

# Report: Three Seas Initiative and the Opportunities for *Global Britain*.

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## Executive Summary

- The Three Seas Initiative (3SI) is a growing economic project in Central and Eastern Europe; with a quickly developing commercial *Three Seas Investment Fund* and over 77 infrastructure, energy, and digital projects.
- For the UK, the Initiative is especially important within the context of post-Brexit engagement with EU partners.
- The 3SI also plays a key geostrategic role, best demonstrated within the context of energy security and infrastructure investments.
- The United States are the Initiative's leading partner, on both congressional and executive levels. Germany, Japan, Greece, and Ukraine are also key external partners.
- The Initiative needs significant political and economic support if the regional influence of Moscow and Beijing is to be countered.

## *Special contributions*

Ambassador of Austria to the Court of St. James's, **H.E. Michael Zimmermann**

Ambassador of the Republic of Bulgaria to the Court of St. James's, **H.E. Marin Raykov**

Ambassador of the Republic of Croatia to the Court of St. James's, **H.E. Igor Pokaz**

Ambassador of the Czech Republic to the Court of St. James's, **H.E. Libor Secka**

Ambassador to the Republic of Estonia to the Court of St. James's, **H.E. Tiina Intelmann**

Ambassador of Hungary to the Court of St. James's, **H.E. Ferenc Kumin**

Ambassador of the Republic of Latvia to the Court of St. James's, **H.E. Ivita Burmistre**

Ambassador of the Republic of Lithuania to the Court of St. James's, **H.E. Renatas Norkus**

Ambassador of the Republic of Poland to the Court of St. James's, **H.E. Arkady Rzegocki**

Ambassador of Romania to the Court of St. James's, **H. E. Laura Popescu**

Ambassador of the Slovak Republic to the Court of St. James's, **H.E. Robert Ondrejcsak**

Ambassador of the Republic of Slovenia to the Court of St. James's, **H.E. Simona Leskovar**

## 1.1 What is the Three Seas Initiative?

The Three Seas Initiative is a platform for 12 countries, located between the Adriatic, Baltic and Black Seas, with the aim to intensify regional cooperation on infrastructure, energy, and digital interconnectivity projects along the north-south axis. This project has seen a rapid development since its inception in 2016 – and is becoming an increasingly important entity not only in Central and Eastern Europe (CEE), but more broadly in Europe and within the context of Transatlantic relations.

As of June 2021, the Three Seas Initiative (3SI) has welcomed 5 major summits and has built a rapidly growing *Three Seas Investment Fund* for the aforementioned infrastructure, energy, and interconnectivity projects. At the 2020 summit in Tallinn, the United States, an official *observer state*, declared an investment of \$1 billion into the Fund in the upcoming years; having already invested over \$300 million into the Initiative's energy projects. The United States alongside Germany and the European Commission are the Initiative's *official partners*, however countries such as Japan, Greece, Ukraine, and Moldova have also stated their interest in working closely with the Initiative.

This report will unpack the mechanics of the Initiative and outline the benefits and opportunities for the United Kingdom, should it decide to join the United States, Germany, and the European Commission in increasing the potential cooperation with the bloc.

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## 1.2 Approaching the 3SI

The 3SI covers nearly 30% of the EU's territory and is the home to over 112 million people. Before the Covid-19 pandemic, the Initiative's territory had seen the fastest rate of economic growth in Europe – with Romania, Hungary, Estonia, Poland, and Lithuania leading the bloc. To thoroughly understand such a dynamic group of countries, my team & I conducted discussions with all twelve 3SI Ambassadors and specialists in the region. All 12 Ambassadors underlined the strategic objectives of the Initiative – stimulating economic growth, developing north-south infrastructure corridor, and levelling regional disparities in Europe.

According to H. E. Ms. Tiina Intelmann, the Estonian Ambassador, the Three Seas Initiative cannot be compared to the EU, NATO, and other international or regional organisations. According to H.E. Mr. Marin Raykov, this unique group can be better understood as a pragmatic approach to stronger regional interconnectivity – predicated and driven by concurring vision for economic and political development. Lastly, H.E. Raykov, described the Initiative as 'another vision' of future growth in Europe.

