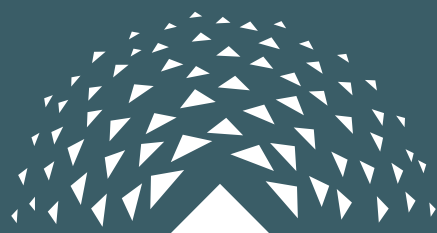


**The Place of Central Europe on Donald Trump's Map:
Convergence and Divergence on Economy-Related Issues (1)**

Közép-Európa helye Donald Trump térképén:
konvergencia és eltérés a gazdasággal
kapcsolatos kérdésekben (1.)

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KKI Policy Brief

Series of the Institute for Foreign Affairs and Trade

Publisher:

Institute for Foreign Affairs and Trade

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ISSN 2416-0148



Abstract: Under the Trump administration, relations between the US and Central European countries have improved significantly, while disagreements between the EU and Washington have deepened. Some of the most significant sources of tension between Brussels and Washington have been connected to the Trump administration's economic policies, especially on trade, energy and climate policy. While political relations between the US and the V4 have improved, an examination of the policies of the V4 countries in these economic issues provides a complex picture of the similarities and differences among the V4 and in relation to US policy objectives. These policy differences limit how much the US administration can rely on the V4 in its disputes with the EU.

Összefoglaló: A Trump-kormányzat hivatalba lépése óta jelentősen javultak az Egyesült Államok és a közép európai országok kapcsolatai, miközben az EU és Washington között erősödtek a viták. A Brüsszel és Washington közötti feszültségek jelentős részben a Trump-kormányzat gazdasági vonatkozású intézkedéseihöz köthetők, különösen a kereskedelem, az energia és a klímapolitikát érintően. Miközben javultak a politikai kapcsolatok a V4-ek és Washington között, a V4 politikáinak vizsgálata az érintett gazdasági vonatkozású területeken egy komplex képet ad a V4 országok és Washington közötti érdekhasonlóságokról és különbségekről. A vonatkozó érdekelletétek egyfajta korlátot képeznek arra nézve, hogy az amerikai kormányzat mennyiben tud támaszkodni a V4-re az EU-val való vitáiban.

INTRODUCTION

In our series on US – Central European relations, we conduct a detailed examination of the US–V4 relations from the perspective of some important US foreign policy objectives and how the V4 countries relate to them. This paper examines the behaviour of the V4 countries with respect to their relationship to the United States in three economic issues that have been priority areas of the Trump administration and have been on the transatlantic agenda. These economic issues are international trade, energy security, and climate policy.

This paper first provides a brief summary of the Trump administration's foreign policy objectives and decisions on the issues identified and gives a brief summary of the EU's responses to the specific policies. The paper will then provide an overview of the related V4 policies and responses, examining Poland and Czechia in the first part, and then Slovakia and Hungary in the second part. Within this context, it will also examine the key factors in formulating the policy positions, and what role the relationship with the US has played in the process. In examining the similarities and differences among the V4, the paper will also evaluate the impact of the diverging V4 priorities on US policy options.

US POLICY ON TRADE, ENERGY SECURITY, CLIMATE, AND THE EU REACTIONS

TRANSATLANTIC TRADE DISPUTES

One of the signature components of Donald Trump's campaign during the 2016 presidential race was his strong protectionist agenda, which to a significant extent has also become policy. President Trump pointed to the significant overall US trade deficit against the EU and to the "unfair trade practices" of European countries as a justification for it. Even though transatlantic trade and investment links continue to be deep and extensive, the Trump administration has opened a new front against the EU on trade. In March 2018, citing national security concerns, the US administration introduced steel and aluminium tariffs for all imports, with the EU receiving an exemption only until 1 June of the same year.

President Trump also ordered a [Section 232 investigation](#) – determining whether certain imports harm national security – on automobiles and parts, with the findings of the March 2018 report stating that such imports threaten US national security, allowing the President to impose import restrictions. Since the United States is the [most important destination](#) for EU exports (29% of total EU export value), the investigation and the findings were met with strong criticism in European capitals. However, President Trump initiated negotiations with the EU, concluding a temporary agreement with Jean-Claude Juncker, President of the European Commission during his visit to Washington in June 2018. A new component of the trade dispute is the Boeing-Airbus case before the WTO, both of which focused on prohibited state support for the respective companies. Since the WTO ruled in favour of the US in the Airbus case in September 2019, the US administration has introduced USD 7.5 billion worth of new tariffs on certain European merchandise. The EU is also awaiting a ruling on US government subsidies for American aircraft manufacturing giant Boeing in a similar case, which could further increase transatlantic trade tensions.

