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# Foreign Policy Insight

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# The Ukrainian and Polish affairs: challenges and opportunities



**O**n April 8-9, President of Poland Bronisław Komorowski visited Kyiv. On the first day of the visit, he met Ukrainian President Petro Poroshenko and other high-ranking officials, and on the second day of his visit, he addressed the Verkhovna Rada of Ukraine for the first time in the history of the two countries' diplomatic relations.

The leader of the Polish state will visit Kyiv in light of the 75th anniversary of the tragedy at Katyn. After the plane crash near Smolensk in April 2010, in which many of Poland's top-ranking officials perished, it was difficult this year to imagine a visit by the delegation of Polish high officials to Russia to mark the anniversary of the tragedy. Instead, the commemoration was held in Ukraine. The main events were held at the Polish military cemetery in Bykivnya, the burial place of the almost 3,500 Polish soldiers who were executed by the NKVD in 1940.

In light of the recent Russian aggression in Ukraine as well as Ukraine's steady trajectory towards increased European and Euro-Atlantic integration, Poland remains a key partner for Ukraine.

The example provided by Ukraine's western neighbour can serve as a guide on how market reforms should be conducted. Further, despite the on-going war in Ukraine, relations between the two countries have many avenues for development and offer many future advantages. As the center of gravity in the EU is gradually shifting from the countries of "Old Europe" to the new members of the EU, exemplified by the leading role played by Poland, it is necessary that Ukraine take full advantage of the potential presented by deepened Polish-Ukrainian relations.

## Reliable ally in the Russian-Ukrainian conflict

Since the beginning of the Russian aggression against Ukraine, Poland has become a reliable ally to Ukraine in condemning the annexation of the Crimea and the military conflict in the Donbas as well as unconditionally supporting European sanctions against the Russian Federation. In a visit to the Polish city of Lublin in December 2014, President Poroshenko said, "Ukrainian-Polish relations have never been at such a high level as now."

Both countries are experiencing similar problems in their relations with Russia. Our western neighbor faces feasible, though not immediate, threat to be attacked by the Russian troops for example, in 2009, during Exercise “West,” Russia simulated an attack on Poland from the air and sea in the Kaliningrad region. If a “hot” war has already been waged against Ukraine since last year, there are all the hallmarks of holding a “hybrid war” in Poland by Russia. Such examples include the establishment of the radio station “Sputnik,” which openly distributes ‘Russia’s point of view,’ and the websites “Vilnius People’s Republic” and “People’s Republic of Lviv,” which call Poles to take back “their” territory in Lithuania and Ukraine. New pro-Russian parties are also appearing on the political stage of the country, including, for example, “Zmyana,” which expects to receive 12% of the vote in this year’s elections, although these figures are considered to be overestimated. The party’s leadership endorses a strict anti-American position and supports the policy objectives of Russian President Vladimir Putin (including the annexation of the Crimea and aggression in the Donbas), considering Russia as an essential ally for Poland and the European Union (EU). These sentiments are not unusual and are caused by various factors, ranging from historical (such as the “Volyn massacre,” which is occasionally used by Polish nationalists to fuel anti-Ukrainian sentiments) to purely economic (the Polish People’s Party opposes the sanctions imposed by the EU). Magdalena Ohurek, the presidential candidate of the leftist SLD party, stands out for her objective to restore the Polish-Russian dialogue.

This tactic has yielded favorable results: in a survey conducted in March 2015, approximately one third of respondents claimed that Poland should not support Ukraine in its current conflict with Russia, while one half of respondents said that Kyiv should be supported without going beyond the measures taken at the EU level. However, three-quarters of respondents believe that the conflict in Ukraine is a direct threat to Poland, which is why Polish support for NATO has increased to a previously unseen level – 80%.

The current Polish leadership consistently takes a pro-Ukrainian position in dealing with its European partners. However, since Kyiv has given “Normandy format” precedence in the arrangement of

the Russian-Ukrainian conflict, the role that Poland plays today is secondary. A constant exchange of information between two partners, the expansion of contacts on defense and security, the development of cross-border cooperation, joint political actions and coordination in international affairs are therefore all the more important. Even under NATO’s protection, Poland cannot feel completely secure in the face of a possible Russian attack, which is why the experience of countering aggression – which Ukraine is currently undergoing – is particularly valuable for both countries.

