

Central European Update

Poland

On 10 January Polish Prime Minister **Kazimierz Marcinkiewicz** held talks with finance ministry officials to discuss ways to weaken the zloty. Poland has been gripped by fears of curbed economic growth and a decline in exports due to the strengthening of the national currency. This week, the Polish zloty was trading at 3.78 to the euro, while in February 2004 the exchange rate was 4.8 zloty to the euro. Marcinkiewicz did not issue any concrete policy recommendations, because the Polish central bank is responsible for monetary policy.

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On 10 January the Polish government approved the creation of an anti-corruption office, which will be subordinated to Prime Minister **Kazimierz Marcinkiewicz**. Corruption has been a hot issue in Poland's recent elections, and the left-wing ruling party owes its loss of power to this problem. Poland was ranked 70th in Transparency International's corruption league table for the year 2005 and was considered by its own citizens as the most corrupt nation in the EU. The new office's responsibilities will be to improve the image of the civil service and increase the treasury's revenues by curbing corruption.

Czech Republic

The latest data from the Czech state agency for attracting investment

shows a boost in economic growth due to the increase in both foreign and domestic investment. The agency itself assisted the investment projects totaling 3.1 billion U.S. dollars in 2005, approximately a 28 percent increase from the previous year. More than twenty thousand job openings are expected as a result of these positive indicators.

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The Czech Republic's largest aircraft manufacturer, Aero Vodochody, will be privatized through a public tender that will last until the end of January. The government became the exclusive owner of the company in 2004, when it bought the remaining 40 percent from Boeing for the symbolic price of 8 cents. There are ten potential investors willing to bid for Aero, and they will decide whether to expand or liquidate the company's assets. Aero is a subcontractor for many Western aerospace companies such as Airbus, Boeing, and Sikorsky, and the company is estimated to be worth approximately 42 million U.S. dollars.

Hungary

On 10 January Defense Minister **Ferenc Juhász** announced that Hungary has pledged to play a substantial role in NATO's peacekeeping mission in Kosovo in the second half of 2006. He added that during the coming year Hun-

gary would focus mostly on the Balkans. Hungary has 300 troops stationed in Kosovo, and by 15 January an additional 150 will leave for Prishtina. Meanwhile, Budapest's contingent participating in NATO missions in Afghanistan is planning to take over the work of the Dutch provincial reconstruction team.

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On 11 January the European Commission decided to grant Hungary more time to update and present its euro convergence program, because the current draft lacks concrete plans for curbing the budget deficit. In order to adopt the euro by 2010, Budapest would have to cut the budget deficit under 3 percent of the GDP by 2008. Hungary is expected to submit and updated program by 1 September.

Slovakia

The ministry of economy and the ministry of transport recommended the TwoOne consortium as the buyer in the Bratislava and Kosice airport privatization deal. The TwoOne consortium includes Vienna airport operator Flughafen Wien, as well as Slovak financial group Penta and the Austrian bank Raiffeisen Zentralbank. If the deal is concluded, TwoOne will own 66 percent of the shares - paying 182 million euros and investing 220 million euros in the two airports. The remaining 34 percent

will stay in the hands of the state. However, the main Slovak opposition party, Smer, sharply criticizes the privatization deal and according to its party leader, **Robert Fico**, the deal is against Slovakia's strategic and economic interests. He also warned foreign investors that if Smer is in power after the next elections in September 2006, the privatization of the airport will be reversed. The Slovak government is to decide on the privatization deal next week.

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On 12 January the Slovak foreign ministry issued a statement urging Iran to halt its nuclear activities. Slovakia is a nonpermanent UN Security Council member and if Tehran rejects cooperation with the international community, Bratislava will support holding a special meeting of the International Atomic Energy Agency on the issue.



Featured Photo: Church in Poznan, Poland

Baltic States Update

Latvia

On 6 January, **Linda Murniece**, Latvia's new defense minister, stated that there is no need to reconsider how long the country's military contingent will stay in Iraq. The Saeima, the Latvian parliament, ruled in late 2005 that the 109 Latvian servicemen currently in Iraq would stay until the end of 2006. Murniece asserted that Latvia will not stay in Iraq longer "at any cost while all the others already withdraw their troops." Latvia has participated in

the peacekeeping mission in Iraq since May 2003.

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During an interview with a Latvian newspaper on 10 January, Latvian President **Vaira Vike-Freiberga** said that although the damage suffered by Latvia during the Soviet occupation must be calculated, demanding compensation from Russia would be unrealistic at the moment. The president mentioned the possibility of establishing an intergovernmental commis-

sion between Latvia and Russia to raise several pressing bilateral issues.

Lithuania

On 9 January Lithuania's parliament began debates on amendments to the Constitution necessary for euro adoption. Currently, there are two constitutional amendments that have passed the first reading. One of the amendments would add a provision concerning the

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Lithuania Contd.

legal status of the chairperson of the Bank of Lithuania's board and would establish legal grounds for his or her dismissal. The goal of the second amendment is to remove a provision from the Lithuanian Constitution that the Bank of Lithuania has the exclusive right to issue currency. Instead, this amendment would give the national central bank the right to issue euro coins and recognize the European Central Bank's right to issue euro banknotes and coins. In order for the constitutional amendments to be passed, two-thirds of the Lithuanian parliament's 141 members must vote in favor in two separate votes no less than

three months apart. Lithuania hopes to adopt the euro 1 January 2007.