There are also disagreements with respect to WTO reform, with the reform of the appellate body of the dispute settlement mechanism at the core of the transatlantic dispute. The US has been blocking any new appointment to the body for years, since it believes that the members of the body have strayed far beyond their original mandate. Although the EU has presented a [reform package](#) also backed by China and India, the American leadership believes it does not solve US concerns. Absent an agreement on the reforms, the appellate body will not be able to function [after December 2019](#) because it will not have at least three judges in the panel required to make rulings.

Since EU Member States exercise their sovereignty together through the EU Commission on international trade issues, individual members have a very limited indirect room for manoeuvre. However, Member States, including the V4, still signal



their preferences and seek to influence the policies of the Commission from the background. The US-EU trade negotiations have not brought significant new developments in recent months. However, the new European Commission, led by Ursula von der Leyen, is preparing for all eventualities and has emphasised the objective of [strengthening the EU's trade toolbox](#), including sanction measures against those who adopt illegal trade measures or block the WTO dispute settlement mechanism, referring to the US. The Commission likely has the full backing of Germany and France in this approach, the former being the most to lose if exports to the United States were hit by new tariffs, and the latter the champion of strengthening European sovereignty in an economic sense.

THE ENERGY POLICY OF THE TRUMP ADMINISTRATION

Enabled by the oil and gas production boom in the US during the previous decade, the Trump administration is using energy policy as a major foreign policy tool in its “America First” concept. Regarding the positive incentives offered to international partners, they are boosting US energy exports, especially oil and natural gas, supporting investments in energy infrastructure and R&D globally, engaging partners on energy security issues through bilateral and multilateral formations, and supporting regulation that helps the creation of a global energy market. Regarding US energy policy and its relations with the EU and Central Europe, the most important aspect of recent transatlantic debates have focused on Europe’s natural gas infrastructure and sources, including dependency on Russia and Europe as a potential US export market.

However, the US is also using coercive measures in the international arena, primarily sanctions and various forms of political pressure to pursue its national interests.

The Trump administration bases its energy policy on the concept of “[energy dominance](#)”. This concept has three main pillars: energy independence from external vulnerabilities, especially adversaries and unstable regions, cheap energy for American consumers, and a source of economic growth. The first and third pillars of the concept have considerable foreign policy implications. Decreasing the energy dependency on foreign adversaries not only applies to the United States but also to its allies and partners. In the realist, zero-sum world of the Trump administration, security, energy, and trade issues cannot be separated and are sources of power and influence for states. From Washington’s perspective, it is [unacceptable](#) especially for allies benefiting from American protection to pursue a lucrative energy [trade with its adversaries](#), primarily with Russia, since Europeans are not only free riding on the American security guarantee, but their trade also has negative national security implications for the United States. From this perspective, [Nord Stream 2 and the Turkish Stream](#) are the prime targets of US geopolitics in Europe: not only do they lock in German and other Eastern European countries to Russia, but these projects also increase the vulnerability of Ukraine and Poland.

Since national security interests are usually prioritized above commercial interests, tackling this national security consideration is a priority of the Trump administration's energy policy towards Europe. At the same time, [Washington is aware](#) of how dependent Central Europeans are on Russian energy imports, and it recognises that a fast decoupling of these countries from Russian gas sources is not realistic. Therefore, the primary US objective is to pressure these countries to gradually decrease their dependence on Moscow.

Increasing energy exports and reducing the US trade deficit are also important additional objectives of the Trump presidency. The Trump administration's active diplomacy and even pressure in the Central European region to advance US commercial energy interests, especially with regard to LNG exports, have been apparent. President Trump himself is eager to capitalize on the short and medium-term gains of energy exports. However, the long-term US economic interests are more complex, and future US policy may reflect this complexity. On the one hand, major US energy companies have invested or plan to invest in projects outside the United States, as in the case of Exxon in the Black Sea.