### Polish reforms as the model for Ukraine

**Economic transformation.** When analyzing the state of the Polish economy after the fall of communism, some similarities may be drawn to the situation in Ukraine today, and some elements of Poland’s reform process can be applied to Ukraine’s own reform process while taking into account both the achievements and the mistakes that are inevitable during any radical transformation.

Immediately after coming to power in 1989, the new Polish government published a memorandum to the program of economic reforms, mainly addressed to the IMF, titled the “Balcerowicz Plan” (named after the Deputy Prime Minister and Minister of Finance of Poland). The main emphasis of the stabilization program was on a tightened fiscal policy, the key elements of which included a fixed exchange rate and a progressive income taxation system that was needed to curb the growth rate of wages. The three main components of the project included monetary and price stabilization, the restructuring of the economy, and a reduction in debt and reliance on economic assistance from abroad.

It took three months in total for the Poles to develop an action program and only two years of “tightened belts” to create their own “economic miracle.” In particular, reforms in Poland were based on legislation such as: the banking law, which banned the national central bank from financing the country’s fiscal deficit and prohibited the release of new currency; the law on loans, which abolished preferential loans for public companies and tied the level of profits to inflation; the law on the economic activity of foreign investors, which allowed foreign companies and individuals to invest in the Polish economy and export their profits abroad; the

law calling for the imposition of a flat-rate fee for all companies; the law on financial savings in state-owned companies, which allowed such companies to declare bankruptcy; and the law on new tax rules that introduced equal tax policies for all companies. After two years of real shock to the state's economy, unemployment, inflation, and shortages, the Polish economy returned to growth in 1992 and has continued this trend in large part through today.

In line with the rest of the EU, Poland today is a premier example of successful economic reform. Poland was the only European country whose GDP during the economic crisis of 2008-2009 not only did not decrease, but actually increased. When the crisis began to affect Europe, many Poles who were living in the UK and continental western European countries for work decided to return home.

In 2014, Poland's GDP grew by 3.3%. During the same year, it also experienced a 3.3% growth in industrial production, increasing from 2.2% in 2013. Employment in the business sector increased by 15.4% since 2013. Today, 16 million workers are employed – the highest rate in the country since 1989. Inflation in the country for the year of 2014 totalled 0%. GDP per capita in 2013 amounted to USD 13,477 due to growth in industrial production and retail sales. The average life expectancy in Poland is now 72 years for men and 81 years for women.

Poland's GDP growth in 2015 is expected to be between 3.0-3.2%. At the beginning of the year, the country held successful negotiations with the EU and, for the period 2014-2020, expects a record amount of EU funding in the amount of EUR 82.5 bln. After the presidential elections this year, Poland will decide when it will officially join the currency union and adopt the euro. Although many Poles disapprove of the decision, the Polish authorities believe that staying outside the Eurozone prevents the country from playing a more significant role in European affairs. However, the Maastricht criteria will have to first be fulfilled, which means Poland must achieve a budget deficit less than 3% of GDP and change its constitution, which the ruling party does not have the right to do without a two-thirds majority in the parliament.

At the end of March 2015, Polish Prime Minister Ewa Kopacz issued a report on the implementation of the government program for the six-month period of its activities. She stated that her govern-

ment has already completed half of its objectives. In general, she noted that Poland can feel safe not only because of the assistance of its allies but also because of its strong economy.

The Ukrainian leadership should have a similar understanding.

**Administrative reform.** The restructuring of the central government and the administrative-territorial structure completed by the Poles must be taken into account. "Poland has become one of the key countries of the European Union due not only to economic reforms, such as those carried out today in Ukraine, but also broad political reform on changing the Constitution, the system of government and administration," said Prime Minister of Ukraine Arseniy Yatsenyuk on April 6. According to Yatsenyuk, the Polish model of decentralization will form the basis of future constitutional changes in this sphere in Ukraine.

