



## Reinvention of Europe Project

### A place at the top table? Poland and the euro crisis

**By Konstanty Gebert**

If you want to dine at the European Union's top table it is important to be able to count on powerful friends who can help you pull up a chair. With an economy only one quarter that of Germany's, and a population half its size, Poland cannot and does not aspire to have a permanent chair at that top table. But neither can it – with a population accounting for half of all the 2004 enlargement states and an economy among the best-performing in a crisis-ridden EU – content itself with merely a seat at the lower table. This is the challenge facing Poland, as it seeks to follow its developing interests and make its voice heard at a time when the most powerful countries in the EU are pulling in very different directions.

Poland's position within the EU is further complicated by its straddling of several dividing lines. For instance, its future is fundamentally tied to the Eurozone club that it does not belong to but very deeply desires to participate in. It managed to assume the rotating EU presidency for the first time just as the deepest crisis to affect the Union was deepening even further. Following on from the Lisbon Treaty, however, the presidency's influence is now much reduced, and so Poland was relegated to being a mere observer of decisions made by others, mostly over the future of the Eurozone.

Poland also straddles the demographic and economic boundaries between the EU's major players and its smaller ones (the sixth largest in both categories). Some point out that numbers alone do not tell the entire story. Poland is the only EU member state not to have been in recession over the last 2 years, and its growth rates (4.2% to the third quarter of 2011; a projected 3% for 2012) continue to exceed expectations. Much of that growth, to be sure, is due to EU cohesion fund transfers, but private consumption, for instance, grew by 3% in the third quarter of 2011. The trust Poles and Polish companies have in the performance of their economy can be seen in the vicissitudes of the Warsaw stock exchange. While the WIG dropped by 24% in 2011 (indicating a lack of trust by foreign investors who still lump Poland together with other Central European countries such as crisis-ridden Hungary) the stock exchange still got more new listings than China this summer. It is also rare for a country's economy to get rave reviews in the Wall Street Journal, Financial Times and New York Times in just over two weeks, as happened to Poland late 2011. Poland's relative clout is also bolstered by the impact of its recent history and steady popular Euroenthusiasm.

It is also to the advantage of Eurozone countries that Poland is given a voice. Even if it does not necessarily have any solutions to the crisis to offer, it is bound to eventually suffer its

consequences: the zloty has depreciated against the euro, boosting exports and lowering labour costs but increasing the foreign currency credit crunch; and more than half of Poland's exports go to the Eurozone (and half of that to Germany). In other words, the successful Polish economy is integrated with the euro 17, but cannot influence developments there. This, of course, is a disadvantage to Poland, but does not necessarily work to the advantage of the Eurozone countries either. Warsaw's ambitions to have a more influential voice are therefore arguably also in the general European interest on economic terms. These ambitions, however, have only been modestly successful.

Poland's strategy has been to concentrate on relations with Berlin, London and Paris, in that order, playing a predictable, yet quite sophisticated game between the conflicting interests of the three. This in itself is a radically new development in Polish foreign policy which, over the last two decades, was – for fundamental security reasons – concerned with Washington and Moscow almost as much as with European capitals. Even if the mercifully brief parenthesis of 2005-2007, when the Kaczyński brothers, at the helm of both the State and the government, pushed for a policy of confrontation with both Moscow and Berlin based upon a largely imaginary “privileged relationship” with Washington, is to be set aside, Poland seemed more concerned with resisting a possible threat from Russia and strengthening a protective alliance with the US than in nourishing relationships with key EU members. This policy was put to rest with the change of government in 2007, but even if Donald Tusk's PO (Civic Platform) had not then carried the day, it can reasonably be expected that a less threatening Russia, a more distracted US, and an ever more fundamentally indispensable EU would all have combined to lead Poland back the right track.

Much of Poland's foreign policy, however, is focused on regional and neighborhood issues. The country's impact on the European scene is to an important extent a consequence of that fact. Although many other Central European countries would politically resent any ambitions by Warsaw to play leader of the pack, Poland is certainly capable of organising the EU's poorer member states around a policy of common interests (e.g. over CO2 emissions). At the same time, Poland was able to convert its own concerns over the situation east of its borders into a legitimate EU concern, by co-sponsoring, with Sweden, the Eastern Partnership policy (EaP). Even if it has recently registered several failures, with Belarus becoming more repressive, Ukraine following suit, and the Arab Spring replacing the East with the South on Europe's radar screen, concern with the Eastern neighborhood remains an area of Polish expertise. Indeed Poland was classified as a 'leader' in five areas of ECFR's European Foreign Policy Scorecard that were concerned with either Russia or Wider Europe.

