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Poland and Spain: How to Cooperate in a Europe in Flux^{*}

The lingering effects of the eurozone crisis have weakened the European project as a whole. As a result, stronger and more effective cooperation between enthusiastic EU countries such as Poland and Spain is very much needed. Besides cooperation within the EU in such fields as completing the single market and promoting a more holistic approach to the European Neighbourhood Policy, both countries should focus on improving their economic ties in bilateral relations and beyond. Through “smart” trade triangulation, Poland could open new markets in Eastern Europe for Spain, and Spain could reciprocate by doing the same for Poland in Latin America. This could help Poland make the economy more competitive and give Spain a lever for economic recovery.

Polish–Spanish cooperation has been deepening for over 20 years. The Treaty of Friendship and Cooperation between the Republic of Poland and the Kingdom of Spain was signed in 1992, and came into force in 1994. While the Spanish economy was booming (1996–2007) Spain was an interesting economic model for Poland. The Spanish experience of accession to the EU was also useful for Poland during its own negotiation process. Not only had both countries experienced smooth transitions to democracy, but they had also focused their foreign policy on becoming core EU countries. Since 2003 they have held annual inter-governmental summits at the prime-ministerial level, leading to the construction of a common agenda. Consequently, political and economic dialogue has been improving constantly, while bilateral relations have become more symmetrical and balanced.

In a time of European turmoil, Poland and Spain should continue working together both at the bilateral and EU levels, to effectively confront both the challenges for their societies at home (e.g., recession in Spain and economic slowdown in Poland) and the EU’s problems in the global context. At the bilateral level Poland and Spain could, first and foremost, seek new markets through ‘smart’ triangulation, and enhance their economic cooperation. At the EU level there are at least three fields in which Poland and Spain could work together. These include calling for “more Europe,” seeking common initiatives to solve the economic crisis and reinvigorating the debate on a more holistic approach to Neighbourhood Policy.

Going Global Together?

Connecting and simultaneously partnering Polish and Spanish companies could contribute to a better understating of each other’s needs and, in the longer term, to opening up new markets (“smart” triangulation). Poland could play a role as a bridge for and/or host of those Spanish companies looking

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towards markets in Eastern Europe, for example in the financial sector and in civil engineering. Poland is not only in a prime geographical location—next to the EU’s eastern neighbours—but also has significant business know-how. As of 2012, Poland’s biggest trade partners in the east were Russia and Ukraine, although Polish trade with these countries accounted for only 8.3% of exports and 15.5% of imports.¹ Special attention should be given to the Russian Transport Infrastructure Plan, which includes the construction of road and high-speed train networks, for which foreign companies might be contracted (tendering will open in 2013).² This opens up an opportunity for the Polish–Spanish consortium Mostostal (with Acciona Infrastructure, and Ferrovial and Dragados, with its Polish subsidiary Pol-Aqua). Another possibility is the Ukrainian market. The Spanish Institute for Foreign Trade (ICEX) assesses that there are medium- and long-term investment opportunities in the areas of infrastructure, energy (including renewables, sufficiency and environmental technology) and agricultural equipment. To start with, Polish and Spanish cities could organise common business meetings, such as that held by the Oviedo, León, and Madrid Chambers of Commerce in Kiev on 2–3 July, to enable companies from three countries to meet and find common projects.

Last but not least, both Spain and Poland could start jointly deepening cooperation with Kazakhstan. Spain considers Kazakhstan its Eurasian strategic partner, and sees potential in partnering companies in industries such as energy (especially in terms of the forthcoming Expo 2017, under the title “Energy of the Future”), infrastructure and environment. Poland also chose Kazakhstan as a prospective market in 2013, which means that the Polish Ministry of Economy will provide financial support to companies seeking to establish cooperation with their Kazakh counterparts. Polish and Spanish companies could work together in conquering Kazakh markets, especially if some extra funding for business projects becomes available from the European Bank of Reconstruction and Development and the Asian Bank of Development.