The administrative reform of the 1990s in Poland was based on the European experience as well as the country's own traditions and consisted of two inter-related transformations that were held simultaneously – the reform of the country's territorial system and the reform of local government (decentralization). Later, there was some reform within the central government. In each of these areas, there were different tasks to be accomplished: for example, if the Polish reformers actually reversed the administrative divisions of the state, the system of relations in the government-parliament-president triangle was already fixed in the Polish constitution and applied in practice earlier. Local government reform has changed significantly, but the basic principles, such as governance at the "gmina" level (the lowest unit of administrative division and local government, bringing together several small local communities), were adopted before the reform.

The government bill on the introduction of a three-level territorial division of the state proposed to create 12 provinces (eventually 16 instead of 25 were formed) and to authorize the government based on the formation of districts. The new core divisions were to consist of three levels – gmina, county, and province – and follow the principle that each unit of division must also be a unit of local government with an appropriate amount of authority. These three levels of self-government are independent in organizational terms; they are equal and have varying tasks entrusted to them.

In 1998, legal acts were adopted concerning the reform of the central executive branch. The reform of the government that was introduced the next year has optimized its organizational structure to meet the new challenges of strategic management, which appeared soon after. The process of the restructuring of the central government was continued by the civil service law, in which the goal was to ensure that public service personnel who are charged with implementing initiatives of the state and its structures do so in a professional, competent, disciplined, and loyal way. The process of depoliticization in the management of the administration personnel was also carried out, and there were provisions made for increasing the transparency, competition, and publicity of recruitment to the civil service.

As a result of the reform, the decentralization of the central government was conducted by strengthening authority at the local government level. This success was brought about not only due to deep expert studying of the proposed models and past experiences (certain elements of governance that existed in the country between the first and second world wars), but also by conducting a broad educational campaign.

The mythologization of the Polish administrative reform and a focus only on the reform's positive outcomes may risk a reckless adaptation of Polish processes to Ukrainian realities. In order to appropriately apply the Polish experience of administrative reform, there must be further research into what issues the reforms answered, what the reforms are not able to give, and what problems are unique to Ukraine.

### Possibilities for the development of traditional and new forms of bilateral cooperation

Despite the on-going armed conflict in Ukraine, the possibilities for the further development of political, economic, humanitarian, and other kinds of relations between Ukraine and Poland remain propitious.

**Bilateral trade.** After Ukraine gained independence in 1991, Poland has consistently supported Ukraine's aspirations to join the EU and was among the first states to ratify the EU-Ukraine Association Agreement. Poland is also the biggest trade partner of Ukraine among the countries of Central and East-

ern Europe. In 2014, Poland was ranked Ukraine's fourth-largest trade partner in the world. In 2014, the amount of trade between Ukraine and Poland amounted to USD 5,712.4 mln and was down 13.6% on a year-over-year basis, whereas Polish imports to Ukraine totalled USD3,067.4 mln and were down 24.3% on a year-over-year basis.

Ukraine is also Poland's second-largest trade partner among the CIS countries (after Russia): 1.9% of Polish exports go to Ukraine and 1.0% of Ukrainian exports go to Poland (for the last two decades, the Polish economy has been oriented towards the European market, especially after its entry into the EU, which accounts for a small percentage of Ukrainian goods in the Polish trade turnover). For Polish producers and investors, the Ukrainian market offers 46 mln consumers with mentalities and preferences similar to those of Poles (however, the purchasing power of Ukrainian consumers has decreased considerably recently), the possibility of using transit routes and transport corridors, including access to the Black Sea, and an attractive environment for capital investments due to the structure of the Ukrainian economy.

**Investment cooperation.** As of December 31, 2014, the amount of Polish investment into Ukraine totalled USD 831.2 mln, which accounted for 1.8% of total foreign investments in Ukraine. The most important Polish investments include the ceramic factory "Cersanit," the parquet factory "Barlinek," the furniture factory "Novy styl," the factory "Ken-Park," the automobile spare parts factory "Inter-Hroklin," the metalwork factory "Polimeks-Mostostal," and the banks "Kredobank" and "Plus-bank".

The largest Ukrainian investments in Poland include the metallurgical plant "Huta Częstochowa" (investor – "ISD"), the shipyard "Stocznia Gdańska" (investor – "ISD"), "Huta Pokój" ("investor – "Privat"), the plant "Helios" (investor – "Iskra"), the plant "T.B.Fruit Dwikozy" (investor – "T.B.Fruit" company), and the cheese plant Mazowiecka Spółdzielnia Mleczarska Ostrowia (investor – a group of companies "Milkiland").

