributed to the people in the first few days. Even the local gangsters began to rally to defend the country. Everyone did the right thing. A friend recounted how eight of them set a trap for Russians. When the enemy column reached the ambush site, it came under fire from 20-30 positions. And they knew there were only eight of them. Once the column was torn to shreds, they saw expensive jeeps scatter in different directions. Others had joined them. The Russians could not have foreseen something like that. They measured everything by their mentality of subjugation. They didn't know that everyone in our

it would have been difficult for them to withstand a first strike. The task of the Ukrainian troops was to hold back the enemy, and they succeeded. The Russian strike was also stopped thanks to the steadfastness of Mariupol. Let us not forget the Russians' absolute advantage on this section of the front. A third of Ukrainian troops were concentrated in the Donbas. The Russians had little success there. They had successes where they did not encounter organised resistance and where geography allowed them to do so. And the Chernihiv, Kyiv and Sumy regions are forests and roads. The limited number of supply routes and the inability to hold on to towns meant that the advance stopped on its own. The Russians then became a target for our anti-tank defence.

It seems that it was also impossible for them to occupy Odessa.

I spoke to guys from the Military Maritime Forces about this. Even at the height of its capabilities, the Russian Black Sea Fleet could have carried out a landing of two and a half brigades. What is 10,000 men against a city like Odessa? Such a landing has a chance of success in combination with a land operation, which would have been possible if they had broken through in the Voznesensk area. Which they did reach, but their overstretched supply routes, together with the heroic defence of Mariupol, prevented them from pressing on towards Odessa. Mariupol itself was our terrible defeat. We suffered colossal losses including people killed, wounded and captured. There were 1,200 captured alone. But this terrible sacrifice meant that the Russians did not have the strength for a further offensive as they had to bring 12,000 troops down to Mariupol. Then we got the missiles, ships were fired upon, and the attack on Odessa was thwarted.

The turn of March/April came, and the liberation of the Chernihiv, Kyiv and Sumy regions. Did you force them to retreat or did they make the decision themselves knowing that they could not achieve more there?

They realised that they encountered genuine resistance. They were not able to enter Kharkiv, Chernihiv, Sumy. They reached Brovary near Kyiv and stood down. They stretched out their columns. Just count how much tank fuel they needed. And the Ukrainians switched from attacking armoured mechanised columns to attacking logistics columns which had no cover. The Russians could have left garrisons and waited for reserves, but by the time they had arrived, the garrisons would have been eliminated. Since their advance to Kyiv had failed, they had to withdraw.

They then redeployed part of their forces to the Donbas, captured Lysychansk and Severodonetsk, but nothing more.

Their problem is that, unlike the Ukrainian army, which is still somewhat infected by the Soviet bug, Russia has elevated the canons of Soviet operational art to the status of absolute truth. The mentality of Russian commanders has not changed for a century. On top of this, the pressure exerted by politicians deprives commanders of initiative. We like to say that a Russian sergeant is merely a private with habits. And so on up to the rank of general. They are serf peasants. It doesn't matter that you have trouser stripes and general's stars, you still operate in a rigid vertical structure. The whole army is waiting to be told what to do.

It's very archaic.

They have loads of equipment but they are not able to operate like a modern army.

The Ukrainian army also goes back to Soviet times. How was it possible to make commanders unafraid to make decisions?

The army that remained in Ukraine after the collapse of the USSR was dismantled with the virtual extinction of Soviet officers. Few bearers of the Soviet banner have remained.

Let us return to the chronology of events. In the early autumn, the front near Kharkiv was broken in an impressive manner. Is this the greatest victory of the war?

There are two such victories: Kharkiv and Kherson. There was a moment when the enemy brought all the troops they could to the Donbas to achieve the strategic objective of seizing the Donetsk and Luhansk regions, and left the rear troops at Kharkiv. And we did not play by the book. The Russians did not expect the less numerous Ukrainian troops to try to attack here. But given the Russians' lack of initiative and the overstretched front line, we decided to do so. The Russian positions were stretched so much that it was not even a front line. You could go picking mushrooms between them. Nor did they have a second line of defence. Points were selected in advance through which we could try to break through. We knew that by hitting a command point, we were turning their army into a hapless mob. The Ukrainian forces were later accused of allowing the enemy to retreat. This is not so. The enemy was running away. Ukraine captured enough tanks to cover its own losses and regain the strength from before 24 February. At Kharkiv we saw a kind of, as the French say, courage. At Kherson, it was completely different.

How was it different?

When the enemy realised that they could not break through to Nikolaev, they began to dig in at Snihurivka and Davydiv Brid. They built three lines of defence. That is why the Ukrainian troops employed tactics involving the methodical destruction of supply routes, fortifications, and command points. This operation may not have looked audacious but it testified to the high degree of organisation of the Ukrainian forces, which destroyed the Russian troops in an asymmetrical manner. It would have been possible to use scarce HIMARS systems to destroy defensive points but the enemy would have rebuilt them anyway; meanwhile, we were hitting so that the enemy was unable to do anything despite the large number of men, tanks and artillery.

