

## **UKRAINE IN THE THREE SEAS INITIATIVE: WAYS TO PARTICIPATE AND POTENTIAL RECOVERY PROJECTS**

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### **General assessment of the dynamics of the Three Seas Initiative**

During last few years the Three Seas Initiative, that was founded in 2015 by presidents of Croatia and Poland aimed at deepening cooperation between the countries of Central and Eastern Europe and including the states between the Baltic, Black and Adriatic Seas (Austria, Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia), shows signs of institutional formation. The Three Seas Initiative Fund was established, which is gradually being filled with funds, a network of Chambers of Commerce and Industry of the Initiative states and the Business Council of the Initiative states were also created. The summits of the Three Seas Initiative are accompanied by Business and Civil Society Forums.

The declared priorities of the initiative, pursued consistently by the leaders of the member states, are the economic development of the region and overcoming the socio-economic gap between the states of Western and Central-Eastern Europe (WECE), infrastructure development, including shorter travel times and delivery of goods between capitals (by car and train) between North and South Europe, faster and more affordable internet and digitalization of the CEE, Baltic and Balkan region, as well as energy security and diversification of energy sources.

Currently, about 90 projects are being implemented by the Initiative countries in cooperation with other actors to fulfill the Initiative's priorities in the infrastructure, digital, and energy dimensions.

Apparently, this is not enough to talk about qualitative transformations in the region. Based on various estimates, in order to catch up with Western Europe, the Three Seas region needs from €600 billion to €2 trillion in investments in transport, energy, and digital infrastructure. The EU budget does not provide for such funds, and in the 2021–2027 budget cycle, it is only €42 billion for the region, while the Investment Fund of the Three Seas Initiative only claims to raise €3–5 billion and is currently limited to about €1 billion.

The change of administration in the United States has led to a decline in the White House's interest in the Initiative (the previous U.S. President Donald Trump showed much greater commitment to the Initiative and even attended its summit in Warsaw in 2017). Therefore, the possibility of funding from American investors and donors (for example, through the U.S. International Development Finance Corporation (IDFC)) has also been called into question.

Against the backdrop of deteriorating relations between the United States and the EU, on the one hand, and China, on the other, the leaders of the Initiative no longer count on (and even consider undesirable) an inflow of investment from China. In the early stages of the Initiative's formation, however, financing for individual projects under the Chinese Belt and Road Initiative was not ruled out, and the China-Central and Eastern Europe Investment Cooperation Fund (SinoCEE Fund), with a turnover of about €10 billion, was considered a potential investor in the projects of the Three Seas Initiative. Moreover, China itself is now focusing more on new initiatives such as the Global Development Initiative and the Global Security Initiative, which are more focused on the Global South and Southeast Asian states.

Along with the above, the Three Seas states do not stop looking for alternative sources of funding. Among other things, they are considering the possibility of attracting pension funds from Canada, North Korea, and Japan as partners of the Three Seas Initiative Investment Fund (3SIIF), as well as co-financing projects by the national financial institutions of the participating states, international organizations such as the European Investment Bank (EIB), the World Bank, and the American International Finance Corporation (IFC), as well as private investors.

Within the Three Seas Initiative, there are increasing calls for further formalization of the Initiative's institutions, including the setting up of its Secretariat, which would become a contact point for working with donors and investors, as well as provide support to the states that preside over the Initiative on a rotating basis.

Deepening academic cooperation is also considered among the promising areas. In particular, in May 2023, an agreement was signed on the formation of the Three Seas Initiative university network.

## **Priorities of the Three Seas Initiative in 2023-2024**

Against the backdrop of Russia's war against Ukraine, the importance of the region, which includes the states of the Three Seas Initiative, has begun to grow significantly, and new challenges have led to a recalibration of priorities.

Ensuring the region's energy security remains an important task, but now its importance is further increased by the fact that the EU is finally refusing to supply Russian energy carriers. Against this background, the development of a network of LNG terminals and the improvement of the gas pipeline network, as well as the enhancement of energy efficiency

and the use of alternative energy sources, are gaining not only regional but also European significance. In this context, the formation and strengthening of the north-south corridor (LNG terminals in Swinoujscie, Poland, on the Baltic Sea and on the Croatian island of Krk) allows for the supply of liquefied natural gas from the United States, Norway, Algeria or Qatar to the European energy market, which includes Ukraine and Moldova. In addition, the energy priorities of the Three Seas Initiative are in line with the energy goals of the European Union, and such political and economic convergence can complement and provide a significant additional impetus to the implementation of the REPowerEU plan.

