

RUSSIA'S WAR AGAINST UKRAINE:  
A PROPOSAL FOR THE EU TO PRESS CEASE FIRE, PROTECT NATO'S EAST FLANK AND REBUILD EU  
MILITARY DEFENSE AND ENERGY SECURITY

Abel M Mateus<sup>1</sup>

Synopsis: The paper sets five Proposals for European Leaders to press the ceasefire and protect NATO's eastern flank in the short term. In response to the embargo on imports from Russia, we propose an Energy Emergency Program and, in the medium and long term, two Energy Security Plans for the Union. At the same time, we propose a Plan for the Recovery and Strengthening of EU Security and Defense and for the Preservation of Democracy. These proposals are based on an analysis of Russian state funding, the EU's energy dependence and its weaknesses in military and geostrategic terms. The summary of the proposals is:

First Priority: stop the destruction of lives and infrastructure in Ukraine. **Proposal 1:** Immediate embargo on oil and natural gas imports from Russia, pending a ceasefire by its armed forces in the invasion of Ukraine and opening of channels for humanitarian aid in the country.

Second Priority: protect EU countries that could be threatened by Russia's continued advance. **Proposal 2:** Declaration by NATO that it will respond immediately and unconditionally to any aggression by Russia against any Member State, and that it will respond immediately to any nuclear threat, followed by the immediate deployment of six US Army battalions to the Baltics and Poland; and six battalions of the EU Rapid Response Forces to the eastern flank.

Third Priority: protect the EU from the effects of war and strengthen energy security. **Proposal 3:** Elaborate an Energy Emergency Plan, to mitigate impact of the embargo, with a system of allocation and controlled prices of natural gas and fuels for different uses, giving priority to meeting the basic needs of the populations. Suspension of carbon payments during this phase. At the same time, draw up a plan to strengthen the EU's energy independence and security in the next 3 (objective of autonomy from Russian sources) and 5 years.

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<sup>1</sup> University Professor of Economics, IEP, Universidade Católica Portuguesa and Senior Fellow at University College of London. President of the Consulting Council of SEDES, a think-tank in Lisbon.

The author was Executive Director of the European Bank for Reconstruction and Development between 2011 and 2017, having led or participated in several missions to Russia and is the author of advisory reports to the Russian Government, at the highest level, until the annexation of Crimea.

Fourth priority: rebuilding the EU's defense systems and protecting Democracy. **Proposal 4:** Declaration by NATO that all countries will increase their military expenditures by at least 2 percentage points of GDP in the next two years, and with a minimum of 2% already in 2023, as well as the tripling of Rapid Intervention forces. Declaration by the Council of the constitution of an EU Defense Reconstruction Fund, with at least €500 billion for the next 5 years, with own resources from the European Commission. Protect democracy by tightening lobbying laws, controlling strategic investments and party funding.

Fifth priority: humanitarian aid and reconstruction of Ukraine. **Proposal 5:** Elaboration of a plan for the distribution of refugees among the Member Countries (Portugal would house around 80 thousand refugees). Creation of a Humanitarian and Reconstruction Fund for Ukraine of around €50 billion by the Commission for the next two years.

## 1. Introduction

The war of annihilation waged by Russia against Ukraine caused a Teutonic change in world geopolitics and in Europe in particular. Either EU leaders understand what is happening and redesign economic, defense and energy strategies, or we will be at the dawn of a third world war with unpredictable consequences for the continued existence of humanity on this planet.

We are at the dawn of a new era in which the great geopolitical blocks are divided between Europe, the USA and the Allies, China, and Russia. This tripolar world will dominate the definition of not only military but also economic strategies, with profound consequences in the definition of external and internal economic policies of Europe and Allies. Europe has lived since the Second World War in the shadow of NATO protection, and with the collapse of the Soviet Union, it neglected its defense systems and made serious strategic mistakes. Germany, behind its guilt complex and political confluences between the Greens and Social Democrats, has maintained for decades a country that is the undisputed economic leader of the EU, but which has seriously neglected the defense and security of our continent. How is it possible for an economic giant to be a defense dwarf? This issue is crucial to understand the fragilities of the EU. These mistakes were exploited by Putin, who has even recruited and paid the support of political elites, and acted surreptitiously, to pursue his geopolitical ambitions and preserve European energy dependence. But new challenges loom on the horizon, with value chains dominated by China and industrial dependence of the EU.