Even more importantly, given the strength of the US economy and its energy companies, a well-functioning [global energy market](#) serves American interests. The political and economic benefits of a more competitive energy market are primarily the result of better functioning energy markets – increasing supplies, diversification of energy sources, and the advancement of technology – rather than blunt American pressure on other countries to buy more US oil and gas. If the US wants to increase its share of the energy market, including in Central Europe, then it must be perceived as a reliable supplier and detach energy trade from political considerations as much as possible. There are certainly some countries, such as Poland or the Baltic states, who are willing to pay a “security premium” to import otherwise more expensive US LNG, but the majority of the countries in the region are not willing to do that. Although LNG imports from the US are a small fraction of the total European gas consumption, imports have [increased 272%](#) in just one year after the Trump-Juncker meeting in July 2018, and they are continuing to expand. There are a number of factors which indicate a continued growth of demand for US LNG exports, also to Central Europe, including increasing demand, the intent to diversify imports, and the transition from carbon to cleaner fuels in the years to come.

In light of the above, the United States is in strong support of the Three Seas Initiative (TSI), a major infrastructure development plan for the region initiated by Poland and Croatia, stretching from the Baltics to the Adriatic and Black Sea. The TSI has a strong gas infrastructure component, including the development of new [transmission pipelines, interconnectors, and LNG terminals](#). The United States is especially interested in these projects, since they would enable the US to significantly increase its LNG export to the region. The most significant projects the US is interested in are the project connecting the Świnoujście LNG terminal in the Baltic Sea with the Croatian LNG terminal in the island at Krk, and the BRUA gas pipeline, exploiting Romanian offshore gas reserves and delivering them to



Austria. Although the core EU members were initially ambivalent about the TSI and the US role in Central and Eastern Europe in terms of energy security, they are now generally supportive of the two initiatives. The EU's support is reflected by the fact that most of the [funding for the TSI](#) projects will come from the EU Investment and Structural Funds. However, there is significant transatlantic tension with respect to Nord Stream 2 and TurkStream, due to the possible US sanctions against some of the EU countries directly involved in the project. Given the complexity of the energy security questions highlighted above, this paper focuses on natural gas supply and the related energy security questions of the Central European region, which have been at the heart of transatlantic energy security debates in recent years.

THE CLIMATE POLICY OF THE TRUMP ADMINISTRATION

One of President Trump's signature decisions in early 2017 was withdrawing the United States from the Paris Climate Agreement. Although the actual implementation of the withdrawal could only begin in November 2019 and will be completed after the 2020 Presidential elections, the decision sent a clear signal to global partners, including the EU, with regard to the priorities of the new administration. The withdrawal was not the only major policy decision affecting climate policy: other measures included weakening methane regulation, freezing fuel efficiency standards, and easing regulation on fossil-fuel-powered electricity plants.

However, it was the abandonment of the Paris Accords which evoked the [strongest criticism](#) from many European leaders, including Donald Tusk, Jean-Claude Juncker, Emmanuel Macron, and Angela Merkel. As for the significance of the US decision, France opposes signing any trade deals with those who are not part of the Paris agreement. Climate policy is of course about more than environmental protection and regulating emissions, it also has a significant economic competition dimension. Although clean or cleaner technologies may provide economic benefits in many sectors, in many cases the energy transition requires huge investments, making the affected sectors less competitive. From this perspective, US climate policy has considerable impact on the long-term competitiveness of Central European economies.

POLAND

INTERNATIONAL TRADE

As with the other export and manufacturing-oriented V4 countries, an escalation of trade disputes between the EU and the US would heavily impact the Polish economy. The most critical sector would be the automobile industry. According to estimates, about 40,000 Polish jobs depend on US vehicle parts trade, but other sectors such as the [agriculture](#) would also be hit. In this context,

it is unsurprising that Poland is seeking to convince the US administration not to go down the road of escalation. As Polish Entrepreneurship and Technology Minister [Jadwiga Emilewicz has warned](#) about an escalation, “once a first step is taken, others follow.” This also indicates that Warsaw would be open to defending its own and the EU’s economic interests if the US chose to escalate its tariffs regime in the automobile sector.

However, due to the country’s strategic reliance on the United States and their close security and defence cooperation, behind the scenes Poland has sought to moderate the tensions between the EU and Washington. As the [Polish Prime Minister stated](#) last year, reflecting on the diverging US and EU policies on trade, “it’s up to us whether we create the position of a keystone, becoming an integrator between these two entities, or whether we will be in the uncomfortable situation of constant manoeuvring between them”. However, due to Poland’s limited weight in relation to Brussels and the leading Western European countries, Poland is an object rather than a decisive actor in the transatlantic trade dispute.

