



# 20 YEARS OF POLAND IN THE EUROPEAN UNION

## RECOMMENDATIONS FOR THE FUTURE

REPORT





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## **20 YEARS OF POLAND IN THE EUROPEAN UNION. RECOMMENDATIONS FOR THE FUTURE**

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FILIP SEREDYŃSKI

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# 1. CAN THE FEDERALIZATION OF THE EUROPEAN UNION BE STOPPED?

TOMASZ GRZEGORZ GROSSE



**In difficult times of crisis, we should turn to decentralised solutions rather than increasing centralisation. We should move towards voluntary management instead of forced management. Greater flexibility and differentiation are needed rather than harmonized and therefore uniform solutions for all. The EU should be guided by the greatest possible respect for national democracies and not strive to create democracy only at the EU level. All the more so because for structural reasons - we mean social resistance and the weakness of European identification - this kind of EU democracy is difficult to achieve.**

## **IS FEDERATION EVEN POSSIBLE?**

In the fall of 2023, the European Parliament put forward a proposal for treaty changes<sup>1</sup>. It was an initiative that formally opened the way to the revision of the treaties in accordance with Art. 48 of the Treaty on the Functioning of the European Union (hereinafter TFEU). Under this procedure, Parliament presents a proposal for treaty changes, and the European Council can convene a convention and then an intergovernmental conference only by a simple majority of votes (i.e. without unanimity or a qualified majority). A convention composed of representatives of national parliaments, heads of state or government of the Member States, the European Parliament and the Commission develops treaty changes based on submissions from MEPs.

The Parliament's initiative was described as creating a federation within the EU<sup>2</sup> and indeed in many places in both EU treaties<sup>3</sup> strengthened the competences of the European Parliament. Among the most far-reaching was the proposal to grant this institution the right to legislative initiative. Nevertheless, it is difficult to consider the changes proposed by MEPs as building a democratic federation. The basis for democracy in Europe is the national electoral systems and parliaments in the Member States. These, in turn, are to be seriously weakened as a result of the "reforms", especially in smaller and less politically influential countries. There is still no political community of Europeans with an EU political identity (the so-called *demos*) in the EU. Such identifications occur at the national level, and scientists call them *demoi*<sup>4</sup>. The project presented by the deputies limited national democracies thereby it reduced the democratic nature of the entire system. All this meant that proposals for treaty changes increased the centralisation of management, and to some extent fiscal and legal-judicial federalism, but without building a solid democratic federation in the EU.

1 European Parliament resolution of 22 November 2023 on proposals of the European Parliament for the amendment of the Treaties (2022/2051(INL)), European Parliament 2019–2024.

2 Treat the EU with treaty reform! The Young European Federalists, Brussels, 23/11/2023, <https://jef.eu/news/press-statement-treaty-change/>; A.A. Michta, *A federalized Europe isn't in America's interest*, "Politico" [online], 21/11/2023, <https://www.politico.eu/article/a-federalized-europe-isnt-in-americas-interest/>.

3 Treaty on European Union (hereinafter TEU), Treaty on the Functioning of the European Union (hereinafter TFEU).

4 K. Nicolaidis, *European Democracy and Its Crisis*, "Journal of Common Market Studies" 2013, vol. 51, no. 2, pp. 351–369.

Moreover, in federal states, the rule is to allocate the same (or similar) number of votes to the states, lands or cantons in the relevant legislative institutions. Meanwhile, in the Council of the EU France and Germany have an advantage in votes, often several times greater than the smallest countries. This is a violation of the basic principle of democratic federation. The MEPs' project did not remedy this defect, but deepened it by massively increasing matters decided in the Council by majority voting. Paradoxically, the Council would be closer to a democratic federation if the veto right was retained – because it equalises the number of votes between large and small countries.

All this means that the proposal to change the treaties increased the power of Paris and Berlin at the expense of other capitals in the EU. The likelihood of smaller countries concluding permanent alliances with France or Germany is increasing. Scientists have already observed a tendency for the countries of Southern Europe to cooperate with France and the countries of Northern Europe and Central Europe with Germany<sup>5</sup>. Treaty changes could further strengthen the two largest countries in Western Europe in the EU political system. Capitals less influential in the EU could win something for themselves when French politicians argued with German ones. Outside of these situations, their decision-making influence would be limited.

## BUILDING A SUPER-STATE

The initiative was prepared by the largest factions in the European Parliament. They created the so-called political mainstream or were described as euroenthusiastic forces. The narrow group that developed the proposals was headed by the famous federalist Guy Verhofstadt. Its other creators were German MPs: Sven Simon, Gabriele Bischoff, Daniel Freund and Helmut Scholz. The latter was a citizen of the German Democratic Republic during the communist era and studied at the Moscow State Institute of International Relations, which was directly subordinated to the Ministry of Foreign Affairs of the USSR.

MEPs aimed directly – even in the sphere of names – at the idea of a European “super-state”. The head of the European Commission is to be henceforth referred to as the President of the European Union, and the Commission is to be referred to as the Executive.

Deputies proposed transferring to the EU level, as the so-called exclusive competence of the Union, climate negotiations conducted in the international arena. It wasn't a coincidence. The European Union's climate policy is one of the flagships of this organization in the 21st century. It is supposed to completely rebuild the economic model in the community, including covering several economic sectors that have so far been free from climate ambitions<sup>6</sup>. Therefore, an even greater acceleration in the EU's climate ambitions, which have already caused much controversy among national voters, is to be expected. Moreover, climate policy is of fundamental political importance because it centralises management to a large extent, and its numerous programs, fees and taxes accompany the introduction of fiscal federalism. According to experts<sup>7</sup>, the transfer of new exclusive competence to the EU allows, in the name of “climate protection”, to influence the shared and exclusive competencies of Member States in other areas. In case of any doubts in this respect, the EU gains exclusive competence to conduct “world negotiations” and conclude treaties

5 U. Krotz, L. Schramm, *Embedded Bilateralism, Integration Theory, and European Crisis Politics: France, Germany, and the Birth of the EU Corona Recovery Fund*, “Journal of Common Market Studies” 2022, vol. 60, no. 3, pp. 526–544.

6 A. Bongardt, F. Torres, *The European Green Deal: More than an Exit Strategy to the Pandemic Crisis, a Building Block of a Sustainable European Economic Model*, “Journal of Common Market Studies” 2022, vol. 60, no. 1, pp. 170–185.

7 J. Kwaśniewski, *Polityka klimatyczna [Climate policy]*, [in:] J. Kwaśniewski (ed.), *Po co nam suwerenność [Why do we need sovereignty]?*, Wydawnictwo Naukowe Instytutu na rzecz Kultury Prawnej Ordo Iuris, Warszawa 2024, p. 25.



“on climate change”, which would then have to be binding on the Member States. As a consequence, the Union can influence Member States within their competencies.

EU parliamentarians announced the transfer of further powers from Member States to the EU. It was about recognition of the so-called shared competencies in seven new areas, which in practice meant giving priority to EU bodies in this matter. These include public health, cross-border transport infrastructure, industrial and scientific policy in the field of recognition of academic degrees, competencies and qualifications, and energy policy. This is another example of the centralising tendency dominating MEPs’ proposals. According to experts, transferring the management of transport infrastructure to the EU could limit Poland’s freedom to implement such strategic investments as the Central Communication Port or highway Via Carpatia<sup>8</sup>. In turn, the centralisation of powers in the field of industrial policy covers the mining, energy and arms sectors, which in the era of geopolitical threats is particularly risky for the Republic of Poland.

Particularly dangerous for the limitation of national sovereignty was the recognition by MEPs of foreign policy, external border protection policy, external security, defence policy and civil defence as “shared competencies”. In the case of defence policy, many strategic decisions were transferred to the EU, mainly regarding arms procurement on behalf of the Union and its Member States. Therefore, one could expect growing pressure from Brussels to limit the purchase of weapons from non-European countries. This not only limits the freedom of decision-making of national governments, especially in countries such as Poland but also risks insufficient preparation of the so-called NATO’s eastern flank for potential aggression from Moscow. In turn, a proposal for a new article 79 of the TFEU explicitly included economic immigration as an EU competence. Until now, this was the exclusive competence of the Member States, which is why the forced relocation mechanism proposed by Brussels caused so much controversy. Giving the EU powers over external borders could have further limited national authorities in controlling their own borders. This leads to EU institutions taking over responsibility for who is allowed into the country and who is not. The clearest example of how far centralisation went in the discussed project was the recognition that all EU countries must adopt the euro currency. They must do this no matter how economically unprofitable it may be for them, or contrary to the preferences of local voters.

## INCREASING DOMINATION OF TWO STATES

Initially, the European Parliament’s project proposed a change in the procedure in as many as 65 areas of public affairs - from unanimity to majority voting. In addition, simple majority voting was proposed as the basic method of decision-making in the Council, which meant the need to apply only the 50% threshold of inhabitants in the EU<sup>9</sup>. Previous restrictions regarding the number of Member States were thus abandoned, which significantly facilitated decision-making following the will of the largest countries. Only at a later stage of work was the number of cases reduced, in which unanimity was waived “only” to 34 areas<sup>10</sup>. The current method of qualified voting was maintained under the so-called double majority, i.e. at least 55% of the Member States representing at least 65% of EU population. It is still a system that privileges the most populous countries in Western Europe. Germany and France have a total of approximately 34 per cent of the demographic potential of the Union. Interestingly, according to the project, majority voting was to be the rule also in the European Council.

8 J. Jabłoński, *Infrastruktura transgraniczna* [Cross-border infrastructure], [in:] J. Kwaśniewski (ed.), *Po co nam suwerenność* [Why do we need sovereignty]?, p. 39.

9 Draft Report on proposals of the European Parliament for the amendment of Treaties (2022/2051), 22/08/2023.

10 European Parliament resolution of 22 November 2023....

Eliminating unanimity deprives primarily smaller countries and those that have limited influence on the decision-making process in the EU. This concerns especially the Central European countries accused by the EU institutions of violating the so-called European values. At the same time, the majority of decision-making serves the Member States with the largest populations in the EU. It is therefore hardly surprising that, in addition to German MEPs, majority voting was also promoted by German and French experts<sup>11</sup>. This was in line with earlier, repeated appeals by political decision-makers from Berlin and Paris on the same issue<sup>12</sup>.

The majority method of making decisions on budget, tax and common debt issues in the EU is controversial. In the conditions of an international organisation, such plans could be treated as undemocratic. They allow for a situation in which voters would not influence the taxes applicable to them because their national governments would simply be outvoted on this matter at the EU level. The possibility of incurring and repaying common debt in the EU is equally controversial. Some governments and their voters – even if they oppose taking out such loans – are obliged to repay them under the European Parliament’s proposal. Not only is this inconsistent with basic democratic standards, but it also takes away sovereignty from smaller or less influential EU members who are easier to be outvoted.

The majority vote is controversial in relation to foreign policy, in particular about sanctions, security and defence policy, given the serious differences of views on this matter expressed many times by government leaders. For example, the attitude towards Moscow, the war in Ukraine, and even transatlantic relations – was often different in Paris and Berlin than in Warsaw and the capitals of the Baltic states. The draft treaty changes mentioned striving for strategic autonomy (in Article 21 of the TEU), which so far has meant building the geopolitical independence of the European Union towards the United States of America. This raised serious reservations among the countries belonging to NATO’s eastern flank. In this context, the proposal of a “common army” is also very controversial, namely the establishment of permanent military units intended for rapid deployment under the command of the European Union (and therefore not the national authorities or even the NATO command). The decision to launch military missions or operations with an executive mandate would be made by a majority of votes of the members of these missions (Article of the 42 TEU).

The words of Andrew Michta, an expert in European affairs from the Atlantic Council of the United States, expressed concern about changes in the EU’s defence policy. In his view, *“the notion that a federalized Europe led by Berlin and Paris would be more, and not less, responsive to U.S. requests for meaningful contributions to deterrence and defense is wishful thinking. (...) The nations along NATO’s eastern flank – from Finland through the Baltic States, Poland and Romania – that have shown the greatest determination to stand alongside the U.S. in support of Ukraine, as Germany and France follow suit with reluctance and, more often than not, fail to deliver”*<sup>13</sup>. This statement highlighted the differences in approach to threats in Central Europe and the western part of the continent. It means that strengthening German-French leadership in the Common Security and Defence Policy may not only be detrimental to the security of NATO’s eastern flank but also to the North Atlantic Alliance itself and the interests of the United States.

Professor Michta drew attention to the divergence of strategic interests between Germany and France on the one hand, and the countries of NATO’s eastern flank and the USA on the other. Nevertheless, another aspect of the treaty changes deserves to be highlighted. The European Union gave a false sense of security by establishing a new structure next to the Common Security and Defence Policy, i.e. the Defence Union. The same illusion was served by permanent rapid deployment capacity, as well as the duplication in

11 *Sailing on High Seas: Reforming and Enlarging the EU for the 21st Century*, Report of the Franco-German Working Group on EU Institutional Reform, Paris-Berlin, 18/09/2023.

12 P. Jacqué, *Olaf Scholz relance la bataille pour faciliter les prises de décision au niveau européen*, «Le Monde», 9/05/2023, [https://www.lemonde.fr/international/article/2023/05/09/olaf-scholz-relance-la-bataille-pour-faciliter-les-prises-de-decision-au-niveau-europeen\\_6172652\\_3210.html](https://www.lemonde.fr/international/article/2023/05/09/olaf-scholz-relance-la-bataille-pour-faciliter-les-prises-de-decision-au-niveau-europeen_6172652_3210.html).

13 Comp. A.A. Michta, *A federalized Europe isn't in America's interest*, op. cit.

Art. 42 of the TEU alliance guarantees similar to NATO<sup>14</sup>. According to the amended text of this article, “if a Member State is the victim of aggression, the Defence Union and all Member States shall have towards it an obligation of aid and assistance by all the means in their power, in accordance with Article 51 of the United Nations Charter. An armed attack on one Member State shall be considered to be an attack on all Member States”.

However, the conclusion of this article weakened the effectiveness of allied guarantees: *this shall not prejudice the specific character of the security and defence policy of certain Member States*. Moreover, considering the previous experience of establishing European rapid reaction forces, there are serious doubts regarding the numbers and deterrence potential of these units. All this leads to the conclusion that instead of strengthening defence in the real sphere, under the influence of treaty changes, one could expect an attempt to duplicate NATO structures and thus weaken this alliance, while at the same time seeking Berlin and Paris to take over influence on political decisions in the area of defence both in the Union and in other Member States.

An interesting area in which “the possibility of using a veto was left was the decision to expand the community. Here, representatives of euroenthusiastic factions did not want a quick decision from national governments. This exception even seemed to encourage dissatisfied parties to delay subsequent accessions.

## FARTHER AND FARTHER FROM DEMOCRACY

The proposal to revise subsequent European treaties aroused the greatest opposition. In the first proposal prepared by euroenthusiasts, this should be a decision taken by a majority of four-fifths of the Member States<sup>15</sup>. Moreover, the treaty would enter into force across the EU if only four-fifths of countries ratified it. In other words, as much as 20 per cent sovereign countries and their voters could be outvoted on this key issue. This also meant that they would have to implement treaty changes even against their opinion. This was a violation of the most important principles of international law regarding the conclusion of treaties, another violation of democratic standards, and therefore also of national sovereignty. It is difficult to understand how the European Parliament, which considers itself the most democratic EU institution, could even initially consider such a drastic violation of democratic rights.

A manifestation of the strengthening of the hierarchy of power between the largest countries and the remaining ones was the initial proposal to limit the number of commissioners to only 15<sup>16</sup>. It is easy to guess that representatives of smaller countries would be more likely to be absent from the college than, for example, France or Germany. At the final stage of work in Parliament, this proposal was abandoned. However, a division was introduced between the 15-member College of Secretaries of the new Commission (renamed the Executive) and a group of undersecretaries from other Member States. In other words, two categories of officials were proposed within the Executive with a different scope of authority. Other tools for enforcing the hierarchy of power between the largest, central or core states in the EU political system, and the peripheral ones were also strengthened. We are thinking about sanction instruments.

The project proposed by Parliament significantly strengthened the instruments for disciplining countries considered to be acting unlawfully and not respecting the so-called European values. This mainly concerned the facilitation of decision-making in Art. 7 of the TEU, as well as including directly in this article the

14 European Parliament resolution of 22/11/2023... op. cit., Amendment 55.

15 Draft Report on proposals of the European Parliament..., op. cit.

16 *Ibidem*

possibility of introducing financial sanctions. So far, such sanctions against Poland and Hungary have not resulted from treaty law, nor have they been undertaken based on Art. 7 of the TEU. The sanction procedure based on Art. 7 of the TEU, for the first time, the Parliament also included the Court of Justice of the EU and significantly expanded the role of MEPs. So far, it has been a political procedure carried out primarily within the Member States themselves. It was a manifestation of building a super-state. The EU was to - at least formally - cease to be primarily an association of sovereign states and become an organisation with a growing role of supranational institutions.

## LEFTIST REVOLUTION

The European Parliament's resolution on amending the treaties referred from the very beginning to the Ventotene communist manifesto of June 1941. It postulated the introduction of a centralised European state that would implement a socialist revolution and liberate the working class<sup>17</sup>. It is therefore not surprising that in the discussed proposal to revise the treaties, the role of leftist political ideas was the basis for the so-called European values. This is particularly unpleasant for conservative politicians and those Member States where voters elect right-wing governments. In all places in both amended European treaties, the principle of equality between women and men was replaced by gender equality. Another borrowing from left-wing axiology was the reconciliation of economic development with social progress. Another example of the same tendency is the inclusion of environmental crime among offences with a European dimension prosecuted ex officio (so-called cross-border crimes), which was particularly strongly insisted on by leftist circles.

Moreover, the area of family law with cross-border effects was included in "the "shared competencies" that were to be voted by majority vote. This may result in a redefinition of marriage and family in the Member States towards respecting the idea of gender, and same-sex marriages and enabling the adoption of children. Moreover, educational policy was also to become a "shared competence" with the majority decision-making procedure, which would now be based on a new left-wing interpretation of the Charter of Fundamental Rights of the European Union. In other words, Brussels could promote gender ideas and sexual education of children and young people to a greater extent in national educational systems.

## IS THERE AN ALTERNATIVE POSSIBLE? RECOMMENDATIONS FOR POLAND

Conservative politicians have been calling for an end to the centralisation of the system in the EU for a long time. They postulate a return to the model of a "Europe of homeland", i.e. a subsidiary and decentralised Europe, where competencies remain with national voters and are not constantly transferred to the EU. Therefore, its decentralised model would be more democratic and less dominated by the largest Western European countries. Unfortunately, the European Parliament's 2023 proposal went in the opposite direction.

Meanwhile, an alternative to the proposed changes may be the voluntary deepening of integration by a group of countries, in accordance with the Multi-speed Europe model<sup>18</sup> or Differentiated integration. If, for example, France and Germany seek to increase the centralisation of management in a certain area, they can do

17 E. Rossi, A. Spinelli, *The Manifesto of Ventotene*, 02/12/2013, [https://www.cvce.eu/content/publication/1997/10/13/316aa96c-e7ff-4b9e-b43a-958e96afbecc/publishable\\_en.pdf](https://www.cvce.eu/content/publication/1997/10/13/316aa96c-e7ff-4b9e-b43a-958e96afbecc/publishable_en.pdf).

18 A.C.G. Stubb, *A Categorization of Differentiated Integration*, "Journal of Common Market Studies" 1996, no. 34(2), pp. 283-295.

so, but only with countries that share their ambitions. Other EU countries should have the right to refrain from transferring further powers to Brussels and be able to cooperate under the existing rules.

This creates greater freedom of management in the crisis-torn European Union<sup>19</sup>. Management flexibility allows, in particular, better adaptation of EU policies to local conditions and opportunities, as well as to the will of voters. Therefore, it is a more democratic solution than the centralisation and harmonisation of public policies on a European scale. Therefore, scientists recognize that differentiated integration can provide the necessary resilience and stability of the European Union on the permanent basis, and not only in crises<sup>20</sup>. This management method - based on opt-outs from common policies - may be beneficial for countries considered peripheral. But not for the central ones, i.e. politically dominant ones. It is centralized solutions that provide them with the opportunity to use the so-called redistributive conflicts, i.e. accumulation of wealth in the centre at the expense of peripheral and politically dependent countries. Moreover, centralised politics creates greater opportunities for core states to make decisions "on behalf of" the periphery. This gives a huge scope for control of politically and economically weaker countries in the EU.

Another alternative proposal for treaty changes worth considering may be a precise separation between EU competencies and those left to national democracies<sup>21</sup>. The aim is primarily to make it more difficult for EU institutions to arbitrarily encroach on the rights of sovereign states. The proposal to establish a chamber of national supreme and constitutional courts in the Court of Justice of the EU (CJEU) went in the same direction<sup>22</sup>. The task of this new institution was to supervise the rule of law of EU institutions, especially whether they violate treaties and national competencies.

19 J. Trondal, S. Gänzle, B. Leruth, *Differentiation in the European Union in Post-Brexit and -Pandemic Times: Macro-Level Developments with Meso-Level Consequences*, "Journal of Common Market Studies" 2022, vol. 60, no. S1, pp. 26-37.

20 Ibidem, p. 27.

21 T.G. Grosse, *Europa (nie)demokratyczna* [(Un)democratic Europe], „Rzeczpospolita”, 07/04/2021, A8, <https://www.rp.pl/Publicystyka/304079921-Tomasz-Grzegorz-Grosse-Europa-niedemokratyczna.html>.

22 Speech by Prime Minister Mateusz Morawiecki in the European Parliament, KPRM, 19/10/2021, <https://www.gov.pl/web/premier/wystapienie-premiera-mateusza-morawieckiego-w-parlamencie-europejskim>.

## THE FOLLOWING RECOMMENDATIONS EMERGE FROM THE PREVIOUS ANALYSIS

- 1** Polish authorities should focus on disseminating a decentralised vision of European integration, leaving more competencies to national democracies.
- 2** The possibilities for EU institutions to encroach on national competencies should be limited, including a clear separation of EU and national powers. For this purpose, the creation of a chamber of national constitutional judges in the CJEU could be promoted, whose task would be to ensure compliance with the treaties - and therefore the rule of law - by the EU.
- 3** Move towards a model of differentiated integration and a Multi-speed Europe should be facilitated.
- 4** Poland should counteract attempts to further centralise the EU, transfer additional national competencies to the EU, introduce fiscal federalism, and thus incur further common debt and further EU taxes.
- 5** Wide opportunities for unanimous voting should be maintained, especially on matters important to national democracy and sovereignty.
- 6** The Polish authorities should support the introduction of clauses allowing a given country to opt out of the application of EU law to a greater extent if this is consistent with the will of national voters or requires changing national constitutions.
- 7** National constitutions cannot be subject to the principle of supremacy of EU law.
- 8** Poland should remain outside the monetary union.

## **2. MODELS OF EDUCATION AT UNIVERSITIES IN EUROPE AND THE DEVELOPMENT OF SCIENCE FINANCED THROUGH GRANT SYSTEMS - POLAND COMPARED TO EU COUNTRIES AFTER 20 YEARS OF MEMBERSHIP**

PIOTR HAŃCZYC



Over the last 20 years, EU science policy has been developing evolutionarily, and the budget for research and development (R&D) has been successively increased at the expense of other areas, including cohesion policy and agriculture. Poland was a beneficiary of cohesion and agriculture policy. However, it constantly subsidises the EU science budget. The new research funding distribution system is a combination of the already established, well-functioning basic research financing system (European Research Council (ERC)) with the newly created innovation financing system oriented towards great societal missions. A good understanding of the EU research financing system, a system of national grants adapted to the European one and an appropriate work model at universities that makes scientific staff more active – is a must if we want to transform Polish science into a beneficiary of R&D programs financed from the EU budget.

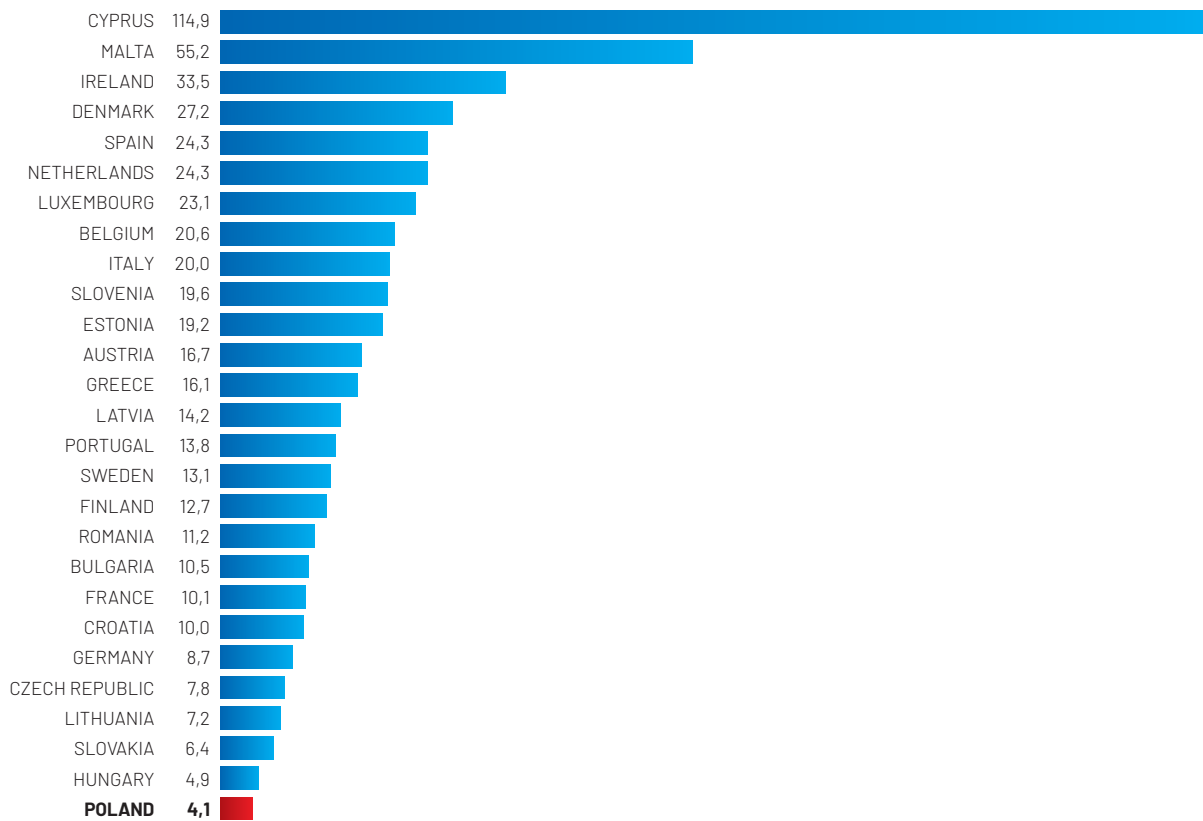
## POLAND COMPARED TO EU COUNTRIES AFTER 20 YEARS OF MEMBERSHIP

**When Poland joined the EU, it did not adopt the Polish system of grants and training of scientific staff to the European model.** Analysing the statistics of the Horizon 2020 framework program for scientific research and innovation implemented in 2014–2020 (and partially Horizon Europe 2017–2022), the backwardness of the Polish model of functioning of scientific staff is visible. Chart 1 shows the number of scientific teams participating in funded projects under Horizon 2020 in relation to the number of research workers in the country. Poland closes the ranking with only 4 research teams per thousand researchers in the country who are involved in projects financed directly from the Horizon program budget<sup>23</sup>.

