



BULLETIN

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The Latvian EU Presidency: Beyond Window Dressing

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Despite the formal limitations on the role of the EU presidency, it can still be an important political tool for countries holding it. Latvia, which has just assumed the presidency of the EU Council, will try to use it to push reforms important from its point of view in economic governance and digitisation. From the Polish perspective, it is important that the Latvian presidency effectively handles less convenient topics such as policy towards Russia and the Energy Union.

The role of the EU presidency was formally weakened by the Lisbon Treaty, which divided its powers between the permanent President of the European Council and the High Representative of the EU for Foreign and Security Policy. Currently, its function is primarily to moderate the EU political debate and coordinate legislative work. The mechanism of the so-called trio presidency in which three countries consecutively holding the role implement a joint programme further disciplines Member States not to push particular national interests.

On 1 January 2015, Latvia took over the presidency of the EU Council as the first country in the new and fully constituted institutional environment of the EU. The increased political ambitions of the new EU leadership as represented by High Representative Federica Mogherini, President Donald Tusk (European Council) and President Jean-Claude Juncker (European Commission) can be expected to further weaken the role of the Latvian presidency. However, for Latvia, which has taken up the presidency for the first time, the next six months may be of particular importance as a unique opportunity to create long-lasting coalitions, a platform of access to strategic information, as well as an opportunity to promote the country in the EU arena in key policy areas.

Due to its own administrative constraints, the government in Riga will use the presidency to enhance the EU-oriented skills of its administration. However, it will also seek to achieve certain political objectives by promoting the priorities of the EU that are also particularly important for Latvia and those that will help bring it a level of success on its own. Its presidency will focus primarily on economic governance, structural reforms, the implementation of Juncker's investment plan and the Digital Single Market (DSM). In foreign policy, the main challenge will be in taking the right approach towards Russia, as Latvia is not an advocate of stricter sanctions against Russia. One of the tests for the presidency will be the Eastern Partnership summit in May 2015. The organisation of the Energy Union project might also become problematic.

Latvia's EU Priorities. For Latvia, as a small but open economy, strongly dependent on the economic situation in the eurozone, a priority during the next six months will be implementation of Juncker's investment plan, which, thanks to the financial guarantees of the European Commission (EC) and the European Investment Bank, is supposed to generate around €315 billion worth of investments. Its activation requires setting up the European Strategic Investment Fund, intensification of structural reforms, and ensuring the sustainability of public finances among the EU Member States. During the December 2014 ECOFIN session, the Latvian finance minister, Jānis Reirs, guaranteed Riga's engagement in activities aimed at increasing competitiveness and economic growth in Europe, which he sees as an opportunity for small countries.

Latvia has been a member of the Economic and Monetary Union since 2014 and will be a reliable coordinator of actions enhancing fiscal discipline in the EU as the country itself has met the criteria of the Stability and Growth Pact, reducing the budget deficit from 8.1% to 0.9% of GDP between 2010 and 2014. In fiscal management, Latvia will be

supported by Valdis Dombrovskis, the vice president of the EC responsible for the Euro and Social Dialogue, whose consistent use of austerity policy during his Latvian premiership successfully led the country out of the crisis. But too harsh of an approach to fiscal discipline may cause friction within the trio presidency, between Riga and Rome specifically, as Italy still has not provided the EC with a satisfactory budget plan and has to adopt new cuts and reforms by March 2015.

Latvia is also going to be involved in the construction of the DSM, an important legislative priority of the EC. With more than 70% of Latvia's population regularly using the internet and 90% of banking transactions conducted electronically, the country in June 2014 adopted a four year "Cyber Security Strategy." With the presidency, Latvia should thus suggest ways to use the digital agenda to improve cybersecurity at the EU level. Here, Riga could build a coalition with Tallinn, which for years has invested heavily in digital infrastructure, human resources and innovative research. This initiative would gain the support of Andrus Ansip, the Estonian Commissioner for DSM, as well as German Chancellor Angela Merkel, who claimed that EU funds within the investment plan should be primarily allocated to digitisation.