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## 2.1 The economic dimension

Many Ambassadors underlined the Initiative's extraordinary transition into a platform for major regional investments. Indeed, its recent success stems from the commercially managed *3SI Investment Fund*. In 2020, alongside United States' \$1 billion announcement – nine 3SI members announced their contribution to the Fund with Poland increasing their input by \$250 million. As aforementioned, the *Fund* currently holds €913 million, however with future investments from public and private investors the *Fund* is expected to stand at €3-5 billion. The *Fund's* aim is to get involved, on a commercial basis, in the infrastructure projects with a total value up to €100 billion, and at diverse stages of developments including among others, greenfield and brownfield investments, acquisition of shares, participation in special purpose vehicles or subordinated debt.

From the perspective of almost every Ambassador, the Fund also serves a secondary role where it aims to increase the region's importance as a trade partner to Western Europe. The UK is no stranger to doing business in the region – British firms are among the top investors and trading partners in individual 3SI countries, such as Slovenia and Poland. Contributing to the *3SI Investment Fund* would therefore open British companies to a wider framework of opportunities in a proven investment spot.

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## 2.2 Energy, Digital, and Transportation Interconnectivity Projects

There are currently 77 'interconnection priority projects' that may benefit from the Investment Fund. However, in total there are 157 planned projects listed under the 3SI framework.

### Energy

Numerous Ambassadors consider energy security to be of paramount importance in their individual objectives within the Initiative. The diversification of the energy sources is one of the key goals for many of the post-Soviet countries, which in the 20<sup>th</sup> century relied strictly on Russia and were tied by long-term 'unbreakable' contracts with Moscow. Currently, 32% of all 77 priority projects presented by the 3SI are energy related. One of them is the LNG terminal built in Croatia's Krk, which was completed in late 2020.

Other projects include the Gas Interconnection Poland-Lithuania (GIPL) – a pipeline that would connect Lithuania, Latvia, and Estonia that would expand the Baltic states' access to the wider European energy gas network via Poland, or the Bulgaria-Romania-Hungary-Austria (BRUA) pipeline that would supply Romanian gas from the Black Sea to the region.

### Digital

This area is especially important to countries such as Estonia, who are regional and continental leaders in digitalisation and technology (including Fintech). H.E. Ms. Tiina Intelmann highlighted strengthening the 3SI's digital investments as Estonia's main objective within the framework. Digital priority projects include the Three Seas Digital Highway – a series of projects to improve data transfer and enhance communications infrastructure, including 5G technology and fibre optics, 3SI Marketplace – seeking to boost trade and investment in the region by connecting small and medium sized enterprises to investment capital, and the Smart City Forum – seeking to accelerate innovation and foster investment in innovation in regional cities.

### **Transportation**

51% of the priority projects are transport related. Poland, who are European leaders in transportation, have been at the forefront of proposing projects in this area – including the Amber Rail Freight Corridor (completed in 2019), *Via Carpatia*, and *Rail Baltica*. The 'Rail-2-Sea', proposed by Romania, is another key project that will modernise and develop the railway line between Gdańsk and Constanta.

Other projects include the *Viking Train* – a railway that would connect the Baltic Sea to the Black Sea, via Lithuania, Belarus and Ukraine, and the FAIRway Danube – a project that aims to improve infrastructure and navigation conditions for water traffic on the Danube River in Romania, Bulgaria, Croatia, Hungary, and Slovakia.

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## **2.3 The economies of the Three Seas Initiative**

Most countries in the Initiative experienced the post-war Soviet occupation which suppressed any viable economic recovery or development. However, since regaining freedom after the fall of communism, all 11 countries of the former 'socialist bloc' have stimulated an extraordinary, region-wide economic growth and attracted unprecedented investments into the region.

