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INSIGHT | ADVOCACY

Beyond the headlines:

Russia + Ukraine conflict

// [View from London](#) / [Warsaw](#) / [Brussels](#)

As Russian President Vladimir Putin planned his invasion of Ukraine in 2021, he honoured Russia's long-term energy contracts—but found excuses to stop selling into European short-term spot markets, despite the lucrative opportunities presented by last autumn's soaring prices. The supply squeeze in the summer and autumn of 2021 left Europeans with dangerously low reserves over the winter months. Putin seems to have expected that low reserves of gas would intimidate European governments into accepting his aggression.

Now Putin is constraining supply again, this time apparently intending to push European countries into outright shortages over the winter ahead. It has prompted the European Union to roll out a plan to reduce its members' gas consumption by 15 percent (from their average level of use over the past five years). Last winter, Putin brandished Russia's gas weapon. In the one ahead, he seems likely to launch it.

Russian state-owned energy producer Gazprom said natural-gas exports through the Nord Stream pipeline, which channels natural gas to Europe, would drop to about one-fifth of the line's capacity, citing a turbine issue that still hasn't been resolved. Without Nord Stream, Europe would get to only 70-75% of gas in storage by early November, spelling a winter of low productivity and public dismay.

Russia is therefore banking on economic distress to cause political upheavals in Europe and North America that would weaken support for Ukraine. This is something of an endurance test because Russia's economy is also showing signs of stress.

Although some Western commentators continue to argue that opposition to Putin has cost the united front dearly, while proving less damaging to the 'resilient' Russian economy, that narrative is likely, we believe, to prove untrue. These misunderstandings are perpetuated by the Kremlin's economic releases, which have become increasingly rose-tinted and propagandic.

New research from the Yale School of Management has found that Russian domestic financial markets, as an indicator of both present conditions and future outlook, are the worst performers in the entire world so far in 2022 despite strict capital controls – in addition to the country being substantively cut off from international financial markets, limiting its ability to tap into pools of capital needed for the revitalisation of its crippled economy. Yale concludes that, on its current trajectory, Russia is heading for 'economic oblivion' and argues that the international opposition must not relent until Russia ends its invasion.

It is always the case that the next few weeks can be seen as representing a critical moment in the course of this conflict, because each stage sets the terms for the next. But this is truer now than ever. After a period in which it seemed as if the fight was stuck in a groove and threatening to turn into a long attritional slog, it may be about to enter a more dynamic period. If this does not happen, and there is little movement, the harsh weather of winter will be matched by tough choices about the future conduct of the war and, of course, about energy supplies to countless homes and business throughout the length and breadth of Europe.

// Diplomacy and defence latest

- **Ukraine has multiplied its attacks on Russian forces** in the occupied region of Kherson in recent days. The strikes came as the US warned that the window of opportunity for a push in the south was closing, and Russia said that it was expanding its territorial aims to include Ukraine's south.
- **The first three ships carrying grain out of Ukrainian ports under a deal signed last week are expected to leave in the coming days**, Ukrainian officials said.
- Although the workaround to the blockade has raised hopes that a cataclysmic global food crisis can be avoided, there is some scepticism that Moscow will stick to the agreement. **Western officials fear that Putin will weaponise grain shipments in future**, slowing them down again to gain leverage.
- Research by the Institute for Strategic Dialogue, a think tank which tracks online extremism, shows that RT (i.e. Kremlin-backed media organization) set up new websites that are accessible to EU citizens, thereby bypassing EU sanctions. After Russian Foreign Minister Sergey Lavrov toured Africa in order to blame the EU for the current food crisis, this further suggests that the **EU has had difficulty in countering Russian propaganda**.
- **Russia said that it would withdraw from the International Space Station**, which has been a symbol of post-Cold War cooperation between Russia and the US since it was launched in 1998. Yuri Borisov, the head of the Russian space agency, told President Vladimir Putin during a meeting that Russia would leave the space station after its current commitment expired at the end of 2024.
- Sergey Lavrov, Russia's Foreign Minister, is has been undertaking a tour of Africa in an attempt to build support for Russia on the continent. **Some African leaders have chosen not to condemn Russia's invasion** of Ukraine and have accused the US and NATO of starting or prolonging the conflict.
- US Secretary of State Antony Blinken said he pressed his counterpart, Chinese foreign minister Wang Yi, to oppose Russia's ongoing invasion of Ukraine when they met at the G-20 summit in Bali at the beginning of July. **China has declared itself as neutral**, a position which the US defines as difficult to have because, Blinken said, there is a "clear" aggressor and victim.
- **The German Government has approved** a request by arms manufacturer, Krauss-Maffei Wegmann, **to produce 100 howitzers for the Ukrainian army**.
- Notably, additional permission will have to be issued to export the howitzers to Ukraine once they have been produced (which may take many months),

meaning the final delivery of the weapons is not yet fully guaranteed.