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On 9 January, Economy Minister **Kestutis Dauksys** stated that Lithuania wants to hold talks with the EU to delay the closure of the Ignalia nuclear power plant. According to Dauksys, Lithuania should make a decision on constructing a new nuclear plant while negotiating the possibility of extending Ignalina's operations with the European Commission. Dauksys acknowledged that Lithuania has a slim chance of achieving its objectives with Ignalia. Building a new plant would cost about 3 billion euros and the Lithuanian government plans to have no less than a 34 percent stake in it. The

first unit of the Ignalina plant was closed on 31 December 2004 and Vilnius promised to close the entire complex by 2009.

Estonia

On 17 January Estonian President **Arnold Ruutel** will leave for the United States for a working visit. During his visit, Ruutel will give two lectures, tour Silicon Valley companies, meet with Mayor **Gavin Newsom** of San Francisco, visit the local Estonian community, and meet with **William Perry**, a professor at Stanford University and former U.S. Secretary of Defense. The Estonian president will return to Estonia on 21 January.

Southeast European Update

Bulgaria

On 13 January Bulgarian officials rejected Russia's Gazprom attempts to end its existing barter agreement for gas deliveries to Bulgaria and other transit arrangements. Transit routes for Russian gas intended for Turkey, Greece, and Macedonia pass through the territory of Bulgaria. Sofia has a contract with Gazprom, valid until 2010, according to which the company pays the transit fees in gas, while Gazprom officials now insist on paying cash. Bulgaria's Energy Minister **Roumen Ovchahrov** and representatives of the national gas corporation Bulgargaz EAD assert that any changes in the existing contract would be against their country's economic and strategic interests. The pact between Gazprom and

Bulgargaz was signed in 1998 and legally cannot be revised or terminated unilaterally.

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On 12 January Foreign Minister **Ivailo Kalfin** officially and conclusively denied allegations that his country hosted secret CIA prisons. Recent media reports claimed that a fax had been intercepted, which proved the existence of U.S. detention centers in Romania, Ukraine, Kosovo, Macedonia and Bulgaria. Kalfin categorically stated "there are no CIA prisons whatsoever - not now, not in the past; neither secret, nor otherwise." Such detention centers would be in violation of EU's human rights law, but according to Kalfin, the press reports will not jeopardize Sofia's EU bid. Ukraine and Romania also officially denied such allegations.

Croatia

Croatia's state-owned gas transport company Plinacro announced on 9 January that Austrian-Italian consortium Habau-Ghizzoni will build a new gas pipeline in Croatia. The project worth 90 million euros will connect Karlovac, in the continental part of the country, with deposits in the northern Adriatic. The announcement of the new project came a week after the gas disputes between Russia and Ukraine caused uncertainties throughout Europe. About 40 percent of Croatia's gas needs are covered by Russian gas via a pipeline through Ukraine's territory.

Romania

On 5 January, the Romanian government adopted a bill on the ratification of the access agreement for establishing U.S. military facilities on Romanian territory. Prime Minister **Calin Popescu-Tariceanu** called the approval of the bill an important step toward strengthening the strategic partnership between Romania and the United States.

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Battalion 341 of the Romania's Mechanized Infantry arrived in Kandahar, Afghanistan. The troops will engage in a six month mission involving peace-keeping, civilian protection, and convoy-security within the Enduring Free-

dom international operation. The 400 infantrymen replaced Infantry Battalion 151, which provided security for the airport in Kandahar.

Slovenia

The Index of Economic Freedom for 2006, a survey of the U.S. based Heritage Foundation and the Wall Street Journal, ranked Slovenia 38th in a list of 157 countries. Slovenia has jumped seven places in the Index since last year and is currently ahead of old EU member states France and Italy, as well as Poland, Hungary, and Latvia.

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On 10 January, Foreign Minister **Dimitrij Rupel** met with his Montenegrin counterpart **Miodrag Vlahovic** to discuss the future of the republic. Rupel underscored Slovenia's support for Montenegro in its path towards EU accession and its commitment to improve economic relations between the two countries. On a separate occasion, Prime Minister **Janez Jansa** met with Montenegrin Prime Minister **Milo Djukanovic** in Maribor, in eastern Slovenia. They discussed different levels of cooperation and emphasized the planned improvement in economic relations.

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Other Developments

Ukraine

On 10 January, Ukraine's parliament passed a vote of no confidence to the government of **Yuri Yekhanurov** with 250 votes out of 450. President **Victor Yushchenko** has called the move illegitimate and vowed to challenge it in the Constitutional Court. The non-confidence vote came a week after a standoff between Russia and Ukraine over the price of natural gas supplies.

The dispute ended on 4 January with an agreement, which doubled the price that Ukraine would pay for Russian natural gas. Previously, Ukraine was paying USD 50 per 1000 cubic meters for its gas supplies, while under the new agreement it would pay USD 95 per 1000 cubic meters. The government crisis, which is the second one in the past 6 months, comes just before the upcoming 26 March parliamentary elections.

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