We make three fundamental points: (i) Europe financed and continues to finance Putin's war machine. Attention, European and Portuguese citizens are not bearing the costs of sanctions, but purely and simply, irony of the situation, defraying and financing Putin's war effort. This is the stark reality, as we will demonstrate, and none of the sanctions imposed so far solves the problem; (ii) this situation was created by the EU's energy dependence on Russia, which has become the "world's fuel station". In part, this situation could be mitigated by an EU embargo on Russian natural gas imports and, to a lesser extent, by an embargo on Russian oil and coal. The economic consequences in the short and medium term would be quite serious, which forces us to propose intelligent and urgent solutions in the short, medium, and long term; (iii) What does Putin want? Fundamentally, to restore Russia's military power and dominate the space of Great Russia, in a dictatorial regime, without threats from NATO. For this, he built a police state based on state capitalism, which sustains a vast military industry inherited from the Soviet Union, and which it intends to continue to develop with modern technologies, both Western and Chinese. The EU's response has been timid and compromised. The EU's response can only be to reconstitute its military capacity within the NATO

defensive Alliance, and design interventions that can help transform the model installed by Putin, which is exhausted and no longer allows it to respond to the desires of the Russian populations. In the long run, Putinism will eventually fall.

## **2. The EU has an economic power about four times that of Russia, but it has been dominated by Russian energy**

Russia is the largest country in the world by land area, and with one of the largest endowments of natural resources in the world. It has a population in 2021 of 146 million against 448 in the EU. The total GDP in USD was 1,647 billion, at current exchange rates, which represents an economy close to Spain (1,440 billion), and only 9.6% of the EU (17,078 USD). However, this estimate is strongly depressed by the devaluation that occurred after the invasion of Crimea. In Purchasing Power Parities, and according to the World Bank, the total Russian GDP in 2021 would be 4,447 billion USD, already close to Germany (4,843 billion), corresponding to 3% of world GDP, which corresponds to a GDP per capita like that of Portugal (30,431 USD per person against Portugal, which has 36,542, according to World Bank data).

Russia has become the “world’s oil and gas supply station”, with a total export value of USD 378 billion, corresponding to 1.7% of total world exports. However, oil and gas exports account for more than half of these. Russia is the world's second largest producer of natural gas (17% of the world total), with the largest customer being Germany and Central and Eastern European countries, and the third largest oil producer (12% of the world total) where the biggest importers are Europe and China.

Russia also exports large amounts of energy-intensive minerals such as steel and aluminum and various rare ores.

In conclusion, Russia is a country whose economy represents around 26% of EU GDP, with a population of around 32.5% of the EU, and a GDP per capita of 68% of the EU average. However, it has a very high weight in world and EU energy supply. Since Russia only represents about a quarter of the EU, the share of EU trade with Russia represents only 4.8% of the EU's external trade, but EU trade represents 37% of Russia's trade.

The problem of energy dependence is that it is input used in all goods and services and has an important multiplier effect throughout the economy, besides its role in direct consumption of households and services. The EU imports 40% of its natural gas from Russia, 26% of its oil and 46% of its coal.

Russia's macroeconomic balances until the invasion of Ukraine were relatively stable, with an inflation rate of around 5.9% in 2021 (data from Statista). With balanced public accounts, a current external balance surplus of 3.8% of GDP, and a public debt of 14% of GDP, with large gold and foreign exchange reserves (USD 538 billion).

## **3. The European Union Continues to Finance the Russian State and its War Machine: it is urgent to declare an embargo on Russian oil and natural gas imports until the ceasefire by Russia**

The European Union is paying around USD 10 billion a month to Russia for oil and gas imports (the Portuguese bill should be around USD 200 million a month), which we estimate cover at least 70% of

the war effort that Russia is carrying out against Ukraine (Tables 1 and 2). In a total of one year, and considering the start of operations in November 2021, the EU will contribute USD 160 billion to Putin's war machine, if oil and gas prices remain at current levels, until October this year! It is urgent to dry up this source of funding that goes to the heart of the Russian state's ability to support its troops and repressive police machine. None of the sanctions implemented so far allow us to cut this funding. The EU is making regular payments for oil and gas supplies every day in dollars and euros, which are transferred to Gazprom, Rosneft and other companies. These are transferred to the Russian State, which converts them into rubles and pays soldiers, officials, and mercenaries. Sanctions imposed such as excluding Russia from Swift or freezing its assets do not have any consequences on these trade and financial flows. Despite Shell and BP having closed their operations in retaliation, the production capacity of the Russian oil industry remains intact, with companies such as Halliburton managing exploration and extraction engineering.

Table 1 shows that exports of goods from Russia in 2020 reached around 450 billion USD, of which 242, around 54%, come from oil and natural gas. These last revenues fluctuate sharply with the international price of oil. For this reason, Russia created a sovereign fund, which is one of the main holders of foreign exchange reserves in the country, to mitigate the financial effects of those fluctuations. Of the total exports of these fuels, Russia exported USD 116 billion to the EU, which represents 31.6% of Russian oil revenues equivalent to USD 62 billion. And, USD 54 billion in natural gas exports, equivalent to around 80% of the exported value.