ENERGY POLICY

Poland is closely aligned with US energy policies affecting the Central European region. With respect to natural gas, the primary objective of Poland has been to reduce its own and Central Europe’s dependency on Russia. Warsaw still imports a [considerable share](#) of its natural gas consumption from Russia, but it has taken significant steps to reduce this rate, including by more closely cooperating with the United States, and by gradually [decreasing its purchase](#) of gas from Gazprom. One such priority area is the TSI, which Polish President Andrzej Duda took the lead in creating alongside Croatian President Kolinda Grabar-Kitarović. Poland considers the TSI not only an effective tool to counterbalance Russia but also an opportunity to boost trade and business in the region through increased interconnectivity. Furthermore, the TSI can give the opportunity to Poland to further strengthen its role as an important energy hub.

Within the context of aiming to reduce Russian gas imports, in recent years Warsaw has sought to capitalize on the opportunities provided by LNG imports on sea. Within this context, the [Świnoujście LNG terminal](#) is of strategic importance. Currently the Świnoujście terminal and the Lithuanian Klaipėda terminals are the only entry points where the US and other LNG exporters can deliver gas to the TSI region. Even though US LNG imports are above the price of alternative sources (mainly from Russia) available to countries in the Central European region, Poland as well as the Baltic states [purchase LNG from the US](#) in order to increase their energy security and strengthen their relationship with Washington. In June 2019, during the Polish presidential visit in Washington, it was [announced](#) that the US LNG import to Poland will be increased by 40%, with 1.5 million tons of gas annually.



With respect to the gas infrastructure dimensions of the TSI, Poland is involved in two major projects. One of them is the [Gas Interconnection Poland–Lithuania](#) (GIPL) pipeline, which will connect Poland and Lithuania by 2021. The other project aims to increase gas supply diversification and consists of establishing interconnectivity towards the Nordic countries by the Baltic pipeline, as well as two other interconnectors towards Slovakia and Ukraine. Through these projects Poland seeks to capitalize on its LNG import and aims to become an energy hub in the region, which could be helped by the interconnectors under construction, while at the same time advancing US interests in the region.

Another crucial energy issue where the Polish and US positions are aligned is the Nord Stream 2 pipeline. Both governments [heavily criticize](#) Germany and Russia for the project, which increases the vulnerability of a number of countries in the Central and Eastern European region. Warsaw views the Nord Stream pipelines primarily as geopolitical projects intended to circumvent Central and Eastern European countries and solidify their dependence on European major powers. Furthermore, Poland would also lose significant revenues with the likely decrease of gas transit fees. Hence, Warsaw is actively engaging and encouraging Washington to take a firm stance against the project and put pressure on those European countries which support it.

CLIMATE CHANGE

As an EU member, Poland is a signatory to the Paris Agreement. However, Warsaw has refrained from any criticism of the Trump administration for withdrawing from the climate agreement. The main reason for this policy points beyond its bilateral relationship with Washington. Poland is considered one of the most reluctant EU member states when it comes to reducing carbon emissions. The main reason for this is the country's dependence on coal, which dominates Poland's energy mix and [accounts](#) for 80% of the country's electricity generation. To end Poland's dependency on coal in the short term would come with high economic and social costs, as well as political risks.

Polish climate policy is not likely to change in the future, despite the intense public discussion on the grave air quality in many parts of the country, which are [among the worst](#) in Europe during winter time. During the opening of the 2018 climate conference in Katowice, President [Andrzej Duda insisted](#) that Poland will continue to use coal as an energy resource. Hence, it was unsurprising that at the June 2019 European Council summit, Polish Prime Minister Mateusz Morawiecki, alongside Czechia and Hungary, [blocked](#) the German initiative to end all greenhouse gas emission in the EU by 2050. While climate policy does not place a burden on the relations between Washington and Warsaw, the impact of this convergence is very limited due to the European Union's decisive role in this policy field.

SUMMARY

To conclude, Poland has been considered the most important US ally in Central Europe, and this notion is partly true for some of the economic issues on the transatlantic agenda. While differences in trade policy are more significant, Washington and Warsaw are very much on the same page when it comes to energy security and regional infrastructure projects. Poland is not only actively seeking to decrease Russia's influence in energy, but it also views the United States as a potential major energy source. Even though there are differences with respect to the Paris Climate Accord, since Poland is one of the most dependent EU members on carbon energy sources, its approach is similar to the Trump administration's policies in the area.

CZECHIA

INTERNATIONAL TRADE

The Czech economy is even more [dependent on the EU](#) than Poland. More than 86% of Czech exports go to the EU, while the share of EU imports is 76%. At the same time, only 2% of Czech exports and imports are traded with the United States. With its significant manufacturing base and automotive industry, and the close integration with the German industry, the Czech economy is especially exposed to a transatlantic trade war.