as "vagnerovtsy" but these companies number around 10. Their numbers exploded but their quality declined catastrophically. Between 1941 and 1943, Stalin threw prisoners who were not even dressed in uniform at the Germans. They were called black coats. Their purpose was to stop the enemy's march at any cost. Incidentally, during the Kharkiv operation, the Russians came up with a function that we called "trench bodyguard". They would send a soldier into a trench, give him a rifle, and that was it. If there's one trench bodyguard sitting opposite you, you blow his head off and that's it. If there are a hundred, you need a thousand bullets to eliminate them. And if there are a thousand? As my grandmother Yanina used to say, a bigger floe melts more slowly than a smaller one. So the Russians started flooding the Donetsk section with Wagner stormtroopers so that we would waste our resources on them. At Bakhmut, the two sides were clamped together like two bulldogs. Neither one can bite the other or walk away. When Ukraine's Defence Minister Oleksiy Reznikov said in December 2022 that a new offensive would begin in early January, he spoke on the following assumption: mobilisation was announced in Russia on 21 September, training began around 1 October, and deployment in units began three months later. Objectively speaking, the enemy has doubled in size compared to how they started. Even if we put 10 Abrams tanks there, they will just get bogged down in a pile of cannon fodder and turn around in circles in that bloody mass.

Which means that the mobilisation in Russia has been a success.

What's more, the Russians have returned to their traditional way of waging war. They don't know what to do with a professional army. You can hammer nails with a microscope, but it's ineffective. That's why they did what they always do. They have mobilised a mass of guys who subserviently go to be killed as they are told. As my uncle, a former frontline soldier, used to say: "forward march, forward march, storm company, in front awaits you glory, in

losses exceed ours, it makes sense to hold the city. I emphasise the word "city" because, for example, continuing to hold the place that was once the town of Soledar was pointless. There was not even anywhere to dig in there anymore. There is a limit beyond which further defence is pointless. This was also the case in Severodonetsk and Lysychansk. Up to a certain point it made sense to defend them. When it made no more sense, our guys retreated. The Russians came in but so what, they could move no further. They won a Pyrrhic victory. Bakhmut makes sense because it attracts enemy forces that we grind down. In December 2022, everyone was hysterical about a strike from Belarus. Meanwhile, the Russians first had 12,000, then 6,000 troops there. Later, the "Belarusians", that is, Russians who were trained in Belarus, appeared on the front. Bakhmut plays a strategic role in destroying resources and thwarting Russia's offensive plans. Just as Mariupol at one time saved Odessa and Moldova, now Bakhmut is tying up the enemy's forces. This does not mean that it will continue to do so as it is less and less imperative to hold it.

How will we sum up the situation in a year's time?

The situation will improve, but what will be decisive is not the military factor but the economic one. I learned in NATO schools that wars are won by the economy. The military's task is to endow the victory with meaning. During World War I, the German army never fought on its own territory, but it lost, even as the best army in the world. Ukraine enjoys the support of the civilised world. There will be losses, we may retreat. But the army delivers as expected. The purpose of manoeuvring defence is to inflict maximum losses on the enemy even when it is difficult to think of a counter-offensive. They have not been preparing for such a war, their capabilities are shrinking. But it will still be very hard. The losses are frightening. I am afraid to go to Lviv. When I go to the Lychakiv Cemetery... [longer silence, tears] Finland also suffered huge losses during

by Economies

There are still some of them but they do not have a decisive influence. The mentality has changed. Ukrainians are individualists. The two Maidan revolutions have taught us to self-organise. This was reinforced by the message planted by the American military at the Yavorov training centre, through which all brigades of the Ukrainian Armed Forces have passed. This helped create the phenomenon of the Ukrainian military under the name of "Mr Sergeant". Unlike the Russians, our Mr Sergeant is a manager who decides on his own. I sometimes follow Russian broadcasts, and I once came across a conversation between a war correspondent and a military officer who said that a Ukrainian sergeant can ask for artillery support himself. In the Russian army, not even a captain can do that. This combination of new methodology, experience and mentality has allowed us to carry out offensive operations with smaller forces than military science predicts.

Too much autonomy does not hurt good coordination?

It does happen. As they say in our country: where there are two Ukrainians, there are three hetmans [a high ranking military commander]. One of my colleagues, who comes from the Caucasus, says that he has always been amazed by the complete lack of respect for the leadership in our country. And this sometimes does harm. Some people make decisions without taking into account the overall situation, which the operational command knows. And then there is the heterogeneity of the troops. It is difficult to compare regular troops with, let's say, semi-regular troops with a slightly different ideology and a different level of autonomy. As I said, there are strengths and there are weaknesses.

After all, people need something to eat, drive, and shoot. Those steady efforts caused the enemy to flee to the left bank of the Dnieper. This operation is continuing, the same is happening on the left bank of the Kherson River. The section towards the Crimea is practically closed. The enemy can replenish supplies through only one route from the Crimea. Russian control of the left-bank Kherson region is purely symbolic. They occasionally fire, but that's about it.

What's next? Crossing the Dnieper?
Out of the question.

An offensive on Melitopol?

No one seriously considers crossing the Dnieper, especially at this point. It is almost sea. There are not enough resources in the world to force through such a water obstacle. The Russians cannot do it, but neither can we. It is necessary to focus on Melitopol, because if we manage to liberate it and reach the Sea of Azov, the Russian southern front will fall apart. They will not hold it, they will probably leave all the way to the border of the Donetsk region.

Nevertheless, after the liberation of Kherson, the front stalled, and in January you lost more territory than you recaptured. Are there reasons for concern?