23 J. Mirosław, A. Roguz, P. Wiktoro, B. Pawlik, M. Feldy, P. Drężek-Kłoczko, M. Czarnocka-Cieciura, *Nauka w Polsce 2022*, Raport, Ministerstwo Edukacji i Nauki 2022.

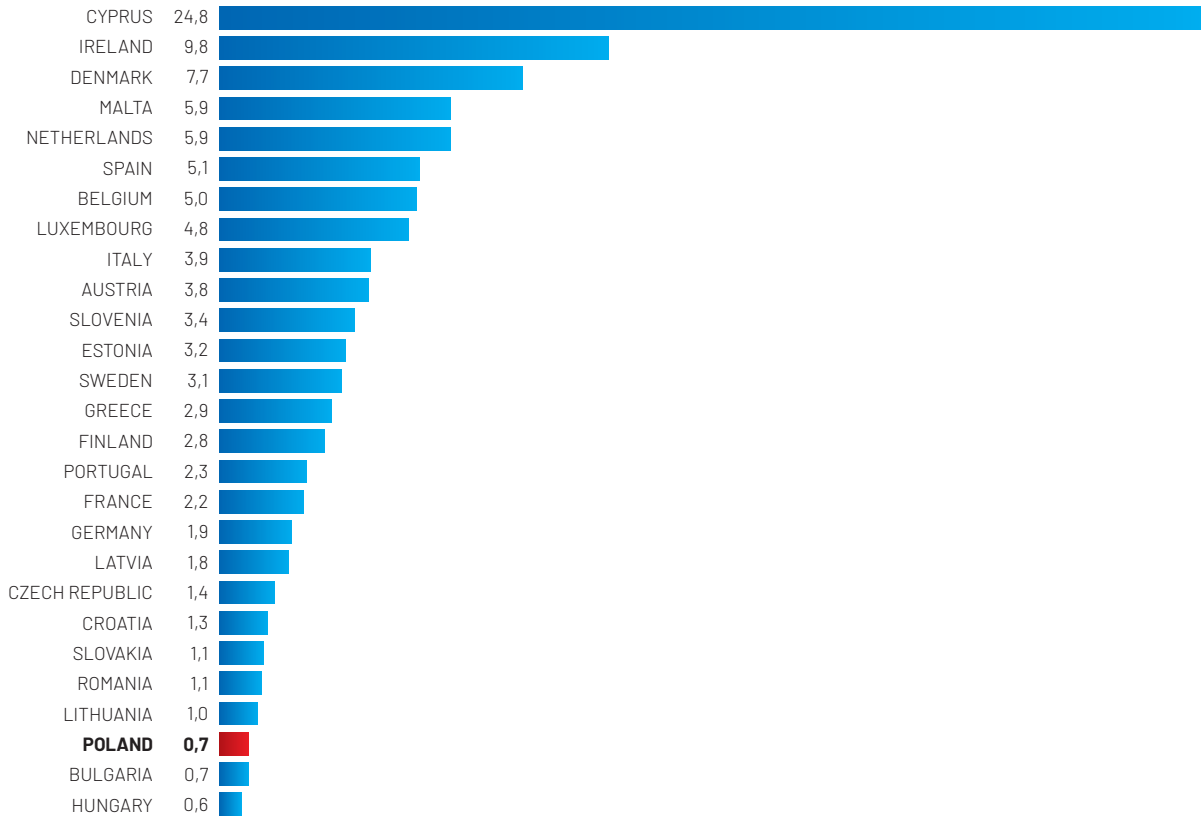


CHART 1. **NUMBER OF TEAMS FROM EU COUNTRIES PARTICIPATING IN FUNDED PROJECTS UNDER HORIZON 2020 AND HORIZON EUROPE IN 2017-2022 PER THOUSAND RESEARCHERS<sup>23</sup>**



The picture from the perspective of the level of funding from the EU framework programs per thousand researchers also shows that Polish scientists are unable to obtain funds for research from the EU budget. In this ranking, Poland was in penultimate place, ex aequo with Bulgaria (Chart 2).

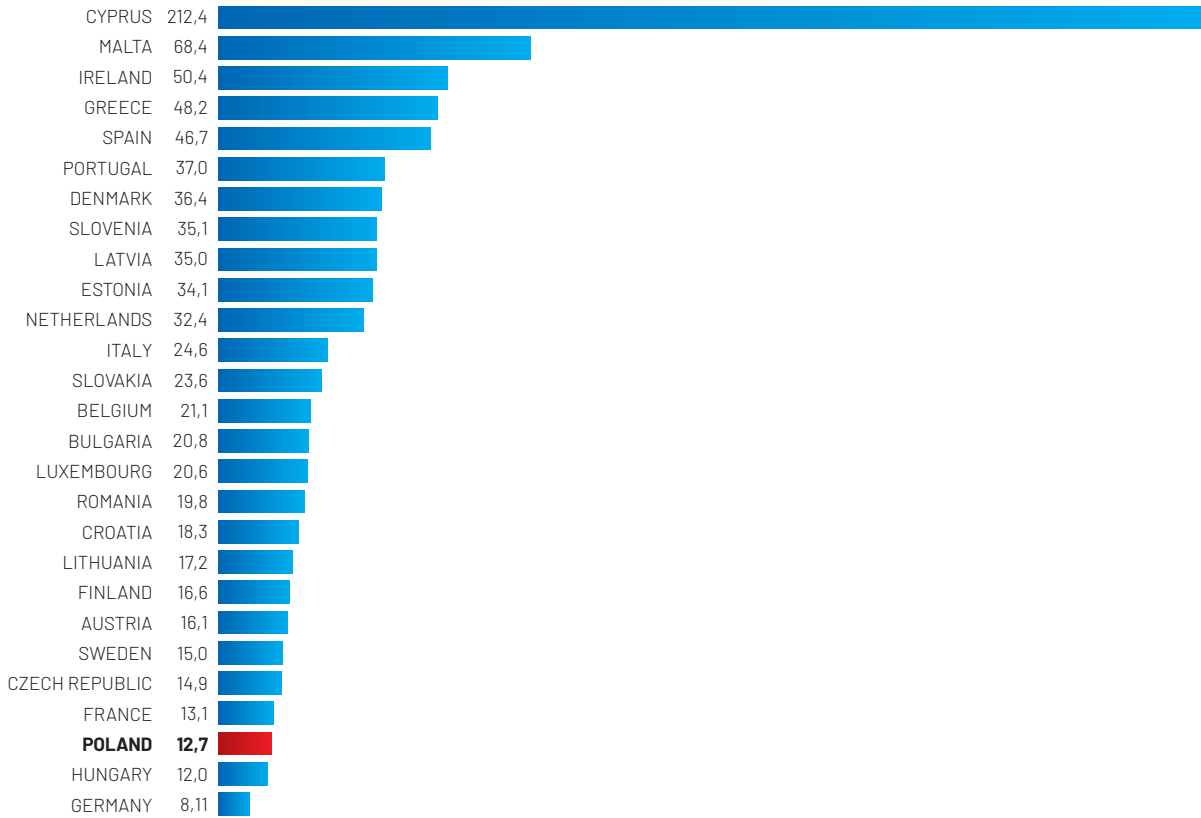
CHART 2. **CO-FINANCING FOR TEAMS FROM EU COUNTRIES PARTICIPATING IN FINANCED PROJECTS UNDER THE HORIZON 2020 AND HORIZON EUROPE PROGRAMS IN 2017-2022 PER THOUSAND RESEARCHERS (IN MILLION EUROS)** <sup>23</sup>



There is also an interesting chart showing the level of co-financing for teams participating in projects financed under the Horizon 2020 program per thousand euros of national expenditure on R&D activities.

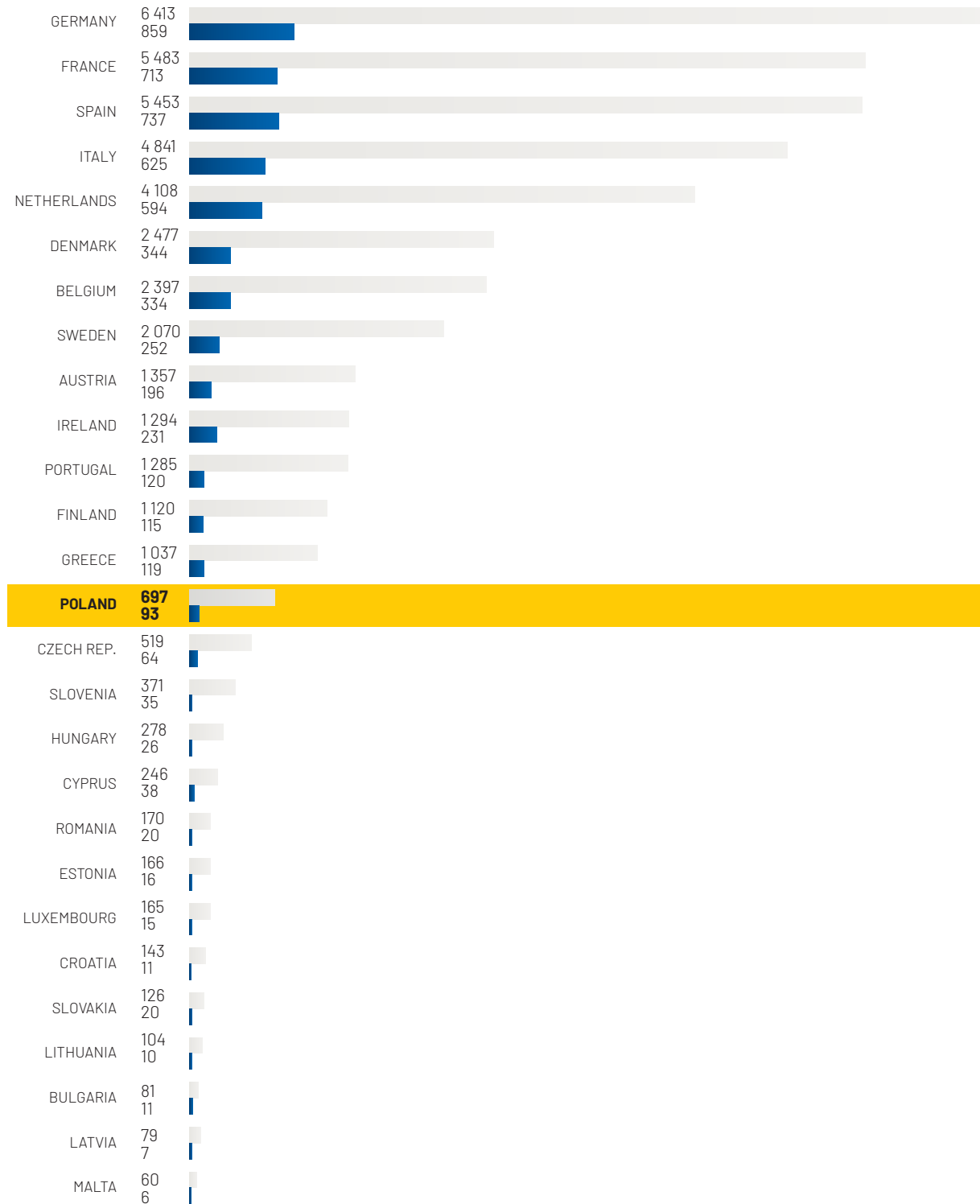
In this ranking, Poland ranks third from the bottom. The latest comparison shows the lack of correlation between the national grant system and the European one. From a practical point of view, these are two different systems that Polish researchers need to understand to effectively obtain research funds. The second conclusion from Chart 3 is that Polish institutions financing science finance research without correlation with EU programs. The lack of area coherence in research topics between Poland and the EU means that national spending on science does not translate into success in research programs funded by the EU budget.

CHART 3. **CO-FINANCING OF TEAMS FROM EU COUNTRIES PARTICIPATING IN THE FINANCING OF PROJECTS UNDER THE HORIZON 2020 AND HORIZON EUROPE PROGRAMS IN 2017-2022 IN THE AMOUNT OF EUR 1,000 OF NATIONAL EXPENDITURE ON R&D ACTIVITIES<sup>23</sup>**



As a result, Poland received 93 million euros for R&D (Chart 4). According to statistics from 2017-2022, the largest beneficiaries were Germans, French, Spanish and Italians. These four countries absorbed more than half of the EU's research and science budget (52% of the total). Poland 1.6%<sup>1</sup>.

CHART 4. **AMOUNT OF FUNDS REQUESTED (BLUE LINE) AND GRANTED (BLACK LINE) TO RESEARCH TEAMS FROM INDIVIDUAL EU COUNTRIES SPECIFIED IN THE HORIZON 2020 AND HORIZON EUROPE PROGRAMS IN 2017–2022 (VALUES IN MILLION EUROS)<sup>23</sup>**



Looking from the perspective of how much a specific country “recovers” from each euro paid to the Horizon 2020 budget, Poland holds the infamous status of the worst country in the EU. We receive back only 1/3 of the money paid to the EU budget for science.

We are also the largest “net contributor” (after deducting funds received in grants) among the countries of the new Union. According to available statistics, we contributed “net” (i.e. after deducting grants obtained) almost EUR 450 million to the “Horizon” program by 2017<sup>24</sup>.

This is the amount that the Ministry of National Education transfers annually to the National Science Center, which finances basic research projects through grants (PLN 1.8 billion).

## MODEL OF FINANCING AND FUNCTIONING OF SCIENTIFIC STAFF IN THE POLISH HIGHER EDUCATION SYSTEM

Based on the above data, it can be seen that the financing of Polish science from national funds is at a much better level than that of Polish scientists.

The domestic scientific community is looking for culprits everywhere but not in its environment. The reasons the community is highlighting include poor mechanisms for distributing EU funds for research in union countries, the migration of the most talented students to foreign universities, many years of isolation due to the communist system and the lack of opportunities to undergo internships at foreign universities.

Systemically, Polish universities constantly emphasize the low level of international cooperation and the lack of good grant offices that can provide comprehensive support for EU projects, both at the stage of preparing applications and their implementation.

After 1989, several attempts were made to reform the universities in Poland. The general goal of these reforms was to come closer to the standards prevailing in highly developed countries, where the economy is based on knowledge and the implementation of new technologies<sup>25</sup>.

Taking into account the statistics presented above (Charts 1, 2, 3), the impact of these reforms should be divided into two components, i.e. systemic and institutional changes in the distribution of funds and the education system for scientific staff.

In the case of systemic changes created by the ministry responsible for science, the transformation of research financing according to the Western model and the expansion of the grant system in Poland were carried out successfully. Assuming the establishment in 2017 of the last institution that designates public funds for scientists, i.e. the National Agency for Academic Exchange (NAWA), it can be noted that **the transformation of the grant system adapted to Western standards took 28 years (counting from 1989) and 13 years after accession to the EU**. Currently, state institutions financing science are logically constructed. Their offer is comprehensive in the context of the needs of Polish science. However, the functioning of these institutions depends on the scientific community, which manages these institutions and allocates

24 B. Paszcza, *Unia Europejska szykuje innowacyjny skok do przodu, z którego Polska może nie skorzystać*, Klub Jagielloński, 16/08/2019, <https://klubjagiellonski.pl/2019/08/16/unia-europejska-szykuje-innowacyjny-skok-do-przodu-z-ktorego-polska-moze-nie-skorzystac/>.

25 A. Abbott, Q. Schiermeier, *After the Berlin Wall: Central Europe up close*, “Nature”, 5/11/2014, pp. 22–25; J. Acedański i in., *Nauka i szkolnictwo wyższe a PKB*, Raport przygotowany z inicjatywy Konferencji Rektorów Uczelni Ekonomicznych, Katowice 2023.

funds. Looking at charts 1, 2, and 3, it is clear that these funds are poorly distributed and do not increase the potential of Polish science in the European scientific arena.

Data from the Ministry of National Education (formerly MEiN) show that the state budget for science and innovation is PLN 6.6 billion in 2021 ((NCN - PLN 1.3 billion + NCBR - PLN 5.2 billion + NAWA - PLN 175 million)<sup>26</sup>. This amount of money is distributed through the grant system.

In addition to the above amount distributed as grants, **the Polish State allocates as much as PLN 16 billion for a statutory subsidy not subject to any competition rules, like it is in the grant system<sup>1</sup>.**

Focusing on the funds available to the Ministry of National Education and additionally deducting the budget for the National Center for Research and Development (NCBiR), which finances only applied and implementation research, approximately PLN 1.5 billion remains for scientific research annually. Assuming that basic research constitutes the foundation for further applied work that has a real impact on the development of high technologies, the above amount should be increased whenever possible but, more importantly, it should be skillfully managed and distributed. A natural source from which funds can be redirected to the grant system are statutory funds. The grant system is the best way to support the creativity of scientists. Taking into account these two forms of distribution of money for research, it is clear that direct financing of scientific staff through statutory funds does not contribute to significant progress of science in Poland. Only the grant system promotes competition and healthy development of research. The success rate in the grant system in Poland (with funds from the state budget) is currently at the level of 10% of all submitted applications, which proves high competition. Such a low success rate should act as an additional incentive for Polish scientists to seek funding from European grants. However, as statistics show, this is not happening. In European Research Council (ERC) competitions, our scientists are still unable to achieve effectiveness in obtaining these funds comparable to the EU average of approximately 14%<sup>27</sup>. Given the ERC statistics, which show the level of Polish science in a negative light, the poor model of scientific work of academic staff is visible. Analysing the results over the years, after Poland acceded to the EU, Polish scientists submitted a total of 2,000 ERC applications, of which 80 received funding (success rate 4%).

ERC announces recruitment in three age categories: up to seven years after defending the doctoral thesis, the so-called ERC Starting - in this case, Poland received an average of 3 grants per year in the years 2007 - 2022. For comparison, Spain, which is a country with a similar population, received an average of 21 grants under ERC Starting. The statistics are similar in the ERC Consolidator recruitment, intended for scientists with seven to twelve years of research experience after defending their doctorate. For 15 years, Poland received on average 2 grants, and Spain 20. In the ERC Advanced call, Poland received on average 1 grant, Spain 13. The constant trends over the years in each age group indicate internal problems in the functioning of Polish science. Analysing statistical data over the years, it is also clear that some countries are improving their effectiveness in obtaining ERC grants. The Dutch and Germans are at the forefront of this<sup>28</sup>.

**The problem lies in the number and quality of applications.** Similarly to the ERC, the same phenomenon is evident in European grants aimed at financing implementation research. Looking at the quantitative parameter and taking as an example one of the programs financing innovative technologies (the so-called

26 Budżet nauki i szkolnictwa wyższego 2021, „Forum Akademickie” [online], 27.07.2021, <https://forumakademickie.pl/sprawy-nauki/budzet-nauki-i-szkolnictwa-wyzszego-2021/>.

27 Kudrycka: Polscy naukowcy powinni prowadzić odważniejsze badania, Polska Agencja Prasowa - Nauka w Polsce, 18/03/2013, <https://naukawpolsce.pl/aktualnosci/news%2C394561%2Ckudrycka-polscy-naukowcy-powinni-prowadzc-odwazniejsze-badania.html>; Bogna Hryniszyn: Nasz wynik w ERC jest po prostu słaby, Rozmawiał M. Karwowski, „Forum Akademickie” [online], 16.01.2024, <https://forumakademickie.pl/sprawy-nauki/bogna-hryniszyn-nasz-wynik-w-erc-jest-po-prostu-slaby/>.

28 Statistics, European Research Council, <https://erc.europa.eu/projects-statistics/statistics>.

“SME instrument”), Poland submitted 46 applications. By comparison, Spain submitted 350 applications<sup>29</sup>. A nation four times less numerous – Hungary submitted 28 applications (data from 2016). Taking Hungary as an example, as a country where there is also a large number of ERC grants obtained: by 2022 – 66 winners, while in Poland the number was 54 winners. Attention should also be paid to the scientific quality of the submitted applications<sup>30</sup>.

The reason for poor results in applying for ERC grants or in calls for innovations lies in the work system of scientific staff in the country. The current level of achievements of Polish scientists in the international arena does not allow us to be optimistic about the successes of Polish science under Horizon Europe programs. **First of all, it is necessary to create an appropriate environment for scientific work at the university level.** The first step is to move from semester teaching to a block teaching model, which will free up the processing capacity of scientists.

In the block model, instead of teaching classes for an entire semester, the researcher and students focus on one subject for a shorter period of time, usually 3 to 6 weeks, exploring a given topic intensively. After completing one block, they move on to the next one, which is led by another scientist. This model of conducting classes operates in France or Sweden. In the block model, there is much greater **concentration of attention** on one topic without being distracted by other subjects. The block model engages staff in a shorter period of time, which allows them to focus on research tasks during non-teaching periods. **Simultaneously** intensity promotes deeper understanding of the material and greater involvement in the educational process. The most important thing, however, is to move away from a rigid teaching load in favour of **a flexible block model that allows planning scientific work.** Another advantage is **the faster adaptation of the course to** changing educational and professional needs, enabling the inclusion of new topics and courses in the curriculum that are consistent with the latest scientific trends.

The Act on Higher Education allows for a flexible approach to teaching tasks. One of the simplest solutions would be the mandatory separation of posts into research and teaching positions. The act created a separate career path for academic teachers. At the same time, the Act left allowed to keep mixed research-teaching positions. So, in practice, it left it to universities to decide how they want to organise science and education issues. And since there is no need to do anything systematically, everything remains as it was and the research staff continues to work under the teaching full-time system. The changes may be forced by a decrease in the number of students, which is related to the upcoming demographic decline. However, it is a slow process. The rhetorical question is whether Polish science can afford another 28 years of restructuring the education model to adapt to the Western culture of scientific research.

29 Latest SME Instrument results: European Commission to invest € 9.1 million in 189 innovative businesses, European Commission Newsroom, 24/10/2016, <https://ec.europa.eu/newsroom/horizon2020/items/35995/en>.

30 A. Rajewsky, ERC info session, ELTE University, 20.10.2022.

CHART 5. **TWO ACADEMIC CAREER PATHS PROVIDED FOR IN THE ACT ON HIGHER EDUCATION, ALONG WITH THE HOURLY WORKLOAD AS PART OF THE TEACHING LOAD<sup>31</sup>**

ACADEMIC POSITION	TEACHING LOAD VS ACADEMIC POSITION	
	RESEARCH AND TEACHING	ONLY TEACHING
RECTOR	30	30
VICE-RECTOR	100	100
DEAN	100	100
DEPUTY DEAN	140	200
CHAIRMAN OF THE RESEARCH DISCIPLINE COUNCIL	140	-
DIRECTOR OF THE DOCTORAL SCHOOL	140	-
PROFESSOR	180	360
ASSOCIATE PROFESSOR	210	360
ASSISTANCE PROFESSOR	240	360
SENIOR LECTURER	-	360
LECTURER	-	360
LECTOR	-	540
INSTRUCTOR	-	540

The second factor, after the systemic organization of work within the teaching load, is the designation of additional funds from the state budget for research for universities and the creation of intra-university competitions. This solution was proposed in Act 2.0. as part of the "Excellence Initiative - Research University" project. The intention of the Ministry of National Education program was to **increase the quality of scientific activities and the quality of education and, consequently, to increase the international importance of the university's activities.**

20 universities entered the first EIRU competition announced in 2019. The applications were assessed by an international team of 15 experts who, during their scientific careers, served as rectors or presidents of European universities, advised their governments on the development of education, and worked for institutions such as the European University Association, the European Innovation Council, and European Research Council.



The University of Warsaw, which took first place in the EIRU competition, receives a subsidy amount increased by 10% (the UW subsidy in 2022 is PLN 912 million, so PLN 91 million was available under EIRU<sup>31</sup>). The University of Warsaw allocates money for **as many as 70 different activities planned under EIRU, which significantly fragments the competition offer and blurs the allocation of funds.**

However, there are no initiatives correlated with EU policy under Horizon Europe and the activities of the ERC and EIC, which focus primarily on risky projects that may bring breakthrough scientific results or implementation of the so-called “high risk - high gain” projects. With an additional pool of money from the state budget of over PLN 480 million provided under EIRU in 2020-2026, it is tempting to create a pilot program encouraging scientists from around the world to conduct research at the University of Warsaw. At the same time, knowing the EU policy guidelines for research can invest in scientists specializing in fields that the EU considers to be priorities. An example of the success of such action is the Nanyang Technological University (NTU) program in Singapore, where prestigious grants of SGD 1 million per year (equivalent to approximately PLN 2.7 million) are awarded for the creation of research teams. Only scientists under 40 years of age can apply for the competition. Therefore, NTU consciously takes a risk because it limits the possibility of applying due to the candidate’s age, and therefore cannot count on the scientist’s extensive experience. However, as can be seen from the world university rankings, NTU has entered the scientific elite in a blink of an eye and is currently ranked 26th in the world<sup>32</sup>.

The financial risk taken by NTU brought tangible benefits and significantly increased the level of research, staff and the quality of discoveries.

In Poland, EIRU funds should be used to prepare an attractive offer encouraging the most talented young scientists from around the world to conduct research and settle in Poland. At the same time, the thematic scope should be strongly correlated with EU science policy.

## CURRENT EU POLICY ON RESEARCH AND DEVELOPMENT

The EU will allocate EUR 95.5 billion for the framework program for research and development in 2021-2027. This is not a significant increase compared to the previous framework program (approx. 15% more), but the priorities of EU policy have changed significantly. The trend was set by Prof. Mariana Mazzucato, who proposed institutional mechanisms designed to solve social challenges through the use of mission-oriented policies. The main goal is to direct innovation towards global challenges to achieve smart, inclusive and sustainable development. EU documents highlight the complexity of societal challenges that require interdisciplinary approaches and the European Union’s unique position to address them thanks to its diverse knowledge base and expertise.

According to Mazzucato and EU politicians, an example of a successful mission that inspired innovation in various sectors and led to many positive technological solutions serving society is the “Man on the Moon” mission. These include the discovery of Teflon and Gore-Tex material.

EU studies highlight the importance of engaging diverse stakeholders, setting measurable goals and ensuring ambitious but realistic innovation activities. Missions should be bold, high-risk, high-gain, inspiring,

31 P. Kieraciński, *Subwencje 2022*, „Forum Akademickie”[online], 26/06/2022.

32 Nanyang Technological University, Singapore (NTU Singapore), Top Universities, <https://www.topuniversities.com/universities/nanyang-technological-university-singapore-ntu-singapore>.

have a broad social impact, have a clear direction, and enable multiple solutions. Public involvement in both the selection and implementation of missions is crucial to ensure their social relevance and support.

The documents provide examples of potential missions, such as achieving 100 carbon-neutral cities by 2030 and creating plastic-free oceans, demonstrating how missions can be defined and structured according to specific criteria. The need for flexibility, proactive management, building internal capacity in public organizations and social involvement to effectively implement the missions set by the EU was also emphasized.

In summary, the EU proposes a thoughtful approach to transforming research and innovation into a tool for solving important societal problems by defining and implementing missions focused on specific social goals, emphasizing that success depends on commitment, cooperation and innovation at many levels of society and the economy.

The conclusions from the presented analysis suggest that although institutionally the grant system in Poland is well constructed, it is not adapted to the new EU model focused on missions. The difficulty of adapting to EU programs means that Poland does not receive funds for research and innovation. As a result, it subsidize significantly the EU budget for research and innovation. The main reason is the outdated model of functioning of academic staff based on teaching hours.

In this study, the author proposes a transition to a more flexible model of block teaching. Additionally, as part of the existing financing of EIRU - research university, grant programs should be created correlated with EU missions, which will attract talented and young researchers from around the world to carry out research in Poland for the development of the country and the EU.