Before the Covid-19 pandemic, Central and Eastern Europe was a regional leader in economic growth. In 2019, Estonia's GDP grew by 5.0%, Poland - 4.7%, Hungary – 4.6%, Lithuania – 4.3%, Romania – 4.1%, Bulgaria – 3.7%, and Slovenia – 3.2%. Furthermore, Poland, Czech Republic, Slovakia, Hungary, Slovenia, Romania, Estonia all recorded unemployment rates below 5%. While the global pandemic has had an impact on every European economy – in 2020, Lithuania saw a mere 0.9% GDP contraction, Poland – 2.7%, Estonia – 2.9%. In addition, every country in the 3SI bloc has recorded an unemployment rate below 8% (as of April 2021); with Poland's lowest EU-wide unemployment figure of 3.1%. From a broader perspective, countries in the Three Seas Initiative are considered to be the least affected economies in the post-pandemic EU.

**Largest economies in the Three Seas Initiative (2020)**

<b>Country</b>	<b>GDP (current US\$)</b>
Poland	\$594 billion
Austria	\$429 billion
Romania	\$249 billion
Czechia (Czech Republic)	\$244 billion
Hungary	\$155 billion
Slovakia (Slovak Republic)	\$105 billion
Bulgaria	\$69 billion
Croatia	\$56 billion
Lithuania	\$56 billion
Slovenia	\$53 billion
Latvia	\$34 billion
Estonia	\$31 billion

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## **2.4 The role of China and investments outside the 3SI framework**

While no Ambassador touched upon this topic, it is important to consider Beijing's economic presence in Central and Eastern Europe. For many years, senior Western officials have highlighted the strategic threat posed by the '17+1' forum which seeks to facilitate and intensify Chinese investments in CEE. However, this cooperation framework has also been cautiously approached by numerous 3SI members. In March 2021, Lithuania announced that it will be leaving the '17+1' bloc and urged fellow EU members to follow suit. Moreover, traditionally 3SI countries have prioritised investments from the 'Western bloc' including Germany, Japan, South Korea, and the United States.

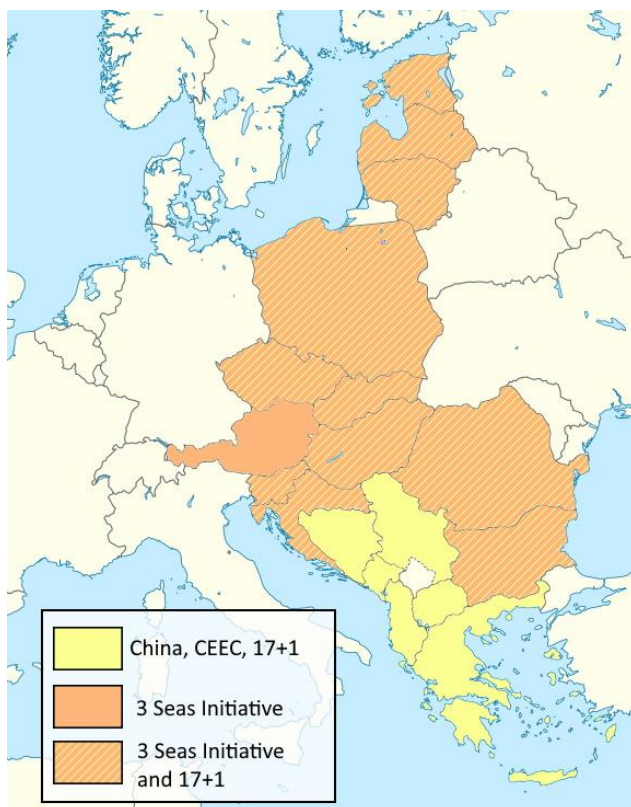
Indeed, Beijing's extensive interest in the region should not come as a surprise. Firstly, the 3SI bloc draws large FDI flows and is a major recipient of EU funds. Secondly, the labour force in CEE is significantly of higher quality than in many other emerging markets; additionally, the costs of an equally qualified labour force are around 50% cheaper than in Western Europe.

According to the 2018 CEE Investment Report, the region is currently in a process of transitioning from economic growth predicated on wage competitiveness to growth built on knowledge, with 6.3 million highly-skilled workers and an 3% annual growth. The rapidly developing quality of the workforce has been especially recognised by top investors outside the 3SI framework. In May 2020, Microsoft announced a \$1 billion digital investment plan in Poland which will see a state-of-the-art data centre providing cloud services to private and public organisations.