Yes and no. Initially we were dealing with an army of commissioned ensigns. When the Russians realised they were in trouble, they started quietly mobilising new forces in May. But there's the English term "gap". At one point they were so weak that they could not react when Ukraine took a chance and pushed them out of the Kharkiv region. Early in the autumn, private military companies entered the game on their side. They are colloquially referred to

the back, rifles". Nothing has changed except that now the Chechens are doing the job of the Soviet agents. So those mobilised troops will obediently press on. And there are a lot of them. There are not enough bullets or equipment for them. We need reserves. We are also suffering very heavy losses. It is different to fight against a 200,000-strong grouping and against a half-million-strong grouping.

Ukrainian Army Commander-in-Chief General Valery Zaluzhnyi says he needs 300 tanks.

These numbers are pulled out of thin air. It is difficult to estimate how many tanks are needed for a specific operation. Besides, do you know what an Abrams or Leopard can do on the streets of Donetsk?

What?

It can burn.

The same goes for Russian tanks on the streets of Kyiv.

If we think about liberating Donetsk, do we really need that many tanks? I don't think we do. My tanker brothers in arms will kill me, but to my mind, the tank is a 20th century weapon. We only need it because there is such a concept as a tank duel. The Russians have plenty of them, so we need more too.

What is the military significance of Bakhmut?

From a military point of view, it is contingent. Bakhmut is one of the forts of the Donbas fortress. It has attracted a colossal number of Russians, but it has been pointless. If you see that you can't achieve a thing in six months, why do you keep on trying? Even Genghis Khan left if a city didn't surrender after six months. For us, Bakhmut is important because it is like a meat grinder: as long as the Russians'

the Winter War, but they survived. Poland smashed the Russian army in 1920, but did not deal it a mortal blow. After 19 years, the Russians brought a terrible tragedy upon you. That is why you and the Balts understand us so well. And you give us everything you can. There is no other choice.

Can Russia reach for nuclear weapons when it is losing?

Early in my career I had a little to do with the nuclear component of the USSR Armed Forces. Hence my categorical conviction that it cannot. Fortunately for us all, the global community has created a universal system of control over these weapons, that precludes their unsanctioned use. Look at the nuclear arsenal of the Russian Federation. When you test combat capability, you test practical use. Has the Russian Federation ever conducted a nuclear test? No. Does the Russian Federation have anywhere to conduct such a test? No. The USSR conducted them in Semipalatinsk [now Semey in Kazakhstan - ed.], and in the 1960s in Novaya Zemlya. After 60 years, I have serious doubts about Russia's ability to bring this training ground back into use. One more argument: the occupied Zaporizhzhia Nuclear Power Plant. The International Atomic Energy Agency could not access it until word came that two radiation control counters had stopped responding to central station queries. After a week, the head of the IAEA got the green light and entered the plant. Moving on, everyone knows where tactical nuclear missiles are stored. These stockpiles are being watched. If anyone notices any anomaly, if four people arrive one morning instead of three, immediately the whole chain will be set in motion until the word reaches the top brass. The reaction will be immediate: "Guys, what are you doing up there?" ©

AGENDA

4.30 – 5.00 PM

Cocktail for CEOs

5.00 PM

WELCOMING REMARKS

Host: **Phillipa Leighton-Jones**, Senior Vice President, The Trust WSJ, Barron's Group
Mark Tejchman, Deputy Editor-in-Chief, Dziennik Gazeta Prawna

5.05 PM

FIRESIDE CHAT

Andrzej Duda, President, Republic of Poland
 In conversation with:
Almar Latour, CEO, Dow Jones

5.25 PM

PANEL:

“Strengthening the Bridge to Freedom”

Speakers:
Dariusz Szwed, PKO Bank Polski
Robert Śleszyński, PKN Orlen
Jarosław Fuchs, Bank PEKAO
Paweł Kurtasz, Polish Investment and Trade Agency

5.55 PM

SUMMARY REMARKS

Jacek Sasin, Deputy Prime Minister & Minister for State Assets, Republic of Poland

6.05 PM

PIANO RECITAL:

Tomasz Ritter, 2018 Winner of International Chopin Competition on Period Instruments

6.30 PM

EVENING FOOD & REFRESHMENTS

The Time for a Free

Changes? What could be surprising about them for a country in which an unprecedented transformation has been underway since the collapse of socialism. The measures being taken, which are part of the modern reality of the 21st century, are just a continuation along the same path for Poles.

Confronting challenges? What else have Polish entrepreneurs been doing for years, if not centuries.

If one were to identify a concept describing as many of the qualities that can be ascribed to Poles as possible, it might be openness. Taking the example of current global trends, Poles are open to new technologies, investments and partners, which has also been demonstrated by Polish entrepreneurs who bravely seek opportunities on foreign markets. Polish people are also open to giving, as evidenced by approx. 1.5 million Ukrainian refugees. They live and work alongside Poles and there has been no need to build special facilities for them, which is unprecedented for an event of this scale.

Poles understand the world, both its modern iteration – the world of the future – and the one that is often cruel, something we would like to quickly become a thing of the past.

For the former world to supplant the latter, cooperation is key.

During the CEO Council Summit, we invite you to discuss the event “Poland. Bridge to Freedom”, involving representatives of business and political circles, including the President of the Republic of Poland, Andrzej Duda. When speaking on 1 May to mark the 19th anniversary of Poland’s accession to the European Union, the president said that one of the priorities of the Polish Presidency of the EU Council would be to strengthen transatlantic ties and cooperation between Europe and the United States.

Poland’s economy is moving consistently towards those of global leaders. At the same time, its presence in organisations such as NATO and the EU provides guarantees of security. This is the moment for Poland and for Poles, as for countries and people everywhere, who want to overcome global challenges and seize common opportunities together.