## CONCLUSIONS AND RECOMMENDATIONS FOR POLAND

The study shows the state of Polish science after 20 years of membership in the European Union, focusing on the system of financing scientific research and the model of work at universities. The document summarizes data on the position of Polish science in relation to other member states. Changes in the EU result in a gradual increase in the budget for research and development (R&D), while Poland, as a beneficiary of cohesion and agriculture policy, subsidizes the EU budget for science. The new EU research financing system combines the existing basic research financing system (ERC) with a newly created innovation financing system (EIC), focused on large-scale societal missions. From the perspective of Polish science, it is crucial to understand the EU research financing system, adapt and integrate the national grant system and the work model at universities, so that Polish science can become a beneficiary of R&D programs financed from the EU budget.

The study shows that Poland has not adapted its system of grants and training of scientific staff to the European model, which is visible in the statistics of the Horizon 2020 framework program and partially Horizon Europe. Poland is at the bottom of the ranking of participation in financed projects and in terms of funding per thousand research workers, which indicates the backwardness of the Polish model of functioning of research staff. Moreover, there is a lack of coherence between the national grant system and the European one, which results from different mechanisms for distributing research funds. Polish science is financed without correlation with EU missions, which translates into poor results of Polish scientists in recruitment for research from the EU budget.

As part of the recommendation, the author proposes reforms in the financing model, training of scientific staff and organization of work at universities in order to increase the competitiveness of Polish science in the European arena. The proposals include switching to a block teaching model, separating positions into scientific and teaching positions, and creating internal grant competitions to support risky projects that may bring breakthrough scientific or implementation results.

### **3. EUROZONE: WHO ARE THE WINNERS AND WHO ARE THE LOSERS, AND BY HOW MUCH?**

GRZEGORZ PYTEL



**This paper presents a methodology for calculating and finding out which countries are winners, and which are the losers in the eurozone by comparing their relative competitiveness resulting from having fixed exchange rates. The first chapter is a very brief background of the origin of the eurozone. The second chapter presents selected views of economists on the eurozone. It's not a representative survey. It's a reflection. The third chapter presents a methodology for calculating the comparative competitive advantage of the eurozone countries. The fourth chapter presents conclusions and policy recommendations.**

## **INTRODUCTION: ORIGIN OF THE EUROZONE**

The 1<sup>st</sup> of January 2024 marked the key anniversary in European history. It was the 25<sup>th</sup> anniversary of introducing the euro amongst the 20 nations of the European Union. On the New Year's Day of 1999, the euro was launched.

For the first three years, the euro was operated as a virtual currency. There were no physical coins or banknotes. In practice, the euro was a system of fixed exchange rates between the currencies of countries which were the members of eurozone, and it was also used for electronic payments and accounting.

On 1 January 2002, the physical currencies of the eurozone countries disappeared: the Deutsche mark, French franc, Dutch guilder, Italian lira, Spanish peseta, and others. They all became history.

For the first time in history, a significant part of Western Europe had a common currency, amongst many different and economically very diverse nations. From economically rather stable and inflation-averse north: the Netherlands and Germany, to more economically volatile nations, with currencies regarded as rather weak, south: Italy, Spain and even Greece, which joined the eurozone not on 1 January 1999, but with a two-year delay.

### **WHAT LED TO THE CREATION OF THE EURO?**

After the Second World War, Europe was divided into two spheres of influence: Western Europe and Eastern Europe. Western Europe, broadly speaking parts of Germany which were occupied by the United States, United Kingdom and France, and countries to the west were under threat from the Soviet Union, which at that time occupied or controlled most of Eastern Europe. Furthermore, Western European nations wanted to stop the cycle of reoccurring wars amongst them, which had been the case for several centuries.

The wars in past centuries were driven by economic ambitions: quests for more land and more resources, most notably between France and Germany. To end such conflicts in Europe, the idea of cooperation rather

than confrontation prevailed. This was the idea to turn two staunch adversaries, France and Germany, the two biggest economies on the mainland, into cooperating countries on which the future success of a common market in Europe could be built and secure lasting peace.

The Schuman Declaration of May 1950, which laid the foundation for the organisation which in the future evolved into the European Union stated: *“Solidarity in production will make any war between France and Germany not merely unthinkable, but materially impossible.”*

On 18 April 1951, the Treaty of Paris was signed. On 23 July 1952, the European Coal and Steel Community (ECSC) was born. It created a common market for Western European coal and steel industries.

With the development of ECSC, the idea and concepts of economic and monetary union (EMU) started being pursued in the late 1960s.

## **EUROPEAN ECONOMIC COMMUNITY**

In March 1957, six member states of the ECSC, Belgium, France, Italy, Luxembourg, the Netherlands, and West Germany, moved into a new arrangement. They created a customs union to boost trade, called the European Economic Community (EEC). The other seven countries became members of the EEC before the Maastricht Treaty of 7 February 1992 established the European Union (EU) on 1 November 1993: United Kingdom, Ireland and Denmark (1973), Greece (1981), Spain and Portugal (1988), and finally – as a result of the unification of Germany – East Germany (1990).

It is the customs union of the transactional market in Western Europe, post-war trade and development, in the 1950s and 1960s which set up the scene for the Maastricht Treaty. The idea of the founding fathers of the EEC and the EU was that a single market and common interests would override national interests. However, politicians in individual member states had other, sometimes conflicting, ideas.

Charles de Gaulle, France’s President in the early days of the EEC, was very supportive of a common market as a tool to further France’s national interests. However, he was opposed to supranational ideas of greater political and economic integration in Europe. He was also opposed to the United Kingdom joining the EEC. This puts the development of future European integration into perspective.

Whilst the former British Prime Minister, Sir Winston Churchill, the leader who led the Brits to victory during the Second World War was a strong proponent of the idea of European integration and, indeed, called for a ‘United States of Europe’, his successors were more sceptical about ever-growing European integration. The United Kingdom didn’t join the EEC when it was enacted. Subsequently, it could not join the EEC due to de Gaulle’s opposition, as long as de Gaulle had been the President. De Gaulle saw the EEC as a means of France’s special relationship with the emerging economic power, West Germany, and didn’t want the UK to benefit from the same arrangement.

Thus, the country’s particular interests always played a key role in European politics even when the countries in Europe were moving towards ever closer integration. The common market supports the development of trade. However, different countries had differing economies. And they, especially the most powerful ones, France and Germany, wanted to use such differences for their advantage. This was possible as all EEC countries run their own different fiscal and monetary policies.

## THE BIRTH OF THE EURO

The currency exchange rate stability after the Second World War didn't last long. As diverse European economies had different dynamics, the volatility of the currency markets started destabilising the common agricultural policy, a main pillar of the ECSC and the EEC. This led to the launch of the European Monetary System (EMS) in 1979.

The EMS may be deemed as a quasi-single currency, a precursor to the euro. The EMS imposed upon the EEC participating states to run their policies to keep the exchange rate of currencies within a band, thereby minimising the volatility of exchange rates. This system worked very well for over a decade.

In 1992, during the presidency of the European Commission by Jaques Delors, the governors of the central banks of the EEC, presented a report, 'Delors Report', on how a currency union can be achieved in the EEC. This move was proposed to address the assessment that the EEC enhanced trade among the nations. However, the benefits of this trade were estimated to be even less than one per cent of national income.

Delors led the committee which researched the feasibility of enacting a single currency, which would integrate the markets of the EEC states. The key obstacle already identified then was the insufficient coordination of fiscal policies to support a single currency. Nevertheless, this didn't stop Delors from producing the recommendations to create a single currency and the European Central Bank as a part of the Maastricht Treaty. It was signed on 7 February 1992 and became effective on 1 November 1993.

As a result, on 1 January 1999 a 'virtual' single currency – based on fixed exchange rates of currencies of participating countries – was born. On 1 January 2002, a physical single currency, the euro, went into circulation replacing the currencies of Germany, France, Belgium, the Netherlands, Luxembourg, Ireland, Spain, Portugal, Greece, Austria, Italy, and Finland. Subsequently, other eight countries joined: Slovenia, Cyprus, Malta, Slovakia, Estonia, Latvia, Lithuania, and Croatia.

## EURO – SUCCESS OR FAILURE, OR A MIXED BAG?

A common currency, the euro, was effectively a risk transfer from individuals and firms who were doing transactions between different currency systems, and thereby they had to bear exchange rate risk, especially in the long-term trading arrangements, onto entire economies. The entire economies of the eurozone, or rather their taxpayers, started bearing this risk. This risk was not immediately visible to the public. The obvious benefit of a common currency is the reduction of transaction costs. There were some estimates that the introduction of the euro would lead to savings of around one per cent of the EU Gross Product.

From an operational perspective, the euro has been a success. A new, single currency was introduced in countries with over 300 million population. The European Central Bank in Frankfurt, governing the euro monetary policy, was established. Practically overnight, thanks to Germany's dominance in the international trade markets, the euro became the second biggest global trading currency behind the US dollar. The head of the European Central Bank remarked: *"Issuing the world's second most important currency has given us greater sovereignty in a turbulent world"*<sup>33</sup>.

33 C. Michel, C. Lagarde, U. von der Leyen, *Euro at 25: the value of unity in a changing world*, December 2023, <https://www.consilium.europa.eu/en/press/press-releases/2023/12/30/euro-at-25-the-value-of-unity-in-a-changing-world/>.

However, the assessment of the eurozone is more subtle. Three prominent economists, Robert Mundell, Richard Cooper, and John Williamson expressed their views on the economic efficiency of the eurozone.

## THE CONCEPT OF OPTIMUM CURRENCY AREA

In his paper, Jeffrey Frankel summarised Robert Mundell's concept of optimum currency area:

*"Since Mundell (1961) first developed the concept of an optimum currency area, a vast literature has been developed in this area. This literature includes classic contributions by McKinnon (1963) and Kenen (1969). Recent surveys are available in Tavlas (1992) and Bayoumi and Eichengreen (1996). Much of this literature focuses on four inter-relationships between the members of a potential OCA [Optimum Currency Area]. They are: 1) the extent of trade; 2) the similarity of the shocks and cycles; 3) the degree of labor mobility; and 4) the system of fiscal transfers (if any). The greater the linkages between the countries using any of the four criteria, the more suitable a common currency."<sup>34</sup>*

Clearly, even now, meeting conditions 2) and 4) by the countries in the eurozone, with such diverse economies and without a common fiscal policy in the eurozone is bound to remain problematic, favouring larger and less risky economies, the rich North, which are more capable of absorbing shocks. The more volatile and more risky economies of the eurozone, the poorer South, seem to be destined to keep playing a catch-up game.

## THE ROLE OF CENTRALISED FISCAL POLICY

In his paper, Richard Cooper:

*"Eleven European countries have now joined together in monetary union with a common currency and a common monetary policy. Whether a group of economies should form a monetary union depends upon how closely it resembles an optimum currency area. In general, an area where prices and wages are flexible or where labour moves freely or where there is a centralised fiscal policy may be viewed as an optimum currency area. However, the euro zone does not appear to meet any of these conditions"<sup>35</sup>.*

It's precisely the lack of a centralised fiscal policy among the eurozone countries that appears to be behind the process of rich and less risky economies getting richer (Germany, the Netherlands), the so-called rich North, whilst less rich and more risky economies (Greece, Portugal and even Italy) cannot keep up with them.

It's not the case that Cooper didn't see the benefits in having a single currency, or in minimising the fluctuations of currency exchange rates. However, economies must meet certain preconditions for such arrangements to be successful, as discussed by Cooper, concerning Optimal Currency Areas (ie. the economic factors that make a single currency successful) and Fixed Exchange Rates. While not necessarily advocating for a single currency, he did analyse the potential benefits of a more stable exchange rate system.

## THE NEED OF POLITICAL STABILITY

John Williamson made another argument about the effective economic viability and stability of the Euro. He wrote:

34 J.A. Frankel, A.K. Rose, *The Endogeneity of the Optimum Currency Area Criteria*, National Bureau of Economic Research, Working Paper 5700, August 1996.

35 J.C.B. Cooper, *European Monetary Union and Optimum Currency Areas*, "Journal of Interdisciplinary Economics" 2000, vol. 11, issue 3-4.



*“Cohen is right to argue that widespread confidence in the future value of money depends on both political stability and being able to trust the country’s authorities not to tolerate inflation. It is in the dimension of political stability that recent travails in the euro area have been particularly damaging, since all the members of the euro area, and certainly their collectivity, can no longer be regarded as politically stable<sup>36</sup>”.*

This combined, with earlier considerations of the lack of a common fiscal policy among the eurozone countries, different risk profiles and volatility, and hence different business cycles, weakens the euro as a currency and makes it less credible as a reserve currency.

## **SINGLE CURRENCY: WINNERS AND LOSERS**

Without meeting the criteria of an optimum currency area, being additionally weakened by political instabilities, a single currency will be weak. But how does it translate for the individual economies that share a single currency, like the euro in the eurozone? Economies with strong exports, a positive trade balance, and a weaker currency are more competitive in the international markets. (Indeed, it was an unannounced but long-standing China policy to weaken its currency to boost exports, which was the subject of protest from other countries such as the United States.) Weaker economies, riskier and more volatile, must manage their business with a currency stronger than it would be their own currency, reflecting their strength of the economy. They are becoming less competitive in the international markets.

Thus, a single currency, such as the euro, plays an averaging role with respect to currency strength for its individual member states. Stronger economies benefit from a somewhat weaker currency, whilst weaker economies lose out because of too strong a currency.

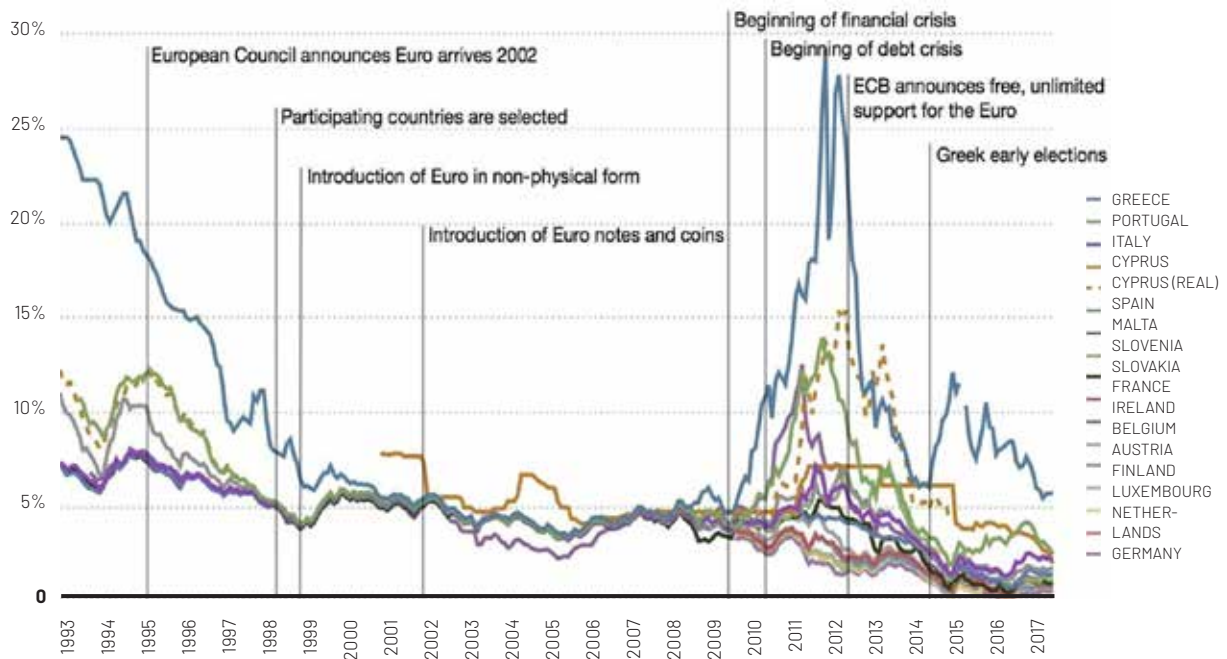
Before the euro was introduced, one of its key selling points was a uniform bond market for stronger and weaker economies. I.e. that weaker economies would be able to borrow at the same interest rate as stronger economies, as they would all be borrowing against the same interest set by the European Central Bank. This ignored the fact that financial investors also factor individual countries’ risks into their lending rates.

Therefore, riskier, i.e. typically poorer, countries of the eurozone have to borrow at higher interest rates than less risky, i.e. typically richer, countries. This, combined with too high value of the euro for poorer countries, and too low value of the euro for richer countries, is a double whammy, a growth trap which poorer countries experience. As the history of the eurozone shows, this makes it practically impossible for them to catch up with richer, less risky countries.

The graph below, which shows the bond yield of countries in the eurozone. It paints a clear and accurate divide between the rich North and the poor South.

<sup>36</sup> J. Williamson, *The Dollar and US Power*, Peterson Institute for International Economics, October 2012, <https://www.piie.com/sites/default/files/publications/papers/williamson20121002.pdf>.

GRAPH. 6. **SECONDARY MARKET YIELDS OF GOVERNMENT BONDS WITH MATURITIES OF CLOSE TO 10 YEARS<sup>37</sup>**



It is the aim of this paper, to show a methodology of estimating who is a winner and who is a loser, and by how, in the eurozone, as a result of the introduction of the Euro.

## METHODOLOGY FOR ESTIMATING COMPARATIVE COSTS AND BENEFITS, PER COUNTRY, OF BEING A EUROZONE MEMBER

The challenge of calculating the costs and benefits of a eurozone membership is choosing metrics which let us do representative measurements and comparisons. It is also about recreating an alternative reality that would have existed if individual member states of the eurozone had retained their old currencies and had their own monetary and fiscal policies.

To compare the costs and benefits of being a eurozone member, we use the methodology developed to calculate inflation targets<sup>38</sup>. We calculate the comparative competitiveness of countries considering their inflations and risk profiles, whilst knowing that they share the same currency (ie. the exchange rate is fixed). This approach was developed in response to Yanis Varoufakis' (ex-Finance Minister of Greece) inquiry:

<sup>37</sup> Based on the European Central Bank, Wikipedia (<https://en.wikipedia.org/wiki/Euro>).

<sup>38</sup> G. Pytel, *Methodology of calculating inflation targets*, Raport, Instytut Sobieskiego, 12/12/2022, <https://sobieski.org.pl/en/methodology-of-calculating-inflation/>.

*"For a country like Greece, where its debt is in an - effectively - foreign currency whose exchange rate with the 'domestic' one is permanently 1-for-1, an inflation rate that diverges from that of (Say) Germany means a permanent loss of competitiveness."*

## WE START WITH THE FOLLOWING OBSERVATIONS:

1. Permanently different inflation rates in any two countries in the eurozone are unsustainable. Otherwise, a country with permanently higher inflation than others, as a trend, would price itself out of doing trade. A growing price gap would keep increasing to infinity at an exponential rate. Hence, whilst countries in the eurozone may have different inflation rates at any period, in the long term their inflation rates must, on average, converge, to avoid such price divergence to infinity.

2. Hence, **for all countries in the eurozone to maximise their growth potential and avoid internal shocks of some countries being priced out of doing competitive trade**, the rate-of-risk measure of loss - which we measure as Damodaran's Equity Risk Premium - must average as a trend to be the same for all countries and must be equal to inflation.

3. In 2021, 4.24% was the lowest Equity Risk Premium in all eurozone countries and 2% was the inflation target. Therefore, the eurozone is designed not to maximise the growth potential of any of its members. By design in the eurozone, providers of capital get a greater proportion of the share of wealth created than providers of labour. And the higher the risk - measured as Equity Risk Premium - the greater the share of wealth gained by capital providers. So more risky countries in the eurozone have a greater wealth gap between capital providers and labour providers. If we consider this as an indicator of internal social inequalities of countries, this explains well why richer and less risky eurozone countries - the rich North - appear to be more socially equal than riskier eurozone countries of the poor(er) South. This inequality is also a result of the eurozone design.

We created a spreadsheet tool<sup>39</sup> with several tables which allow us to analyse what happened in the eurozone in 2021. It allows us to compare competitiveness amongst the eurozone countries and establish who are winners and losers in the eurozone, and by how much, in terms of a proportion of their GDP and absolute figures (in US dollars). Whether it is indicative of what has been happening in the eurozone since its inception is another matter. But it is not unreasonable to assume that it may well be the case. As we are using holistic indicators: inflation and Equity Risk Premia, our analysis is not affected by different characteristics of tradable vs. non-tradable goods and services.

- TABLE A and TABLE B are connected. In TABLE A we can select a country (from the drop-down list) in the first row which we want to compare to the country selected (from the drop-down list) in the second row. TABLE A gives us results for both countries. The calculation of the Bubble /Contraction is a direct application of the formula which we derived in Chapter VII of the paper<sup>40</sup> (page 24):

$$gr = \frac{-(i - MGr - 1) + \sqrt{(i - MGr - 1)^2 + 4l(MGr + 1)}}{2} - 1$$

39 Euro winners and losers, [https://docs.google.com/spreadsheets/d/1zwcw3lFHB4CKEA25C3KPR3\\_zLyGF-HQKQ/edit?usp=sharing&oid=101174271094747408443&rtfpof=true&sd=true](https://docs.google.com/spreadsheets/d/1zwcw3lFHB4CKEA25C3KPR3_zLyGF-HQKQ/edit?usp=sharing&oid=101174271094747408443&rtfpof=true&sd=true).

40 G. Pytel, *Methodology of calculating inflation targets op. cit.*

In TABLE B we benchmark the country in the first row to the country in the second row of TABLE A. I.e. we subtract the inflation and risk, respectively, of the country from the second row from the inflation and risk, of a country from the first row of TABLE A (treat the second country as the benchmark for inflation and risk). Then we apply the aforementioned formula to these results and the growth data of the country from the first row of TABLE A. **The results in TABLE B tell us how much the country in the first row of TABLE A gained or lost in its GDP because its inflation and Equity Risk Premium were different from the country in the second row of TABLE A. This tells us which countries benefited or lost in terms of their GDP compared to other countries in the eurozone.**

To answer Yanis Varoufakis' inquiry, in the example below we show that Greece lost 5.97% of their GDP, ie. 12.64 billion US dollars because its inflation and Equity Risk Premium were different from Germany's, (under the single currency). Using the tool, we can compare any two eurozone countries.

- If we consider inflation and Equity Risk Premium (TABLE D) as joint indicators of competitiveness - ie. indicators which show whether investors are willing to make positive investment decisions - then **the results in TABLE B show us the relative competitiveness of all countries in the eurozone.**

A							
2021 COMPARISON	RISK / RATE OF LOSSA (I) I.E. EQUITY RISK PREMIUM	INFLATION (i)	GDP GROWTH (MGr)	GDP [IN BILLIONS USD]	BUBBLE / CONTRACTION [%]	VALUE OD BUBBLE / CONTRACTION [IN BILLIONS USD]	OPTIMAL GROWTH IF THERE WAS EQUITABLE SHARE OF WEATH I.E. I=i
GREECE	7,80%	0,60%	8,30%	\$ 211,65	-6,74%	\$ -14,27	15,04%
GERMANY	4,24%	3,20%	2,90%	\$ 4 230,17	-1,00%	\$ -42,27	3,90%

B							
VALUE OF RELATIVE GAIN/ LOSS OF COMPETITIVENESS OF GREECE VS GERMANY IN PERCENTAGE TERMS OF GDP AND IN US DOLLAR, AS A RESULT OF THE SINGLE CURRENCY							
	3,56%	-2,60%	8,30%	\$ 211,65	-5,97%	\$ -12,64	

<b>F</b>		
	COUNTRY	COMPETITIVENESS MEASURE: BENCHMARK TO THE LEADER
	Estonia	0,00%
	Lithuania	0,04%
	Luxembourg	0,30%
	Germany	0,60%
	Netherlands	0,99%
	Belgium	1,20%
	Austria	1,39%
	Latvia	1,80%
	Finland	2,08%
	France	2,19%
	Ireland	2,24%
	Slovakia	2,34%
	Spain	2,40%
	Slovenia	3,00%
	Malta	3,95%
	Cyprus	4,04%
	Italy	4,14%
	Portugal	4,84%
	Greece	6,96%

<b>D</b>		
	COUNTRY	EQUITY RISK PREMIUM
	Germany	4,24%
	Luxembourg	4,24%
	Netherlands	4,24%
	Austria	4,63%
	Finland	4,63%
	France	4,73%
	Belgium	4,84%
	Estonia	4,94%
	Ireland	5,08%
	Lithuania	5,08%
	Malta	5,08%
	Slovakia	5,08%
	Latvia	5,43%
	Slovenia	5,43%
	Spain	5,82%
	Portugal	6,12%
	Italy	6,42%
	Cyprus	6,71%
	Greece	7,80%

- Whilst Estonia didn't maximise its growth considering its inflation and Equity Risk premium - we can check that it was quite close to it - it had the smallest contraction factor, 0.42%, thereby performing the best in the eurozone. **The TABLE F below benchmarks all eurozone countries' performance to Estonia's. I.e. what Estonia's GDP gain was over other eurozone countries.** It's not about how much wealth was transferred between two countries which are compared, but how much a country which is benchmarked gained or lost in GDP, because of the difference in inflation and Equity Risk Premium from the country it is benchmarked to, in this case it is Estonia.

It follows that a natural trading strategy for any country is to be open to free trade with higher-risk countries and be very careful with opening to free trade with lower-risk countries (eg. opening to trade in areas where a riskier country has a competitive advantage over a less risky country: no wonder so many risky countries oppose globalisation, as their conduct makes perfect economic sense).

- With an exception for the Baltic States, Estonia, Lithuania and Latvia, this is clearly in line with Equity Risk Premium data:

**- This shows that the Baltic States compensated for higher risk by having higher inflation.** However, the Baltic States are still developing economies with some distance to match prices in countries such as Germany or the Netherlands.

The table (TABLE H) on the left shows the purchasing power parity in the eurozone in 2021 benchmarked to Germany. This shows the slack for having higher inflation for countries with lower prices.

- The Baltic States are very small economies surrounded by very supportive and rich Nordic countries. So, whilst the Baltic States performed well, to maintain such good performance, they must achieve lower Equity Risk Premia in the future, since - as pointed out above - permanently higher inflation is not sustainable to keep compensating higher risk. And if they don't manage to lower their risk, their growth will suffer. That is, in such a case the Baltic States may move down the list towards Slovakia, Slovenia, Portugal or even Greece. Or they must achieve a lower risk to join the top performers: Luxembourg, Germany, and the Netherlands.

Our analysis shows the existence of the rich North - poor(er) South divide of the eurozone and the fact that the eurozone is managed for the benefit of the countries with the lowest Equity Risk Premia, the rich North, to the detriment of the riskiest countries, the poor South (because of the inflation target is set below the lowest Equity Premium of any in the eurozone country). A solution would be for the eurozone countries with the highest Equity Risk Premia to get them lowered by lowering their risks to the level of the lowest-risk countries.

This justifies quantitatively Oliver Hart's observation that the eurozone was a "mistake" because the countries weren't "homogeneous" enough<sup>41</sup> Our analysis boils down this lack of homogeneity to the issue of risk of doing business, measured as Equity Risk Premium.

**Generally, our model shows that the eurozone as it is, is a growth trap for countries with a higher risk of doing business.** Permanently higher inflation to balance higher risk - in a single currency area - would price any country out of trade as other countries would keep becoming (infinitely) cheaper. This would kill producing or doing anything that may be brought from a country with a lower inflation. Keeping inflation lower to stay competitive on prices in higher-risk countries strangles these countries' economies by contracting their economic growth.