If the price of oil reaches an average of USD 92 a barrel, on average, during 2022, we estimate that there will be a substantial increase in oil and natural gas export earnings, which should reach USD 362 billion, in the absence of interruption in supplies, and there is no imposition of an embargo on natural gas from Russia by the EU.

Table 1

Russia: Exports of Goods		In Billions USD		
		2016	2020	2022
<b>Total Exports of Goods</b>		281	451	620
of which: EU		178	162	223
Oil and natural gas		154	263	362
of which EU		69	116	160
Oil		120	196	270
of which: EU		39	62	85
Natural gas		34	67	92
of which: EU		30	54	74

Source: FMI. Russia, Article IV Consultations, 2019 for 2016 and 2020, and Eurostat for the EU.

Author's estimates for 2022

Note: IMF figures for 2020, projected in 2019 don't reflect the pandemic.

Table 2

<b>Russia: General Government Accounts</b>		<b>In Billions USD</b>		
		<b>2016</b>	<b>2020</b>	<b>2022</b>
<b>Revenues</b>		421	608	520
Revenues from oil and gas		115	124	171
of which: EU		52	55	75
Taxes		167	324	225
Social Security Contributions		90	124	86
Others		49	35	38
<b>Expenditures</b>		467	585	608
Defense		69	62	123
Remunerations and wages		55	69	59
Social Benefits		177	225	185
Others		343	454	426
<b>Deficit</b>		-46	23	-88
Memo:				
<b>GDP (nominal)</b>		1,283	1,773	1,229
<b>Oil price (Brent, USD/barrel)</b>		42	67	92
<b>In Percent of GDP</b>				
		<b>2016</b>	<b>2020</b>	<b>2022</b>
<b>Revenues</b>		32.8	34.3	42.3
Revenues from oil and gas		9.0	7.0	13.9
of which: EU		4.0	3.1	6.1
Taxes		13.0	18.3	18.3
Social Security Contributions		7.0	7.0	7.0
Others		3.8	2.0	3.1
<b>Expenditures</b>		36.4	33.0	49.5
Defense		5.4	3.5	10.0
Remunerations and wages		4.3	3.9	4.8
Social Benefits		13.8	12.7	15.1
Others		26.7	25.6	34.6
<b>Deficit</b>		-3.6	1.3	-7.2

Source: FMI. Russia, Article IV Consultations, 2019, for 2016 and 2020 and author estimates for 2022. Military expenses are from Statista. Other internet sources indicate that annual military expenditures are twice as much as indicated in this table.

Note: IMF figures for 2020, projected in 2019 don't reflect the pandemic.

Table 2 shows how the Russian State finances itself and spends these resources. For 2020, the IMF estimated total revenues of USD 608 billion, equivalent to 34.3% of GDP, of which around 124 billion were directly identified as originating from the oil and natural gas sector, corresponding to 20% of

total revenues. There may be other revenues derived from this sector, such as direct and indirect taxes, or direct contributions and transfers, but these are not identified in the available documents. For 2022, a sharp rise in these revenues is estimated due to the rise in international prices of oil and natural gas. As we know, a large part of the rise in gas prices was engineered by Russia, by cutting to a minimum the exports of gas through the gasoducts to Europe, in anticipation of the war. Thus, these revenues, indexed to the price of Brent, would rise to around 171 billion USD, of which 82 would come from the EU. Note that according to market information, the price of oil extraction would be around 20 to 30 USD a barrel, so the surplus is profit.

At this point in the war, the priority is to lead Russia to a ceasefire in Ukraine. Every day that passes represents huge costs in human life and destruction of infrastructure, so it is urgent for the EU to take a firm stand and seize the initiative against Russia, in close coordination with Biden. Thus, **following on from the embargo declared by the US and UK on Russian oil, coal and natural gas, the EU should immediately declare an embargo, but with the concrete objective and conditioned on a ceasefire by Russia and the opening of Ukraine to organizations humanitarian aid to care for the wounded and victims of war.**

What is the benefit and cost of this decision? The benefits would be to save the lives of Ukrainians, who, with the increase in indiscriminate Aleppo-type bombing, are increasing exponentially, even if the invasion continues for a few further months. The costs for the EU are not high. Industries that use natural gas may have to suspend production for a few months, but it is possible to establish an emergency plan in the sector, using available reserves.

And what retaliation can we expect? Russia has much more to lose than the EU from the embargo. Revenues from energy exports to the EU amount to 13% of Russian GDP, while these represent only 0.9% of EU GDP. The problem is that for the EU it is an essential input to the production system and final consumption, with high indirect effects, as we will see.