“Now I can take to Chopin on my own terms.”

A conversation with Tomasz Ritter, pianist, winner of the 1st International Chopin Competition on Period Instruments



PHOTO: BARTEK BARCZYK, NIEC

How long has your adventure with the piano been going on?
 I started attending music school at the age of 7. Quite quickly, I began to achieve good results. I showed some talent in this direction. For my eighth birthday, my parents gave me a ticket to the Philharmonic for a concert by Stasio Drzewiecki, a phenomenal performer who was 16 at the time. I saw that someone so young could perform on stage, it moved me to the core. I began to work more, results appeared, the first wins in competitions. And so it began. After gaining my first degree from the Lublin Conservatoire, I went to Warsaw to study in the class of

Professor Irina Rumiancewa-Dabrowski, where I completed the next stage of my musical education. I studied in Moscow at the only department in Europe combining performance on period and contemporary instruments, and in Hamburg.

When did you first come across period instruments?

When I was 11 years old I went to a competition in Prague. The event was accompanied by a workshop in which Czech harpsichord restorer and builder Peter Šefl led a seminar and presented his instruments – a harpsichord and a fortepiano from Mozart’s time. At the

same time, it was one of the copies that was used in the film “Amadeus” by Miloš Forman. I was intrigued by the sound. I found it hard to tear myself away from the keyboard. Šefl offered to take me on courses in Hungary, where he supplied instruments. I went once, then again and again. There I met, among others, Professor Alexei Lubimov, with whom I later studied.

What do you get from contact with period instruments?

It is a great inspiration for the performer. Playing period pianos provides an opportunity to understand the composer. The music of bygone eras is all about ideas,

often very concrete, and not just emotions, as we often think today. To hear these ideas, you need to get to the language in which they were expressed – otherwise it will only be a distorted, superficial likeness. Classical or Romantic compositions were written taking into account the capabilities and specific characteristics of the instruments of the time. By playing them, we have a chance to get closer to the original sound of the pieces, to try to hear them as the composer heard them. Of course, it is not the case that the instrument itself solves all interpretive dilemmas. Paradoxically, it allows the performer more freedom to experiment, giving one only a certain

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stylistic framework. The performer can thus acquire a certain intuition and imagination, allowing them to read the intention of the creator. I really like this kind of work because it is based on trying to get to the truth.

Are you close to the works of Frederic Chopin?

Of course, my attitude to Chopin is certainly different than to other composers. He is a key figure in Poland, the number one brand. However, in an atmosphere of veneration and admonishment, it is easy to shallow the achievements of a genius. I had a moment when I wanted to relax, to take a break. Studying abroad came to my rescue. There I performed a variety of repertoire, and gained my training in performing baroque, classical music. This detox was valuable. I returned to Chopin with freshness, with an outsider's view of his oeuvre, fully aware of the music which Chopin grew up with. Now I can take to Chopin a little more on my own terms.

The International Chopin Competition on Period Instruments was as if created for you – a pianist in search, passionate about the sound of period instruments.

From the beginning, I was convinced that I should take part in it. I had an inner sense that this was consistent with the path I had taken. When I do something without conviction, it is difficult to get good results. In this case, I knew I should register and take my chance.

And you won the first one, which was held in 2018.

Yes, my beliefs and intuition proved to be correct.

Is a period instrument closer to your heart than a contemporary one?

My heart is divided in half. I play both period and modern pianos. Although, of course, the experience of playing period instruments influences how I play modern ones. I perform a very diverse repertoire. I also play late Romantic and later music.

Contemporary as well?

Yes, especially during my studies I played more of it. Contemporary music is extremely interesting, besides, in this case, we feel that we are in tune with the truth of the times. It was already composed for the modern piano and used all its possibilities. Here, finally, everything is in line.

What are your plans for the future?

I tour a lot, I just returned from Canada, I'll be flying to Japan soon. I will also play in the country, including at the "Chopin and his Europe" festival. In addition, I teach music courses. I like teaching a lot. When I teach, time does not exist, especially when you can see the progress of work. However, having your own "permanent" class here is a completely different level of responsibility. I would see myself in such a role in the further future, most preferably in an environment that allows combining performance on contemporary and early instruments. However, I certainly don't want to give up touring. I plan to continue to develop as a pianist, it gives me great satisfaction.

JACEK SASIN, DEPUTY PRIME MINISTER, MINISTER OF STATE ASSETS



The events surrounding the Russian aggression against Ukraine and the unprecedented energy crisis that ensued demonstrate most clearly the importance of energy security. Despite extremely difficult conditions, enormous efforts and gigantic costs Poland has managed to emerge from this crisis completely unscathed.

For many years, we have warned against Europe's overdependence on energy resources from Russia. Unfortunately, our voice was ignored for a very long time. Only now do many admit that we were right. However, it is important to learn from this lesson for the future.

We are currently facing the huge challenge of energy transition. We all recognise its necessity. However, the pace of this process must be adapted to the circumstances and capabilities of individual countries. Poland has never been against the transition. However, we will certainly not risk the country's energy security or the well-being of our citizens for ideologically dictated actions that could threaten this security.

JAROSŁAW FUCHS, VICE PRESIDENT OF THE MANAGEMENT BOARD, BANK PEKAO S.A.