41 C. Rodriguez, *Nobel economics prize winner: 'The euro was a mistake'*, Euractiv, 9/12/2016, <https://www.euractiv.com/section/euro-finance/news/economic-nobel-prize-winner-the-euro-was-a-mistake/>.

COUNTRY	PPP COMPARED TO GERMANY
Lithuania	0,62618084
Latvia	0,682861
Slovakia	0,72874494
Estonia	0,73819163
Greece	0,73954116
Slovenia	0,76383266
Portugal	0,77192982
Malta	0,79487179
Cyprus	0,82591093
Spain	0,84210526
Italy	0,88259109
France	0,97840756
Germany	1
Belgium	1,00269906
Netherlands	1,04048583
Austria	1,04048583
Ireland	1,06207827
Finland	1,12010796
Luxembourg	1,14844804

## CONCLUSIONS AND RECOMMENDATIONS

The eurozone, with its too low inflation target of 2%, ie. below the risk of doing business, is designed to benefit the richest countries most (as it happens these are the countries with the lowest Equity Risk Premia) and, in practice, it keeps strangling economies of poorer countries in the eurozone (as it happens these are the countries with the highest Equity Risk Premia).

Open trade and single currency create an economic asymmetry whereby in the long term, there will be net transfer of wealth from higher-risk countries to lower-risk countries. Such transfers may be mitigated by higher inflation in higher-risk countries. But such asymmetry of inflation, when there is an open trade, is a growth trap.

**Systemically, having inflation below the risk of doing business in the eurozone countries created a wealth transfer mechanism: from the riskiest countries (ie. poorer countries, poor South so to speak), to less risky countries (ie. richer countries, rich North) and then to the richest capital providers (eg. large corporations, offshore investors, the richest people in the world).**

**The Eurozone as it is today, is a recipe for a permanent divide between the rich North (lower risk) and the poor South (higher risk).**

With the present design, the eurozone will be the cause of economic instability also in the European Union. It will ensure the existence of what's popularly called a divide between rich North and poor South in the eurozone.

To mitigate such instabilities, the eurozone needs a redesign. This may be in the form of:

- introduction of common fiscal policy amongst the eurozone countries, and/or
- introduction of risk-spreading mechanisms amongst the eurozone countries, to ensure that Equity Risk Premia for all the eurozone countries are equal, and
- the inflation target should be equal to the risk of doing business (whilst ensuring structural homogeneity in the eurozone).



# 4. THE ECONOMICS OF THE GREEN TRANSFORMATION

MIROSŁAW PANEK



**It is not certain that decarbonisation will stop global warming, if only because it will be limited to developed countries. The new technologies it comprises are immature for mass deployment, and the huge costs of the green transformation will be destructive for the economies of the countries implementing it. In this situation, the strategy of waiting until the technologies are refined and become cheaper, or until the perception of the fight against global warming changes, is the easiest way to minimise losses, since staying completely on the sidelines is not possible. For Poland, the main challenge is to provide cheap energy and avoid destabilisation of the energy system.**

Climate change in Earth's history is not unusual. For some time now, there has been growing concern about observations indicating that the climate has been warming for the past several decades or a hundred and several dozen years, although the time scale appropriate to study climate changes should be much longer than a few decades. The European Commission has proposed a set of measures, called the Green Deal, for the EU to achieve climate neutrality by 2050 to help stop warming. Other developed countries are considering or are already implementing similar moves, and we can talk more broadly about the green transformation.

It is impossible to avoid raising two important issues:

- are the causes of global warming anthropogenic or natural?
- can the introduction of the Green Deal stop global warming?

However, some conclusions can be drawn regardless of the preferred answers to these questions.

Let's acknowledge that most politicians in developed Western countries actively support the green transformation, and a significant part of their voters accept it. Politicians' motive is most often to do what will ensure their victory in the next elections. Voters, in turn, believe that they are guided by rationally justified self-interest. However, they are often subjected to significant media pressure, which also in this case deserves a separate analysis.

The main goal of the green transformation is to stop global warming, and the main means of achieving this is to reduce greenhouse gas emissions into the atmosphere, especially carbon dioxide. CO<sub>2</sub> is created when burning coal and hydrocarbons, so it is necessary to first reduce and then eliminate such fuels, i.e. decarbonise. Other greenhouse gases emitted mainly by agriculture - methane CH<sub>4</sub> and nitrous oxide N<sub>2</sub>O - are less important, but agriculture is also pilloried.

Let's take a closer look at some of the changes necessary for decarbonisation to be successful.

Much of the electricity is generated in power plants fired with coal (hard coal or lignite), natural gas or oil. It is necessary to replace them with other methods of generating electricity. The construction of nuclear power plants, which are emission-free in principle is not favoured, and photovoltaics and wind farms are in the lead. Using the power of the sun and wind to generate electricity is a solution considered obvious, but despite its simplicity, there are two significant problems with it. Firstly, these are distributed resources of low power, not like classic power plants, with great power and few locations. Secondly, their work is unstable because it depends on variable wind strength and cloud cover. This means the need for a completely different organisation of the power grid and provision of reserve power sources in case of clouds and lack of wind. Moreover, in our latitudes, photovoltaics practically do not work during several winter months (low angle of incidence of sunlight and short days).

Significant investments are necessary to expand the power grid to adapt it to the fact that power resources will be many and of low capacity, and besides, where so far there were only consumers (households), producers will often appear (solar panels on the roof). A solution to the problem would be distributed energy storage facilities, so that electricity generated beyond the momentary needs could be saved for another time of the day, for example, and not sent to the grid, but at present such storage facilities are too expensive. The invention of more efficient storage facilities would reduce the costs of rebuilding the power grid, but the greatest benefit would come from the invention of large-capacity storage facilities that would allow the energy generated by photovoltaics in the summer to be stored until the winter.

Transportation is a significant emitter of CO<sub>2</sub>. Replacing combustion cars with electric ones will help eliminate liquid hydrocarbons. The utility values of the latter are still inferior to combustion cars, in addition to being more expensive than them. Their emission-free and environmentally friendly nature is questionable as long as the electricity for charging them is largely generated from coal. Their main problem, however, is that batteries are too heavy and not capacious enough. As a result, electric cars are heavier than combustion cars, which increases dust emissions from tyres, discs and brake pads that wear out more quickly. The situation will change when it is possible to produce batteries with a much higher capacity per unit of mass. Without such new batteries, there is no point thinking about electric trucks. There is no vision of replacing liquid fuels in air and sea transport.

Crude oil is also an important raw material in the chemical industry, CO<sub>2</sub> is emitted by cement and steel plants. Where CO<sub>2</sub> is a by-product, it can be captured and stored underground so that it does not escape into the atmosphere. Capture and storage technologies are still being developed and are very expensive.

Hydrogen could be used as a fuel in many cases. Not every hydrogen production technology is emission-free - the ideal is hydrogen obtained by electrolysis using electricity from renewable sources. This could be an interesting solution to the problem of temporary overproduction of electricity from wind and solar. When photovoltaic cells or windmills produce more than consumers currently need, this electricity could be used to produce hydrogen. Unfortunately, due to the lack of satisfactory technologies for storing and transporting hydrogen through pipelines, its effective use as a fuel remains a question of the future.

Coal and natural gas are commonly used to heat buildings. Eliminating them from this role creates the need to switch to electric heating with the possible use of heat pumps. This, in turn, means a significant increase in demand for electricity, mainly when photovoltaics do not work, i.e. in winter. Regardless of the heat source, it is advisable to reduce its losses through energy-saving technologies in construction and insulating existing buildings.

To sum up, in the green transformation we are not dealing with revolutionary inventions such as railways, airplanes, radio, computers or mobile phones. The guiding line is to eliminate hydrocarbons and replace some methods of generating electricity with others. Technical solutions for this purpose are already known. But they still have many shortcomings. This is a completely normal situation in the process of technical progress - new technologies must be refined to be widely adopted. Prototypes do not always work properly, the first units sold are expensive and sometimes unreliable. It takes private investors willing to bear the risk of financing new technologies and time for them to achieve market success.

## WHAT IS MISSING FOR A SUCCESSFUL TRANSFORMATION?

For now, we lack energy storage, more efficient car batteries, reconstruction of power grids, cheap technologies for producing, storing and pumping hydrogen, and low-cost CO<sub>2</sub> capture and storage technologies. Some solutions still require many hours of work in laboratories, others can be implemented in a pilot form, several of them (photovoltaic cells, windmills, heat pumps) have already reached maturity, electric cars are not far from it.

The very idea of replacing one energy sources with others is not controversial. Nor is there anything unusual about the need to improve the existing technologies needed to accomplish this replacement. What is unusual about the Green Deal is the administrative push for the large-scale implementation of solutions that are not yet ready for this stage. So far, innovations and inventions have come into common use when they allowed for cost reductions compared to old solutions or offer new capabilities. In the Green Deal so far, photovoltaics and wind farms are subsidised, while the coal power industry is burdened with additional fees (ETS), and coal mines are to be closed. Electric cars – their buyers receive subsidies and a date has been set after which the production of combustion cars will be banned. Home heating – it is practically forbidden to install coal or gas boilers. Thermal retrofitting of houses – under threat of a ban on renting and selling them.

The energy transformation does not offer any new possibilities – there will be electricity in the socket as there was before, cars will run, only with different engines, apartments will be heated. There is no indication that the new solutions will be cheaper than the existing ones – quite the contrary. Transforming the energy sector will require huge expenditures; much more electricity and its transmission will be needed than today – by 40% by 2040, according to consulting firm Arthur D. Little<sup>42</sup> (heating, car charging). By the way, it is very difficult today to compare the cost of energy from different sources. Some producers have the costs of maintaining failing mines added to their bills, while others at the same time receive subsidies. Not only are market prices of energy resources changing, but regulations are also changing – sometimes surprisingly. In such conditions, rational business planning is impossible, and inflating margins becomes the simplest defence strategy.

Repeated opinions about cheap solar and wind energy do not take into account the related costs of the transformation, including the need to maintain reserve capacity in the system for those moments when it doesn't shine or blow, financing the closure of mines, reconstruction of the power grid, etc. Higher, not lower energy prices are to be expected.

## IS THE GREEN TRANSFORMATION AN INVESTMENT PROJECT?

From a purely economic perspective, projects that are considered worth undertaking are those that may bring benefits in the future that exceed the costs. While the concept of costs is generally understood, as it is most often simply about financial costs, the category of benefits is broader. Business projects are simply about financial benefits or those that can be monetised (e.g. increasing brand recognition or eliminating competitors).

Undoubtedly, many companies will benefit financially as the Green Deal is implemented. However, neither public budgets nor consumers will have such benefits, as they will bear the burden of financing the necessary

42 Elektryfikacja znacząco zwiększy zużycie prądu, „Rzeczpospolita” [online], 9/04/2024, <https://energia.rp.pl/elektroenergetyka/art40131521-elektryfikacja-znaczaco-zwiekszy-zuzycie-pradu>.

expenditures. A situation in which significant costs are incurred in the hope of obtaining hard-to-determine but probable future profits is, in some sense, similar to an investment in education. Investments in the construction of schools, equipping them, hiring new staff, etc. will, in time, result in better-educated graduates who will be more productive employees, thus accelerating economic growth. It is difficult to calculate the ratio of future profits to today's expenditure, but this does not stop the undertaking of reforms in the education system.

Such reforms, due to their far-reaching effects, require extensive consultations and are carefully prepared. This is not the case with the Green Deal: Poland must submit to the decisions of the European Commission, which is not in the habit of asking the public what they think about its plans. Half-baked technical solutions are hastily imposed through a mechanism of incentives and penalties, with an emphasis on penalties.

Only here do we come to what type of project the Green Deal is and how to analyse it from the economic side. When are we ready to incur any costs, knowing in advance that they will not bring any financial benefits in an imaginable time horizon? Only when we are forced to eliminate a risk of a catastrophic magnitude that we cannot mitigate in any way.

Climate activists say the Earth will burn if radical steps are not taken immediately to combat global warming. Politicians subscribing to the "Fit for 55" agenda use slightly less exalted language when talking about the need for a green transformation. Their voters nod in agreement, remembering how hot it was last summer and that they saw forest fires on TV. Everyone would like chimneys not to smoke, cars not to emit exhaust fumes, green space all over and not to be too hot. This creates acceptance of the Green Deal.

So developed countries will spend a lot of money on the widespread and hasty introduction of immature technologies. Will this save the climate?

## CAN YOU WIN AGAINST THE CLIMATE?

There is a widespread reasoning linking global warming to the increasing amount of CO<sub>2</sub> in the atmosphere (from 280 ppm at the beginning of the industrial era to 420 ppm today). Advocates of decarbonisation see a causal relationship here, although it may be a coincidence. However, even the existence of a causal relationship here does not automatically mean that it is reversible. The expectation that stopping the increase in CO<sub>2</sub> emissions will stabilise the temperature and that reducing the CO<sub>2</sub> content in the atmosphere will lower it may not be correct. The dynamics of climate processes are too complex for such simple reasoning to be justified, and even if it were, it may take decades, if not more, years to see the effects of efforts to reduce CO<sub>2</sub> emissions.

The European Union has enacted an obligation of a 55% reduction in emissions by 2030 and plans to achieve complete climate neutrality, i.e. a 100% reduction in emissions by 2050<sup>43</sup>. If we add up the shares in global CO<sub>2</sub> emissions of EU countries and other developed countries declaring to pursue a similar goal, we get about 30%<sup>44</sup>. However, it is enough for emissions in the remaining countries to increase annually by 1.5% (and they are growing even faster), and the entire effect will be cancelled out and the global CO<sub>2</sub> emissions in 2050 will be the same as today. Developing countries want to develop and have no intention of giving up coal, oil and agriculture.

43 The European Green Deal, European Commission, [https://commission.europa.eu/strategy-and-policy/priorities-2019-2024/european-green-deal\\_en](https://commission.europa.eu/strategy-and-policy/priorities-2019-2024/european-green-deal_en).

44 GHG emissions of all world countries, 2023 report, European Commission, [https://edgar.jrc.ec.europa.eu/report\\_2023?vis=co2tot#emissions\\_table](https://edgar.jrc.ec.europa.eu/report_2023?vis=co2tot#emissions_table).

It is possible that even assuming the correctness of currently widely used climate models, the entire effort of developed countries planned for the next quarter century will not lead to reversing or even stopping the temperature changes that are the cause of its undertaking.

Such complex models should not be accepted uncritically. Their constant improvement is one thing. But the existence of the so-called scientific consensus on climate change causes concern. Sound science involves constantly questioning established theses. Meanwhile, the more alarmist the research results, the easier it is to obtain grants and fame in climatology. It's harder to find money for research that questions this consensus, and careers may end there quickly. Science that imposes only the right views and is supported by politicians cannot be trusted.

It should be considered likely in this situation, that the spending of developed countries on combatting global warming will not have any effect on the climate. But their societies will feel serious consequences. This is not only about the enormous costs of the projects being pushed through and making people's lives more difficult, but also about the fact that these expenses will permanently cripple the economies of these countries. The first effects of destructive actions are already felt: destabilisation of energy systems, growing risk of blackouts, and higher energy prices. The next step will be to replace proven technologies classified as carbon-intensive with technologies that are theoretically emission-free, but immature for mass deployment and expensive. At the same time, other countries will gain an economic advantage over countries hitherto considered developed by using cheap, proven carbon-intensive technologies. Moreover, what cannot be produced, e.g. in the EU, emission-free, will be produced in developing countries using old methods and sold to the EU at a profit. Global emissions will not decrease from this but rather increase.

On the one hand, we have a fight against global warming, which can consume any amount of money without bringing noticeable results, and on the other hand, the costs of this fight will not be a mere throwing of money down the drain, but a significant part will be spent on the active and conscious destruction of the economies of developed countries.

## RECOMMENDATIONS FOR POLAND

How should the Polish government act in the face of such a diagnosis? Radical recommendations to let go of the fight against warming and wait until other countries also sober up are, for many reasons, out of the question. The previous government's tactic was to accept all EU measures, including the consent to "Fit for 55", so as not to open additional areas of conflict with the EU, while hoping that these plans would not come into force or would be stopped before they caused significant damage to the economy. The current government is all the more reluctant to enter into conflict with Brussels, but having unlimited credit there for now, it could be more assertive in climate matters.

Let's start with the maximum version - I mean maximum independence and common sense. Cheap electricity is the foundation of economic growth. The absolute priority is to maintain the stability of the Polish energy system and provide it with as many domestic sources as possible. This would require slowing down the development of photovoltaics and wind power until energy storage facilities with satisfactory parameters become available (cheap, capacious, long-lasting) and the power grid is adapted. Of course, the construction of nuclear power plants is essential, but until they are operational, coal-fired power must be maintained. The last thirty-odd years of reforming the hard coal mining industry have convincingly demonstrated that mining in Silesia has no prospects, but while liquidating it we should simultaneously build new mines in the Lublin Coal Basin and leave lignite mining untouched. Another domestic source that should

be taken care of more carefully is natural gas, whose exploration and extraction in Poland should be one of the priorities and should also include shale gas.

Unfortunately, these proposals look unrealistic in the current situation. However, several recommendations can be formulated for the Polish government:

## RECOMMENDATIONS FOR POLAND

- 1** Let's guard our own interest. The resilience of the energy system must be protected as much as possible and coal-fired power should not be allowed to be shut down until it can be replaced by other stable sources. Given the looming power deficit, energy imports cannot become a significant and permanent element of the system. Likewise, EU ideas on restricting Polish agriculture should be rejected.
- 2** Let's allow the zealous proponents of innovative solutions to pass ahead. Let's allow the richer ones to install inefficient and expensive energy storage facilities or buy hydrogen locomotives and buses. Let's remember that in Great Britain there are still separate taps with cold and hot water at sinks because it was the first country to introduce running hot water. Later it turned out that it could have been done better.
- 3** Let's introduce what is rational and reject what is irrational. Yes to for thermal retrofitting (but only if the costs are below the expected benefits from reducing heating costs), for afforestation, and fuel and energy savings. No to CO2 capture and storage, no to hydrogen technologies (except financing the research), no preferences for electric cars and no bans on combustion engines.
- 4** Let's take our time and delay what and how much we can - both when making decisions in Brussels and when implementing them in Poland.

There is a common practice of attributing all-natural disasters, unfavourable natural changes and generally negative phenomena in the world to global warming. Poland has had problems with water retention for a long time - maybe it's because of climate change? And what about the floods?

- 5** Let's be creative and try to include various expenses for useful purposes in the fight against global warming, even if at first glance they have little to do with climate change. We don't need CO2 capture and storage, but stronger flood embankments can always come in handy.

## SUMMARY

How long will Western civilisation persist in climate populism? One can find many studies which show the costs of abandoning the fight against global warming<sup>45 46</sup>. Other studies calculate the costs of decarbonisation<sup>47 48</sup>. Both should be treated with caution, but the great costs of inaction are terrifying, while the great costs of decarbonisation do not have such a strong impact on the imagination because they are called investments. Billions, trillions, or percentages of GDP for “green investments” mean nothing to anyone. After all, many budget expenditures are measured in percentages of GDP or in billions. However, normal spending rather serves economic growth, while “green” spending will serve to weaken the economies of developed countries.

The costs of combating warming by the EU, recently estimated by the Institut Rousseau<sup>49</sup>, boil down to the need to redirect existing investments to purely “green”, increase the share of private capital and double public investments. The latter, in EU countries already burdened with high debt, looks difficult to achieve. The required additional investments in the analyzed countries are estimated at over 2% of GDP per year until 2050. In Poland, it would be 3.6% per year, of which about 2.5% is additional public investments. Is that a lot? Yes, because this is roughly how much the construction of the first Polish nuclear power plant will cost (90 – 100 bn PLN, 1% GDP is about 35 bn PLN). Yes, because the average budget deficit in EU countries is about 3% of GDP, Poland is expected to have a deficit of over 5% in 2024, and many NATO members are struggling to increase defence spending to 2% of GDP annually.

Sooner or later, the costs of “green investments” and the consequences of unproductive spending will reach voters’ wallets. And only then, to win elections, will politicians have to rethink their views on the fight against warming. Unfortunately, this will be some negative percentage points of GDP too late. Let’s at least try to minimize the damage while waiting to sober up.

We have plans to spend huge sums of money on introducing immature technologies to counteract a phenomenon that we do not know for sure how much of it is anthropogenic, how much of it is natural, and whether the measures taken will have any impact on it at all. This plan cannot be analyzed as an investment or as financing for innovation, as it will lead to a loss of competitiveness in the economies of the countries implementing the plan. Economics has not yet dealt with such ventures, just as it is not a sport to jump blindfolded into a pool that you don’t know whether it is empty or full.

45 *Climate change costs lives and money*, Infografika, Europa.eu, <https://www.consilium.europa.eu/en/infographics/climate-costs/>.

46 Climate change is costing the world \$16 million per hour: study, World Economic Forum, 12/10/2023, <https://www.weforum.org/agenda/2023/10/climate-loss-and-damage-cost-16-million-per-hour/>.

47 S. Oğuz, *Breaking Down the \$110 Trillion Cost of the Clean Energy Transition*, Decarbonization Channel, 11/10/2023, <https://decarbonization.visual-capitalist.com/breaking-down-the-cost-of-clean-energy-transition/>.

48 *Net-Zero Industry Tracker: \$13.5 Trillion Investment Needed to Fast-Track Decarbonization of Key Hard-to-Abate Industry Sectors*, World Economic Forum, 28/11/2023, <https://www.weforum.org/press/2023/11/net-zero-industry-tracker-13-5-trillion-investment-needed-to-fast-track-decarbonization-of-key-hard-to-abate-industry-sectors/>.

49 *Road to Net Zero*, Institut Rousseau, <https://institut-rousseau.fr/road-2-net-zero/>.



# **5. DIGITALISATION IN THE EU - HOW TO REGAIN A LEADERSHIP POSITION?**

BARTŁOMIEJ MICHAŁOWSKI



**The digital revolution has brought and will continue to bring great economic opportunities. Unfortunately, to date, the European Union has exploited them to a much lesser extent than the United States and China. Additionally, digitalization has negatively affected the financial condition of European media, the Fourth Estate, which adversely impacts the strength and quality of democracy in all member countries. The following analysis indicates five actions (recommendations) that the Polish government and Polish parliamentarians in Brussels should initiate, regardless of their ideological profile, in the forum of the entire European Union.**

## **THE WORLD IS LEAVING THE EUROPEAN UNION BEHIND**

The 20 years of Poland's presence in the European Union coincided with the ongoing digital industrial revolution, which has led to very profound changes. Today, we learn, work, and relax in ways different from 20 years ago. The way we acquire information and knowledge about the world around us has radically changed. The revolution has created a new market of companies and needs and has radically transformed the media market worldwide. ICT (Information and Communication Technologies) has changed our lives in a way that few could have imagined 20 years ago.

In Europe, we quickly became users of new digital products and services. Europeans have the best technology infrastructure, and especially in Poland, one of the cheapest internet accesses. At the same time, we largely missed the opportunities associated with building digital technology companies and firms. According to the Fortune GLOBAL 500 report (Table 5.1), of the 30 largest technology companies in 2003, there were 4 from the European Union: Siemens, Philips, Nokia, and Ericsson. At that time, the largest ICT technology company was IBM, which was 19th in the ranking of the largest companies in the world by annual revenue. German SIEMENS was in second place and occupied 21st place on the GLOBAL500 list.

TAB. 5.1 **THE LIST OF THE LARGEST TECHNOLOGY COMPANIES IN 2003**

RANKING ICT	GLOBAL 500 2003	COMPANY NAME	REVENUE IN 2003
1	19	IBM	83,132
2	21	Siemens	77,205
3	26	Hitachi, Ltd.	67,228
4	32	Sony	61,335
5	34	Matsushita Electric Industrial Co., Ltd.	60,744
6	40	HP	56,588
7	59	Samsung Electronics	47,606
8	62	Toshiba Corporation	46,416
9	91	Tyco International Ltd.	38,971
10	93	NEC	38,531
11	97	Fujitsu	37,896
12	105	Dell Technologies	35,404
13	124	Royal Philips Electronics N.V.	30,084
14	126	Mitsubishi Electric Corporation	29,865
15	136	Nokia Corporation	28,378
16	137	Microsoft	28,365
17	155	Intel	26,764
18	156	Motorola, Inc.	26,679
19	178	Canon	23,481
20	200	Electronic Data Systems Corporation	21,782
21	247	Cisco Systems	18,915
22	304	Xerox Holdings	15,849
23	333	Telefonaktiebolaget LM Ericsson	14,999
24	344	Onex Corporation	14,424
25	347	Ricoh Company, Ltd.	14,266
26	368	Lucent Technologies Inc.	13,568
27	378	Flextronics International Ltd.	13,379
28	404	Sun Microsystems, Inc.	12,496
29	412	Solectron Corporation	12,276
30	436	Accenture	11,574

Source: Global 500, „Fortune” [online], <https://fortune.com/ranking/global500>.

TAB. 5.2 THE LIST OF THE LARGEST TECHNOLOGY COMPANIES IN 2023

RANKING ICT	GLOBAL 500 2023	NAME	REVENUE	PROFIT
1	4	Amazon	513,983	-2,722
2	8	Apple	394,328	99,803
3	17	Alphabet	282,836	59,972
4	25	Samsung Electronics	234,129	42,398
5	27	Hon Hai Precision Industry	222,535	4,751
6	30	Microsoft	198,270	72,738
7	52	JD.com	155,533	1,543
8	68	Alibaba Group Holding	126,813	10,625
9	81	Meta Platforms	116,609	23,200
10	97	Dell Technologies	102,301	2,442
11	111	Huawei Investment & Holding	95,490	5,283
12	140	Sony	85,255	6,923
13	147	Tencent Holdings	82,440	27,984
14	153	Hitachi	80,389	4,796
15	162	Siemens	77,860	4,027
16	168	Taiwan Semiconductor	76,022	33,343
17	204	LG Electronics	64,953	927
18	211	Intel	63,054	8,014
19	213	HP	62,983	3,203
20	217	Lenovo	61,947	1,608
21	218	Panasonic Holdings	61,903	1,962
22	220	Accenture	61,594	6,877
23	224	IBM	60,530	1,639
24	274	Cisco Systems	51,557	11,812
25	278	Midea Group	51,393	4,393
26	333	Pegatron	44,273	507
27	334	Qualcomm	44,200	12,936
28	345	Quanta Computer	42,997	972
29	352	Oracle	42,440	6,717
30	360	Xiaomi	41,631	368

Source: Global 500, „Fortune“ [online], <https://fortune.com/ranking/global500>.

There was a decisive change in the subsequent 20 years. According to data from the GLOBAL 500 report for 2023 (Table 5.2), today's technology companies have revenues an order of magnitude greater than those 20 years ago, and the profits of some are higher than the total revenues of ICT leaders in 2003. At the same time, the list of the largest technology companies includes only one company from the European Union – SIEMENS. The major players in the ICT market are headquartered in the United States, China, South Korea, Japan, and Taiwan.

## ACTIONS OF THE EUROPEAN UNION

Before the expansion of the European Union with the accession of the new members in 2004, at an extraordinary meeting of the European Council on March 23 and 24, 2000, in Lisbon, the heads of state and government of the 15 EU countries defined new strategic goals. The document was known as the Lisbon Strategy<sup>50</sup>. According to it, the European Union was to become "the most competitive and dynamic knowledge-based economy in the world."

The Lisbon Strategy, implemented between 2000–2009, focused on six actions:

1. Supporting knowledge and innovation in Europe,
2. Reforming public aid policy,
3. Improving and simplifying the regulatory frameworks in which businesses operate, and realising the internal market for services,
4. Removing obstacles in the free flow of areas such as transport, labour, and education,
5. Developing a common approach to economic migration,
6. Supporting efforts to deal with the social consequences of economic restructuring.