On the other hand, Spain could help Poland to access Latin American markets. Special attention could be given to the newly established, market-led regional integration organisation, the Pacific Alliance. The combined GDP of its members (Chile, Colombia, Mexico and Peru) is around US\$2 trillion—35% of the Latin American total, and not much less than that of Brazil, the region’s economic giant.³ There are at least three arguments that support this idea. First, all four Pacific Alliance countries have already signed comprehensive Free Trade Agreements with the EU.⁴ Secondly, Spain already invests in this region and is interested in developing its trade relations. This accounts for the Spanish Prime Minister’s presence as an observer at the Pacific Alliance meeting in May.⁵ Thirdly, as the Polish companies and the Spanish energy company Repsol, which was expropriated by Argentina in April 2012,⁶ are interested in seeking new partners in the energy sector (especially since certain foreign companies, such as Canada’s Talisman Energy and Marathon, in the US, are pulling out of shale gas fracking) they could work together in the search for new markets in the Pacific Alliance’s area. There are possibilities in Mexico, where President Enrique Peña Nieto proposed implementing an energy-sector reform in March 2013. Should this happen, Mexico’s oil and gas industry would be opened to private and foreign participation.

Brazil’s plans for large infrastructure development are also interesting, especially after protests against excessive public spending on infrastructure, offering possibilities for Polish and Spanish civil engineering companies. Brazil has large-scale projects within the Growth Acceleration Programme (PAC2) to improve such things as transport, communication and energy infrastructure.⁷ Specific endeavours include

¹ Combined data about Polish exports and imports in 2012 are in Polish Ministry of Economy, Table 3A, www.mg.gov.pl/Analizy+i+prognozy/Analizy+z+obszaru+handlu+zagranicznego.

² The contract for the tender to build 140 km of the M11 motorway between Moscow and Saint Petersburg, and Saint Petersburg and Novgorod. See more at “Looking for foreign investment in road construction in Russia,” 29 May 2013, www.oficinas.comerciales.es/icex/cda/controller/pageOfecomex/0,5310,5280449_5282927_5284940_4681398_RU,00.html.

³ “Latin American geo-economics, a continental divide,” *The Economist*, 18 May 2013.

⁴ As opposed to MERCOSUR (Argentina, Brazil, Paraguay—whose membership has now been suspended—Uruguay and Venezuela), with which the EU–Mercosur Association Agreement is still under negotiation due to market access opposition and internal disputes.

⁵ “Rajoy en Cali: ‘La Alianza del Pacífico es un paso hacia el progreso’,” *ABC*, 24 May 2013, www.abc.es/espana/20130523/abci-rajoy-cumbre-pacifico-201305231632.html.

⁶ On 16 April, Argentina’s government announced a decision to table a draft law in Congress to expropriate 51% of the shares of the YPF hydrocarbons corporation, which is majority-owned by the Spanish energy company Repsol. The announcement was accompanied by the immediate takeover of the company’s main offices by the Argentine authorities and the eviction of the management and designated personnel of the company from the premises. See more at www.europarl.europa.eu/news/en/pressroom/content/20120419IPR43561/html/Parliament-deplores-Argentina%27s-decision-to-expropriate-YPF.

⁷ “Brazil announces Phase Two of the Growth Acceleration Program,” www.brasil.gov.br/para/press/press-releases/march/brazil-

preparatory work for the sporting events (FIFA World Cup 2014 and the 2016 Olympic Games) to take place in Brazil, but in the long term it could be more beneficial for Polish and Spanish businesses to become involved in exploration projects for large off-shore petroleum deposits in pre-salt layers (commonly known in Brazil as *pré-sal*).

Understanding Each Other's Needs: Economic Bilateral Cooperation and Beyond

Three features characterise Polish–Spanish trade. The first is a gradual growth in volume. Since Poland joined the EU, its trade with Spain has almost doubled (from €3.2 billion in 2004 to €6.2 billion in 2011). It stalled in 2009 as a result of the financial crisis (€4.9 billion) but as of 2012 it has once again grown, and now accounts for €5.8 billion (according to Polish data) or €6.3 billion (Spanish data).⁸ Secondly, there has been a relative equilibrium since 2008, changing slightly in favour of one or the other country (in 2012 in favour of Spain). Thirdly, it has an “intra-industrial” character, as the main Spanish goods exported to Poland are components of many of the Polish imports to Spain, such as in the automotive industry, in household appliances and pharmaceutical products.⁹