This makes Warsaw a desirable partner, especially for Berlin which (as opposed to Paris or London) has always made relations with the East a fundamental priority. Several Polish initiatives regarding EaP were run together with Berlin, solidifying a Polish-German alliance emerging simultaneously around other fundamental policy goals.

## **Big Sister**

As things stand now, Berlin is Warsaw's main ally within the Union, and both capitals coordinate their major policies closely. This cooperation is both a consequence of historical developments of the past, and a result of a canny appreciation of current and future challenges. Germany had been, much more than France, an active promoter of Poland's membership in the Euro-Atlantic

community. Berlin's vision of deepening European integration and enlargement, much more than Paris' idea of a union of sovereign states with borders more or less where they are now, was consistent with Poland's expectations of the European future. Even if both states do not necessarily see eye to eye on issues such as the role of NATO (although Poland did second Germany's abstaining from action in Libya) or energy policy (atomic energy, the Nordstream pipeline), on key issues (including Russia) there is fundamental agreement.

Both countries also want to see the current crisis resolved within existing European institutions, not outside them (Germany in the hope of using these institutions to punish profligate members, and Poland out of concern about the impact of poorer and smaller states on the Union). Berlin, however, is at the same time critical of their lack of transparency and of democratic legitimacy, and would like to see relevant treaty changes. Poland is concerned that such ambitious goals might get the whole undertaking bogged down in German constitutional issues. At the same time Poland would want Germany to ease its position on Eurobonds and/or ECB as lender of last resort, while fully understanding the reasons of Berlin's refusal to do so. "Regarding Germany, the danger is that they will dump the child with the bathwater and destroy the euro," says a top Polish diplomat. "The markets still need a clear signal that Germany will do what it takes to save the euro."

Given that both countries seem only to diverge on tactics while agreeing on strategic goals, their alliance on the euro crisis is solid enough. But this alliance with Berlin has put Warsaw on a collision course with the two other crucial EU capitals, London and Paris (for different reasons). The alliance is also lopsided, thanks to the disparity in economic weight and Poland's position outside the Eurozone. Poland needs Germany much more than Germany needs Poland. Chancellor Merkel is obviously 'Big Sister' to Prime Minister Tusk's 'Little Brother', not the other way around.

Poland's relationship with Britain has always been based on a number of shared crucial policy goals, despite interest in the East being of far lesser concern in London than in Warsaw. The shared goals include staunch support for market liberalism and sound fiscal policy, along with a stress on the importance of defence spending (even if London is opposed to developing a common European defence capability that Warsaw is in favour of). They are both keen on EU enlargement, although the UK sees enlargement as instrumental in preventing deeper European integration while Poland believes both can be combined. However, as the euro crisis has intensified, Poland's trust in European institutions and the UK's Euroscepticism has put the two countries at loggerheads. Warsaw is unhappy with this outcome and will spend considerable effort to bring London back into the European mainstream.

In the words of Jakub Wiśniewski, head of strategic planning at Poland's MFA, "Poland should not join the anti-UK chorus. We hope the Brits will recognise that it is better to defend one's interests while being present at the table. The UK should not only be appeased with conciliatory messages but also with putting stress on the many things which we continue to have in common." Wiśniewski also remarks that "the German-French engine always ran smoothly only when the UK is on board." Even if this has not always been the case, the statement clearly reflects Warsaw's political preferences. As they see it, having the Brits "come back to their senses" is important not only from the viewpoint of Polish interests, but in the interest of the EU as a whole.