The first point was supposed to stop the trend of the declining significance of European companies in the global market and leverage the digital revolution.

From 2004 to 2023, the now-expanded European Union undertook a series of initiatives to support digital transformation. Their goal was to achieve Europe's digital independence, establish standards, and promote innovation based on data, technology, and infrastructure. At the summit in February 2020, the strategy "SHAPING EUROPE'S DIGITAL FUTURE"<sup>51</sup> was adopted, which defines US actions to develop digital infrastructure in three areas:

1. Technology that works for people,
2. A fair and competitive economy,
3. An open, democratic, and sustainable society.

The declared goal in the strategy was for the Union to become a global leader in digitalisation. The European Union aimed to:

- Become a global model for a digital economy,
- Support developing economies in transitioning to digital technology,
- Develop and promote digital standards internationally.

50 Briefing note for the meeting of the EMPL Committee 5 October 2009 regarding the exchange of views on the Lisbon Strategy and the EU cooperation in the field of social inclusion, europa.eu, [https://www.europarl.europa.eu/meetdocs/2009\\_2014/documents/empl/dv/lisbonstrategybn\\_/lisbonstrategybn\\_en.pdf](https://www.europarl.europa.eu/meetdocs/2009_2014/documents/empl/dv/lisbonstrategybn_/lisbonstrategybn_en.pdf).

51 Shaping Europe's digital future, European Commission, <https://digital-strategy.ec.europa.eu/en>.

In March 2021, the Commission published another initiative called the Digital Decade<sup>52</sup>, aiming to achieve specific goals by 2030. These goals include increasing the number of ICT specialists, ensuring basic digital skills for at least 80% of the population, increasing the use of cloud computing, artificial intelligence, and Big Data by 75% of EU companies, and digitalising public services, ensuring online access to key public services for all citizens.

On December 15, 2022, the European Declaration of Digital Rights and Principles in the Digital Decade was published<sup>53</sup>.

In September 2023, the European Commission published the first report on the implementation of the Digital Decade goals adopted. The Commission also adopted the European Chips Act and conducted the European Chips Survey, aiming to understand the current and anticipated demand for semiconductor products. According to it, the EU is to invest over 100 billion EURO in integrated circuit production and gain 20% of the global market share. In December 2023, the European Parliament adopted the AI Act<sup>54</sup> prepared by the Commission.

Unfortunately, all these actions did not translate into the growth and development of European ICT companies. Therefore, a change and a new opening in the area of digitalisation and new technologies are required in the European Union.

## REGAINING TECHNOLOGICAL LEADERSHIP

**Recommendation 1** - Politicians and decision-makers of the European Union must engage representatives of European companies to a much greater extent in defining strategies and investment priorities in new technologies than has been the case so far. The responsibility for defining strategies, plans, and financing methods for innovation should be shifted from officials to practitioners, i.e., engineers and entrepreneurs.

**Recommendation 2** - The European Union should establish investment and loan funds that will help engineers and entrepreneurs in Europe develop their operations without the need to sell shares to companies and funds outside the European Union. Otherwise, new inventions and technologies will continue to empower the leaders of today's GLOBAL500 ranking, not new leaders based in the capitals of the European Union member countries.

The first 20 years of the digital revolution were largely lost for EU enterprises. However, the next 10 years will bring more changes in the digital world than the last 20. The authors of the report "CIVIL SOCIETY VOICE IN THE DEBATE 'CONFERENCE ON THE FUTURE OF EUROPE'"<sup>55</sup> suggested that the EU should primarily invest in:

- New computer technologies,
- Integration of IT with biotechnologies,
- Automation of higher-level processes,

52 Europe's Digital Decade: digital targets for 2030, European Commission, [https://commission.europa.eu/strategy-and-policy/priorities-2019-2024/europe-fit-digital-age/europes-digital-decade-digital-targets-2030\\_en](https://commission.europa.eu/strategy-and-policy/priorities-2019-2024/europe-fit-digital-age/europes-digital-decade-digital-targets-2030_en).

53 European Declaration on Digital Rights and Principles, European Commission, 15/12/2022, <https://digital-strategy.ec.europa.eu/en/library/european-declaration-digital-rights-and-principles>.

54 Commission welcomes political agreement on Artificial Intelligence Act, European Commission, 9/12/2023, [https://cyprus.representation.ec.europa.eu/news/commission-welcomes-political-agreement-artificial-intelligence-act-2023-12-09\\_en](https://cyprus.representation.ec.europa.eu/news/commission-welcomes-political-agreement-artificial-intelligence-act-2023-12-09_en).

55 *Głos społeczeństwa obywatelskiego w debacie „konferencja Konferencja o przyszłości Europy/Europy”*, Raport, Instytut Sobieskiego, April 2022, <https://sobieski.org.pl/glos-ekspertow-z-v4-ustroj-ue-energetyka-cyfrizacja/>.

- Application of artificial intelligence (AI),
- New programming tools,
- Digital twins and virtualisation of processes.

In these areas, there are no global leaders yet, and therefore they offer opportunities for European companies. EU institutions and EU countries should become leading users of new products, tools, and IT technologies and services, regardless of where in Europe they were created.

The authors of the report also highlighted the risk of monopolies and the necessity of protecting new, innovative companies from being taken over by the largest tech companies, which become even more powerful through acquisitions.

**Recommendation 3** – There must be a clear and effective policy against the monopolisation of the largest technology companies. Especially, the acquisition policies of the largest companies must be under greater supervision. There will be no possibility of building new European leaders in future technology if they are acquired in their early stages of development by funds or companies outside the European Union.

The main pillar of the European Union and its success is the common market. Promoting and developing a free and open market for digital and information technology services in the EU is a huge opportunity and a necessity if we want European ICT companies to be on the GLOBAL500 list. The market potential and intellectual backdrop are still strengths of the European Union and provide a chance to regain a leadership position.

The European Commission announced 6 priorities for the years 2019-24<sup>56</sup>:

- European Green Deal – Transforming the EU into a modern, resource-efficient, and competitive economy while protecting the natural environment in Europe, combating climate change, and increasing CO2 emission and resource efficiency neutrality by 2050.
- Europe fit for the digital age – Supporting the digital transformation through investing in enterprises, scientific research and innovation, data protection reform, equipping citizens with the skills needed to handle next-generation technology, and developing appropriate regulations.
- An economy that works for people – Strengthening the EU economy while ensuring jobs and reducing inequalities, supporting enterprises, deepening the economic and monetary union, and completing the construction of the banking union and the capital markets union.
- A stronger global role for Europe – Strengthening the EU's voice internationally by improving its position as a leader in strong, open, and fair trade, multilateralism, and a world order based on principles. Strengthening relations with neighbouring countries and partners and increasing the EU's crisis management capabilities based on its civil and military abilities.
- Promoting the European way of life – Respecting fundamental rights and the rule of law as bastions of equality, tolerance, and social justice. Addressing security threats, protecting consumers, strengthening their position, and developing a system of legal and safe migration channels while effectively

56 European Union priorities 2019-2024, Europa.eu, [https://european-union.europa.eu/priorities-and-actions/eu-priorities/european-union-priorities-2019-2024\\_en](https://european-union.europa.eu/priorities-and-actions/eu-priorities/european-union-priorities-2019-2024_en).

managing the EU's external borders, modernising the EU asylum system, and closely cooperating with partner countries.

- A new push for European democracy - Strengthening democratic processes in Europe by tightening relations with the European Parliament and national parliaments, protecting democracy in the EU from external interference, ensuring transparency and integrity of the entire legislative process, and engaging Europeans more broadly in shaping the future of the EU.

Having European technology companies operating on a global scale could strengthen the process of implementing each of the above points. Changes enforced by the COVID-19 pandemic and Russia's aggressive policy in understanding security, sovereignty, and supply chains, provide an opportunity for a new opening in the economic policy of the European Union.

## REGAIN THE FOURTH ESTATE

The rapid acceptance of new digital products and services has revolutionised the way content is created, distributed, and consumed. On one hand, the transition from traditional news media to digital platforms has facilitated access to on-demand content, increasing convenience for consumers and allowing for more personalised content. The development of social media and blogs has enabled anyone with internet access to become a content creator, significantly increasing the diversity of available perspectives and opinions. On the other hand, the digital revolution has led to a drastic decline in advertising revenue for traditional publishers, as advertisers have shifted their budgets to new tech giants. Companies such as Meta Platforms, owner of Facebook, and Alphabet, owner of Google, although appearing as technology companies in rankings, have become major players in the advertising market. According to the Fortune Global 500 report, Alphabet is the third largest technology company in the world by revenue and 17th out of the 500 largest companies in the world. Meta is the ninth technology company and 81st on the Global500 list (Tab. 5.2).

The consequences of shifting marketing budgets, the main source of revenue for all media, from many dispersed newsrooms to two or three global giants have very serious implications. Often, we are better informed by global players about what is happening in the world than what is happening close to us. Digitisation has also allowed the flourishing of new forms of entertainment and information, such as podcasts and video on demand, which compete for the time and attention of audiences. Moreover, the growing importance of data and behavioural analysis in digital media has enabled more targeted and effective advertising campaigns. Finally, digitisation has caused the globalisation of content, allowing materials from one country to reach a global audience with unparalleled ease and speed. Investigative journalism and a certain mission of the media no longer count.

Strong, stable, and well-funded news media with inquisitive journalists are the foundation of any well-functioning democracy. In the era of fake news, hybrid warfare, and declining trust among people, their significance is even greater. Therefore, when writing about digitisation, it is impossible not to recall two recommendations from the report "CIVIL SOCIETY VOICE IN THE DEBATE 'CONFERENCE ON THE FUTURE OF EUROPE'", concerning social media.



**Recommendation 4** – It is necessary to clearly and legally define the status of social media industry companies. In a democracy, it is said that the media are the Fourth Estate. Digital media is the Fourth Estate with an unprecedented reach. There is an urgent need to define the status of social media companies clearly and legally, and determine whether they are:

- a) media,
- b) traditional Internet service providers,
- c) critical infrastructure providers,
- d) something else.

If social media are news media, they should be subject to the law and the same regulations as the press and radio. It is necessary to ensure (of course with respect to trade and industrial secrets) maximum transparency and accountability of social media companies for what they publish. Freedom of speech does not mean freedom to spread fake news and lack of responsibility for words.

**Recommendation 5** – It is necessary to demonopolise the advertising market and redirect part of the funds obtained from advertising back to the press and local and national media. The Polish government and Polish media should be leaders in submitting both recommendations at the European Union level. Postulates of freedom of speech, responsibility for words, and a strong and stable economic position of news media should be a constant point of action for all Polish governments. There is no true democracy without a strong Fourth Estate.

Local and national media companies have faced a financial crisis in recent years, as Google and Facebook (more precisely, Alphabet and Meta) have become the biggest players in the advertising markets of all European countries. Previously, local consumers were able to maintain a healthy ecosystem of local and national media, ensuring sufficient advertising revenue for newsrooms and ensuring that media can be independent thanks to these advertising revenues. However, with the advent of internet marketing, micro-targeting, and pay-per-click patterns, a very large portion of these revenues goes to the largest multinational companies, which do not support the ecosystem that has enabled a vibrant European media scene for centuries.

The dispute between the Australian government and Meta Platforms (Facebook) and Alphabet (Google)<sup>57</sup> has shown that even the government of one country can force a multinational company to protect its own media market. According to the law adopted in Australia, digital platforms must negotiate with the press to ensure they are fairly compensated for the informational content they create. This has strengthened regional and local press, even according to social platform directors. Acting together, the EU could achieve much more to protect its media market, and as a result, freedom of speech. Especially since Meta Platforms and Alphabet currently threaten not to extend their cooperation with the press and news media in Australia<sup>58</sup>.

It is worth considering proposals for a targeted tax for global social platforms, from which a fund could be created to finance specific investigative journalism projects from all member states exposing cases of corruption and abuse of power in all three estates of government (legislative, executive, and judicial) also at the EU level.

57 B. Kaye, *Australia says law making Facebook and Google pay for news has worked*, Reuters, 2/12/2022, <https://www.reuters.com/technology/australia-says-law-making-facebook-google-pay-news-has-worked-2022-12-02/>.

58 J. Dąbrowska-Cydzik, *Meta znów nie będzie płacić wydawcom w Australii. Koniec Facebook News*, Wirtualne Media, 2/03/2024, <https://www.wirtualnemedia.pl/arttykul/meta-koniec-australia-oplaty-koniec-facebook-news>.

## SUMMARY

Twenty years in the European Union have been very beneficial for Poland, which has developed in all areas. The economic success of many Poles has translated into their confidence and greater ambitions. The failures of high unemployment and large-scale emigration at the beginning of membership were relatively quickly overcome. At the same time, the current digital revolution is the first industrial revolution in which Poles and Polish companies can freely participate. Whilst being part of a large, common economic area, Poles and Polish companies should co-create changes in the European Union that will lead to a radical change in the degree of exploiting opportunities associated with new digital technologies, artificial intelligence, and the broadly understood Industry 4.0.

The European Union requires a change in defining its digital strategy, the way of financing innovation, and the organisation of European media, its Fourth Estate.

## RECOMMENDATIONS FOR POLAND

- 1** The development strategy for new technologies in Poland and the European Union should primarily be defined by Polish and European engineers and entrepreneurs.
- 2** European funds should primarily be invested in technologies where there are not yet global leaders.
- 3** Large technology companies should not create monopolies and should avoid growing through the acquisition of young firms that develop new technologies.
- 4** All media that publish information should be subject to press law and held accountable for what they publish.
- 5** A portion of the revenue generated by the largest internet corporations from advertising should be allocated to national and local media.

During the last 20 years, new technologies have radically changed the world. In the next 20 years, whether we like it or not, changes will be even greater. It depends on Europeans whether they will be the authors and leaders of these changes, or merely recipients of what companies from our friends in America or Asia produce. There cannot be a prosperous Europe without technologically and financially strong companies from Madrid, Milan, Munich, Paris, Stockholm, Warsaw, and other European cities.

**The Polish government should be a leader in advocating the above 5 changes (recommendations) in the European Union. In the field of new technologies, every year we have one of the largest groups of graduates from technical universities in Europe (STEM - science, technology, engineering, maths). In the area of social media and news media, no other nation has paid a higher price for freedom of speech and democracy than Poland.**

# 6. EUROPEAN DEFENCE POLICY. SHOULD WE DEVELOP IT INSTEAD OF NATO?

TOMASZ PAWŁUSZKO

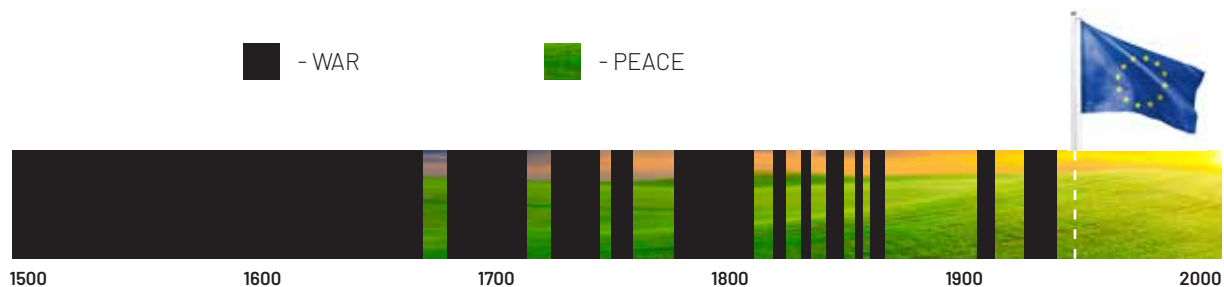


The analysis presents the political processes that led to the creation of defence policy within the European Union. The EU turned out to be unable to create effective military structures, but the crises of the last two decades have shown that the EU has the potential to develop successful patterns of international cooperation in the field of non-military security. In the coming years, the EU will not replace NATO, but it can contribute to the development of European strategic culture by supporting the expansion of the military capabilities of member states and repairing the effects of negligences.

## SECURITY IN THE EUROPEAN UNION

The immediate goal of the development of European integration was to prevent another war in Europe. The task of the European Communities was to animate economic development and create mechanisms for the peaceful coexistence of states. Also today, the Lisbon Treaty defines the EU's objectives as supporting peace, the values and prosperity of its nations (Article 3(1) TEU). These values include respect for the dignity of the human person, freedom, democracy, equality, the rule of law and respect for human rights (Article 2 of the TEU). Taking care of all these values requires ensuring non-military security. The European Communities completed this task - post-war Europe became one of the best places to live in the world.

GRAF 1. WAR AND PEACE IN THE HISTORY OF EUROPE



Source: Reflection Paper on the Future Of European Defense, European Commission , Brussels, 7/06/2017, COM(2017) 315 final, p. 4, <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52017DC0315>.

However, European countries were too weak to defend themselves in a potential war with the Soviet Union. The Pleven Plan (1950) and the proposed European Defence Community (1952) did not come to fruition. These projects assumed the establishment of a supranational authority that would control the defence of member states. However, the states invoked the principle of sovereignty and did not agree to transfer their forces to a non-state structure. Instead, it was decided to conclude a traditional military alliance, which led to the creation of the Western European Union. Its role during the Cold War, however, was marginal because the United States effectively promoted the North Atlantic Treaty Organization, established in 1949. In 1950, NATO gained an integrated military structure, and in 1952, the permanent office of Secretary General. The main body of this pact became the intergovernmental North Atlantic Council, composed of permanent representatives of the member states. Brussels became NATO's headquarters.

Like the European Communities in the economic field, NATO has also achieved success in the military field. There was no war in Europe during the "Cold War". In the formal sense, NATO remains a defensive alliance (Article 2 of the United Nations Charter prohibits the establishment of alliances for offensive purposes). The main goal of NATO since its creation has been mutual defence and deterrence. Thanks to US power, NATO's deterrence potential has proven credible. Europe remained safe and the USSR collapsed at the end of 1991.

The collapse of the USSR led to fears among Europeans that the US would withdraw from Europe. The outbreak of wars in the former Yugoslavia made Europeans understand that they must be capable of independent military operations, also in the event of lack of US support. The conclusion of the CFE Treaty in 1992 began the reduction of armed forces in Europe and provided an opportunity to synthesize military capabilities in Europe. The task of gradual integration of European countries' defence policies in this area was undertaken by the newly established European Union, and its activities are presented in the graph below.

## GRAF 2. **EUROPEAN SECURITY POLICY FROM THE MAASTRICHT TREATY TO THE LISBON TREATY**

### **1992 – MAASTRICHT TREATY: ESTABLISHMENT OF THE COMMON FOREIGN AND SECURITY POLICY**

- o according to art. J.4 The CFSP will cover all matters relating to the security of the Union, including the progressive formulation of a common defence policy that could lead, over time, to a common defence. The Western European Union (WEU) will perform military tasks on behalf of the EU

### **1992 – CONCEPT OF THE PETERSBURG MISSIONS**

- The WEU Ministerial Council, at its meeting in Petersburg near Bonn, decided to expand the WEU's activities to include tasks not related to common defence: humanitarian and rescue tasks; peace-keeping missions and combat tasks during crises, including peace restoration

### **1994 – NATO SUMMIT IN BRUSSELS, THE ESTABLISHMENT OF THE CJTF AND ADOPTION OF THE NAME "EUROPEAN SECURITY AND DEFENCE IDENTITY" (ESDI)**

- NATO announces that it is ready to provide resources for WEU operations carried out under the CFSP. NATO endorses the concept of a Multinational Joint Task Force (CJTF) for military operations unrelated to the defence of Alliance territory, such as humanitarian and peace-keeping operations

### **1994 – THE TERM "STRATEGIC AUTONOMY" APPEARS IN FRANCE**

- The term "European strategic autonomy" comes from the French doctrine of national defence. The term will appear in the conclusions of the European Council in 2013 regarding decision-making autonomy and the development of the defence industry

### **1996 – ALAIN JUPPE'S CONCEPT OF A EUROPEAN ARMY**

- The French Prime Minister proposed that 5 large European countries could delegate approximately 50,000 soldiers to the WEU. This proposal was not included in the treaties

### **1996 – NATO SUMMIT IN BERLIN**

- Adoption of principles of action on the implementation of the European Security and Defence Identity and the CJTF within NATO and the WEU

### **1996 – FRANCE REALIZES THAT THE WEU WILL NOT BE INDEPENDENT FROM THE US**

- France, which was still outside NATO's military structures, began the process of convincing Germany to develop an autonomous security and defence policy within the EU

### **1997 – WEU BEGINS TO PARTICIPATE IN NATO'S DEFENCE PLANNING PROCESS**

- In cooperation with the Supreme Headquarters Allied Powers Europe (SHAPE) in the scope of the Petersburg missions and NATO and WEU anti-crisis exercises

### **1997 – TREATY OF AMSTERDAM**

- According to art. 17 section 2 – the Petersburg missions come to the EU, according to France's wishes. The WEU is being subordinated to the European Union. According to art. 18 – The Secretary General of the Council of the EU becomes the High Representative for the Common Foreign and Security Policy

### **1997 – CONSTAN FIGHTING IN THE BALKANS**

- The CJTF concept doesn't work. Finally, the Americans forced peace at the Dayton base. NATO peacekeeping forces enter Bosnia

### **1998 – SAINT MALO. FRANCO-BRITISH SUMMIT. JOINT DECLARATION ON EUROPEAN DEFENCE**

- The British see the weakness of European initiatives and declare support for the development of "Europeandefence capabilities" in the event of the Americans' absence

### **1999 – MEETING OF THE EUROPEAN COUNCIL IN COLOGNE**

- It was agreed that the EU would take over the functions of the resources, potential and organisational structures of WEU (WEU suspended its activities in 2001)

### **1999 – NATO SUMMIT IN WASHINGTON**

- The Alliance adopts a new strategic concept and notes the EU's growing willingness to have the ability to undertake autonomous military operations in crises

### **1999 – MEETING OF THE EUROPEAN COUNCIL IN HELSINKI AND THE EUROPEAN HEADLINE GOAL**

- European Rapid Reaction Force (ERRF) concept. The Council obliged EU countries to obtain the ability to deploy 60,000 soldiers within 60 days., for crisis response operations. Management structures were established, but the corps was never formed due to a lack of financial and equipment capacity

### **2000-2001 – NICE SUMMIT**

- The Political and Security Committee (PSC), the EU Military Committee (EUMC) and the EU Military Staff (EUMS) were established

### **2001 – CONCLUSION OF FORMAL RELATIONS BETWEEN NATO AND THE EU**

- First official exchange of correspondence between the Swedish Presidency of the Council of the European Union and the Secretary General of NATO

### **2001 – MEETING OF THE EUROPEAN COUNCIL IN LAEKEN**

- The European Capacity Improvement Plan (ECAP) is created. The Union has acquired partial operational capacity. In May 2002, the first headquarters exercises were conducted, and in November 2003, the first joint manoeuvres were held. By the spring of 2003, rules had been developed, including military strategic planning, crisis response procedures and military exercise program. Procedures have been established for civil-military cooperation, logistics and the use of force

### **2002 – THE INSTITUTIONS TAKEN OVER FROM THE WEU BEGIN TO OPERATE**

- The European Union Satellite Centre (EUSC) and the European Union Institute for Security Studies (EUISS) were officially incorporated into the EU

### **2002-2004 – ESTABLISHING THE PRINCIPLES OF EU PARTNERSHIP WITH NATO (SO-CALLED BERLIN+ FORMULA)**

- The EU gains access to NATO operational planning, provision of resources for EU operations, etc. However, only two operations have been carried out to date – "Concordia" in Macedonia in 2003 and EUFOR "Althea" in Bosnia and Herzegovina in 2004. The EU did not deploy its own forces but took over soldiers and structures from NATO. Currently, new missions are unlikely

### **2003 – STRATEGY: A SECURE EUROPE IN A BETTER WORLD: THE EUROPEAN SECURITY STRATEGY**

- The strategy is being developed during the conflict between allies over the intervention in Iraq. The importance of NATO in strategy is downplayed. The strategy indicates that, in addition to fulfilling the Petersburg missions, European forces should be prepared for tasks such as disarmament operations, support in the fight against terrorism and operations supporting security reforms

#### **2004 – ESTABLISHMENT OF THE EUROPEAN DEFENCE AGENCY (EDA)**

- The European Council confirmed its intention to establish the EDA during its meeting in Thessaloniki in 2003. The aim was to create a structure that would deal with the development of defence capabilities in the field of crisis management, research on military technology and coordination of activities related to the purchase and production of equipment and armaments

#### **2003-2004 – MEETINGS OF THE EUROPEAN COUNCIL**

- In May 2003, during the meeting of the EU Council, work on the EU Rapid Military Response Concept was completed. Then Headline Goal 2010 was adopted and, after declarations from large EU countries, the establishment of European Battle Groups was announced. These are units of approximately 1,500 soldiers. Many groups have failed to mobilise, and those that are on standby have never been used

#### **2004 – TREATY ESTABLISHING A CONSTITUTION FOR EUROPE (UNRATIFIED)**

- The treaty introduced the so-called formula of close cooperation. It obliged EU Member States to, using all available means, provide assistance and support (in accordance with Article 51 of the UN Charter) to another EU country if it falls victim to armed aggression on its territory. How to apply this formula is not specified. These provisions were copied in the Lisbon Treaty

#### **2005 – ESTABLISHMENT OF THE EUROPEAN SECURITY AND DEFENCE COLLEGE**

- The College is being established to better prepare the EU for crisis management operations.

#### **2007 – ACTIVITY OF THE EUROPEAN DEFENCE AGENCY**

- Publication of the Strategy for the EU Defense Technological and Industrial Base (EDTIB)

#### **2007-2009 – LISBON TREATY**

- The Union becomes an international organisation; ESDP becomes the "Common Security and Defence Policy", although - contrary to the name - this policy has not been communised
- The following items have been added to the Petersberg missions: disarmament activities, advice, military support and peacebuilding. The possibility of permanent structural cooperation was created for EU countries; and regulates EU actions in the event of a terrorist attack, or natural and man-made disasters
- The European External Action Service (EEAS) is established to provide support High Representative for CFSP.

Source: own study based on legal acts and literature on the subject.



The above graph shows the development path of European integration structures in the area of security and defence. The main weakness of the EU's functioning during this period was the imprecise treaty provisions regarding its subjectivity. The Union was not an international organisation (according to international law). This process has been problematic in developing defence cooperation because sovereignty over armed forces traditionally rests with member states. However, the EU found a temporary solution for the development of defence capabilities by gradually absorbing the structures of the Western European Union<sup>59</sup>.

The second important element was the negotiation process with NATO, which agreed to make some of its resources available for EU purposes. European politicians managed to avoid duplicating NATO's functions by (1992) defining the Petersburg missions, i.e. missions that would cover tasks not related to common defence, which remained NATO's domain. EU tasks in the area of security and defence include humanitarian and rescue tasks; peacekeeping missions and combat tasks during crises. However, the problem turned out to be the fact that the WEU as an EU tool was characterized by the lack of an integrated command structure and the lack of military capabilities in the field of reconnaissance, communications and transport. Therefore, the EU could not credibly implement the Petersburg missions in practice.