Although Poland is not one of Spain's top-10 trading partners (16th in terms of exports, ninth in the EU; 12th in terms of imports, ninth in the EU),¹⁰ it remains its main partner for trade and investment in Central Europe, especially in the construction and energy sectors. Spain is Poland's 13th biggest trade partner (in terms of exports and imports) and the 10th largest in the EU.¹¹ In 2011 Spain was the sixth-largest investor in Poland (compared with 2010, when it was the 11th), with the biggest investment in the financial sector (in 2011 Banco Santander bought Bank Zachodni WBK). Additionally, Spanish companies have invested in construction and real estate (Grupo Ferrovial and Grupo Acciona), industry and finance (MONDRAGÓN Corporación Corporativa), aviation (Airbus Military EADS PZL), metallurgy (CELSA Huta Ostrowiec Świętokrzyski) and renewable energy (GAMESA). It is estimated that, to date, Spanish investments in Poland have created around 100,000 jobs. According to the Polish Information and Foreign Investment Agency (PAIIZ), further Spanish investments would be welcome in sectors such as defence (due to the Polish armed forces' modernisation plans), construction, aviation, the financial sector (particularly insurance) and renewable energy.

Spanish companies are attracted to Poland because of its stable economy and relatively cheap and well-qualified labour force. Doing business in Poland has also become easier. The World Bank and the International Finance Corporation's Doing Business 2013 report indicates that, since 2011, Poland has been one of the 10 most-improved countries in terms of ease of doing business—largely thanks to four reforms that make it easier to register property, pay taxes, enforce contracts and resolve insolvencies (though Poland is still 11 places lower than Spain in the overall ease of doing business ranking).¹²

Although there is potential for further bilateral cooperation and beyond, there are several constraints on the development of Polish–Spanish economic cooperation. The Spanish business sector remains concerned about lengthy and complicated administrative procedures in Poland, which are to some extent a hindrance to businesses. In particular, these concerns are about public procurement law (in which price, not quality, often determines the winner), companies that often offer the lowest price win a bid and not those which offer the best value, the complicated tax system, and the rigid labour market. Moreover, Polish companies—given their limited experience in doing business globally—may not be suited to trade triangulation efforts. On the other hand, as Spain is among those most affected by the crisis and associated

announces-phase-two-of-the-growth-acceleration-program/br_model1?set_language=en; “Perspectives and Opportunities—Brazil,” Spanish Institute of Foreign Trade (ICEX), September 2011, www.oficinascomerciales.es/icex/cda/controller/pageOfecomex/0,5310,5280449_5296140_5287111_4152934_BR,00.html.

⁸ “Economic Cooperation,” Embassy of Poland in Spain, www.msz.gov.pl/pl/p/madryt_es_a_pl/wspolpraca_dwustronna/wspolpraca_gospodarcza/polityka_gospodarcza_rzadu; and Spanish Institute of Foreign Trade (ICEX), “General Information,” Commercial Office in Poland, www.oficinascomerciales.es/icex/cma/contentTypes/common/records/mostrarDocumento/?doc=4599929, p. 35.

⁹ But this is not the case for the agricultural, textile and industrial machinery industries. See Spanish Institute of Foreign Trade (ICEX), *op. cit.*, p. 36.

¹⁰ Spanish Institute of Foreign Trade (ICEX), Commercial Office in Poland, *op. cit.*, p. 36.

¹¹ In 2012, bilateral trade comprised: (1) machinery, mechanical and electronic appliances; (2) cars and vessels; (3) chemical products; (4) plastics, rubber and their products; and (5) agricultural products. See “Information about Polish Exports and Imports,” Polish Ministry of Economy, Table 3, www.mg.gov.pl/files/upload/8437/Syntetyczna_informacja_HZ_I_XII_dane_wstepne_20130213_w_ost.pdf.