Difficult Issues. Latvia's authorities have stated they will be impartial in the implementation of EU priorities; however, in coordinating the eastern dimension of EU foreign policy, Latvia will likely lean towards the neutralisation of difficult issues in relations with Russia. Hence, in the face of the Ukraine conflict, Latvia will probably turn its attention to the effects of Moscow's aggressive approach to the Baltic States, which are to a large extent economically linked to Russia and therefore remain under enormous pressure. At the same time, with around 28% of its population of Russian origin, Latvia supports a regional idea of combating Russian propaganda in Baltic Russian-speaking media. However, Riga, as one of the three Baltic capitals, also follows a mostly pragmatic policy towards Moscow as it remains one of its most important trading partners, accounting for about 10% of Latvian exports and imports. Russian monetary capital is still significant in the real estate and tourism sectors in Latvia. Moreover, in December 2014, the Latvian-Russian intergovernmental committee met and bilateral political consultations regarding among others, the situation in Ukraine took place.

Latvia's approach will be tested at the Eastern Partnership summit planned for May 2015 in Riga, during which Tusk can count on the fact that Latvia will put pressure on other countries to tighten their policy towards Russia, while alone remaining neutral. Despite persistent efforts to increase security on the eastern flank of NATO, Latvia may seek to cool EU action towards Moscow in the face of potential conflicts within the presidency trio as Italy also opposes stricter sanctions on Russia. Russia's trade embargo on various products in response to the EU sanctions could cost Latvia in the form of a contraction of 0.7% of GDP.

Energy policy will be another challenge for Latvia as a small country dependent on energy supplies from Russia. Latvia supports the Energy Union project, calls for strengthening the solidarity mechanism among EU Member States and for shaping common energy policy. Consequently, its presidency will support the idea of negotiating contracts with suppliers of energy sources and promote the involvement of the EC at an early stage of intergovernmental agreements with third countries. However, due to its current limitations on market liberalisation, Latvia clearly loses credibility. Riga still has problems with the implementation of the third energy package and has postponed the release of the gas market until 2017. For this reason, Latvia's priority will be on more investment in transmission infrastructure and interconnectors, which are crucial for further stages in the development of a common energy market. The lack of necessary investment in Latvia could mean further delays in the implementation of EU commitments.

Poland's Support. Latvia's impact on EU matters will depend on whether it will be skilful in manoeuvring in the new EU political environment and on the way it uses its limited political, economic and human resources. In this regard, Latvia should focus on basic work, such as strengthening and coordinating the work of the EU Council, proposing concrete technical solutions and effectively moderating agreement in key policy areas. Here, the priority will be to work out a compromise on the final shape of Juncker's investment plan during the informal tripartite negotiations between the Council, the EC and the European Parliament.

The objectives of the Latvian presidency, especially in energy policy and EU foreign policy, are also crucial for Poland, which supports the stabilisation of the situation in Ukraine, and which itself is the initiator of the Energy Union. Despite the lack of sufficient Latvian credibility in the liberalisation of gas trading rules, Poland should support the presidency in gaining adherents to the common energy market. This creates an opportunity for cooperation between Poland, Latvia and the other Baltic States in the area of transmission infrastructure development. Poland's priority is also the implementation of initiatives aimed at a resolution of the Ukraine-Russia conflict. That is why Warsaw should increase its commitment to support the preparations for the EaP summit in Riga, especially by sharing its own know-how in this field, and work towards minimising the negative effects of Russian activity in the region. Another crucial step for Poland in order to increase EU activity in the eastern dimension of foreign policy will be its participation in the 2015 revision of the EU's Neighbourhood Policy, announced by Mogherini together with Johannes Hahn, the new Commissioner for European Neighbourhood Policy and Enlargement Negotiations.