Subsequent treaties defined the competencies of the High Representative for CFSP and established the Political and Security Committee (PSC), the EU Military Committee (EUMC) and the EU Military Staff (EUMS). Moreover, structures such as the European Union Satellite Centre (EUSC) and the European Union Institute for Security Studies (EUISS) were taken over by the WEU. In 2002, the EU concluded a total of 14 agreements with NATO (Berlin+) and launched its missions. In the following years, the European Defence Agency and the European Security and Defence College were established. However, real military operations ended in failure. The EU failed to construct the European Rapid Reaction Force (ERRF), and the established Battle Groups were never used in combat (while NATO successfully implemented the NATO Response Force)<sup>60</sup>.

Another important process that historically influenced the current shape of defence policy within the EU was the attitude of large European countries. France, the UK and Germany had the largest armies in the EU, and their spending amounted to two-thirds of all defence spending in the EU. On the one hand, they wanted to develop the European Security and Defence Identity, but on the other hand, the process of demobilisation and demilitarisation began. It was believed that there would be no more wars in Europe, so the focus was on the development of crisis management and expeditionary forces, tailored to the profile of the Petersburg missions. The attention of European countries shifted to issues of economic security (inequality, debt, financial crises). The process of accession of Central and Eastern European countries to the EU has also begun.

As a result, despite declarations, Europeans became incapable of large-scale military operations. Already during the Balkan Wars, European armies turned out to be helpless, and the NATO air operation in Kosovo was based 70% on US aviation. The United States provided 80% of the munitions used in the operation and 90% of the long-range air- and sea-launched cruise missiles. After the decision to leave the EU, it turned out that as much as 80% of NATO's defence expenditure was spent by non-EU countries. The progressive demilitarization of European NATO members led to Washington's dissatisfaction, which peaked during Donald Trump's presidency in 2017-2021.

59 A. Krzymowski, *Transformacja wewnętrzna Sojuszu Północnoatlantyckiego i proces jego europeizacji u schyłku XX wieku*, „Athenaeum. Polish Political Science Studies” 2007, vol. 18, pp. 126-146.

60 W. Wątor, *Grupy Bojowe Unii Europejskiej. Istota, bilans funkcjonowania, perspektywy*, „Studia Politicae Universitatis Silesiensis” 2018, vol. 18, pp. 87-115.

## EUROPEAN SECURITY AFTER THE TREATY OF LISBON

The Treaty of Lisbon was intended to remedy the failures of the period discussed above. The Common Security and Defence Policy gained treaty status and will now be used to ensure the military capabilities of member states. The treaty made the EU an international organisation with supranational elements<sup>61</sup>. The position of the High Representative has been significantly strengthened. He obtained the status of vice president of the European Commission and the support of the EU diplomatic service (EEAS), which took control of the EU Military Staff. The European Defence Agency, supervised by the High Representative, also became a treaty body responsible for developing the EU's defence capabilities. Its tasks currently include, among others: promoting arms cooperation and improving the defence industrial and technological base. However, the initial EDA budget was only EUR 30 million and could not influence the shape of the European arms industry<sup>62</sup>.

Other institutions important for European security policy include the European Union Intelligence and Situation Centre (EU INTCEN, incorporated into the EEAS in 2011), the Intelligence (INT) Directorate Mission and the already mentioned EU Satellite Centre and the EU Institute for Security Studies. The Lisbon Treaty did not provide a legal basis for the creation of a European army or conscription. The EU budget does not finance military operations and their costs are borne solely by Member States<sup>63</sup>. In light of the new regulations, the European Union may direct forces and resources to implement 6 types of Petersburg missions, i.e. joint activities (1) disarmament, (2) humanitarian and rescue, (3) military advice and support, (4) armed, aimed at combating crises, (5) peace-making and (6) post-conflict stabilisation.

Despite the development of numerous institutions, the EU was unable to effectively manage defence policy affairs. The armies of European countries were decreasing, as were their military expenditures, and the procedures introduced in the Lisbon Treaty allowed mainly for the organisation of small missions in Africa and the Middle East. According to data from the European External Action Service, at the end of 2022, the European Union conducted 7 military operations and 11 civilian missions employing approximately 4,000 soldiers and civilian employees<sup>64</sup>.

The potential outlined above does not allow the Union to conduct any large operations, much less react during wars. During the war in Georgia, French President Nicholas Sarkozy led negotiations on behalf of Europe, consulting with other presidents. In 2011 in Libya, London and Paris decided to act together because they did not want to be dependent on the complex EU decision-making process. The EU also did not participate in the major military crises in Syria, Libya and Mali, although they later generated the greatest refugee problems. It is worth noting that the only larger unit that was at the EU's disposal in recent years was the non-EU Euro corps, co-created in 1989 by French and German branches. The Corps operated in SFOR, ISAF and KFOR missions. It also formed the core of the EUTM mission in Mali in 2015.

61 See: J.J. Węc, *Spór o kształt ustrojowy Wspólnot Europejskich i Unii Europejskiej w latach 1950–2010. Między ideą ponadnarodowości a współpracą międzyrządową. Analiza politologiczna*, Księgarnia Akademicka, Kraków 2010.

62 A. Ciupiński, M. Soja, *Europejska Unia Bezpieczeństwa i Obrony. Struktury. Wizje. Perspektywy*, Difin, Warszawa 2020, pp. 36–55.

63 A. Ciupiński, *Podstawy traktatowe Wspólnej Polityki Zagranicznej i Bezpieczeństwa Unii Europejskiej*, „Zeszyty Naukowe AON” 2013, no.4, pp. 31–71.

64 See: A. Bugajski, *Problemy i wyzwania w stosunkach NATO – Unia Europejska*, PISM, Warszawa 2023, pp. 236–238.

As a result of limited opportunities for military cooperation, EU member states began to focus on NATO or create additional formats of military cooperation. These include projects such as the French-British CJEF initiative, which has approximately 5,000 soldiers for use in peacekeeping operations or the British JEF initiative, which aimed to create expeditionary forces in northern Europe. A separate non-EU project is the European Intervention Initiative (E2I), announced by E. Macron in 2017. The French president stated that intervention forces are needed in Europe because it is impossible to obtain consent from several dozen countries to use military force under unanimity.

## CHANGES IN EUROPEAN DEFENCE AFTER 2014

Russian aggression against Ukraine, which has been ongoing since 2014, has led to a re-evaluation of many European countries' attitudes in the area of security policy. Western European countries feared marginalisation, the collapse of the EU's concept of strategic autonomy and the loss of the Russian and Chinese sales markets. Meanwhile, Eastern European countries focused on deeper military cooperation with the US and supported deterrence mechanisms at every NATO summit.

In 2016, EU Member States agreed to set the Union's level of ambition in the area of security and defence as defined by the EU Global Strategy (EUGS)<sup>65</sup>. It identifies three priorities: (1) responding to external conflicts and crises, (2) building the capacity of partners, and (3) protecting the EU and its citizens. Also in 2016, a new instrument was presented - the Coordinated Annual Review on Defence (CARD), which annually presents an up-to-date picture of the military capabilities of EU countries and opportunities for further cooperation. Since the publication of the strategy, new dynamics of EU activities can be observed (see the graph below).

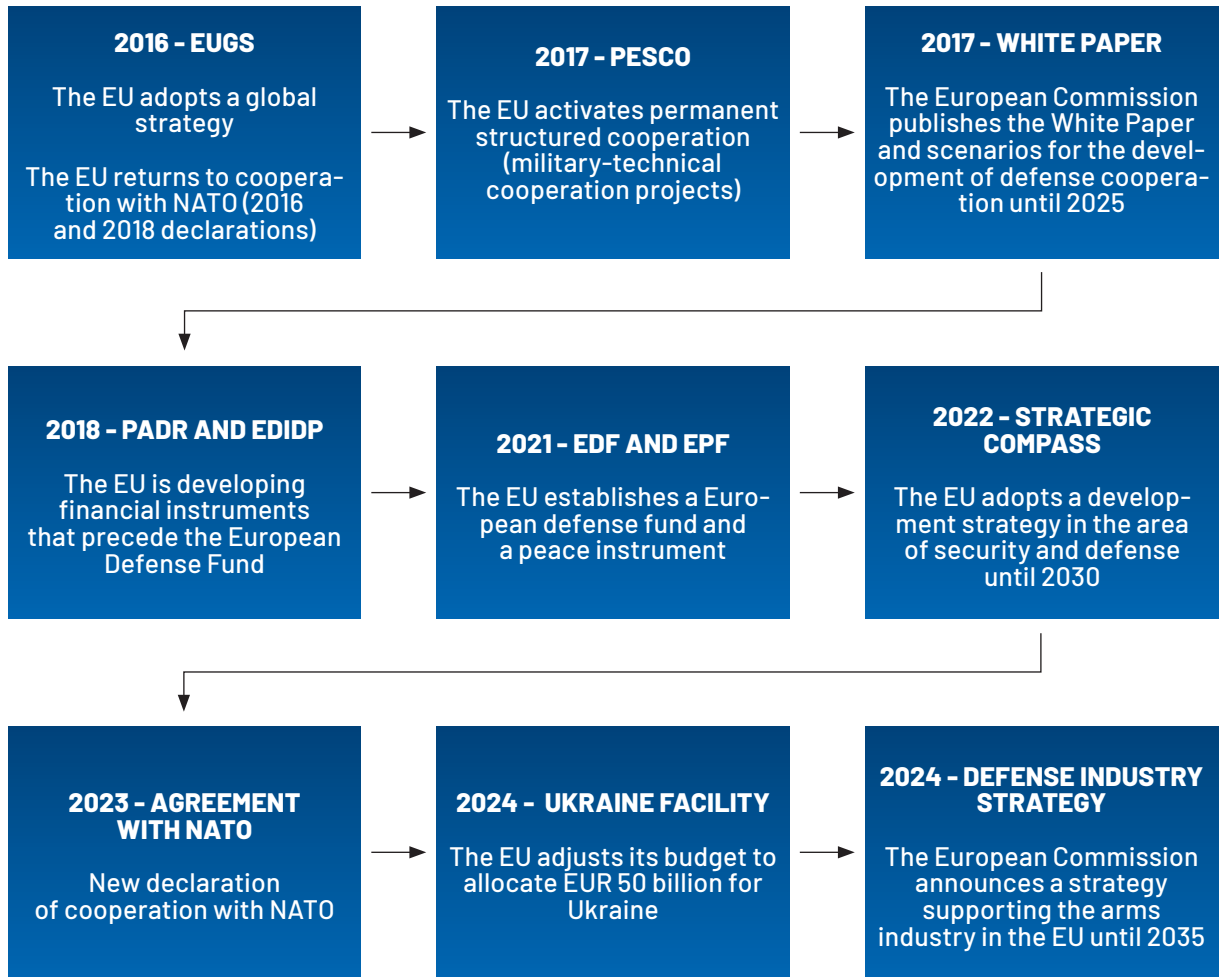
In March 2017, the European Commission, chaired by Jean-Claude Juncker, published *the White Paper on the Future of Europe. Reflections and scenarios for the EU-27 until 2025* and a few months later it opened the debate on European defence<sup>66</sup>. Of the three scenarios submitted (1. Defence & Security Cooperation / 2. Shared Security & Defence / 3. Common Defence & Security), the most ambitious assumed joining the European Security and Defence Union by 2025<sup>67</sup>. However, an effective EU defence system has remained unrealistic for years, and the defence of EU countries still depends on NATO, whose effectiveness is based on the military and industrial power of the US.

65 *Shared vision, common action – A stronger Europe – A global strategy for the European Union's foreign and security policy*, European External Action Service, June 2016, <https://data.europa.eu/doi/10.2871/9875>.

66 *White paper on the future of Europe*, European Commission, 1/03/2017, [https://commission.europa.eu/publications/white-paper-future-europe\\_en](https://commission.europa.eu/publications/white-paper-future-europe_en).

67 *Reflection Paper on The Future Of European Defense*, European Commission, Brussels, 7/06/2017, COM(2017) 315 final, <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52017DC0315>.

GRAPH. 3. **MAIN EU PROJECTS IN THE AREA OF SECURITY AND DEFENCE**



An important moment in EU-NATO relations was the signing of a joint declaration on NATO-EU cooperation by the President of the European Council, the President of the European Commission and the Secretary General of NATO<sup>68</sup>, which took place during the NATO summit in Warsaw in July 2016. Representatives of the EU and NATO agreed that a deeper cooperation in areas including, among others: countering hybrid threats; migration; cybersecurity; development of defence capabilities; defence industry and industrial cooperation; coordination of exercises and strengthening defence and security potential. Another strategic document – the second joint declaration on cooperation between the EU and NATO – was signed during the NATO summit in Brussels in July 2018. However, we had to wait until January 2023 for the next agreement.

68 EU-NATO cooperation, <https://www.consilium.europa.eu/pl/policies/defence-security/eu-nato-cooperation/#2016>.

In July 2017, several EU countries expressed their willingness to activate PESCO, (i.e. permanent structured cooperation). Several dozen projects under PESCO are aimed at strengthening joint military capabilities, as well as conducting joint exercises and activities in cyber and space. However, subsequent reviews found that most projects would not be implemented before 2025.

In addition to low military spending and poor army recruitment, EU countries struggle with dispersed logistics and technological potential. There are 179 weapon systems in Europe (30 in the US); Europeans have 17 types of tanks (the US has 1). In its navies, Europe uses 29 types of frigates and destroyers (the US has 4 types). We also have 20 types of planes (USA 6). Huge differences in equipment mean that the EU has limited ability to influence the European arms industry. About 80% of this industry in Europe is national, as is 90% of R&D spending. Every euro spent on defence brings a profit of 1.6 euros. There are 1.4 million highly qualified employees in the defence sector. The EU has concluded that by combining orders it is possible to save 30% of defence spending, which will not necessarily appeal to arms companies from small countries<sup>69</sup>. Currently, only 18% of weapons in Europe are produced through cooperation<sup>70</sup>. The leader of the European arms industry is France, which, according to SIPRI, has recorded a 47% increase in arms sales over the last five years and has become the second arms exporter in the world (after the USA, which currently supplies 63% of weapons to Europe)<sup>71</sup>.

Even if the EU proposes significant funds for the integration of the European arms industry, it will be a drop in the bucket. Back in 2007, the European Defence Agency published *the Strategy for the EU Defence Technological and Industrial Base* (EDTIB), which assumed that small EU countries are unable to compete on the global market for military technologies<sup>72</sup>. However, countries continue to support their domestic industries and are reluctant to integrate them. It must be honestly admitted that EU incentives for cooperation have not been tempting over the years. In 2019-2020, the European Defence Industry Development Program (EDIDP) had a budget of only EUR 500 million. In 2021, the European Defence Fund (EDF) entered into force with a budget of EUR 7.95 billion for 2021-2027. EDF is intended to increase the competitiveness of EU arms companies and help build the capacity to conduct military operations. However, Russia's invasion of Ukraine has led to an increase in arms, regardless of the EU's proposals. European arms imports increased by 94% between 2019 and 2023 compared to the period 2014-2018<sup>73</sup>. However, the average spending of countries on defence in the EU is approximately 1.6% of GDP and has not come close to the postulated level of 2% of GDP since... 1993!<sup>74</sup>.

Also in 2021, the European Peace Facility (EPF) was presented, with a budget of EUR 5 billion for 2021-2027. The EPF was to finance part of the costs of EU military operations and missions as well as peace support operations. This instrument was criticised. Meanwhile, it later turned out to be very useful in supporting Ukraine in defending itself against the Russian invasion.

69 Reflection Paper On The Future Of European Defense, European Commission, Brussels, 7/06/2017, COM(2017) 315 final, 7/06/2017, p. 8, <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52017DC0315>.

70 S. Besch, *Understanding the EU's New Defense Industrial Strategy*, Carnegie Endowment for International Peace, 8/04/2024, <https://carnegieendowment.org/2024/03/08/understanding-eu-s-new-defense-industrial-strategy-pub-91937>.

71 P. Wezeman, K. Djokic, M. George, Z. Hussain and S. Wezeman, *Trends In International Arms Transfers*, SIPRI Fact Sheet 2023, March 2024, <https://doi.org/10.55163/PBRP4239>.

72 *The EU's Defense Technological and Industrial Base. In-Depth Analysis 10/01/2020*, Think Tank – European Parliament, 10/01/2020, [https://www.europarl.europa.eu/thinktank/en/document/EXPO\\_IDA\(2020\)603483](https://www.europarl.europa.eu/thinktank/en/document/EXPO_IDA(2020)603483).

73 P. Wezeman, K. Djokic, et al., *Trends In International Arms Transfers...*, op. cit.

74 Military expenditure (% of GDP) – European Union, The World Bank, <https://data.worldbank.org/indicator/MS.MIL.XPND.GD.ZS?locations=EU>.

In 2022, EU countries approved the so-called *Strategic Compass for Security and Defence*<sup>75</sup>. The document defines 4 types of activities (*Act, Secure, Partner, Invest*). The EU returns to the idea of rapid reaction forces (*European Union Rapid Deployment Capacity* – EU RDC; up to 5,000 soldiers) and focuses on new threats. Despite the comprehensive formula, the outbreak of a full-scale war between Russia and Ukraine has led to Compass's assumptions being criticised as unrealistic<sup>76</sup>. Compass does not meet the criteria for postulated strategic autonomy. Unfortunately, Compass may share the fate of the Helsinki Headline Goal (concerning the ERRF rapid reaction forces, which were never created) or the Headline Goal 2010 (concerning the creation of Battle Groups, which were created but not used in practice).

The full-scale Russian invasion of Ukraine falsified (???) many declarations, but it did not go unanswered by the EU<sup>77</sup>. The EU announced thirteen packages of economic sanctions that hit the Russian economy. The EU also managed to neutralize energy dependence on Russia. Numerous instruments have also been established to support the struggling Ukraine (at the beginning of 2024, the aid was valued at EUR 143 billion)<sup>78</sup> and its membership perspective in the organisation was announced. The EU is also trying to support Ukraine through the EPF fund, soldier training (*EU Military Assistance Mission Ukraine*), equipment donations and purchases of ammunition and weapons. In February 2024, the European Parliament approved financial assistance for Ukraine (*Ukraine Facility*) of EUR 50 billion (EUR 33 billion in loans and EUR 17 billion in grants) for the years 2024–2027<sup>79</sup>. This support became invaluable during the lull in U.S. aid delivery in early 2024.

In March 2024, the President of the European Commission, Ursula von der Leyen, presented the first defence industry development strategy in the history of the EU (*European Defence Industrial Strategy*, EDIS)<sup>80</sup>. The strategy assumes that by 2035 at least 60% of the procurement budgets of Member States should go to EU suppliers. The EC wants member states to identify defence projects of common interest and work on their implementation in Europe. The Commission wants to support the accumulation of reserves and introduce a "catalogue" of defence equipment produced in the EU. The European Commission initially proposed to finance some of the strategy's initiatives through the European Defence Industry Program (EDIP) with a budget of €1.5 billion<sup>81</sup>. However, this program will not enter into force before 2025. Nevertheless, the EU hopes for an increase in defence spending in the next budget, i.e. only from 2028.

The discussion on appointing a separate EU commissioner for defence has been going on for months. Its likely competencies would include activities aimed at implementing the strategy for the development of the EDIS and would relieve the High Representative, who would be more involved in diplomacy. The concept of a European "minister of defence" resembles an analogous idea from 2017, i.e. the idea of appointing a European "minister of economy and finance" by combining the functions of one of the commissioners and the office of the president of the Eurogroup (and raising the rank of such a commissioner to the vice-president of the Commission).

75 A Strategic Compass for Security and Defence, [https://www.eeas.europa.eu/eeas/strategic-compass-security-and-defence-1\\_en](https://www.eeas.europa.eu/eeas/strategic-compass-security-and-defence-1_en).

76 M. Terlikowski, *In Search of Direction: EU Strategic Compass*, PISM, 24/05/2021, [https://pism.pl/publications/In\\_Search\\_of\\_Direction\\_EU\\_Strategic\\_Compass](https://pism.pl/publications/In_Search_of_Direction_EU_Strategic_Compass).

77 *EU response to Russia's war of aggression against Ukraine*, <https://www.consilium.europa.eu/pl/policies/eu-response-ukraine-invasion/#sanctions>; D. Cenusa, *Post-2022 EU Assistance to Eastern Neighbors: Old Practices, New Trends and the Implications of Russian Military Aggression against Ukraine*, Eastern Europe Studies Center, April 2022.

78 *EU response to Russia's war of aggression against Ukraine*, European Council, <https://www.consilium.europa.eu/pl/policies/eu-response-ukraine-invasion/eu-solidarity-ukraine/>.

79 Regulation (EU) 2024/792 establishing the Ukraine Facility, European Sources Online, <https://www.europeansources.info/record/proposal-for-a-regulation-on-establishing-the-ukraine-facility/>.

80 2023 State of the Union Address by President von der Leyen, 13/09/2023, European Commission, [https://ec.europa.eu/commission/presscorner/detail/en/speech\\_23\\_4426](https://ec.europa.eu/commission/presscorner/detail/en/speech_23_4426); The European Defence Industrial Strategy (EDIS) at a glance, European Commission, [https://defence-industry-space.ec.europa.eu/eu-defence-industry/edis-our-common-defence-industrial-strategy\\_en](https://defence-industry-space.ec.europa.eu/eu-defence-industry/edis-our-common-defence-industrial-strategy_en).

81 The European Defence Industry Program at a glance, European Commission, [https://defence-industry-space.ec.europa.eu/eu-defence-industry/edip-future-defence\\_en](https://defence-industry-space.ec.europa.eu/eu-defence-industry/edip-future-defence_en).

## NATO'S REACTION TO THE RUSSIAN-UKRAINIAN WAR

Unlike the EU, NATO is an alliance of states that has been based from the beginning on a single treaty and on clearly defined functions. Currently, NATO's main tasks are the common defence of member states, crisis management and cooperative security. NATO's primary asset is the military and industrial power of the United States. In 2023, the US spent over \$900 billion on defence (about 3 times more than all European NATO countries combined), and over the last 5 years it has sold about 40% of the weapons purchased in the world. Europe is protected by the American "nuclear umbrella". The US provides NATO with 180 nuclear missiles as part of the *nuclear sharing* program, and American troops allow Europe to use its transport fleet and satellite communications. Moreover, NATO's European command system remains directly dependent on the US SACEUR Command, and the NATO commands in Norfolk and Naples are linked to the US Second and Sixth Fleets. In addition, the Americans have a division of land forces and several squadrons of aircraft in Europe. They also have numerous depots and military warehouses.

Today Europeans are unable to wage war without the USA. Europeans' reactions to the Russian invasion of Ukraine and the risk of the conflict spilling out showed the scale of unpreparedness of European NATO members, while the United States increased the presence of its troops in Europe to 100,000 soldiers without any major difficulties<sup>82</sup>. In recent years, the region of Central and Eastern Europe has become the centre of NATO's gravity<sup>83</sup>.

At subsequent NATO summits in 2014, 2016 and 2018, Alliance members developed tools to respond to Russian aggression. In 2014 in Newport, NATO members decided to commit to spending at least 2% of GDP on defence, and one-fifth of this spending would be spent on army modernization<sup>84</sup>. As recently as 2014, only 2 of 26 European NATO members spent 2% of GDP on defence<sup>85</sup>. Also in Newport, it was decided to create the so-called spearhead (Very High Readiness Joint Task Force, VJTF), i.e. rapid reaction forces numbering approximately 5,000. soldiers, partly ready for action within 2-3 days. In 2015, Brussels decided to increase the size of the NATO Response Force from 13,000 to 40,000. soldiers.

In 2016, at the NATO summit in Warsaw, it was decided to place four Enhanced Forward Presence battalions in Poland and three Baltic states<sup>86</sup>. In 2018, the NATO Readiness Initiative was adopted in Brussels<sup>87</sup>. Member states have committed to preparing 30 battalions, 30 air squadrons and 30 warships that will be ready to move anywhere in the world within 30 days and carry out NATO operations. In recent years, NATO has increased the scale of military exercises, expanded airports, training grounds, ammunition depots, and increased the presence of NATO forces (mainly American) in Poland and Romania. These projects were accompanied by bilateral agreements between the US and the countries of NATO's eastern frontier and numerous arms purchases<sup>88</sup>.

82 S.G. Jones, S.P. Daniels, C. Dooxsee, D. Fata, K. McInnis, *Forward Defense. Strengthening US Force Posture In Europe*, A Report of the CSIS Transnational Threats Project, March 2024.

83 *Central and Eastern Europe: NATO's New Center of Gravity*, Ed. by D.P. Jankowski and T. Stępniewski, (Prace IEŚ, 6), Brussels-Lublin 2023.

84 NATO, Wales Summit Declaration. Issued by the Heads of State and Government participating in the meeting of the North Atlantic Council in Wales, 5/09/2014, press release.

85 D. Lopes Da Silva, N. Tian, L. Béraud-Sudreau, A. Marksteiner, X. Liang, *Trends in World Military Expenditure*, SIPRI Fact Sheet, April 2022.

86 NATO, Warsaw Summit Communiqué. Issued by the Heads of State and Government participating in the meeting of the North Atlantic Council in Warsaw, 8-9/07/2016, press release.

87 NATO, Brussels Summit Declaration. Issued by the Heads of State and Government participating in the meeting of the North Atlantic Council in Brussels, 11-12/07/2018, press release.

88 See P. Wilczek, *Poland-US Cooperation In The Years 2016-2020. Facts And Figures*, 17/06/2020, <https://warsawinstitute.review/news-en/poland-us-cooperation-in-the-years-2016-2020-facts-and-figures/>.

In 2022, at the NATO summit in Madrid, a new NATO Strategic Concept was presented, which indicated that the main opponent of the Alliance is Russia<sup>89</sup>. The Alliance has committed to expanding the NATO Response Force from 40,000 soldiers to approximately 300,000. The next NATO summit was held in Vilnius in 2023<sup>90</sup>. The main topic of the summit was both (1) allied issues (implementation of the Strategic Concept; new regional defence plans, assigned to the commands in Norfolk, Brunssum and Naples; development of rapid reaction forces), and (2) "non-allied" issues (relations with Ukraine).

Russian aggression revitalised NATO and contributed to the development of strategic studies<sup>91</sup>. The following processes are currently observed: (1) too slow an increase in the military capabilities of Western European countries causes (2) pressure on the allocation of rapid reaction forces to defend Eastern Europe and leads to (3) strengthening the US dominance in NATO.

It is worth noting that, in addition to the military component, infrastructural and institutional topics that are less traditional for NATO are increasingly appearing, such as: the reconstruction of Ukraine, industrial cooperation, military training centres, intelligence, cyber and legal issues. NATO is strengthening cooperation between member states and is reluctant to see the EU's attempts to monopolise the European arms market. Despite the differences, the 2023 NATO-EU declaration indicates new potential areas of cooperation, such as analysis of geostrategic competition, building resilience, and protection of critical infrastructure, space, and climate. In 2024, NATO Secretary General Jens Stoltenberg proposed the creation of a support fund for Ukraine worth \$100 billion over 5 years to integrate the efforts of NATO countries<sup>92</sup>.

After the outbreak of the war in Ukraine, the European Union focused mainly on economic and anti-crisis activities<sup>93</sup>. Even though 20 years have passed since the failure to establish the ERRF forces, European defence problems remain the same. Europeans still have neither the financial resources nor the technology (intelligence, reconnaissance, command support, transport, precision missiles, helicopters) to compensate for the potential absence of the US. In recent years, there have been staffing problems<sup>94</sup>. Major European armies have recruitment problems, while Russia can train a quarter of a million conscripts a year<sup>95</sup>.

89 NATO 2022 Strategic Concept, <https://www.nato.int/strategic-concept/>.

90 Vilnius Summit Communiqué. Issued by NATO Heads of State and Government participating in the meeting of the North Atlantic Council in Vilnius 11/07/2023.