¹² “Doing Business 2013,” The World Bank—the International Finance Corporation, pp. 2–3.

market pressures, the government is implementing broad-ranging reforms. The uncertain economic situation may result in a lack of confidence in the Spanish market from the perspective of Polish companies, not to mention the fact that Polish investments in Spain are already limited; in 2012 Poland was only the 66th largest investor in Spain (mainly in construction, the chemical industry and the IT sector).¹³

As Spanish companies are more experienced in operating in the global market, their Polish counterparts could gain experience in terms of increasing their involvement in the international markets. The Polish Ministry of Economy estimates that around 130–140 Polish companies are ready to go global. Spain could be their role model. In 2012 Spain was ranked 17th worldwide in the export of goods and seventh in services.¹⁴ Recently, more than 60% of the Spanish Stock Exchange Index (IBEX-35) listed entities' turnover was generated abroad.¹⁵ The Business Council for Competitiveness estimates that, in 2012, there were 272 Spanish franchises outside Spain (30% more than in 2008).¹⁶ They are present in 108 countries, with a growing share in emerging markets. As a result, it would be highly desirable to share experience in carrying out projects in the civil engineering sector and international investment projects. PAIILZ could periodically promote this kind of dialogue, first in cooperation with those Spanish companies already present in Poland (for instance, with Grupo Ferrovial or ACS) and, secondly, with the Spanish Agency for Export and Investments (ICEX), by opening up dialogue with companies that operate in other markets (such as Latin America).

Both Poland and Spain recognise that the internationalisation of companies is a necessary step towards making their economies more competitive. Therefore, both governments have assumed a more active role in economic diplomacy. On the one hand, through its *Marca España* (Spain Brand) policy, Spain aims to improve its image abroad with a focus on economic issues to help both growth and employment to recover. On the other hand, ICEX—created in the early 1980s—actively supports Spanish companies in their internationalisation endeavours. With around 100 offices and 16 business centres abroad, it offers Spanish companies know-how, information on the political, economic and social situations of each country, and indispensable infrastructure at the beginning of their operations abroad. In Poland, alongside the Ministry of Economy, the Ministry of Foreign Affairs has assumed a more active role in economic diplomacy. However, there is no central agency to support the internationalisation of Polish companies. In this respect, Poland could learn from Spain how to effectively set up and run such an agency.

Building a Stronger Europe

For several years now, the EU has been facing two simultaneous challenges, one internal, regarding the crises in the euro area, and one external but inter-related, which has to do with its declining role in the world economy. Within Europe, the ongoing sovereign debt crisis has put the euro area under strain. In a low-growth/high-unemployment environment, most member states are implementing substantial structural reforms and budgetary consolidation. At the same time, the EU is creating a banking union, and has made progress with fiscal and economic governance reforms, but has yet to move towards a meaningful political union in order to ensure the European project's survival.

All these reforms are welcome, because both Spain and Poland understand that deeper integration is the way forward for Europe in an increasingly competitive and globalised world. However, deeper integration within the eurozone cannot lead to the marginalisation of European countries outside it. There is an impression among some member states that the dynamics of the crisis in Europe has shifted the logic of equality between them, and this could present the risks for both Spain and Poland. First, it is generating a divide between the countries in the euro and those outside, which makes it difficult to continue building a stronger EU. Secondly, it is generating a divide between creditor and debtor countries.

There is no doubt that the eurozone debt crisis has changed the nature of European integration. The combination of profligate economic policies of some eurozone members, improper financial regulation, and

¹³ Polish–Spanish investments, www.madryt.msz.gov.pl/pl/wspolpraca_dwustronna/wspolpraca_gospodarcza/pl_es_wspolpraca_inwestycyjna.

¹⁴ “The Foreign Market as a Lever for Economic Recovery,” *Marca España*, <http://marcaespana.es/en/economia-empresa/internacionalizacion/destacados/72/the-foreign-market-as-a-lever-for-economic-recovery>.

¹⁵ The IBEX 35 plays a key role as Spain's benchmark index, comprising major Spanish stocks and representing an essential barometer of the country's economy. See www.ibex35.com/ing/Nosotros/bme.aspx.

¹⁶ “Spain: A Land of Opportunity,” The Business Council for Competitiveness (CEC), March 2013, p. 31.

an incomplete design of the euro has led the EMU to the brink of collapse, forcing the EU to move forward decisively in order to avoid catastrophe. The institutional changes that the EU has been implementing since 2010, aimed at convincing the markets that the euro is an irreversible project, do not have the same underlying logic as in previous steps towards integration. Recent financial and legal arrangements contributed to a more inter-governmental EU than was expected in the past. This is due to the fact that the legal and institutional constraints did not permit for creation of efficient rescue mechanisms within the existing EU framework.