Today, the word freedom shifts its definition between multidimensional aspects of great importance, such as the humanitarian crisis, the financial crisis or the energy crisis. An inseparable element of physical security has become a sense of economic independence.

From Ukraine's point of view, Poland is a proven and reliable political and business partner, both countries are geographically and culturally close, and Polish producers fit well into the needs of the local market. Assuming closer cooperation with Ukrainian partners, they could serve the latter as a kind of "bridge to the world", providing their own distribution network.

For Polish companies, this is a good opportunity to participate in a kind of "new opening" for this market, which, assuming a permanent end to the conflict, will be characterised by high development potential, which has a chance to be more orderly than before, because it will be based on EU standards. Moreover, future Ukraine is not only a large consumer and investment market but also potential attractive labour resource base for Polish enterprises. Banks from Poland can finance such activities.

PAWEŁ KURTASZ, CHAIRMAN OF THE BOARD, POLISH INVESTMENT & TRADE AGENCY



We can observe a significant change in the perception of Poland by global business. Our country is growing into a leader on the economic map of Europe. This is demonstrated by the growing interest of investors in Poland, which translates into annual record figures of foreign direct investments in which we, as PAIH, participate. What the world's giants pay attention to is our pool of highly qualified staff, a network of connections on trade routes, access to raw materials and energy sources, but also to our transparent, stable law and tax system. Poland has all these advantages and much more, as evidenced by the recent investments of Google and Volvo in research and development centres or Mercedes in a factory for the production of electric vans. Investors also know that the key to efficient implementation of investments in Poland is cooperation with PAIH. Our experts assist in the removal of bottlenecks throughout the entire investment process, from searching for suitable plots to obtaining public aid. For this reason, companies trying to decide in which of the countries of the region to locate their projects, choose Poland.

DARIUSZ SZWED, ACTING CEO OF PKO BANK POLSKI



PKO Bank Polski is a leader of the Polish banking system and an institution well prepared also for more difficult times. We support Polish economy which, despite the war, is stable and worth investing in. Poland is one of the least indebted countries in Europe. It belongs also to a small handful of countries where the combined public and private debt in relation to the GDP has declined over the pandemic period and it was already at one of the lowest levels in the European Union. I also want to emphasise that freedom is and has always been important to Poles. That's why we're trying to support Ukraine as best we can. We will actively cooperate with our stakeholders and the private sector to build a platform that will support the reconstruction of Ukraine. We're also focused on cooperation with international reconstruction and development funds. Currently, there are few Ukrainian banks that could take on the role of flow banks. Ukrainian Kredobank which is a member of the PKO Bank Polski Group has a unique position in this field.

ROBERT ŚLESZYŃSKI, M&A, STRATEGY & INVESTOR RELATIONS EXECUTIVE DIRECTOR, PKN ORLEN



We are well prepared for the challenges that come with the energy transition. Following its successful mergers with Lotos, PGNiG and earlier with Energa, PKN Orlen has become the largest company in Central Europe. This has greatly enhanced our ability to invest and harness cutting-edge technology. Orlen is simultaneously growing its business in several key areas, relying on sustainable and responsible business practices. We are investing in renewables, small-scale nuclear power, hydrogen technologies, biogas, and alternative fuels. We are fully aware the transition requires effort, both financial and organisational. As a strong multi-utility group, we are well positioned to meet these challenges, setting the tone for Poland's green transition.



Photo: Alexander Nemov/AFP/East News

Marat Gelman interviewed
by Michał Potocki

You came to Warsaw in February to attend the 2nd Congress of People's Deputies (SND) of Russia called by former deputy Ilya Ponomarev, the only one to vote in the Duma against the annexation of Crimea, and now – as an emigrant – claiming the right to represent post-Putin Russia. Do you believe this Convention to be the optimum format adoptable by the opposition?

Anyone on this side of the frontline is our ally. While Russian dissidents – Russia no longer has an opposition – have different visions of Russia, they continue fighting Putin on a par with Ukrainian armed forces and the global community. There is something artistic about Ponomarev's gesture of gathering people formerly elected to office. It goes without saying that while they have no actual mandate today, they are experienced in working with people. When gathering abroad and declaring that Russians don't want war, we hear that we are few and an exception, and represent nobody, Russian society having spat us out. SND is a response to such allegations, one I consider interesting. I have been friends with Ponomarev for a long time. This is exactly why I came, though not a delegate. I brought with me an anti-war exhibition of works by Ivan Tuzov. No regrets there.

When compared with his colleagues, Ponomarev seems to be quite radical. He encourages talks about Russia disintegrating, and the Russian right to armed insurgency against Putin. Do you agree with such a belief system?

Ponomarev believes we should fight Putin gun in hand, and it seems that

Nobody's Innocent

No one is rejecting the supposition that Putin can only be overthrown with force. Is that radicalism?