91 Russian War Against Ukraine. Lessons Learned. Curriculum Guide, NATO Headquarters, Brussels, December 2023; Containing Russia, Securing Europe, eds. S. Greene, S.J. Rzegocki, Center for European Policy Analysis, Washington 2024. S. Charap, M. Priebe, *Planning for the Aftermath. Assessing Options for US Strategy Toward Russia After the Ukraine War*, RAND, Santa Monica, Calif. 2024.

92 *NATO Proposes \$100 Billion, Five-Year Fund to Aid Ukraine*, Bloomberg, 2/04/2024, <https://www.bloomberg.com/news/articles/2024-04-02/nato-proposes-100-billion-five-year-fund-to-support-ukraine?embedded-checkout=true>.

93 L. Pernotte, T. Lawrence, *EU Security and Defense After Ukraine*, ICDS Brief, October 2022.

94 B. Barry, H. Boyd, B. Giegerich, M. Gjerstad, J. Hackett, Y. Michel, B. Schreer and M. Tong, *The Future of NATO's European Land Forces: Plans, Challenges, Prospects*, IISS, London, June 2023.

95 Ch. Mölling, T. Schütz, *Preventing the Next War. Germany and NATO Are in a Race Against Time*, DGAP, Berlin, November 2023.



## CONCLUSIONS

- 1. The European Union has managed to build an infrastructure of cooperation between member states, but basic defence tasks will remain the responsibility of NATO.** The main method of action of the EU is the gradual transfer of sovereignty towards technocratic structures, which in traditional areas such as defence does not arouse support from member states.
- 2. EU-NATO cooperation leaves much to be desired, as its formula is still based on the Berlin Plus agreements of 2002.** Since 2005, NATO and the EU have been cooperating mainly informally. Official regulations of cooperation are needed.
- 3. NATO and EU military cooperation has led to many problems in the past,** related to classified information, resources, command and payments. Many official solutions were impossible to implement due to Turkey's policy.
- 4. A problem for the EU has become the unreliable policies of France and Germany in 2022, which, after Russia's invasion of Ukraine, came close to adopting an appeasement strategy.** The loss of credibility of these powers led Eastern European countries to closer cooperation with the USA. As a result, in the area of security, the EU is treated in the region as a "toolbox" (logistics, supplies, border protection). EU leading states are not ready for war.
- 5. During crises, the EU has become an effective mechanism for mobilising resources** (fight against COVID-19; sanctions on Russia; support for Ukraine), while NATO still has problems with, for example, enforcing military spending among the European members of the Alliance.
- 6. In the field of defence policy, the EU should support NATO** by countering hybrid and terrorist threats, developing military capabilities, and military mobility, and ensuring security in cyberspace.
- 7. Supporting the arms industry by the EU is a good idea, but it will be on a limited scale** due to the lack of funds and the lack of consent of member states to interfere in their defence. For example, Poland imports military equipment from outside the EU (USA, Great Britain, South Korea) and it is difficult to imagine that EU regulations would force restrictions on imports.

## RECOMMENDATIONS FOR POLAND

- 1 Poland should support initiatives that do not dissipate forces and strengthen military security in Eastern Europe.** Therefore, the Polish government's long-standing reluctance to engage in EU missions and operations in Africa is understandable. Poland, as a *security provider*, should animate increased cooperation and financing of security in the region.
- 2 Poland should support NATO and the EU in reaching an agreement officially dividing the responsibilities of both organisations.** The EU should focus on non-military security, i.e. population protection and protection of critical infrastructure. NATO should take care of the quality of its armed forces.
- 3 Poland should encourage partners to strengthen military capabilities in the areas of greatest deficit.** These include areas such as the development of the transport fleet, logistic support for operations, combat resources (e.g. precision ammunition, missile and anti-missile systems), command, reconnaissance and communication systems. Capacity-building programs should be complementary and include limited US support in their variants.
- 4 The appointment of a Commissioner for Defence in the European Commission should not be a priority for Poland,** because his proposed competencies seem to concern mainly the management of the European Defence Agency and the cooperation of the arms industry in the EU. Poland has minimal participation in these initiatives. The positions of the High Representative and commissioners with defined areas of responsibility remain much more important. Poland should strive for better representation of the Central and Eastern European region in NATO structures.
- 5 Poland should ensure the rapid Polonisation of acquired military equipment** to become a licensed producer and exporter of military technologies in Europe in the future. Polonisation of technology and production will allow Poland to avoid restrictions resulting from possible future EU regulations regarding the purchase of weapons outside the EU.

# **7. BUILDING INDUSTRIAL DEFENCE POTENTIAL AND POLAND'S MEMBERSHIP IN THE EU**

FILIP SEREDYŃSKI



The study contains a diagnosis of the situation in which the Polish arms industry finds itself in the context of the war in Ukraine, the increase in Polish defence expenses, the European Union's strategy for building a European industrial and technological base in the defence sector, and the changes that have happened in the domestic market in recent years. The conclusion contains recommendations for decision-makers regarding further actions, such as undertaking an investment program in the Polish defence industry, switching the defence industry to a war economy, and placing instruments of influence on the defence industry in one ministry (investments, orders, corporate supervision). Investing in the defence industry requires statutory regulation of the principles of building industrial potential. In addition to government investments, foreign purchases should be used to build a domestic industrial base, as was realised by, for example, South Korea. A sceptical assessment of the possibilities of developing Polish industry based on EU programs does not exclude taking actions in this area, specific examples of which have also been described in the conclusions.

## THE THREAT OF WAR AND INVESTMENTS IN THE POLISH DEFENCE INDUSTRY

Poland has faced a serious threat of Russian aggression. In this situation, it became necessary to strengthen the military potential and develop its own arms industry. It should be emphasized that it is impossible to win a full-scale defensive war without our own arms industry. Without supplies of new weapons and ammunition, and without servicing and repairing military equipment, it is impossible to conduct intense and long-lasting fights. In Poland, we forget about this obvious thesis. In many cases, Poland purchased foreign equipment on a large scale, but there was no possibility of its servicing and repairs at the industrial level of the purchased weapons, without mentioning the possibility of replenishing the losses with new domestically produced weapons.

At the same time, Poland's expenses on armaments are significant. There was a sudden increase in the Ministry of Defence budget: from 2023, it increased to 3.0% of GDP. Due to this increase and revenues from the issue of bonds of the Armed Forces Support Fund, the potential budget for defence expenses increased by approximately PLN 76 billion in 2023, which in nominal terms more than doubles compared to 2021. Even before the *Homeland Defence Act* came into force, Poland was among the leading countries of NATO in terms of the percentage of GDP in defence expenses. After changes, Poland will become a leader, as a country that spends up to 4% of GDP on defence.

The arms funds currently available to Poland should primarily serve to increase its military capabilities. It is no less obligatory in the Polish arms industry to develop the ability to independently service and repair equipment at an industrial level. No army in the world independently services equipment at all repair levels.

The possibility of conducting service abroad during war conditions is also limited. It then turns out to be necessary to militarise one's own industrial plants, previously prepared to conduct operations in war conditions, and, using such a fully available base, to restore the combat capabilities of the equipment and replenish losses.

With a view to the production of new military devices, the possibility of locating such production in Polish plants should be maximised. This brings benefits to the Polish economy. It also improves technical culture and enables the production capacity to be available in case of an outbreak of an armed conflict.

## KOREAN EXAMPLE

Performing purchases that involve the transfer of production and service technology turns out to be much more difficult than the so-called off-the-shelf purchases (i.e. purchases without offset and technology transfer). However, in a long-term perspective, it brings both military and economic benefits. The off-the-shelf shopping method was typical of countries such as Saudi Arabia and Egypt. Despite significant expenditure on armaments, no significant industrial base was built. Sweden, Israel, South Korea and Turkey are at a completely different extreme.

The construction of the aviation industry by South Korea is an interesting case study for Poland because Seoul faced dilemmas like those that were faced by Poland. Both countries do not want to violate the ties that connect them with the USA, but at the same time, they strive to maintain a certain independence of their plants and diversify the sources of supplies of advanced weapons systems. Both countries face real threats to their security. Both Poland and South Korea decided to purchase American-made aeroplanes (Poland - F-16 C/D Block 52+ and F-35, South Korea - F-16 and F-15K Strike Eagle), which determined the further development of the base industrial, logistics and training of the air forces of both countries for the next decades.

Since the 1970s, the Korean government has changed its purchasing policy for military equipment from acquiring ready-made aeroplanes from abroad to producing machines domestically. An example of the new approach was the production in South Korea of 500MD helicopters under license from the American company Hughes, F-5 E/F fighter aircraft under license from Northrop Grumman, or F-16 aeroplanes. In 1973, the Korean government announced the Heavy and Chemical Industry Development Plan, which assumed a change in the direction of industry support by the Korean administration. A new law entered into vigour in 1978, and it was intended to stimulate research and development in the aviation sector. In the long run, the Koreans' goal was to ensure that the cost of building their own structures in local plants based on Korean technology was around 130% of prices of solutions available "off the shelf" abroad. Nevertheless, building its own aviation industrial potential required enormous financial outlays with the prospect of low production volumes. That is why Korean companies started building their position with the final assembly of machines, and construction of the airframe and engines. Avionics, interior, instrumentation, and hydraulic elements were in most cases imported.

An important moment in the development of the Korean aviation industry was the Korean Fighter Program, which appeared in the public debate in 1983. It was the largest arms program in the history of South Korea. The government took specific steps already in 1985. As a result, in 1994, Samsung started producing F-16 aircraft, of which 120 units were produced by 1999. Thanks to the entire project, the company became a leader among Korean aviation companies.

Samsung's offset collaboration with General Dynamics, acquired by Lockheed Martin in 1993, resulted in a new aviation project in the form of a program to build a supersonic advanced training aircraft (KTX-2, later renamed T-50), that began in 1991. Thanks to Samsung's offset obtained the technology for building airframe parts, jet engine components and support for the future export of the new aircraft. Thanks to the offset, Korean companies were able to start work on the F/A-50, and then on the 5th generation KF-X aircraft (built together with Indonesia).

The Korean example shows how to combine increasing military potential with building one's defence competencies.

## THE MEANING OF POLAND'S MEMBERSHIP IN THE EUROPEAN UNION

Poland's membership in the European Union makes it difficult to follow the Korean path in the development of its defence industry due to EU legal regulations and the weak position of Polish enterprises on the open European market.

Extensive European Union regulations in the field of state aid, free movement of goods and services and public procurement impede effective state policy in the field of defence industry. Currently, a certain possibility of directing arms orders to domestic enterprises is provided only by Art. 346 of the Treaty on the Functioning of the European Union (TFEU), which exceptionally allows for protectionist actions provided that the existence of a fundamental interest in state security is demonstrated. The concept of the basic interest of state security is strictly defined by the EU authorities, and the possibility of applying this regulation has been repeatedly limited, for example, by introducing the so-called defence directive<sup>96</sup>. The directive harmonised the provisions on public procurement in the field of defence and equalised the position of individual suppliers regardless of their country of origin. Derogation from the rules of the 2009 directive. is possible only by way of exception regulated by Art. 346 section 1 letter b of the TFEU. The latest proposal for treaty changes also includes the path described in Art. 346 section 1 letter b of the TFEU is practically closed because consent to the application of this provision is to be made dependent on the Commission's decision.

The EU bodies have repeatedly adopted documents providing for a strategy for the development of the European defence and technological base of the defence industry sector (European Defence Technological and Industrial Base - EDTIB)<sup>97</sup>. The EU strategy emphasizes that it is important to create market conditions conducive to undistorted competition between arms companies. At the same time, it temporarily allows the use of offset, pointing out the harmfulness of this economic policy instrument to the free market. In the future, it is expected to be eliminated.

96 Directive 2009/81/EC of the European Parliament and of the Council of 13 July 2009 on the coordination of procedures for the award of certain works contracts, supply contracts and service contracts by contracting authorities or entities in the fields of defence and security, and amending Directives 2004/17/EC and 2004/18/EC.

97 (1) Strategy for the development of the European industrial and technological base of the defence sector of the European Defence Agency of 2007, (2) Communication to the European Parliament, the Council and the European Economic and Social Committee and the Committee of the Regions entitled "Strategy for a stronger and more competitive European defence industry", (3) Communication from the European Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions of 24 July 2013 - "Towards a more competitive and efficient European defence and security sector", (4) Resolution of the European Parliament of 21 November 2013 on the European technological and industrial base for the defence sector, (5) Report of the European Commission of 24 June 2014 to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions 'A New Deal for European Defence: Action plan in the areas covered by Communication COM(2013)542 Towards a more competitive and efficient defence and security sector', (6) European Parliament resolution of 21 May 2015 on the impact of developments in European defence markets on the security and defence capabilities in Europe.

In November 2016, the European Commission announced the European Defence Action Plan (EDAP). The Commission's plan states that the European Union needs to strengthen the defence capabilities of member states through the joint acquisition of weapons and military equipment, developing and maintaining the full spectrum of operational capabilities on land, sea, air and in space. More effective use of public funds and a stronger industrial base can be achieved by strengthening the Defence Single Market, reducing duplicate industrial competencies, and improving the competitiveness of EU defence enterprises. In 2017 The Preparatory Action on Defence Research - PADR was announced. PADR was a pilot programme implemented in 2017-2019. Then, the next step was the project of the European Defence Industrial Development Programme (EDIDP) covering the capacity development phase between research and production. The programme has a budget of EUR 500 million for 2019-2020 intended to co-finance joint European projects that contribute to the development of innovation and competitiveness of the defence industry. In 2021 the proper programme *European Defence Fund - EDF* was launched. The European Commission will provide almost EUR 8 billion for EDF 2021-2027. Funds of EUR 2.7 billion will be used to finance joint defence research, and EUR 5.3 billion will be provided by the Commission for joint projects to develop production capabilities - complemented by national co-financing. EDF is supposed to support competitive and collaborative industrial projects throughout the research and development cycle to have a greater impact on European defence capabilities and the production potential of the European technological and industrial base.

However, the EU strategy de facto promotes the strong arms industries of the largest EU countries, in particular Germany, France, and Italy. Arms enterprises from these countries, as the most technically advanced, can effectively compete with enterprises operating in the newly admitted EU member states and win tenders for arms supplies. This leads to marginalisation and progressive degradation of the domestic industrial base in the countries of the so-called "new" European Union, which means partial dependence on arms supplies from abroad. Moreover, a ban on the use of offsets could further worsen the situation of the less competitive arms industries of Central and Eastern European countries. Arms producers from these countries would thus be cut off from the means to reduce the technological gap and additional investments to increase their potential. Such action was contrary to trends in the global arms market, where the value of direct and indirect offset obligations has systematically been growing and is still growing.

Polish arms companies are economically weaker than European giants such as Airbus, Rheinmetall or Leonardo. On the EU's open arms market, they are unable to compete with financially, organisationally and technologically stronger magnates, additionally supported in a very energetic way by individual governments. Creating a level playing field for foreign enterprises vis-à-vis Polish companies in orders placed by the Polish army would quickly lead to the elimination of the vast majority of Polish enterprises from the arms market, which would mean a weakening of the defence capabilities of the Polish state.

As a result, two phenomena come together. On the one hand, membership in the European Union, which is beneficial for Poland, results in access of the Polish industry to generous arms programs and the huge European market, on the other - these programs and market access are used to a much bigger extent by the strongest French, German and Italian entities on the market, which may eventually lead to the complete marginalisation of the Polish industry.

The problem was brought into sharp focus by the Commission's funding program for ammunition production. Of the amount of EUR 500 million, Polish companies will receive only EUR 2.1 million, which is a negligible amount compared to subsidies granted to, for example, German companies of EUR 85 million. The reasons are multi-faceted. First, lobbying failed to define the assumptions of the project. As a result, one of the assumptions that discriminated against the Polish industry was the requirement for an own contribution exceeding 50% of the investment value and the planned allocation of funds for individual ammunition components. The condition of the Polish arms industry, which suffers from capital shortages and a low

organizational level in some areas, was also important. Consequently, strong European producers became even stronger, and the Polish arms industry once again lost some of the distance from them.

Unfortunately, it should be assumed that the situation that occurred in the case of the ammunition program will repeat itself, but Poland can take action to minimise losses.

## INTERNAL SITUATION

The entry into force of the *Homeland Defence Act* did not mean a breakthrough for the Polish arms industry. The Act duplicates the existing provisions regarding the mobilization of the economy, the militarisation of defence enterprises and the placing of defence orders. These regulations are not sufficient to ensure an adequate preparation of industry for the 'W-Period'. There is a common lack of directions for the evacuation of industries and their employees and the resumption of production in new, secured locations during the war. Plants are still sensitive to the lack of utility supplies. Funds allocated to maintain service and production capacity for the "W-Period" constitute a small percentage of actual needs. The deficiencies in the field of civil defence and the repeal of the Civil Defence Act without introducing a regulation replacing the existing provisions have become a symbol.

In a sense, the Homeland Defence Act is a missed opportunity to build a comprehensive defence and industrial system for the country, especially since its work was completed during the growing security crisis of 2021/2022. Although the Act obliges the Government to include in draft budget acts or draft acts on the provisional budget the expenses on the technical modernization of the Armed Forces of the Polish industrial defence potential and expenditure on scientific research and development work in the field of state defence. However, the provisions of the Act are very general and do not contain any percentage indicator (which previously existed in relation to R&D works). This makes it impossible to substantiate the government's actions, which practically gives the Council of Ministers, and the Minister of National Defence, freedom in conducting arms policy, which may include placing orders for military equipment almost exclusively from foreign suppliers with a marginal participation of Polish arms companies, research and development centres or universities. It should be emphasized that by establishing a specific level of expenditure on the technical modernisation of the army, implemented with the participation of Polish entities, the Ministry of National Defence would stimulate their development by creating a stable mechanism for financing their activities.

Since 2014 a new offset act has been in force, replacing a similar act from 1999, which, however, is not applied automatically, but only when the need for its application is determined in the course of establishing the existence of a basic state security interest. In this process, a decisive role is played by the Ministry of National Defence, which eventually decides on the use of offset at its discretion. Moreover, the transfer of the offset to the Armament Agency in practice lowered the requirements of the Polish Government towards foreign suppliers in offset programs.

The rules for building defence industrial potential are also extremely unclear in the internal regulations of the Ministry of National Defence. The key decision in this respect of the Ministry of National Defence<sup>98</sup> currently has an unclear legal status and, despite the lack of a clear repeal, it is considered to have expired. The decision included a key para-offset instrument used in many procurements, allowing for the building of industrial potential when making defence procurements under Article 346 of TFEU. Consequently, this

98 Decision No. 367/MON of 15/09/2015. On the principles and procedure for providing orders of fundamental importance for state security in the Ministry of National Defence.



tool is not often used in practice, despite the formal possibility of its introduction by contracting entities in their internal regulations.

The result is making enormous foreign purchases without the construction or use of domestic industry as well as without ensuring servicing of purchased equipment in domestic industry.

The situation is aggravated by complex ownership supervision over one of the most important Polish defence companies, i.e. the PGZ [Polish Armaments Group, Polska Grupa Zbrojeniowa] Group. Despite the obvious connection of this company with the Ministry of National Defence, ownership activities are performed by the Ministry of State Assets. If the phenomenon of "departmental Poland" is not overcome, this is the cause of unnecessary tensions and the Ministry of National Defence's failure to use the potential of the Polish arms industry.

The development of private arms companies is without any doubt a positive. The pioneer is the WB Electronics Group, which records constant development and reaches into new areas. Many other companies are also developing dynamically. The increase in the volume of defence orders, but also the patriotism of entrepreneurs, results in an increasing interest in investing in the arms industry. Entrepreneurs previously involved in housing construction, automotive, IT and other traditional civilian industries are beginning to invest in the defence industry. These are companies that will largely need cooperation with the Polish Armaments Group, the most important integrator of Polish defence products because their production will be part of a broader supply chain. Polish Armaments Group, however, will remain a key prime contractor and therefore will remain an entity of very important importance for the state's defence.

Above all, despite the ongoing war in Ukraine and the need to supply and repair equipment for the Ukrainian army, the Polish arms industry has not switched to war mode. Orders to produce large-calibre ammunition still number several dozen thousand pieces per year. These numbers correspond to several days of ammunition consumption in the ongoing war. No new production lines are being built, and most plants operate in single-shift mode. The regulations of the Homeland Defence Act regarding the mobilisation and militarisation of plants were not applied. Investment programs in the Polish arms industry conducted by the Polish government are being implemented very slowly. Of the planned recapitalization of the Polish Armaments Group with the amount of PLN 13 billion, PLN 1.45 billion has been invested so far<sup>99</sup>. One of the reasons is the chosen formula of financing investments from Capital Investment Funds or the Re-privatisation Fund, which provides restrictive conditions for granting financing.

99 J. Palowski, *Gdzie jest 13 mld złotych dla zbrojeniówki?*, Defence 24, 12/04/2024, <https://defence24.pl/przemysl/gdzie-jest-13-mld-zlotych-dla-zbrojeniowki>.

## RECOMMENDATIONS FOR POLAND

The ongoing war in Ukraine and the threat to Poland's security require the implementation of investment programs in the Polish defence industry regarding the production of military equipment and ammunition.

The arms industry should switch to war mode, i.e. the plants should operate with full production capacity in 3-shift mode with partial use of the mechanisms provided for in the Plan for securing the needs of the Armed Forces, referred to in the Homeland Defence Act. (Previously it was the Economy Mobilisation Plan).

It requires many actions taken in very close cooperation between the Ministry of National Defence and Polish Armaments Group, such as allocating investment funds for capacity building, awarding orders and launching mobilisation mechanisms to secure, among others, staff shortages. That is why supervision over the Polish Armaments Group should be placed within the Ministry of National Defence and should be performed by a specialised civilian structure of the Ministry of National Defence. The Ministry of National Defence should concentrate competencies in the field of investments in the arms industry, defence procurement and supervision of the arms industry.

The method of building industrial potential should be regulated by law in the Homeland Defence Act. There should be a legal provision for the Ministry of National Defence to invest in production and service infrastructure, which would then be owned by the Ministry of National Defence and used by arms companies realizing contracts for the Ministry of National Defence.

In the case of foreign orders, the development of domestic potential should always be foreseen, at least in the field of servicing the purchased military equipment. The potential, depending on the level, should be established in Polish army units and arms industry enterprises, including the possibility of building potential by foreign entities, e.g. in the form of a consortium or joint venture with domestic companies.

A permanent representative office of Polish arms companies should be established in Brussels, whose task would be to lobby with regard to the assumptions of armament programs, primarily as part of EDF. The main aim should be to establish the so-called national envelopes in armament programs, which means securing the minimum ceiling of funds to be received by each country. Moreover, the representative office should promote participation in European programs among Polish entities and educate and support Polish companies and research and development centres in this area.

## **8. UNDERREPRESENTATION OF POLES IN THE EUROPEAN CIVIL SERVICE**

ANGELIKA GIERAŚ



**The paper aims to show that despite twenty years of its membership in the European Union, Poland is still underrepresented in EU administration. This fact limits the country's ability to influence the decision-making process and to represent its national interests. The above gross imbalance limits Poland's ability to defend its interest and to have a say in shaping EU political programmes. Despite the programmes and recommendations adopted by the EU aimed at restoring the balance in national representation in the EU civil service, the situation has been constantly deteriorating. Unequal representation threatens the legitimacy of the European Union, increasing Poles' sense of peripherality, and also undermines the democratic cohesion of the entire organisation. Finding effective tools to ensure a balanced participation of individual Member States in the EU structures is crucial to ensuring the long-term legitimacy of the European Union.**

## **EU CIVIL SERVICE AFTER 2004**

2004 witnessed the largest enlargement of the European Union with ten new Member States joining the organisation. In the same year, the reform of the EU civil service also came into effect, carried out by Neil Kinnock, the then Vice-President of the European Commission. New Staff Regulations for EU officials were introduced, a significant feature of which were significant pay cuts for those employed after 1 May 2004, reduced pension prospects for many others, and a gradual deterioration of employment conditions. This aroused resentment among many EU staff members, although the pressure on budgets that largely drove these changes had in fact been imposed on the Commission from above by Member States in the Council of the European Union.

It was also in 2004 when the European Personnel Selection Office (EPSO)<sup>103</sup> was established, a key institution in recruiting staff for EU institutions.

It is responsible for holding competitions for EU civil service employees, CAST and temporary staff. Eligible candidates for permanent EU civil service positions must be citizens of one of the 27 EU Member States, must be fluent in one of the official EU languages (1 out of 24) and in one of the working languages (English, French or German) at B2 level. For men the additional condition is to have fulfilled any obligations imposed by national laws concerning military service. Higher education is not formally a requirement to become an EU official at the AST (assistant) grade. However, to be an EU official – (AD) administrator at the lowest grade (AD5) – one must have a first-cycle university degree, but no professional experience is required. By meeting these general criteria, any EU citizen is eligible to enter a competition organised by EPSO.

In 2023, the EU staff member recruitment process was shortened from three to two stages, and well as a possibility of remote pre-selection tests was introduced. Pre-selection tests were extended to include digital skills tests, EU knowledge test and a case study (which was previously a part of the third stage of recruitment)<sup>104</sup>. After obtaining 50 per cent of correct answers in digital skills tests, candidates are placed on the Reserve List. Only at this stage can HR departments of EU institutions, directors or heads of units invite applicants for job interviews testing their soft skills and motivation to work for the EU. In fact, it is only after a candidate has passed the EPSO digital skills tests that recruiters start looking through their CV, evaluating their professional experience, language competences, abilities, work experience, and additional skills<sup>105</sup>.

103 Official website of the European Personnel Selection Office, <https://eu-careers.europa.eu/pl>.

104 Detailed information on the recruitment path is available at [www.epso.eu](http://www.epso.eu)

105 *New model of competitions – they will be shorter, more efficiently organised and more accessible!*, <https://eucareers.europa.eu/pl/introducing-faster-leaner-and-more-accessible-competition-model#tab-2>

There is a discrepancy between the rules of employment for EU civil service and real life. On the one hand, there are large disproportions in the employment figures of citizens of individual Member States<sup>106</sup> and on the other hand, EU law imposes the principle of equality of its citizens<sup>107</sup>, which should also apply to EU civil servants<sup>108</sup>. As a matter of principle, discrimination on grounds of nationality is prohibited by the EU Treaties, the Charter of Fundamental Rights and the Staff Regulations. At the same time, the Staff Regulations require the EU institutions to employ staff from the broadest possible geographical basis (Article 27 of the Staff Regulations)<sup>109</sup>. The requirement to keep a balance between these two elements enables the institutions to take nationality into account, even for filling specific posts where qualifications of the various applicants are substantially the same.

## NATIONAL QUOTAS

The European Union (EU) is an international organisation that provides employment worldwide, not only in Europe. Since Poland joined the EU in 2004, it has not managed to fill the so-called national quota, estimated at 8.2 per cent of its citizens employed in the EU civil service<sup>110 111</sup>. The national quota is calculated based on the strength of a country, determined by the ratio of the number of its citizens to the number of citizens of all 27 EU Member States. There is a clause in the Staff Regulations requiring 'proportional representation'. This means that each Directorate General has 'guiding rates' on the nationality of its staff and when recruiting new officials, it should create a geographical balance among the staff and to reflect European civil service values which respect rich cultural and linguistic diversity. There is no gender quota either, but the new Human Resources Strategy aims to have more women in management positions to achieve more gender balance<sup>112</sup>. The national quota translates not only into the employment figure in the civil service, but also, for example, into the number of MEPs in the European Parliament, where Poland has 52 seats. In 2010, Maroš Šefčovič, the then Vice-President of the European Commission for Interinstitutional Relations and Administration, presenting a major overhaul of the recruitment procedure for EU civil servants, said: "By the end of this year, we'll have kept our word and the quotas will be filled at all levels"<sup>113</sup>. However, so far this promise has not been fulfilled.