Digitalization, as well as countering cybercrime, is also gaining new relevance, especially in light of the cyberattacks (including those launched by Russia) that the region's states are experiencing.

After all, infrastructure projects that have so far been justified by economic feasibility are now becoming dual-use projects that aim not only to transport goods but also, if necessary, to redeploy troops and military equipment along NATO's Eastern flank, which includes most of the initiative's states.

The geopolitical component of the Three Seas, which was denied at the stage of the Initiative's formation, is now becoming critical for most states in the region and for global players.

### **The significance of the 2023 Three Seas Summit and Romania's priorities**

In the fall of 2023, the Three Seas Summit will be held in Romania. The agenda will include both the implementation of existing and discussion of potential projects within the Initiative.

A separate event that will accompany the Summit will be the Business Forum, which has already become an important part of the initiative, attracting the attention of leading global organizations such as the International Monetary Fund, the World Bank, the OECD, as well as business circles from the region and beyond. The idea of the Forum is to provide links between business and governments, as well as at the business-to-business level. The Forum aims to facilitate connections between companies and partners to further attract private investment to the Three Seas projects.

As the host of the summit, Romania will have additional leverage to promote its own priority projects. Given that these projects will be in the focus of the summit participants, Ukraine should also pay proper attention to them and explore opportunities for involvement in various formats.

Currently, there are 6 priority projects for Romania (the seventh project has been completed, although the need for follow-up initiatives cannot be ruled out in light of new regional circumstances).

Their list is as follows:

## 1. BRUA (Balkan-Black Sea-Adriatic gas pipeline)

For a long time, the future of the project was uncertain. BRUA is part of the Southern Gas Corridor, which aims to ensure a higher level of energy security in Europe by diversifying gas supplies. The project will create opportunities for additional supplies of Romanian gas from fields located on the Black Sea shelf. Due to the lack of progress in the development of the Neptun Deep offshore project, the Romanian side lacked gas for transportation. The project was also hampered by delays in the construction of the Greek-Bulgarian interconnector. However, the Russian war against Ukraine and Russian gas blackmail of Europe have accelerated the relevant processes. The Greek-Bulgarian interconnector was promptly put into operation, and in 2023, the development of Neptun Deep began.

## 2. Exchange of transport services in the Three Seas Initiative region

The idea of the project is to create an intelligent digital platform for optimizing transport services, collecting data on services provided and accessing information on tariffs, special services, incidents and transport logs. In addition, it is planned to build buildings for a center for monitoring and managing international transportation and costs in the Three Seas Initiative region. The project is being implemented by basing on modern transportation technologies, energy efficiency and improved use of environmentally friendly transportation systems. Due to the large volume and speed of data processing generated by the sector, the platform will allow tracking traffic, sending documents and tracking payments, thereby ensuring efficient transportation and logistics transactions in the region, reducing overall transportation and production costs.

## 3. A digital platform for monitoring hydrographic databases in the Three Seas Initiative region

This platform will be an integral contribution to the analysis of flood, drought and water scarcity risks, as well as the impact of water abstraction in the Three Seas Initiative region, taking into account the effects of climate change. Taking into account the transboundary impact of environmental problems and climate change risks, the project has high chances for further development and implementation. Synergies can be achieved by combining activities coordinated under the auspices of the Three Seas Initiative and the Central and Eastern European Office of the Global Water Partnership Initiative, which implements the regional Integrated Drought Management Program (IDMP) and has involved Bulgaria, the Czech Republic, Hungary, Lithuania, Poland, Moldova, Romania, Slovakia, Slovenia and Ukraine in developing joint drought management.

## 4. Via Carpathia (transport project connecting Central European countries)

The project involves building a route from the Lithuanian cities of Klaipeda and Kaunas through the Polish cities of Bialystok, Lublin, and Rzeszow, to the cities of Kosice in Slovakia

and Debrecen in Hungary, as well as to Romania, Bulgaria, and Greece. The route should extend all the way to the Romanian port of Constanta on the Black Sea and the Greek port of Thessaloniki on the Aegean Sea.