Photo: Marat Gelman/Facebook

MARAT GELMAN

Russian political technologist,
art collector

nowadays, nobody would oppose. People might only go as far as to respond that they themselves would not take to arms. Some because they are pacifists – others believe that as Russian citizens, they cannot shoot other Russian citizens. Yet no one is rejecting the supposition that Putin can only be overthrown with force. Is that radicalism? I have been attending Kasparov's Free Russia Forum since 2018. People would call him a radical, while all he did was say simple things:

Putin stands for war, and the West is breeding a monster by doing business with him. These days, Kasparov's position is one of consensus, the softest and most liberal there is. Putin is so ominous and insane that regardless of how radical you are – you inevitably end up in the mainstream. People who had been predicting war in January 2022 were called radical as well. Eminent political scientist Katya Shulman famously said that only the insane foretold war. Responsible experts said there would be no such thing, that this was something only a snob and "educatorian" could come up with. The Ukrainians sent me an interview I had given back in 2014, after having emigrated to Montenegro. The subtitle read, "I don't want to take part in war". It was already obvious then that Putin had decided to wage war, just staged over time. I now live in Berlin and would be more than happy to become a local Bürger, a moderate bourgeois. Regrettably, we have not been given the opportunity to remain moderate. Thoughts radical in the extreme have proven to be the truth. I will go back to being a Bürger once the war is over. First we have to get rid of Putin, then Putin must lose in Russia, a task much more difficult than the one of Ukrainians emerging victorious.

Let's discuss the dissolution of Russia, although I myself believe that this is no more than political fiction today. Do you believe the scenario to be in any way realistic? And if so – would it be desirable, acceptable, unavoidable?

I wouldn't use the term "dissolution". While some territories will be liberated and Russian borders may shift, this will by no means be a state divided into parts. There are certain premises – political and well as economic – to support such scenario. One can escape sanctions imposed on Russia through isolation. Bashkortostan, for example, can no longer sell its oil – yet by exiting the Russian Federation it will also avoid sanctions. In the longer term, there are two processes at stake. You were correct in saying "unavoidable". Empires are a thing of the past, the Russian empire the last one standing. The process of its dissolution was frozen by revolution, through which the USSR was born. That route has been reinstated today. Another process I have observed as an urban development professional is one of urban rather than state or national identities evolving. Case in point: people would rarely describe themselves as "French artists", the phrase "I am a Parisian" unquestionably more frequent. Ancestors

hailing from Algeria, France or Russia are gradually becoming secondary. While attempting to bring the mills of history to a standstill, Putin only made them pick up speed by starting a war. The next twenty years will not depend on Putin, Russia or Ukraine. We will be watching 600 cities replace 200 states.

Can Ponomarev's proposal be in any way effective? I attended both Congresses with a sense of witnessing a paper production process. There is a war going on, repressions in Russia humongous, and all the while twenty-five former deputies spend three hours debating a media law for an as-yet non-existent state.

For the record: seventy-four deputies. True, there were twenty-five people present physically, yet others joined on Zoom.

The proposal was designed to introduce participants to a certain operational framework rather than ascertain effectiveness. While the Congress as such can't do anything, each delegate is responsible for a number of smaller issues – helping refugees, fundraising for the Ukrainian army. Deputies convene to share opinions, contacts and experience, plan joint action. The suitability of documents produced in Congress is limited indeed – they may be good,

yet once push comes to shove, the chances of putting them to use are slim. Much more importantly, people do not forget Russia while focusing on their immigrant lives. Ponomarev has a somewhat exaggerated fascination for legitimising deputies. In contrast, Kasparov sees little sense in talking to the Russian society, preferring to work with Europeans. This is simply who they are. What is significant is that they are both on our side of the barricade. I myself organise fifteen exhibitions each year. I could shake the dust of the Russian Federation off my jacket and get a new lease on life. Yet I feel accountable – individually rather than collectively – for what has happened. Joining such efforts lets me function. They help me take action to support Ukraine's victory and overthrow Putin. I have my professional life – and a civic debt as well, one I am trying to repay. I am active on the anti-war committee and in the Free Russia Forum, I have come to work with Ponomarev, I set up my auteur SlovoNovo (New Word) Forum with a focus on culture, though we spend half of our time discussing politics.

You mentioned personal accountability. Ukrainians often declare that all Russians are guilty. Some worked for the system, others simply failed to overthrow Vladimir Putin in time. You used to work for the system as well.

Nobody's innocent. German society used to help Putin too, for a long time refusing to believe that Putin stands for war. Having organised the Maidan in 2014, Ukrainians did elect Viktor Yanukovich president in fair elections. We obviously cannot hold it against them these days, when they are being nothing short of heroic. In terms of my own biography: before Putin became prime minister in August 1999, I had been practically unaware of him. I recall a survey which proved that a mere two percent of Russians declared knowing who he was. Four months later, an overwhelming sixty percent wanted him as their president. The man appeared out of nowhere, making reasonable statements. They say he was anti-Yeltsin; yet he was also anti-Primakov and anti-Zyuganov (hailing from the intelligence service, Yevgeny Primakov was minister of foreign affairs and prime minister; Gennady Zyuganov is still the leader of communists – editor's comment). People believed that Putin was capable of responding to challenges faced by society. I was chief of staff for the Right-wing Forces Alliance (SPS) at the time, with three leaders among our members: Sergey Kiriyenko, Boris Nemtsov and Irina Khakamada. Nemtsov came to see me, saying, "Marat, we are supporting Putin as president, organise the staff". Yegor Gaidar (SPS politician, co-author of free market reforms – editor's comment) requested that we get together with our supporters from Petersburg, who knew Putin well.

Marina Salye (she had accused Putin of corruption as early as the 1990s – editor's comment) was there. They told us we were making a mistake.

What were their arguments? They told us things that are common knowledge today, things known to a small group of people at the time; we saw them as people of a different world, some old-fashioned democrats. We were sufficiently brash and sure of ourselves in disregarding them. But then Mikhail Khodorkovsky (oligarch, opposition supporter – editor's comment) was arrested in 2002. Aleksandr Voloshin left the presidential administration (he was head of the institution – editor's comment), I left the Foundation for Effective Politics (FEP, Kremlin backers at the time, a community of political technologists, PR and political tactics experts – editor's comment). This was when fear first came. By then, Putin had already been sending early signals – yet nobody wanted to believe what they saw. I understood by 2004 that the Russias in Putin's head and mine were drifting apart.