In contrast with the Trump administration's economic protectionism, the Babiš government holds pro-free trade views, which they consider to be the key to economic growth. In a speech delivered at the UN in April 2019, [Martin Tlapa, Deputy Minister of Foreign Affairs](#) stated that further US tariffs posed the biggest external threat to the Czech economy, though admitting that they only escalated a cyclical global slowdown that is already under way. This approach was echoed by Prime Minister Babiš, who also emphasized the urgent need for a [special trade deal](#) between the EU and the US, similar to the one offered to the UK by Washington. While US tariffs on European steel and aluminium are obviously perceived as a [challenge](#) for the Czech industry, Prague has been much more measured in commenting on the US trade decisions. The Czech government abstained from explicitly condemning the Trump administration's trade policy, and Prime Minister Babiš claimed that [he had tried to convince Trump not to impose tariffs](#) on Europe during his visit to the White House. While seeking to avoid the over-politicization of the trade disputes, it is likely that Prague would go to great lengths to protect its manufacturing industry.



ENERGY POLICY

When it comes to energy security, Prague's position with regard to the TSI and Nord Stream 2 is rather [ambivalent](#). It is telling that Austria and Czechia were the only TSI member countries who did not send their heads of states or governments to the second TSI summit, which was all the more stunning since Donald Trump attended the Warsaw Summit to show his support for the formation and development of the Central European energy infrastructure. Furthermore, the [Draft Energy and Climate Change Strategy](#) of Czechia published in 2018 December fails to mention the Partnership for Transatlantic Energy Cooperation (P-TEC) initiative or the possibility of US LNG import.

There are multiple reasons behind the Czech position. Distance from the TSI initiative can be understood as part of a more complex set of [disagreements between Prague and Warsaw](#), which emerged during the Bohuska government and consolidated somewhat in the Babiš era. From the Czech perspective, the TSI still seems to be a Polish project that has not benefited Czech economic interests, partly because the Czech economy is more intertwined with Germany. A further reason is the limited role of natural gas in the Czech energy strategy and its reduced dependence on Russian natural gas, the Babiš government decided to strengthen the share of nuclear energy of the country's energy mix, [even violating EU regulation](#).

The Czech position on Nord Stream 2 has also been [ambivalent](#). Although back in 2016 the Bohuska government joined a Central European declaration condemning Nord Stream 2, recently it has become more hesitant. This was reflected by former Czech industry and trade minister Jan Mládek's [contradictory statements](#) regarding Nord Stream 2. In reality, the Czech government is not actively opposing the project. The Czech energy industry views Nord Stream 2 as an opportunity to expand the amount of gas being transported through the country, enabling Czechia to become a gas transport hub. Hence, Washington cannot count on such firm support in energy issues as in the case of Warsaw.

CLIMATE CHANGE

Czech diplomacy is actively engaged in the issue of climate change, primarily by taking part in the EU's global efforts to tackle the problem. In September 2019 in his speech addressed to the General Assembly of the United Nations, Prime Minister Babiš reaffirmed that [Czechia would fulfil its commitment to the Paris Agreement](#). Babiš pointed out that very few countries actually meet their commitments to reduce climate change, and Europe seemed to be alone in this struggle.

The Czech commitment towards climate protection was also reflected by Prime Minister Babiš's remarks on sustainable development, a [declared goal of Czech foreign policy](#), which basically links humanitarian activity and environment

protection, in line with the UN Sustainable Development Goals. In the context of active climate policy, Prague hosted the [Antarctic Treaty Consultative Meeting in 2019](#) and has actively supported international water management projects.

On the other hand, [Prime Minister Babiš](#) has also stated that renewables are not yet capable of covering energy demand, and nuclear power should remain an acceptable carbon-free option. He condemned the tone of young climate activists and called for rational discussion on the subject, raising attention to the economic and social costs of achieving carbon neutrality. Taken together, Czechia has so far demonstrated a balanced, pragmatic approach, avoiding confronting the United States directly.

SUMMARY

To summarize, although Czech–American relations have improved in recent years, Prague is more in line with core EU countries regarding economic issues. This can be observed in trade, energy politics, as well as climate policy. Czech diplomacy clearly articulates its opposition to US policy especially concerning trade, pursuing a so-called “effective multilateralist” approach, although it does not seek to increase tension with Washington on the matter. With regard to energy security, while supportive of general American interests in the region, Prague seems to be hesitant in taking a clear side on some of the most politically sensitive issues.