The euro crisis also brought about a shift in the balance of power, as northern creditor countries, led by Germany, have increased their bargaining power vis-à-vis southern countries. The latter, however, cannot expect that financial assistance is unconditional. It is true to say that the incomplete EMU led to the exacerbation of the crisis, yet one of the reasons for its vulnerability lies in the considerable structural problems of several eurozone members. Thus, the first lesson is to create a crisis-resistant EMU, which requires deepening of the integration within the current legal model with respect to the institutional framework and single market rules, without discrimination against non-eurozone members. Secondly, it must be borne in mind that even the most highly-integrated EMU will not perform well if the member states fail to introduce proper structural economic reforms at home, and do not introduce effective supervision of their banking sectors.

As far as the EMU is concerned, the new dynamics have been visible in the negotiations on the Fiscal Compact (which, amongst other things, reduces the scope for fiscal discretion), the banking union (in which limited supervision has prevailed over a common resolution regime or a common insurance deposit guarantee system), the ESM (which is arguably too small and lacks flexibility) and the “Six Pack” and “Two Pack” negotiations (leading to the position that large current account deficits are considered “more dangerous” than large current account surpluses). And, instead of creating new EU economic governance mechanisms such as a Competitiveness and Convergence Instrument, it should first be checked whether such instruments do not duplicate those already adopted but which have not yet been sufficiently implemented, such as macro-economic conditionality.

In fact, the eurozone has never experienced a process of coordinated fiscal adjustment and structural reform as intense as that which has been taking place in southern Europe since the beginning of the crisis in 2010. And the process is likely to continue. Yet it must not be forgotten that economic policy tools lay, in large part, in the hands of national governments. The current reforms should go far beyond the austerity/anti-austerity discourse and include discussions on the regulatory environment, and strengthening market institutions. It is important to ensure a strong, independent media, and to take those steps necessary to curb corruption in EU member states, which entails huge costs for European citizens. Disappointment with the results of structural reforms at home could lead to diminishing support for the EU. It could well backfire if citizens across Europe (and especially in the southern countries) reject the idea of “more” Europe by voting for anti-European parties in their national elections and/or in the European Parliament.

Therefore, Spain and Poland, as the fifth and sixth largest countries in the EU, should work together to strengthen their position within the EU, and call not only for more Europe but also for peer pressure on EU member states to restructure their economies, and a more assertive role for the European Commission in this process. Both countries agree that proper structural reforms are essential to assure sustainable economic growth in the long run. They should keep pushing for the completion of single market, which could boost intra-European trade flow still further.

Promoting an Ambitious EU Foreign Policy

Notwithstanding the problem of tackling internal EU problems, the Union must remain active in external relations in order to keep up with global trends and shifts in US politics, as well as in strengthening its position vis-à-vis emerging global players. Poland and Spain have already cooperated, at governmental and think-tank levels, in brainstorming about the future of Europe. For instance, at the Weimar Plus meeting at the end of 2012, and the Reflection Group on the Future of Europe, which the German Minister of Foreign Affairs launched in March of the same year¹⁷ and, in July 2012, the European Global Strategy (EGS) project

¹⁷ “Final Report,” Reflection Group on the Future of Europe, September 2013, www.msz.gov.pl/pl/polityka_zagraniczna/europa/

that resulted in a report released in May 2013. The EGS, prepared by four European think-tanks, might be a tool that policymakers could use to reinvigorate EU foreign policy.¹⁸ The report suggests that the EU needs to do three things to fill the global power vacuum and define the new order. These include salvaging its internal market and leveraging its economic weight, intensifying cooperation with Turkey, China and Russia in a new vision of its neighbourhood, and forging an Atlantic Community to reassert the western liberal order.

Both Poland and Spain act as EU bridges to the world, Spain to the Southern Neighbourhood, and Poland as the EU gateway to the east, so they should continue to work together on establishing a more holistic approach to the European Neighbourhood Policy (ENP), simultaneously towards the east and the south. A signal of shared commitment to the whole neighbourhood could help to convince other member states that are sceptical about the global strategic importance of the neighbourhood. The rationale for enhancing the ENP is that, if the EU proves to be ineffective in its closest neighbourhood, it will not be effective on the global arena. These activities would also demonstrate Poland and Spain's commitment to the Lisbon Treaty (Art. 8, Par. 1), which, for the first time, legally obliges member states to establish "a special relationship with neighbouring countries, aiming to establish an area of prosperity and good neighbourliness, founded on the values of the Union and characterised by close and peaceful relations based on cooperation."¹⁹ This is also necessary because the ENP, through its regional subsets such as the Eastern Partnership and the Union for the Mediterranean, has not so far been sufficiently effective in transforming the region into an area of prosperity in the EU mould.