What happened?

Direct elections of governors were eliminated, and then some... Over the years 2002-2004, Putin lost the fear of being himself. Before, his behaviour had resembled that of a Homeland champion (Homeland, Rodina, group of oligarchs from Boris Yeltsin's circles – editor's comment). That was when I organised the Russia 2 project at the Central Artists' House, a project the parliament attempted to delegitimise. I drafted manifestos for the two Russias: Putin's and my own. My postulates were rather provocative and harsh, one of them proclaiming that losing a friend hurts more than losing the homeland. Also that the individual is more significant than that of the state, the professional more important than the political. The manifesto was more of an announcement of retreating into the shadows than an oppositionist statement. People came from Kaliningrad. They said, there are few liberals around these days, let's make a deal with the authorities to get Kaliningrad back, we would hold fair elections there. An experiment, exactly like the one in Taiwan.

A liberal province of the Russian Federation.

At that point, everyone believed that Putin and society were walking down their own path – people were enchanted. Those were times of economic prosperity, teachers began earning decent money. All that ended in 2008, but then he bought the people just like he did in 2014 with the #krymnash (Crimea's Ours) hashtag. When Dmitri Medvedev was elected president in 2008, I was a member of the Civic Chamber (consultation body of the president, ostensibly comprising representatives of the civic society – editor's comment). We hoped Medvedev would make it into a second term of office.

We were fooling ourselves, and were therefore fooled. What we have now began back in 2012. Putin was re-elected in March, and we were deprived of the capacity to go on fooling ourselves. Everything was freewheeling towards authoritarian dictatorship, although until 2014 we did not expect Putin to reach for warfare methods. The human brain is riddled with resentment. There is a whole bunch of fantasy novels by authors gathered around the nationalist Zavrtra daily, wherein popadantsy (people from the past) become part of the future and do assorted heroic deeds. Putin is a 19th-century popadanets with a wish to restore the old order. He believes the 19th century to have been the golden age of the empire.

You mentioned Kiriyenko. You know him well, having worked closely with him and Nemtsov. Nemtsov was assassinated, Kiriyenko is now responsible for integrating occupied territories with Russia, in Putin's administration. What is his brain riddled with?

Once the SPS made it to the Duma, Kiriyenko proved to be an alien among democrats. He had no backup structures. He was pushed out of the SPS, the party seeing Nemtsov as their preferred leader. Kiriyenko then went to Putin and said he wanted to serve him, in response to which Putin made him plenipotentiary in one of the federal districts. He was the only plenipotentiary without an intelligence service past, although today I am wondering whether that is truly the case. He was of real help to us in the early days. There is a kremlin in Nizhny Novgorod, one that used to be owned by the defence ministry. Thanks to Kiriyenko, it was donated for use by the Centre for Contemporary Art. Kiriyenko was a modern man, obsessed with technology. Yet I remember petitioning with him in support of this man, our former colleague, in 2006 or 2007. He said that as Putin's soldier, his hands were tied.

Was that your last exchange?

Last but not one. We ran into each other in 2012, at Slava Glazychev's funeral. Glazychev was a great man, an architect, Kiriyenko considered him a mentor. We spoke mainly of that Kiriyenko had some sort of plan, in the name of which he was renouncing all ideological beliefs and personal preferences. When repressions against the opposition began in Moscow, we were fooling ourselves that Kiriyenko had been put on the back burner – yet it turned out he was at the very heart of the repression machine. He wore a mask for so long, it became his face.

Before the Orange Revolution, you worked with Viktor Medvedchuk in Kyiv. Medvedchuk was then head of president Leonid Kuchma's administration, more recently with aspirations to stand at the helm of occupational authorities in Ukraine. Medvedchuk enjoyed pretending to

be Putin's personal friend. Yet when pre-invasion recordings from his tapped phone line came to light, it turned out that he actually had to beg, and persistently, for any kind of contact with the Kremlin. What was their relationship really like?

Medvedchuk spent years doing everything to make Putin trust him, and that was what ultimately happened. I believe that this trust gave rise to Putin's mistake which led to the beginning of the war – in a specific manner, at a specific time. These developments were influenced by data prepared for Medvedchuk by political technologist Mykhailo Pohrebynskyi (suggesting that Ukrainians were impatiently awaiting the arrival of Russian troops – editor's comment). Medvedchuk is incapable of true friendship. I have no idea if Putin is. Medvedchuk was aspiring to become Ukraine's equally brutal Putin. Putin enjoyed having Medvedchuk who could simply be given orders, next to Yanukovich with whom games had to be played. I believe Putin thought of Medvedchuk as one of his people. Their relationship could have gone through a variety of stages – that's a completely different story.

People were telling stories in Kyiv about the early 21st-century incursion of Russian political technologists. Did Medvedchuk's guys invite you, or were you dispatched by the Kremlin?