In the energy sector, the following projects should be mentioned:

1. Ukrainian energy specialists may be engaged in the development of nuclear energy. The idea of adding nuclear energy to the Polish energy balance was revived in 2005 and later added to

Poland's general energy strategy. Today, Polish communities are actively competing for the right to build nuclear energy plants in their regions, as this will create new jobs in their respective areas. According to the on-going plans, the first nuclear power station is to be built by 2020. In January 2013, the largest energy producer in Poland, Polska Grupa Energetyczna S.A. (PGE), signed an agreement worth USD81.5 mln with Worley Parsons Limited Company, which carries on energy projects to pinpoint sites suitable for the construction of new nuclear power stations.

2. The Ukrainian-Polish interconnector as a response to Russian blackmail. A framework agreement on the construction of a gas interconnector with the length of 110 km and a capacity of 10 bcm per year by 2016 has already been signed. For Ukraine, the implementation of this project is a strategic victory. First, Ukraine will get access to the Polish LNG-terminal. Second, through this gas interconnector, Ukraine will get access to the German gas market. Third, it will have a positive impact on the regional economy, as the construction will provide for job opportunities, etc. It should be noted that the Ukrainian-Polish interconnector will also allow Ukraine to reduce the volume of Russian gas deliveries in the short-term. During 2014, Ukraine imported 19.899 bln cubic metres of gas, 14.866 bcm of which came from the Russian Federation and the remaining 5.033 bcm of which came from Europe.

In the case of a successful implementation of this project, Ukraine will be able to reduce its dependence on Russian gas threefold in only two years. This will serve as Ukraine's response to recent threats by Moscow to suspend transit gas deliveries through Ukrainian territory. By doing this, Europe shows that it treats Ukraine as a reliable partner concerning gas transit and is ready to invest in Ukrainian gas transport infrastructure. Ukraine obtained loans from the European Investment Bank and the European Bank for Reconstruction and Development to reconstruct its gas pipelines.

3. The closure of coal mines. Ukraine should consider using the Polish experience regarding the closure of ailing mines. Poland managed to avoid public protests after a radical reforming of the coal industry and subsequently created a transpar-

ent and liquid coal market. Upon shutting down mines, the Ukrainian government should offer miners alternatives, such as new jobs or compensation payments. In Poland, for example, the government has recently made a decision to close down 4 mines and fire as many as 3,000 miners. The liquidation of these ailing mines will take up to four years, during which miners will receive compensation payments worth USD35,000 in a single payment or in several equal payments over the course of 4 years. Such compensation payments will allow for starting up a business or mastering a new profession.

*As Russia seeks to split up the EU* when it comes to the Ukraine crisis, it is expected that Poland will continue supporting EU economic sanctions against Russia or will insist on even tougher sanctions. «Poland takes an active part in the elaboration of a common position among EU states as regards a new round of sanctions against Russia to be imposed in case the Minsk agreements are not observed, and Poland will keep doing so in the future. Poland is resolute and believes that economic sanctions are an effective mechanism which, coupled with modern technologies, gives the West a great advantage over Russia», said Bronisław Komorowski during his brief visit to Kyiv in February 2015. At the beginning of April, a similar position was expressed by Prime Minister Kopacz, who stated that Russia could not be viewed as a partner and Ukraine “should feel that Europe will not give in. As long as the EU is united, there is a chance that the conflict in Ukraine will end.”

Ukraine should also use the Deep and Comprehensive Free Trade Area agreement to boost its exports and investments into Poland. The Eastern Partnership, which was initiated by Poland, is an important instrument in this regard. Before the Riga summit, new proposals should be put forward and voiced at the summit in relation to the use of the Eastern Partnership mechanism.