In this context, it would be vital to overhaul the ENP, in particular through reviving the debate about the effectiveness of the EU conditionality underpinning the ENP (the EU employs double standards and is not consistent with its own policy) pushing for a more effective European External Action Service (for instance, reorganising the way the service functions, in particular through better links between the geographical and thematic desks that deal with the ENP, and in the wider context with the EU's external relations, such as energy, security and migration) and its cooperation with the European Commission, and further differentiating the EU's policy towards countries to the south and east. With respect to transformation in the southern neighbourhood (e.g., in Egypt and Tunisia) and to concerns over the situation in the east (e.g., in Belarus and Ukraine), Poland and Spain could also cooperate on the question of sharing their democratic transition experiences with countries undergoing political change. Were they to do so, they could influence the debate on the EU's role in promoting democracy and human rights.²⁰

Conclusions

As the recent crisis has made the European project as a whole weaker, stronger and more effective cooperation between enthusiastic EU countries such as Poland and Spain is very much needed.

On the bilateral level, Poland and Spain should focus on improving their economic ties in working in bilateral relations and beyond. This could be achieved in two ways. Firstly, this could involve seeking a trade triangulation that is beneficial to both countries. For Spain, opportunities could be opened up in Eastern Europe, and for Poland, the Latin American markets would be the targets. Secondly, investments between Poland and Spain could be increased (with reforms introduced to reduce the time and difficulties caused by administrative procedures in Poland, while Spain, for its part, should improve its economic situation in order to avoid being seen as an unstable country).

The pair could work together in supporting further the internationalisation of companies, as this is necessary to make the Polish economy more competitive and for economic recovery in Spain. As Poland is

unia_europejska/przyszlosc_ue/koniec_prac_grupy_refleksyjnej_ds__przyszlosci_unii_europejskiej_ministrow_spraw_zagranicznych?printMode=true.

¹⁸ The European Global Strategy is a central product of the period of reflection initiated by the Foreign Ministers of Italy, Poland, Spain and Sweden in July 2012, and is designed to encourage long-term thinking on the EU's ongoing foreign policy review process. See *Towards a European Global Strategy*, PISM Reports, May 2013, www.pism.pl/Publications/Reports/Towards-European-Global-Strategy.

¹⁹ *The Treaty on the European Union and The Treaty on the Functioning of the European Union*, Official Journal C 115, 09/05/2008 P. 0001 – 0388, <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:C:2008:115:0001:01:en:HTML>.

²⁰ *Poland and Spain: Partnership for a Stronger Europe*, PISM Strategic File, no. 20, April 2012, www.pism.pl/Publications/PISM-Strategic-Files/PISM-Strategic-File-no-20-Poland-and-Spain-Partnership-for-a-stronger-Europe.

less experienced in this area and does not have a central agency to support the internationalisation of Polish companies, it could learn from Spain how to effectively set up and run such an agency.

Within the EU, the first step to be taken must focus on solving the economic crisis. Balancing austerity with growth-oriented structural reforms at home and making the EMU stronger and non-excludable are issues that must be addressed. Both countries agree on some issues, and their involvement in deepening the internal market is outstanding. Strengthening the ties between European countries, and creating a positive narrative for the Union, are objectives shared by the two states, which, in the end, would each like to go one step further and become players in a process leading at some point to a real political union.

Notwithstanding the problem of tackling internal EU problems, Poland and Spain should call for more effective engagement in the EU's foreign policy. As highlighted by the European Global Strategy final report, the EU should intensify its cooperation with Turkey, China and Russia, in addition to forging an Atlantic Community.

Poland and Spain should also push for a more effective EEAS and a holistic approach to the European Neighbourhood Policy. A signal of shared commitment to the whole neighbourhood could help to convince other member states that are sceptical about the global strategic importance of the neighbourhood.