Every Ukrainian politician considered having his or her own Russian political technologist, something terribly prestigious and fashionable at the time. You were nothing without one. Ukraine did not have its own political technology market, elections organised locally every four years. In contemporary Russia, when governor elections were still a thing with more than one voting day, regional campaigns were well-nigh held around the clock. This allowed a bespoke market to be developed – nobody can afford to work every four years. The political technologist profession is demonised. We did what our clients expected us to do. Ukrainians are blaming Medvedchuk, while all he did was handle dirty work ordered by Kuchma. Ukrainian politicians believed that Russian contacts would somehow impact their electoral position. Everyone was looking for a way into the Kremlin. The communists were using Zyuganov to that end, for example. Turbulent discussions regarding Kuchma's successor broke out. It was obvious that since the Kremlin was vehemently opposing Viktor Yushchenko, the incumbent president could not openly support him. Viktor Pinchuk (oligarch believed to be pro-West – editor's comment) and I wrote a letter to Kuchma, appealing to him not to back Yanukovich.

What were your arguments against Yanukovich?

That this would be the end of the peaceful era in Kyiv's business world. The "Young Donetsk" oligarchs

faction was extremely active. On a side note, Crimea residents not happy with Ukraine mainly had, in all actuality, a problem with the people of Donetsk who subjugated Crimea and began taking over local businesses. While I disremember the details, the letter itself was delivered to Kuchma by his daughter Olena, Pinchuk's wife. Kuchma made his own choice. He was weary and unwilling to order anyone to start fundraising for an election campaign. Yanukovich was the only potential presidential candidate requiring no campaign fundraising, a banal reason. I hoped Kuchma would come to regret his decision in time. This was also when I stopped advising them.

Kuchma handed his dirty work over to Medvedchuk, Medvedchuk passed it on to you. You were the one responsible for generating "temniks" for the Ukrainian media (associated with the word "temnyi" – dark – abbreviation for the phrase "temy nedeli" – themes of the week, dispatched to media managers as guidelines as to how and what should or should not be reported – editor's comment), coming up with fairy tales about Ukraine's dissolution, Yushchenko's work for the United States.

I had nothing to do with that. Such notions were produced by Yanukovich's staff, Timofey Sergeytsev (made famous in 2022 by his piece for RIA Novosti, postulating brutal repressions against Ukrainian elites – editor's comment), to be specific. Concerning the temniks – yes, we did generate them. I was working for Channel One of Russian public television at the time. A huge machine, a plethora of journalists. And the job was rather unfortunate, physics today, poetry tomorrow. You simply could not research all subjects in depth. We followed in the footsteps of CNN's editorial policies. If a station employs fifty editors, you cannot even attempt to organise any planning. The head of the station would come up with a work-plan and mail it out to editors. Problems arise once the editor-in-chief stops coming up with a plan, but has to follow one received from elsewhere, which is exactly what had happened in Kyiv, the plan arriving from the president's administration. And that nuance made temniks toxic, technical implements turned into weapons. I consider that stage in my life deleterious, and would have rather not gone through it.

A journalist being told to report on a specific subject by an editor or a politician – are those two different things?

Konstantin Ernst (director of Channel One at the time – editor's comment) began taking my temniks over to the Kremlin to show them the television broadcast product. And they took him up on it. I did not attend any planning sessions, I had my own job to do. In all likelihood, quitting would have been the only exit strategy, but that was not how we saw things at the time. Not just me – nobody did.

Could Yanukovich have won the 2004 elections?

He probably could have, since he did in 2010. Yet we could have found more interesting candidates, such as Volodymyr Lytvyn or Serhiy Tihipko (contemporaneous heads of parliament and the central bank, respectively – editor's comment). Both have since left politics. Lytvyn and Tihipko were the two vectors Pinchuk and I attempted to follow when lobbying and looking for people.

Could you count on Kremlin's backing when working for Medvedchuk?

I left Gleb (Pavlovsky, head of the FEP – editor's comment) once the Foundation became something akin to a department of the Kremlin. I disliked that. But Gleb knew everything. He could have been a Kremlin liaison. Voloshin was my choice in administrative structures. He resigned when they jailed Khodorkovsky.

Ukrainians have a rather short list of "good Russians". You will have a difficult time making the list, given your past, Medvedchuk and the temniks.

You are probably right. I would likely not put my own name on that list. Yet until the Ukrainians get rid of Putin, they need Russians who are effective rather than good. They need allies – I am definitely one of them, even setting my professional career aside, although I did more for Ukrainian art than anyone else from the country itself. Now, in terms of my political biography – I cannot erase it. You can modify your beliefs, but not past life events. This is why, when speaking of beautiful future Russia, I wish to make it clear that I will not be seeking power. I am a man of the past, acknowledging my status calmly. Yeltsin's problem was that he hailed from a regional committee of the Communist Party of the Soviet Union, thus incapable of signing regulations preventing former employees of central party bodies or KGB functionaries from taking public office. Had he done that, there would be no Putin. This is why new Russia needs vetting procedures, as does Ukraine. I ran a project in Odessa before the war, I visited often. A part of the Ukrainian art-affiliated community still talks to me. I also understand that Medvedchuk turned out to be the right hand of a man who kills hundreds of people each day. I would prefer my biography to be free of certain episodes. I could try to justify or explain my mistakes, yet they remain a key closing my door to the future. I understand it, and have no intention of fighting the premise. In all actuality, this is exactly what keeps me going. They say that Pavlovsky would not repent at any price, and that I did. I talked to him about it, and "Were it only that simple," was his response. The only thing I can do is contribute to overthrowing Putin, and hopefully tip the scales in time. "Yes, he did work with Medvedchuk, but he also helped us win". So I'm doing this for myself as well. ©

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