*Cooperation in the security and defence area, border control.* There are no obstacles to supplying Polish or any other military equipment through the Ukrainian-Polish border, as there is no embargo on such supplies into Ukraine. Due to a real military threat, the newly created Ukrainian-Polish brigade should elaborate operational plans for cooperation in case of an attack on one of the parties or the extension of the conflict. Since the brigade will oper-

ate under a UN, NATO, and EU mandate, it may be involved in peacekeeping operations. In addition, this year, the Polish government will send around 50 military instructors to Ukraine. As regards the proper protection of state borders, there should be a joint Ukrainian-Polish border patrol. A good initiative would be an extension of a number of important cross-border programs, including the cross-border program Poland-Belarus-Ukraine (PL-BY-UA), the first phase of which was completed in 2013.

**Military-technical cooperation.** With the help of its Polish counterparts, Ukraine may participate in cooperation projects on the production and supply of weapons to NATO. This will help Ukrainian military plants keep functioning, given that their military-technical cooperation with Russia has ended. Poland reportedly offered to repair old Soviet-era military equipment, which is now in Bulgaria. Similarly, Ukraine could offer Poland repairs to military equipment that is now on Ukrainian territory.

**Cooperation between Ukrainian and Polish institutions is also on the agenda.** Ukraine should support Polish President Komorowski's proposal during the meeting at the UN General Assembly in September 2014 that the Security Council should be reformed, as it failed to respond to the crisis in Donbas in an effective manner (due to Russia's right of veto). The Ukrainian delegation to the Security Council should stick to one line in this regard and support both the initiative of Poland and the proposal of France to change the veto procedure at the Security Council. One should not exclude the possibility of reaching a common position on the exclusion of Russia from the Security Council or the UN altogether, as was the case with the Soviet Union and the League of Nations.

In spring 2015, the Secretary-General of the United Nations will be re-elected. This time the new Secretary-General will come from an Eastern European country. Ukraine and Poland should nominate and support a single candidate for the position (for example, former Polish President Aleksander Kwaśniewski).

Among multilateral mechanisms, the Visegrád Four may provide an option and could even be transformed into the Visegrád Five with Ukraine as a new member.

The role of the Baltic-Black Sea Union should be re-considered as regards common problems for the region. The mechanism of coordination with the

GUAM and BSEC should be elaborated to enable Poland, the Baltic states, and Ukraine to speak with a single voice.

**Cultural and scientific relations.** The Polish language is becoming more popular in Ukraine. In particular, this is because of the many education grants offered by the Polish government to Ukrainian students. However, this threatens to exacerbate the issue of brain drain in Ukraine if it fails to offer job opportunities for high-achieving students upon their graduation from Polish universities.

There are many possibilities to enhance cooperation between higher education institutions, analytical centres, etc., in the two countries. Unfortunately, while in Poland there are many institutions dealing with Ukrainian issues (such as the Centre for Eastern Studies), in Ukraine there are no such centres.

**Visa-free regime and humanitarian aid.** The issue of a visa-free regime is very important for Ukrainians. In this regard, Poland may play a significant role. Due to the conflict in Donbas and the Russian annexation of Crimea, hundreds of Ukrainians left Ukraine for Poland. Poland became the first EU country to have evacuated around 200 people from Donetsk and Luhansk regions in January 2015. Currently, the Polish government is helping them find jobs. Over the last three months, as many as 759 Ukrainian citizens applied for asylum in Poland, i.e. 4 times as many as there were last year. There should be proper coordination between relevant Ukrainian and Polish authorities.

**Cooperation in information security.** Ukraine should more actively use Polish media, which is mainly pro-Ukrainian and incorporated into the European information space, in order to offer Europeans a true account of the events in Ukraine with the objective of countering Russian propaganda.

The aforementioned possibilities for cooperation are not exhaustive. In order to use all possibilities available, the political will of the leadership of both countries and pressure from the general public will be needed.

A window of opportunity is still open for Ukraine. Ukraine may become a truly European country if it considers both the positive and negative experiences of its immediate neighbours while searching for new forms of bilateral cooperation and solutions to overcoming hurdles on its way to securing its independent position in the region and in Europe.

The aim of the publication is to provide analysis of Ukraine's foreign policy in the context of global processes in the region and the world, as well as an overview of major world events that may have an impact on the further development of Ukraine and the region. Special attention is paid to the European integration of Ukraine, in particular implementation of Ukraine–EU Association Agreement.

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