5. Railway project “Rail-2-Sea: Modernization and development of the railway line Gdansk (Poland)—Constanta (Romania)”

The railroad between the ports of Gdansk and Constanta, connected to the Via Carpatia highway, will help increase the use of environmentally friendly solutions combined with advanced telecommunications innovations. The project is also a part of the Trans-European Transport Network (TEN-T) and the EU is allocating €183.8 million for its implementation.

7. FAIRway Danube (completed)—Danube-related project.

FAIRway Danube has considerably increased the level of knowledge about the shallow water sections of the Danube Riverway to optimize routes along this corridor.

### Synergy of Ukrainian and Romanian interests in project implementation of Three Seas Initiatives

All of the projects listed by Romania as the host country of the summit are also of interest to Ukraine and can serve as an entry point to the Three Seas Initiative.

In particular, the **BRUA** project creates opportunities for additional supplies of Romanian gas from fields located on the Black Sea shelf and can potentially compensate for the lack of Russian gas for both Ukraine and Moldova. In addition, the potential use of Ukrainian gas storage facilities could be an additional advantage for the project participants.

The importance of the **Transport Services Exchange** in the Three Seas Initiative region is growing in view of the major realignment of logistics chains in the region. The added value for Ukraine will be in diversifying export routes and improving connections to key ports in Poland and Romania, as well as the Baltic States, which will reduce the challenges posed by the blockade of the Black Sea corridors.

**The digital platform for monitoring hydrographic databases** in the Three Seas Initiative region can be used in the context of climate change caused by the military actions in Ukraine, in particular, the undermining of the Kakhovka Reservoir dam by the Russians. In addition, the synergy between the Project and the activities of the Tisza International Engineer Battalion (an engineering unit designed to respond quickly to floods and other natural disasters, established on November 15, 2002, after the Chiefs of the General Staff of the Armed Forces of Hungary, Romania, Slovakia and Ukraine signed the Technical Agreement on the Implementation of the Intergovernmental Agreement on the Tisza International



Engineer Battalion) may have added value and serve as an example of already established specialized cooperation between the countries of the region.

**Via Carpathia** will provide Ukraine with better access to European markets, promote the use of environmentally friendly transportation solutions, reducing carbon emissions, and can be used for dual purposes, for the delivery of weapons and ammunition and for the deployment of military units if necessary. **Rail-2-Sea** can perform a similar role. Modernization and development of the railroad between the ports of Gdansk and Constanta could improve connectivity and allow for easier movement of goods. For Ukraine, this project could create additional transportation routes and options for trade diversification, reducing the challenges posed by the blocking of alternative transportation corridors by Russian forces.

Against the backdrop of energy challenges caused by regular Russian shelling of infrastructure in Ukraine and energy blackmail of Moldova, as well as a number of the Three Seas states with a significant share of energy dependence on Russian supplies, **the importance and relevance of solutions for cooperation in the digital and sustainable energy sector in the region of the Three Seas Energy Saving Initiative is growing.** Against this background, Ukrainian achievements in the field of digitalization can serve as an example and know-how for the Initiative states.

Ultimately, although the **Danube FAIRway** is now completed, its value lies in the optimization of the Danube River route, which is a critical corridor for transport and trade in the region. Improved navigation and logistics on the Danube can facilitate more efficient transportation of goods, which will benefit all countries along the river, including Ukraine, especially against the backdrop of Russia's blockade of sea lanes in the Black Sea.

## Conclusions and recommendations

In general, these projects open up opportunities for Ukraine to enhance energy security, diversify trade routes, and develop logistics and communications, which is critical in view of Russian aggression and geopolitical challenges in the region. In this case, Ukraine's national interests largely coincide with those of Romania, which will host the summit and is making significant efforts to draw the international community's attention to the Black Sea region.

To demonstrate Ukraine's interest in participating in these projects, as well as its readiness for joint efforts to find investors and implement the priorities of the Three Seas region in terms of infrastructure and digitalization, it is necessary to ensure that the summit in Romania is attended by the top leadership of the state and/or the **Vice Prime Minister for Innovation, Education, Science and Technology – Minister of Digital Transformation and the Vice Prime Minister for the Restoration of Ukraine – Minister of Community, Territorial and Infrastructure Development of Ukraine.**

One of the grievances of the Three Seas Initiative is the lack of attention from global players.