106 M. Cedro, *We have too few officials in the EU bureaucracy*, „Dziennik Gazeta Prawna” [online], 27.04.2019, <https://praca.gazetaprawna.pl/artykuly/1410006,mamy-za-malo-urzednikow-w-unijnej-biurokracji.html>.

107 Article 9 of the Treaty on European Union, <https://eur-lex.europa.eu/legal-content/PL/TXT/?uri=celex%3A12016ME%2FTXT>.

108 Report from the Commission to the European Parliament and the Council pursuant to Article 27 of the Staff Regulations of Officials of the European Union and Article 12 of the Conditions of Employment of Other Servants of the European Union (Geographical balance), COM(2018) 377 final/2, 24/08/2018, Brussels, source: [https://eur-lex.europa.eu/legal-content/PL/TXT/PDF/?uri=CELEX:52018DC0377R\(01\)&from=LV](https://eur-lex.europa.eu/legal-content/PL/TXT/PDF/?uri=CELEX:52018DC0377R(01)&from=LV)

109 Staff Regulations 2021., <https://eur-lex.europa.eu/legal-content/PL/TXT/PDF/?uri=CELEX:01962R0031-20210101>.

110 Strategy for supporting Poles in EU institutions, Report of the Network PL Association, 2020, , 2020, <https://www.network-pl.org/wp-content/uploads/2023/01/2022-Network-PL-Strategia-wspierania-Polakow-w-instytucjach-UE2728.pdf>.

111 M. Groszek, *Can there be more Poles in institutions?* "Rzeczpospolita" [online], 3.01.2016, <https://www.rp.pl/opinie-ekonomiczne/art4029691-czy-moze-byc-wiecej-polakow-w-instytucjach-ue>.

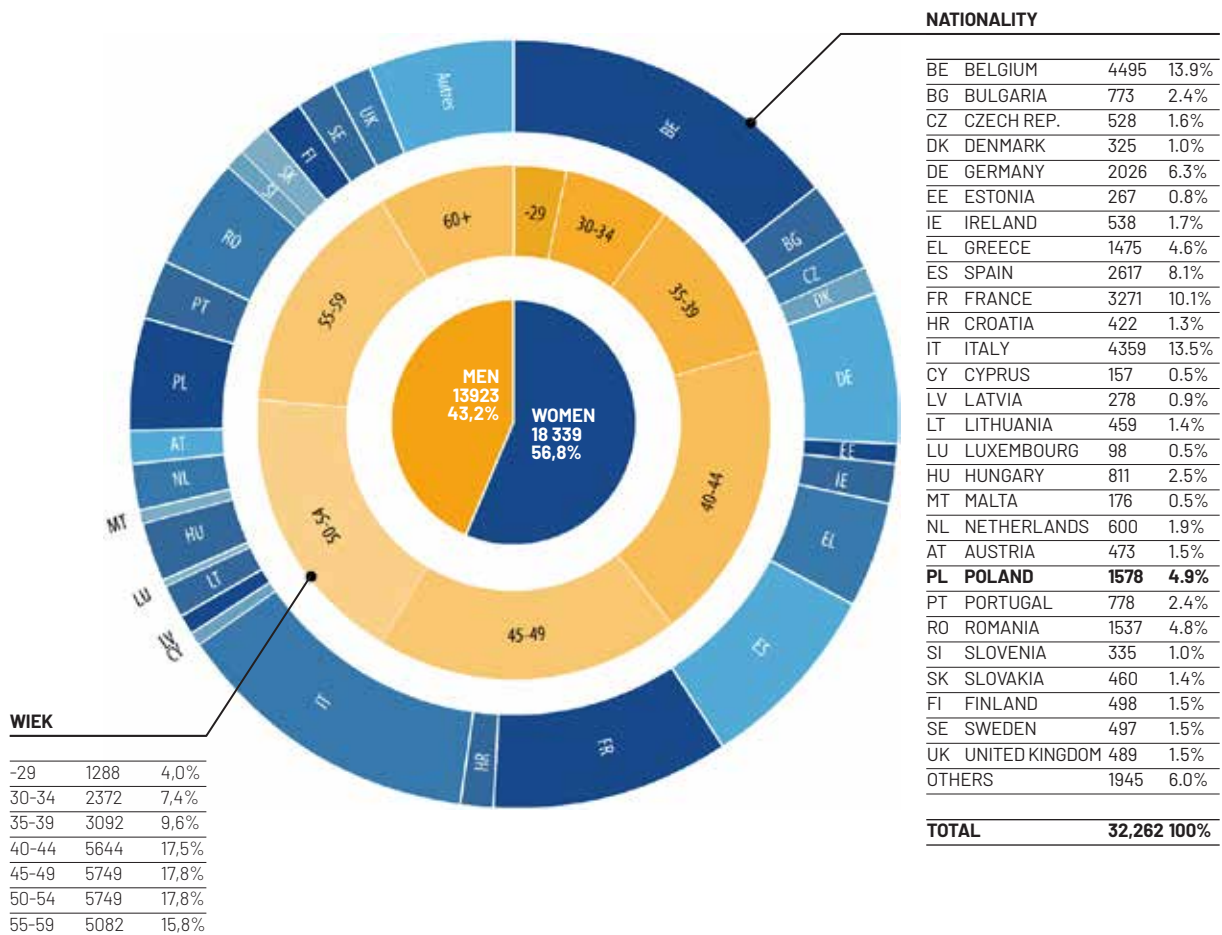
112 National Quota, EU Training, <https://eutraining.eu/epso-glossary/national-quota>.

113 *EU institutions preparing staff nationality quotas*, Euractiv, 12.03.2010, <https://www.euractiv.com/section/public-affairs/news/eu-institutions-preparing-staff-nationality-quotas/>.

## EMPLOYMENT OF POLES IN EU INSTITUTIONS - ACTUAL SITUATION

The European Commission monitors the issues concerning employment of officials in all Directorates General (DGs), and since 2016 it has annually been publishing statistical data for the previous year. Currently, all EU institutions are required to keep employment statistics, but this information is not always published on websites. This data is made available to the country holding the presidency, which then organises a debate on the topic. The published data provides information on the nationality of officials, the percentage share of Member States in the EU civil service, the age of officials, gender, broken down by DGs, which shows which DG has the largest and which has the smallest number of employees<sup>114</sup>. Below is a chart showing employment statistics for the European Commission which is the largest employer of all EU institutions. Data as of 1 January 2023.

FIG. 1. **REPORTING DATA FROM THE EUROPEAN COMMISSION SHOWING THE EMPLOYMENT STATUS OF ITS STAFF AS OF 1 JANUARY 2023<sup>115</sup>**



114 Key figures on European Commission staff, European Commission, [https://commission.europa.eu/publications/key-figures-european-commission-staff\\_en](https://commission.europa.eu/publications/key-figures-european-commission-staff_en).

115 HR Key Figures, European Commission, 2023, [https://commission.europa.eu/document/download/04118600-5b22-4b63-83e4-bdf74a6be3fe\\_en?filename=HR-Key-Figures-2023-fr\\_en.pdf](https://commission.europa.eu/document/download/04118600-5b22-4b63-83e4-bdf74a6be3fe_en?filename=HR-Key-Figures-2023-fr_en.pdf).

It clearly shows that the countries with the highest employment rate are:

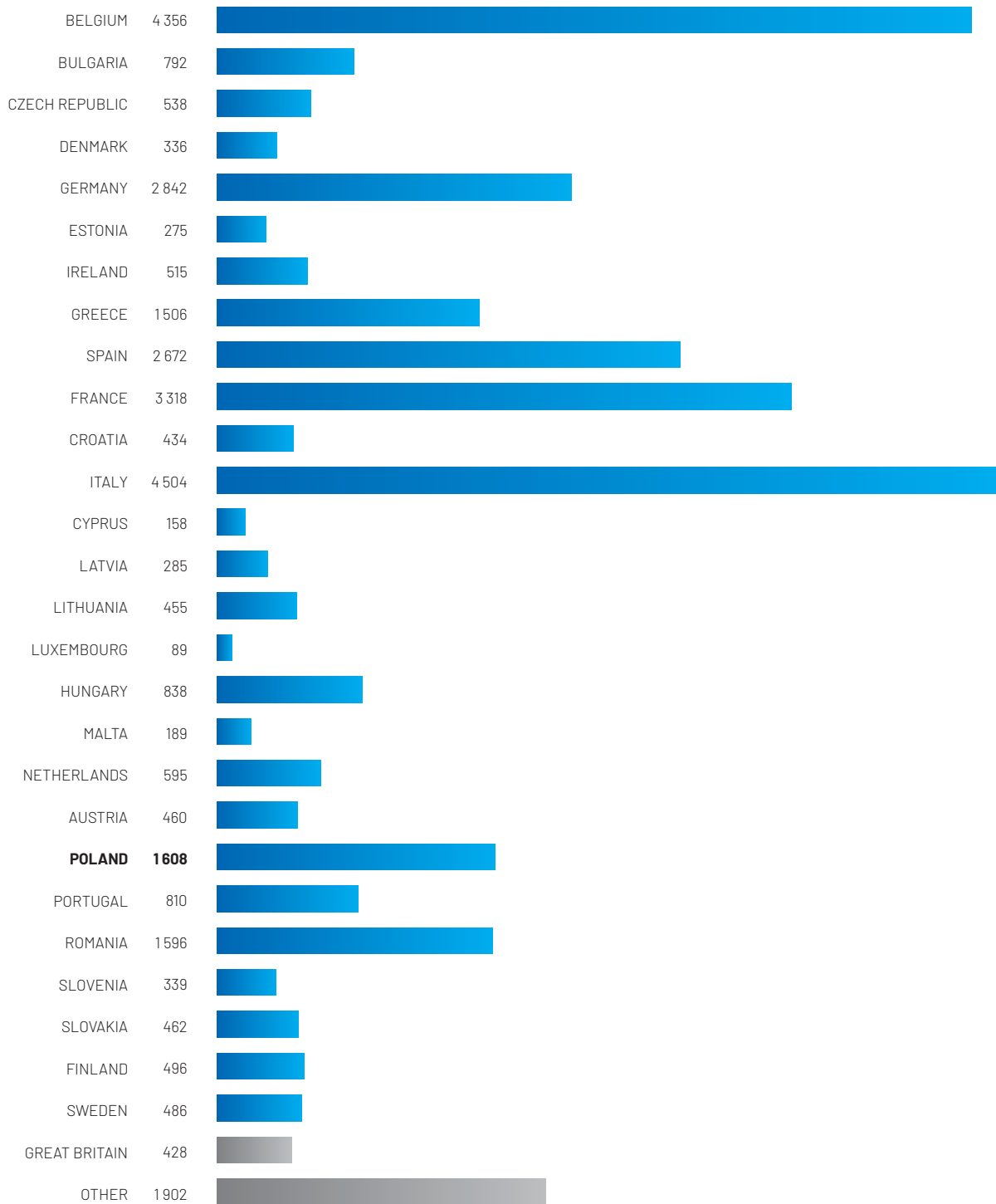
- **Belgium** (4,495 people, or 13.9 per cent of all officials),
- **Italy** (4,359 – 13.5 per cent of all officials),
- **France** (3,271 – 10.1 per cent of all officials),
- **Spain** (2,617 people, or 8.1 per cent of all officials),
- **Germany** (2,026 – 4.8 per cent of all officials), which means that the EU civil service is dominated by citizens of Western European countries.

**As of 1 January 2023, Poles accounted for 4.9 per cent (1,578 people) of all officials in the European Commission, which constitutes approx. 60 per cent of the national quota, which we are entitled to as a Member State.**

Obviously, this situation can easily be explained by historical factors, but after 20 years of membership, large countries such as Poland can expect to have achieved an employment rate close to the national quota for our country (approximately 8.2%). The above chart also shows that the problem concerns not exclusively Poland. Citizens of Central and Eastern European countries are underrepresented in the EU civil service, as are also citizens of other Western European countries, such as the Netherlands. Scandinavian countries such as Denmark, Finland and Sweden account for 1-1.5 per cent of EU officials, even though their national quotas are approximately 2.7 per cent. The above shows a clear preference for Belgians, Italians, Frenchmen and Spaniards in the EU administration.

Romania is an interesting case because it joined the EU three years later than Poland and yet managed to fill its national quota. Citizens of a country with a population of approximately twenty million achieved a representation rate of 4.8 per cent in the EU civil service, which is only 1 percentage point less than Poland, which has approximately 38.5 million citizens. Among the reasons for the above situation can be the activity of a country in promoting its citizens, as well as the lack of specialized training that would prepare Poles for passing pre-selection tests (verbal, numerical and abstract thinking) that are part of the EPSO recruitment process.

FIG. 2. **REPORTING DATA FROM THE EUROPEAN COMMISSION SHOWING ITS EMPLOYMENT FIGURES AS OF 1 JANUARY 2023<sup>116</sup>**



116 Key Figures on European Commission Staff on 1st January 2024, European Commission, [https://dashboard.tech.ec.europa.eu/qs\\_digit\\_dashboard\\_mt/public/sense/app/87fb97de-d12e-444a-a828-73a2e35242e4/sheet/b87ca14d-15a6-45dd-be10-b521cb0a0d82/state/analysis](https://dashboard.tech.ec.europa.eu/qs_digit_dashboard_mt/public/sense/app/87fb97de-d12e-444a-a828-73a2e35242e4/sheet/b87ca14d-15a6-45dd-be10-b521cb0a0d82/state/analysis)



Figure 2 includes employment figures for the European Commission as of 1 January 2024. It shows that Poland is represented in the European Commission by 1,608 civil servants. On the one hand, we are observing an upward trend, but on the other, as shown by the statistics published in the EC action plan, the number of Poles in AD5–AD8 positions in all EU institutions has been decreasing constantly since 2016<sup>117</sup>.

The situation is further deteriorated by the fact that according to forecasts, in the next four years approximately 2000–3000 EU officials will retire from the European Commission alone. Most of them are from countries with the highest employment rates, i.e. Belgium, Germany, Italy, France and Spain. In the years 2024–2028, approximately 40 Poles will retire from the European Commission. This gap will need to be filled as soon as possible to maintain the continuity of the EU administration. The Commission should take remedial action by organising national competitions for all underrepresented countries. Thanks to this, Poles would only compete with applicants from Poland, and not with people from all Member States, as is currently the case. National competitions would make it possible to make geographical representation in the EU administration more balanced. After reaching 80 per cent of the national quotas, the institutions could discontinue the application of the remedial measure and return to competitions open to all 27 Member States.

## PROSPECTS FOR CHANGE

In 2020, the European Commission published a new HR strategy 2020–2024<sup>118</sup> in which it committed to eliminating the geographical imbalance in the EU civil service. To address the low number of applicants from Poland, the Commission's Directorate General for HR and the Permanent Representation of the Republic of Poland to the EU have developed an action plan<sup>119</sup>. The aim of the document was to present the reasons for Poland's low representation and to identify the steps that Poland, the Commission and EPSO should take, also jointly, to remedy it. The document directly confirms the underrepresentation of Poles at all levels of administration – among linguists, temporary staff, permanent staff, as well as in managerial positions, where the representation of our compatriots is 3.8 per cent at the level of middle management and 5.3 per cent among senior management. The action plan draws attention to possible causes of the situation:

1. low interest in EPSO competitions can be seen as a consequence of the improved attractiveness of the Polish labour market and low unemployment in recent years;
2. long and complex EPSO competitions reduce the attractiveness of a career in the EU.

At the end of January 2023, the new EPSO competition model was adopted<sup>120</sup>, which aims to shorten and simplify selection procedures. The first competitions under the new EPSO model were due to take place in 2023, but no competitions for generalist officials at the lowest grade (AD5) were held. The reason were technical problems with preparing the online recruitment process for all applicants. Last year, EPSO held competitions for officials specialising in various areas such as space, energy and cybersecurity. In order to assess the effectiveness of the actions undertaken so far by the Permanent Representation of the Republic of Poland to the

117 *Action Plan on Geographical Balance. Poland*, European Commission, 2023, [https://commission.europa.eu/document/download/1c8d4d34-8fc3-40be-8b52-b0f890a981d0\\_en?filename=Poland-Action-Plan-on-Geographical-Balance-Endorsed-15-September-2023\\_en.pdf&prefLang=pl](https://commission.europa.eu/document/download/1c8d4d34-8fc3-40be-8b52-b0f890a981d0_en?filename=Poland-Action-Plan-on-Geographical-Balance-Endorsed-15-September-2023_en.pdf&prefLang=pl).

118 *Strategic Plan 2020-2024*, Directorate General Human Resources and Security, [https://commission.europa.eu/system/files/2020-10/hr\\_sp\\_2020\\_2024\\_en.pdf](https://commission.europa.eu/system/files/2020-10/hr_sp_2020_2024_en.pdf).

119 *Action Plan on Geographical Balance. Poland*, European Commission, 2023.

120 *Competency framework. Basic criteria, eu-careers*, <https://eu-careers.europa.eu/pl/system/files?file=2023-04/PL.pdf>

EU in recent years, it would be necessary to rely on statistics regarding the employment of Poles based on the competition for the so-called generalists (AD5). Only then will it be possible to assess how many candidates from which Member State applied for the competition, who successfully passed the competition procedure, and whether the promotional activities produced the expected results. An attempt to reliably evaluate the remedial actions on the basis of specialised competitions is virtually impossible. The next AD5 competition is scheduled to be held in late 2024 or early 2025. If this scenario comes true, it will turn out that for two years the EU has not organised the most popular recruitment competition for citizens of EU countries. The above gives rise to a number of reservations towards the current director of EPSO, Minna Vuorio (from Finland). Trade unions, supported by the European Ombudsman, are demanding improvements in the work of this office<sup>121</sup>. They argue that EPSO's problems are damaging not only the integrity of recruitment processes, but also the reputation of EU institutions, negatively affecting the proper functioning of the EU civil service.

Despite the actions taken by the European Commission in 2020 to create more balanced national representations in the EU administration, the goal has not been achieved. A number of commitments have been made and indicators have been developed to monitor the situation, but the truth is that elimination of imbalances is not really in the interest of the EU institutions. Poland must strive for these positions itself, as well as lobby for and promote its candidates. And the effort is worthwhile, because it will translate into our country's ability to influence decision-making processes and to represent Polish interests in the EU arena<sup>122</sup>.

In the next Commission term 2024–2029, the EU Commissioner for Administration should be a person representing Central and Eastern Europe. It would also be desirable if EPSO director was a person from this region, too. High-ranking management officials are also needed to revamp and improve the system of acquiring qualified employees from this part of Europe to work in the EU institutions.

## SUMMARY

The aim of the paper was to show that after twenty years of membership in the European Union, Poland is underrepresented among EU officials. Despite the programmes and recommendations adopted by the EU aimed at creating more balanced national representations in the EU civil service, the problem still remains unsolved for Central and Eastern European countries. The work of the European Personnel Selection Office is poorly assessed by trade unions and the European Ombudsman. Poland is underrepresented at around 40 per cent, which is disturbing and may undermine EU's legitimacy in the long term. It should be in the national interest of Poland and Poles to eliminate the disparities as quickly as possible by achieving the national quota of 8.2 per cent of EU civil servants. As soon as possible, EPSO should reintroduce competitions for the lowest-grade generalists (AD5), as a result of which a large group of citizens representing all EU Member States will be able to apply.

In a European working environment, multilingualism of applicants is very important. However, so far, no systemic solutions have been developed regarding the languages in which the recruitment process should be held. France has sued the European Commission at the Court of Justice of the European Union, challenging the privileging of the English language in the recruitment process<sup>123</sup>. According to the authorities

121 B. Moens, *Staff unions call for EU personnel agency boss to quit*, „Politico” [online], 20.02.2024, <https://www.politico.eu/article/eu-personnel-agency-boss-under-fire/>.

122 M. Gostkiewicz, *Poland will lead the EU at a crucial time*. “The EU is not ending. Neither work on it”, WP, 28/04/2024, <https://wiadomosci.wp.pl/polska-pokiere-ue-w-zdrowiem-czasie-unia-sie-nie-konczy-i-praca-nad-nia-tez-7021478197148576a>

123 *France is suing the European Commission for preferring English in hiring EU workers*, France. Polish Portal in France, 30 October 2023, <https://www.ifranca.fr/francja-pozywa-komisje-europejska-za-preferowanie-jezyka-angielskiego-w-zatrudnianiu-pracownikow-unijnych/>.

in Paris, this practice is a manifestation of discrimination against candidates who do not speak English and violates the EU Treaties. If the ruling is in France's favour, EPSO will have to hold the entire recruitment process in all 24 official EU languages, which could extend its duration.

From the Polish point of view, multidirectional actions are needed to encourage citizens to work in institutions – more information sessions, promotional activities, training support, development of social media, as well as closer cooperation between the Representative of the European Commission in Poland and central administration, universities and NGOs.

The recruitment process for the apolitical EU civil service is subject to tough negotiation procedures. Our goal should be to establish a coalition with Central and Eastern European countries to ensure more balance in national representations in the EU civil service.

The period of presidency is a great opportunity to promote this topic on the EU agenda and to build alliances of countries harmed by the current system.

## RECOMMENDATIONS FOR POLAND

- 1** The Polish government should widely promote the EU career path among Polish public administration staff (central and local government) and among university students, informing them about the advantages of choosing this type of career.
- 2** Universities should create specialisations in fields such as administration or European studies, which would prepare students for EPSO competitions. Currently, the University of Warsaw is the only centre in the country offering such specialisation as part of European studies. There is a need to implement this solution also at other Polish universities.
- 3** Following the example of Western European countries, the Polish government should provide regular funding for training programmes for EPSO pre-selection tests for public administration employees and for university graduates, including Polish graduates of the College of Europe (EU interns) aspiring to work for EU institutions. Proper orientation of candidates will increase the likelihood of them passing the pre-selection exam.
- 4** The Polish government should keep a register (map) all Polish citizens employed in EU institutions, including details of their grade, description of the official's current career path, education, strengths and specialised courses completed. Such a database would have to be updated on an ongoing basis. Candidates from this database should be supported by diplomats working in the Permanent Representation of Poland to the EU for promotion to higher positions. Once a year, a meeting between representatives of the central government and Poles working in the EU institutions should be held to ensure a better flow of information and to build good relations with EU officials. It is also necessary for the Representation of the European Commission in Poland to be involved in these activities.
- 5** Effective activities require increasing the staffing levels of the personnel department in the Permanent Representation of Poland to the EU in the department responsible for supporting the employment of Poles in EU institutions, which means increased funding for the employment of Polish diplomats.

- 6** It is in Poland's best interest to return to national competitions based on national quotas, thanks to which, in competitions for EU positions, Poles will compete with other candidates from Poland, and not with applicants from all Member States. The goal is for underrepresented countries to fill more positions in the EU civil service. Poland should demand the introduction and enforcement of preferences for candidates from underrepresented countries until employment rates are more geographically balanced.
  
- 7** Monitoring of EU legislation in this area is extremely important because elimination of geographical imbalances is not in the interest of Western European countries. They are afraid of organising national competitions for underrepresented countries, even though the legal services of the European Parliament have issued a decision that such a procedure is legally permissible and consistent with EU law. At the same time, the legal services of the European Commission (EU's largest employer) issued a negative opinion on this matter. Currently, there is a dispute regarding the possibility of holding national competitions. In the coming years, the case may be taken up by the Court of Justice of the EU, and it is in Poland's national interest to keep the decision that reduces the level of geographical imbalance. A ruling in favour of the underrepresented countries would mark a fundamental change in the approach to the problem, as a result of which each EU institution would have to introduce national competitions as a remedy.

# ABOUT THE AUTHORS AND PUBLISHER



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## ABOUT THE PUBLISHER

Since 2017, the Institute has placed great emphasis in its activities on the publication of studies and recommendations aimed at showing how Polish local governments should use the opportunities related to the fourth industrial revolution, innovation and new technologies.

The Institute has published 50 reports, 89 analyzes and several hundred expert comments. It has the staff and appropriate equipment necessary to properly perform the subject of this Offer and is fully responsible for the quality of the services it provides.

The Sobieski Institute is a Polish, private, think-tank analytical center whose mission is "Creating ideas for Poland". It was registered in 2005 in the legal form of a foundation. The founders of the Institute were Mirosław Gruszka, Marek Borzestowski, Ph.D. Ryszard Sowiński and Paweł Szałamacha. In the years 2003-2010 he published the quarterly International Political Review edited by Konrad Szymański. In the years 2011-2015 he was the organizer of the annual Poland Great Project congress. He also implemented the Sobieski Academy project, the aim of which was to shape future leaders of Polish political and economic life. In 2017, he organized the edition of the National Innovation League.

Example publication of the Sobieski Institute:

- Commercial companies: Aiut, Assay Group, Rohde&Schwarz, WB Electronics, Asseco, Samsung, Lotos, Google, Procter and Gable, PWC, Cisco, EY, Phoenix Systems, Uber, Orange, Energa, Collegium Wratislaviense, 4CF;

- Institutions: Ministry of Foreign Affairs, Representation of the European Commission in Poland, Office of the European Parliament in Poland, Ministry of Climate and Environment, Agency for Development and Industry, Stock Exchange, Chancellery of the Prime Minister, Ministry of Digitization, Law and Justice, Hungarian Embassy, Senate of the Republic of Poland, European Party of Conservatives and Reformists;

- Non-governmental organizations: Republican Foundation, Jagiellonian Institute, New Confederation, Ambitious Poland, Youth for Poland, Konrad Adenauer Foundation, Central European Energy Partners, Foundation, Institute for Foreign Affairs and Trade (Külügyi és Külgazdasági Intézet), Institute for Politics and Society (Institut pro politiku a společnost), The F. A. Hayek Foundation Bratislava.



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The establishment in 1988 of diplomatic relations with the then European Community, with which a year later, on 19 September 1989, an Agreement on trade and commercial and economic cooperation was signed was a prelude to Poland's EU accession. On 1 May 2004, after years of accession efforts, Poland became a member of the European Union, along with Cyprus, the Czech Republic, Estonia, Lithuania, Latvia, Malta, Slovakia, Slovenia and Hungary. So far, it has been the largest enlargement in the history of the EU.

This report was prepared to commemorate the twentieth anniversary of this event. It attempts to summarise the successes so far and to identify the challenges awaiting us in the upcoming years of European integration. The study prepared by Sobieski Institute experts consists of seven policy papers, each of which can be read independently. The authors of the report focus on problems that are pivotal for European integration in the near future, such as the future EU system, the development of research and science, the future of the euro zone, the economic effects of the Green Deal, the development of security and arms policy in the EU, and the functioning of the EU civil service.

The mission of the Sobieski Institute is to create ideas for Poland, which is why each paper ends with recommendations for Poland. The Institute's experts have identified problems and have presented their recommendations including actions to be taken to protect Poland's national interest.

Membership in the EU and the ability to influence the shape of the European puzzle should bring Poland as many benefits as possible, not only economic ones. During the anniversary celebrations held on 1 May 2024, the public space was dominated by financial aspects related to integration. Obviously, over these 20 years we have developed as a country and have gained a lot from our EU membership. However, the global geopolitical situation has changed, which calls for new ways and solutions that can strengthen our position in the European Union.

We hope the report will be a valuable read.

**TWORZYMY  
IDEE DLA POLSKI**



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