

Not Your Parents' Poland

By Eric Stewart

Over the span of a short 20 years, the Republic of Poland has built up a long list of extraordinary accomplishments as it has quickly transformed itself into a thriving market-based democracy. But some of the country's more notable successes have come over the past few years, charting Poland on a measured course toward assuming its role as one of Europe's most influential leaders. Poland has demonstrated its emerging leadership in the fields of culture, diplomacy and politics: The country successfully hosted the EURO 2012 tournament, held its first-ever Polish Presidency of the Council of the European Union (EU) and re-elected the same coalition government, making Donald Tusk the first Prime Minister to be returned to his position since the fall of Communism.

But it is Poland's economic leadership that deserves a standing ovation. Poland is the only country in the EU or the Organization for Economic Cooperation and Development (OECD) with more than four consecutive years of Gross Domestic Product (GDP) growth since 2007. This feat, with all respect to Ireland, makes Poland the truly green island in Europe. All these successes notwithstanding, Poland's most significant accomplishment is just on the horizon — in energy development.

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of the above” energy strategy. Its significant efforts to develop renewable (wind, solar, biofuel, etc.) power means that 11 percent of the country's electricity will be produced from these sources in 2012. Its plans for the construction of two nuclear power plants will further help the country reduce its carbon emissions in line with EU goals and provide decades of energy security. Poland's most immediate opportunity, though, is in the field of shale gas development. Poland has the potential to not only be *the* leader on shale gas in Europe, but one of the top leaders in the world, alongside the United States and Canada.

American energy companies like Chevron, Marathon Oil, ConocoPhillips and BNK Petroleum have already made significant investments in Poland and are poised, alongside Polish companies, to develop shale gas reserves that some estimates predict could meet 100 years' worth of the country's domestic consumption of natural gas. This opportunity has the potential to offer Poland: (1) Greater energy security; (2) Potential export markets in Europe; (3) Affordable gas for Polish citizens and corporations; (4) Significant revenues for local governments and communities; (5) New jobs; (6) A boost to the economy; and (7) A unique opportunity to work hand in hand with the United States to carve the path for shale gas exploration globally. It is no secret that Poland is one of the

staunchest U.S. allies in the world and that our nations have enjoyed a special relationship ever since Polish Generals Kościuszko and Pułaski fought in the Revolutionary War. But our nations now have the opportunity, for the first time in our history, to develop a special economic relationship.

After studying the American, Norwegian, Danish, Dutch, Canadian and Australian experiences in hydrocarbon regulation, on October 16th, the Polish government released its draft plans for regulating and taxing its infant shale gas industry. These plans are significant, not only for Poland, but also because they could prove to be a model for developments in many neighboring countries that are looking at their own shale resources, such as Romania, Ukraine, Lithuania, Hungary and Bulgaria.

A quick review of the draft plan reveals a good starting point for discussion about regulating the commercial production of shale gas. Exploration companies must have a transparent and stable regulatory framework in order to make sound decisions regarding future investments, and the proposed tax schemes would be reasonable for an established industry (royalty tax will be five percent on gas and 25 percent on profits). These revenues will be sent directly to local Polish governments, which may see their revenues jump fourfold, thus benefiting local communities. Poland will create new private sector jobs and become a global energy leader, and the citizens of Europe will have a new, secure and less expensive source for gas.

Unfortunately, production of shale gas in Poland has not yet reached a commercial stage, and

implementing a commercial regulatory regime on non-commercial exploration may present potential obstacles to the foreign investment needed for the development of a successful shale gas industry in the country. While the draft proposal is a reasonable outline for a future fiscal regime that is stable and meets Poland's energy security and other national interests, the focus today should

be on enhancing exploration activities and discovering where commercial opportunities lay.

The industry looks forward to an open and constructive dialogue with the government of Poland

to forge a path that will meet the country's long-term strategic objectives while enabling investors to progress from phase to phase in the shale gas life-cycle. Consultations on the draft law over the next two months, led by the Ministry of Environment, are expected to be productive and will benefit the development of shale gas immensely by allowing regulators to tap into companies' experience and expertise.

Of course, shale gas is just one of many bright spots in Poland, which include opportunities in the health care, manufacturing, aerospace and IT sectors. Numerous astute American companies have recognized the evolution of Poland from a centrally-planned socialist system to today's tech-savvy, entrepreneurial green island that is now the 6th largest economy in Europe. Poland is hungry to acquire the most cutting-edge technologies from around the world, and, in a matter of weeks, it will be the first European recipient of the world's most advanced commercial aircraft, Boeing's 787 Dreamliner. These factors have contributed

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significantly toward U.S. investments in Poland having grown to more than \$30 billion in just 20 years.

**CONSULTATIONS ON POLAND'S
DRAFT SHALE GAS LAW WILL
ALLOW REGULATORS TO TAP INTO
COMPANIES' EXPERIENCE AND
EXPERTISE.**

With so many positive developments in Poland over the past few years, there is no mystery that the business community coalesced around the creation of a bilateral business council — specifically, the U.S.-Poland Business Council. In short, if you blinked, Poland has a new image, and it is definitely not your parents' Poland. Visionary American companies were wise to capitalize during this historic time, and they will play a significant role in establishing a “special” economic relationship between the United States and Poland.

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