Nevertheless, these developments signify that **Germany expects the war to continue for a significant amount of time.**

- The President of France, Emmanuel Macron, and Saudi Crown Prince Mohammed bin Salman will meet in Paris today (28 July). The official trip comes as France and **Europe attempt to find alternative energy suppliers** amid Russia's war in Ukraine. Bin Salman's visit marks his first trip to Europe since the killing of the journalist Jamal Khashoggi.
- Last week, some of the world's top national security officials, including defence ministers and ambassadors, gathered in Aspen, Colorado to discuss global challenges related to the war in Ukraine. There were concerns that high gas and food prices, and a military stalemate, may gradually impact support for Ukraine. Marcin Przydacz, Polish Deputy Foreign Minister, raised the alarm, stating that **"war fatigue" is an emerging problem**, particularly among Central European states.
- **To avoid a winter of discontent**, Europe is still hopeful of a negotiated solution to the war, which would no doubt be hard to achieve, but the outlines of a settlement are already visible. Each side would have to make painful concessions. Ukraine would have to relinquish considerable territory and do so in writing. Russia would need to relinquish some of its battlefield gains and renounce future territorial claims. To prevent a future Russian attack, Ukraine would surely need strong assurances of US and European military support, as well as continuing military aid (but consisting mainly of defensive, not offensive, weapons). Russia would have to acknowledge the legitimacy of such arrangements. The West would need to agree to relax many of the economic sanctions it has placed on Russia. NATO and Russia would have to launch a new set of negotiations to limit the intensity of military deployments and interactions along their respective frontiers.

// Economic impact

- **The IMF warned that a global recession could soon be on the horizon** as war, inflation and the pandemic inflict economic pain on every continent. The baseline forecast for global growth is for it to slow from 6.1% last year, to 3.2% in 2022 – 0.4% lower than forecast in the last Outlook update in April.
- **Eurozone growth has been revised down to 2.6% this year**, and 1.2% in 2023, reflecting spillovers from the Ukraine war and tighter monetary policy.
- Following an initial proposal by the European Commission, **EU Member States reached an agreement that they would voluntarily cut their gas demand by at least 15%** (equivalent to 45bn cubic meters of gas) over the next 8 months. If Member States declare an emergency at any point, the reduction will become mandatory. It is worth noting that multiple exemptions exist for countries with limited or no connection to the European gas grid. This suggests that the total gas reduction will be lower than the intended target.
- To counter the likely shortage of Russian gas, **the European Parliament endorsed labelling some domestic gas and nuclear energy projects as "green,"** allowing them access to cheap loans and subsidies as Europe scrambles to replace Russian energy sources.
- **EU Member States agreed on an additional package of sanctions** which encompasses a ban on gold imports (including jewellery) from Russia; targeted sanctions on 48 individuals, nine groups and companies; stricter reporting requirements for asset freezes of sanctioned individuals; and tightened dual-use and advanced-technology export controls.
- Furthermore, in order to counter the Russian narrative that EU sanctions are leading to global food shortages, the **EU introduced exceptions for the purchase, import or transport of agricultural and food products of certain banks whose assets have been frozen.**

// Political Impact

- **The UK has seen changes within its political leadership that are possibly risking having consequences on the conflict.** The resignation of Boris Johnson as Prime Minister means that currently there is a leadership contest in the Conservative Party to see who is going to be the next premier. While Johnson is going to continue as Prime Minister until September, this event has created tensions on the stances that the new PM will take on Ukraine and Russia.
- **President Volodymyr Zelensky described Boris Johnson, the departing Prime Minister, as a “true friend” to Ukraine.** Russia seemed happy to see him go.
- **Meanwhile, in Italy, Mario Draghi, the Prime Minister of Italy, has announced his own resignation** after he failed to win enough support from right-wing parties in his coalition to carry on leading Italy's Government. The decision of his resignation means that an election is going ahead in September.
- **However, Draghi's resignation could have extreme consequences for Italy, the EU and the conflict in Ukraine.** Starting with Italy, polls are showing that elections will be likely by won by a right-wing coalition. A right-wing Italian Government will mean an increased Euroscepticism across the EU, weakening the bloc during this crucial time of geopolitical confrontation. To conclude, it is known that some of the right parties' leaders, such as Matteo Salvini and Silvio Berlusconi, had friendly ties with Russia in the recent past.

// How you can help

Several organisations are taking concrete actions to support Ukrainians, either by making donations or implementing supportive measures directly connected to their businesses. Please find below a non-exhaustive list of verified charitable organisations that are taking donations to help directly in Ukraine, as well as in neighbouring countries which are accepting Ukrainian refugees.

Ukrainian Red Cross Society	has launched an emergency appeal and is asking for donations so that it can respond to existing and emerging humanitarian needs - providing food, first aid, medicines and shelter.
UNHCR	the UN Refugee Agency is collecting donations that will help them provide relief items and emergency payments for the most vulnerable individuals, including cold weather relief and blankets and emergency accommodation.
Unicef	is working to support 7.5 million Ukrainian children at risk, with donations helping to provide families with access to clean water and nutritious food.
Hope and Aid Direct	is a UK-based humanitarian charity which obtains the aid that is necessary and drives it directly, in convoys of aid trucks, to those who need it most.
SOS Children's Village	are currently running an urgent appeal to provide relocation support and shelter for Ukrainian children and families, as well as their own staff.
The Disasters Emergency Committee (DEC)	brings together 15 leading aid charities to raise funds quickly and efficiently when large-scale disasters hit countries which, for whatever reason, lack the capacity to respond.
Children on the Edge	is helping families arriving into Moldova and Romania. They have facilities near the Ukrainian border in Chişinău, Moldova and in Siret, Romania; providing a safe place to stay and psychosocial support.

ShelterBox	provides life-saving aid for families affected by the crisis in Ukraine, as well as other countries where it operates (such as Syria).
Peace Direct	is an international charity dedicated to supporting local people to stop war and build lasting peace in some of the world's most fragile countries.
Goods for Good (UK)	have set up a humanitarian aid hub on Poland's border with Ukraine and have trucks ready to go - filled with relief aid provided by British businesses and community donations for Ukrainian refugees.

// Further Information

Members of GK's team are happy to elaborate on our assessments and assist clients in navigating the crisis as the situation develops.

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