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### 3.1 The geopolitical dimension

All twelve Ambassadors emphasised that the Three Seas Initiative is not an alternative to the EU – nor is it an attempt to recalibrate or duplicate the current system of the European political order. The 3SI predominantly serves an economic purpose to intensify regional cooperation and interconnectivity. However, a number of Ambassadors also unpacked the Initiative’s geopolitical implications, especially within the context of Russia and China. In terms of the former – increasing liquified natural gas (LNG) supplies from the United States via the 3SI framework strategically balances against Russia’s growing energy



dominance in Europe via infrastructure projects such as the Nord Stream 2 pipeline. Regarding the latter, it seems that for Washington – as well as Tokyo – the 3SI partnership may act as an instrument challenging Beijing’s rapidly growing entrenchment in CEE via rival investment platforms, namely the 17+1 Initiative.

The 3SI has therefore naturally developed a geostrategic wing, and from the perspective of H.E. Intelmann, and many others – the Initiative is an effective ‘balancing mechanism’ against geopolitical challenges on the European continent and the Transatlantic community.

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### 3.2 Transatlantic relations

According to many experts, the United States is an external partner that has most effectively capitalised on the geopolitical opportunities afforded by the 3SI. This was reflected in the Ambassadors’ contributions as they emphasised the importance of using the 3SI as a platform for strengthening Transatlantic ties.

Strong bipartisan support for the Initiative in Washington is visible on both congressional and executive levels. The House of Representatives passed a bipartisan resolution in November 2020, *‘expressing support of the Three Seas Initiative in its efforts to increase*

*energy independence and infrastructure connectivity thereby strengthening the United States and European national security*'. In February 2021, the US Secretary of State, Anthony Blinken, underlined the importance of the Initiative and praised its contribution to the prosperity and stability of Europe, as well as the project's input into achieving shared goals in tackling the climate crisis. Secretary Blinken also commended the Initiative's use of private and public partnerships for the development of the infrastructure projects and stressed the Biden Administration's continued support for the project.

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#### **4. A truly *Global Britain* and the Three Seas Initiative**

*'You exited the EU, not Europe'*

The above statement was a recurring theme made by all 12 Ambassadors of countries that participate in the Three Seas Initiative. In order for Britain's new post-Brexit chapter to effectively demonstrate its global ambitions, it must reaffirm her commitments to Europe. The bloc's economic and political dimensions open the UK's public and private sector to over 157 energy, infrastructure and digital projects, and provides an alternative to the EU's framework for cooperation with Britain's closest allies in Central and Eastern Europe.

For the United Kingdom, the Three Seas initiative is therefore not only a project that could accommodate the new post-Brexit global strategy, but also act as a strategic hub of 12 capitals that share London's vision for a stronger Transatlantic alliance, economic cooperation and development, and multilaterally shaping the international order of the future.

It is welcoming to see the *Secretary of State for the Foreign, Commonwealth and Development Office* address this year's 3SI Summit and Business Forum in Sofia; recognising the economic and geostrategic importance of the Initiative and the wider region. To facilitate deeper UK relations with the 3SI, it is recommended to host roundtable discussions with the 12 representatives of the 3SI on both parliamentary and governmental levels. Such discussions could indicate how the UK could play a role in the 3SI Investment Fund as well as other commercial projects and outline a broader framework for shaping a future relationship with the Initiative.

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## **Conclusion**

Central and Eastern Europe has become a dynamic, high-growth region, undeterred by the recent global pandemic. The Three Seas Initiative consolidates and highlights the region's successes in the last 30 years and most importantly, demonstrates opportunities for further development and engagement. It is in Britain's strategic interest to intensify relations with the 3SI platform and consider investing into projects in the 3SI framework, which play a crucial role in facilitating key projects that contribute to the geopolitical and economic stability of the Western alliance.

As the international community braces for new economic and geopolitical challenges, pragmatic approaches for regional cooperation and economic growth show promising potential. The new 'global' muscle of the UK's post-Brexit strategy has the ability and determination to recognise these opportunities. Therefore, it is of vital importance for us as UK policymakers to contribute to Global Britain's strategic direction to ensure her success for the current and future generations.

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