## Great expectations

This, obviously, is not an opinion France would share, and Poland – while officially only “expressing concern” over some French positions – now seems to view France as its main adversary in the EU. This is the culmination of a long process of mutual disappointment, from France’s reluctance to support Poland’s NATO and EU membership and President Chirac’s infamous “ils ont perdu une bonne occasion de se taire”, to the French veto over Poland’s aspiration, as EU President, to participate in Eurozone summits and the results of the December 2011 Council Meeting. If French criticism of Poland’s participation in the war in Iraq has proved not unjustified, and her veto was directed at the UK and not at Poland per se, the drive to substitute European institutions with intergovernmental summits and to substitute the EU with the Eurozone is seen by Warsaw as “a noose around our necks”.

The European institutions give a voice to smaller and weaker EU member states, and Warsaw is keen to preserve them. Although the Union’s sixth largest in terms of population and size, due to the relatively small dimensions of its economy Poland sees itself as a champion of that group, and is (in this sense only) seen in return by them as such. As it is not currently a member of the Eurozone (although it aspires to membership) it is also vitally interested in avoiding the onset of a ‘two-speed’ Europe.

These interests and French policies have placed Warsaw on a collision course with Paris. The danger for Poland, however, is that while from its vantage point French policies constitute an existential threat, from Paris’ perspective Polish opposition is a secondary irritant. The French objective is to keep the Brits out and the Germans in, not to aggravate the Poles. Therefore, just like the German alliance, the French confrontation is lopsided.

From the Polish perspective the ideal solution to the current crisis would be deepened European integration, with Germany (economically) and France (politically) invested in the future of European institutions and exercising joint leadership. This blueprint for a radiant European future would be complete with an engaged UK keeping a close eye on developments to ensure that they did not deviate too far from common sense. The speech Foreign Minister Radek Sikorski gave in November 2011 in Berlin was a powerful and elegant argument in favour of that vision.

Foreign Minister Sikorski started off with a defence of EU enlargement, which has recently been attacked by leading French commentators as the source of the crisis. He then argued that the real cause of the crisis is not the debt per se, but rather legitimate doubts about the EU’s credibility, and that these doubts are due to the unfinished business of deepening integration. The choice, therefore, is between deepened integration or collapse, and – since the cost of the collapse would be devastating – deepened integration it should be. Sikorski endorsed mandatory debt and deficit ceilings, implemented by the European Commission, which would then enable the ECB to become lender of last resort. This, however, would only be a half-way solution. A treaty change to strengthen and streamline the Commission would be necessary, together with more powers for the European Parliament. Sikorski only tempered this radical federalist perspective with the proviso that “everything to do with national identity, culture, religion, lifestyle, public morals, and rates of income, corporate and VAT taxes, should forever remain in the purview of states”.

Foreign Minister Sikorski then cited Poland’s impressive success in maintaining a stable democracy

and developing a flourishing economy – “with the help of our allies, the United States, UK, France, and – above all – Germany” – as giving it legitimacy in making such a sweeping European proposal. He noted that Poland will also be ready to join the euro in 2015. In a speech from which France was spectacularly absent, he called on the British not to hinder the development of European integration: “We would prefer you in, but if you can’t join, please allow us to forge ahead”. Finally he turned to Germany to implement that dream as it had benefitted most from EU development to date, it had played a part in creating the crisis, and stood to lose a great deal if it was not solved. He also suggested that German history imposed a great responsibility for the future of the continent on Berlin. He concluded by saying: “I will probably be first Polish foreign minister in history to say so, but here it is: *I fear German power less than I am beginning to fear German inactivity.*”

This speech, the most memorable a Polish foreign minister had made in years, created a major stir in Poland and abroad. While it turned out that it had not been completely cleared with either the prime minister or the president, the two eventually endorsed it, sharing its core message (while grumbling privately about some concepts and its general attention-grabbing tone). Yet Poland’s European policy goals, as set out in Prime Minister Tusk’s EU Presidency speeches to the Polish and European Parliaments, are less ambitious than Sikorski’s vision, if consistent with it. In particular, its radical federalism has not been endorsed by the prime minister (nor, however, has it been rejected). Notably, Tusk, while supporting Poland’s membership in the Eurozone, did not set out a specific date. The PiS (Law and Justice Party) opposition predictably accused Sikorski of selling out Poland’s sovereignty and made an impeachment motion in Parliament, which was roundly defeated. Some of the ambiguity surrounding the speech evidently remains: one needs detective skills to find it on the Polish MFA’s website. Abroad it was met with applause and major comment in the German media, and sustained (if cooler) interest in the British. It was all but ignored in the French.