In contrast, Ukraine is still in the spotlight of the international community. Ukraine's accession to the Three Seas Initiative and the corresponding information campaign could create additional opportunities to attract investors and partners to Three Seas projects. Common projects with the Three Seas states can also be considered in the context of Ukraine's recovery, building additional routes aimed at restoring supply chains and ensuring the export of goods from Ukraine. If an appropriate dialogue is established with the Three Seas states, this topic should be jointly promoted at the level of annual international conferences on Ukraine's recovery. Thus, despite the lack of national resources, **Ukraine could become an attention-grabber for the Three Seas Initiative.**

Given the existing weak capacities of the Three Seas Initiative Fund, its content, along with the search for partners and investors for projects that would connect Ukraine and the Three Seas states, should be a key priority. Given the EU's share in the implementation of existing projects, it is appropriate for Ukraine (as well as Moldova) as candidate countries to begin preparatory work with EU institutions to support the Three Seas projects from the available funds, as well as to work on taking into account the needs and priority projects of the Three Seas in the next EU budget cycle.

Ukraine (in particular, the State Property Fund of Ukraine) is currently working dynamically with sovereign wealth funds of other countries. The existing working contacts should be used to involve the sovereign wealth fund of the United Arab Emirates—Abu Dhabi Investment Authority (ADIA), the sovereign wealth fund of Singapore—Temasek Holdings, the sovereign wealth fund of Saudi Arabia—Public Investment Fund in projects that are priorities of Ukraine and the countries of the Three Seas. Given the task of the Three Seas Initiative to develop the North-South corridor, some of the Initiative's projects may also be of interest to the Norwegian sovereign wealth fund. **If the State Property Fund of Ukraine is successfully reformed, it may eventually become an actor that will support the dynamics of implementing priority projects for Ukraine within the framework of the Three Seas Initiative.**

**Another source of funding for the Initiative's projects, which will involve Ukraine and Moldova, could be funds allocated for the development of the Eastern Partnership.** While Belarus has effectively fallen out of the Eastern Partnership's orbit, and Azerbaijan, Armenia, and Georgia have some difficulties in utilizing the funds, it would be natural to direct them to support projects that would strengthen Ukraine and Moldova's integration into the EU through projects with the Three Seas states that are already members of the European Union. Moreover, this would allow Ukraine and Moldova to demonstrate their own added value and ability to raise funds for the development of the region.

A separate priority that Ukraine should promote at the summit should be neutralizing or mitigating the risks of war for business. **Kyiv, with the support of the Three Seas states, should increase its influence on international financial institutions (e.g., the World Bank**

and the Multilateral Investment Guarantee Agency—MIGA) to ensure that war risks are insured for investors. In addition, discussions should be initiated on the possibility of state guarantees from the countries of the Three Seas Initiative for their business and investments in Ukraine, taking into account the current situation.

At the same time, given Ukraine’s need for recovery, **the Three Seas Initiative could also consider launching an incubator of ideas for projects that could be jointly implemented by the Three Seas states and Ukrainian participants**, and partially funded by the EU, international financial institutions, donors, and private investors, as well as co-financed by the Three Seas Initiative Fund.

In addition to long-term planning, the focus should be on projects that have an immediate impact. In this context, given the need to increase the productivity of new supply chains and the need to transport goods from Ukraine via alternative routes, the Via Carpathia project should be given an additional jolt. **The initiative to connect Odesa in Ukraine with Dorohusk in Poland using the European 1435 mm gauge standard (instead of the existing 1520 mm) may find a suitable audience at the Bucharest summit.**

In addition, **the Three Seas Initiative summit could be a good opportunity to announce Ukraine’s intention to establish a National Coordinator for cooperation within the Three Seas Initiative, which would demonstrate interest of Kyiv’s in the Initiative and readiness for full membership.** The National Coordinator could apply for observer status in the Initiative’s Secretariat, which is currently seen as a key to attracting donors and investors to the Initiative, despite the skepticism of some Initiative members.

Finally, **the summit can also be used to boost the visibility of other regional initiatives crucial for Ukraine**, such as the Lublin Triangle. In this respect, side events/summits should be held within the Lublin Triangle on the margins of the Three Seas Initiative summit.

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