“The speech was a success ,” says Wiśniewski. “Its main points were well thought through, the delivery was powerful (not many German statesmen can deliver a good speech), and the timing on the dot. Even if its impact should not be overestimated, it convinced both Sarkozy and Merkel that Poland needs to be part of the solution. It drove home the message that enlargement had been good for the EU, including for France, which, in the words of some politicians, tends to blame the crisis on that expansion. It also called on the UK to come back to its senses; if London opts out, it will lay the foundation for a [overtly] German-French Europe.”

## Reality check in Brussels

Yet that success is bitter-sweet. For all the attention and applause it got for Sikorski’s grand argument, Poland was unable to translate that into actual political results at the December European Council in Brussels. “It is true that the immediate results of the Brussels summit have contradicted the expectations laid out in the Berlin speech,” acknowledges Wiśniewski. “But it was a strategic declaration, and the jury is still out. In the worst case, we will say that even if Socrates had been executed, he still was right.” This, however, can hardly be considered an encouraging perspective, let alone a credible foundation for a foreign policy.

What happened in Brussels was, from the Polish perspective, disappointing. The move away from European institutions and towards a deepening of the Eurozone was a major French success, and a setback for Poland. The UK opting out meant that Poland has lost a potential ally, while Germany

sticking to its guns on Eurobonds and the ECB undermines – in Warsaw’s eyes – the long term viability of the European project. In this sense the goals of Sikorski’s speech have not been met. But then again the outcome of the Brussels summit could have been, from Warsaw’s perspective, much worse: the disaster of setting up a “triple A” group was avoided, and the value of maintaining the EU’s unity stressed. The speech did, however, mark Poland as a major player in the tussle over Europe’s future. Even if the Socratic reference might seem too melodramatic, the thought itself is valid: the case for deepened integration remains powerful, and Poland’s chief ally, Germany, remains committed to it. What remains to be done is to map a course for the future.

Mapping the course – for Europe as a whole as well as for Poland – would be easier if that future was more clear. The January 2012 Brussels summit was once again the scene of a tough clash between Sarkozy’s vision of intergovernmental mechanisms running Europe, and a slightly less spirited defence by Merkel of existing European institutions. A triumph for the Sarkozy vision would have been a defeat for Warsaw, as Poland would be an outlier in a two-speed Europe. “You are either at the table or on the menu”, as Donald Tusk put it before the summit. With some German support Prime Minister Tusk was then able to obtain a compromise: some of the Eurozone summits will be open to non-euro members who have signed on for the fiscal pact (as Poland has declared it will). This position made Warsaw an effective champion of that part of the non-euro Ten who want to be at the table, a success that might come in handy in future coalition building. Yet the effective value of this compromise remains to be seen: if all the hard decisions are to be made at summits of the euro 17, the compromise will be mere window dressing. In turn Poland’s precarious position would not change until and unless it adopts the euro, which is something that finance minister Jacek Rostowski is clearly unenthusiastic about.

In its medium term strategy Poland now includes the hope of a change in French policy, brought about by a Sarkozy defeat in the presidential and/or a Socialist victory in the parliamentary elections. In the meantime, Polish experts suggest, efforts have to be made to reduce the French president’s grandstanding, and to strengthen ties with his chief challenger, François Hollande. They believe it is also necessary to bring Britain back into the fold: suggestions of compromise deals are being floated, including in a speech Prime Minister Donald Tusk made in Strasbourg to sum up the Polish presidency. As 2012 will not be an electoral year in Germany, it should be easier – the experts argue – for Chancellor Angela Merkel to reduce her opposition to Eurobond/lender of last resort solutions; if other circumstances are favourable she should be encouraged to do so. Overall, there are still a number of steps which could be made to move the European process in the direction desired by Warsaw: a 17+ Eurodecision zone.

Yet this holds true only if no dramatic shift is made by those players. A move away from EU unity and towards a Europe of two (or more) speeds would mean relegating Poland to where its absolute economic size and Eurozone non-membership – if not the shape of that economy, its population and territorial size, and its political ambition – suggest it should be: the European periphery. Warsaw will dedicate all its (limited) powers to avoid such an outcome.

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