The alternative scenario, which the so-called “conservative” countries, in which the Portuguese government is included, count on, is to let Russia achieve its military objectives in Ukraine and hope that it does not later attack any neighboring EU country. This option is inferior because of the length of the war and the lives that can be saved, and above all because it reveals once again the EU's weakness in facing the threats posed by Putin, sowing the foundations for future incursions.

However, it is essential to understand the economic effects of an embargo. Cutting Russian imports has no effect if it can replace oil sales with other customers, for example. It will continue to have the same income on the international market, where it is easy to sell its products: in fact, China has already made itself available to do so. The embargo has to be followed upon by diplomatic efforts to lower the international price of oil to reduce Russia's export earnings. This is, in fact, the policy of Biden and Boris Johnson, which should be accompanied by European diplomacy.

But natural gas is different. An embargo on Russian natural gas that arrives through gasoducts means a real cut in its exports, as that country has no other way to dispose of it. Europe is supplied by the North Siberian gas wells, while China is supplied by the South Siberian wells. This is where it hurts: and it represents about USD 80 billion of export revenues a year for Putin.

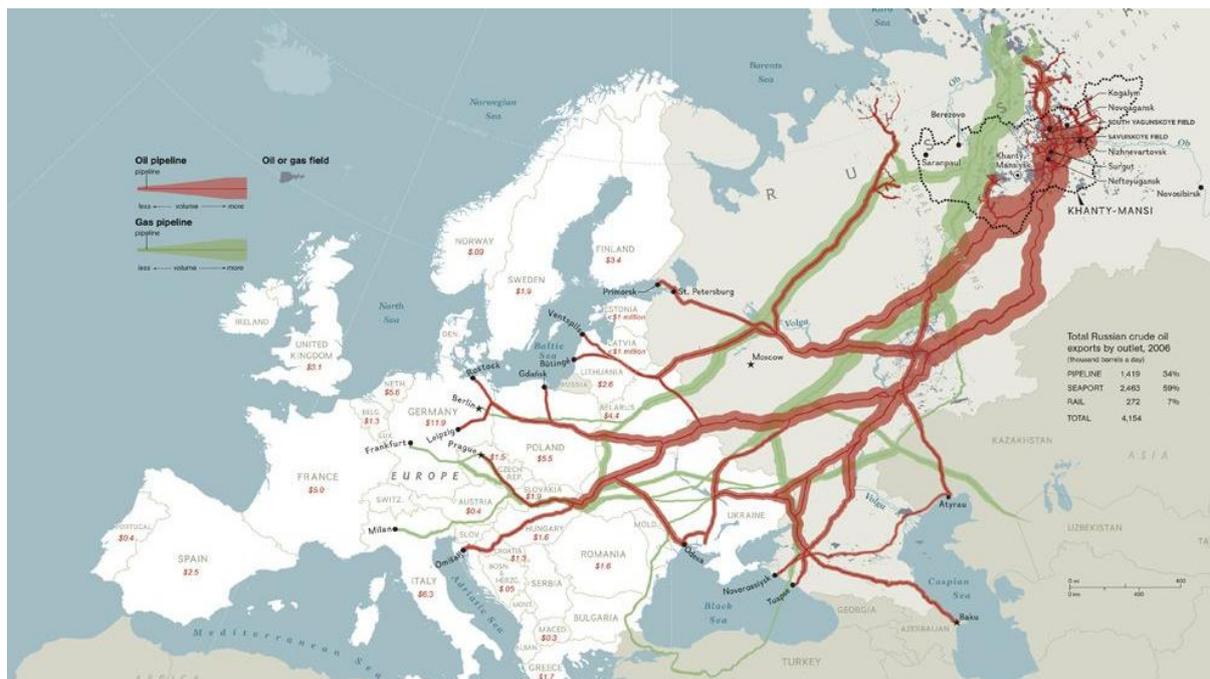
#### **4. Rebuild EU Energy Security with short-term contingency plans and cut Russia's dependence in three years. Deeply review the Green Deal**

Figures 1 and 2 show the tentacles with which Russia can “strangle” the economy of Central and Eastern Europe through the network of gas and oil pipelines that connect its natural gas and oil extraction fields to consumer centers. Putin had already used the supply of natural gas to the EU via Ukraine in 2009 as a “strategic weapon”, which required the EU to reverse the flows of gas in favor of that country to help it during the winter. However, the responsible body in the EU for energy planning, ENTSOG, [did not understand](#)<sup>2</sup> that it could be used again, and did not take measures to mitigate the energy domination exercised by Russia. On the contrary, the EU accentuated it with the construction of Nordstream 2.

But the degree of dependence on natural gas, in gaseous form, supplied by Russia varies substantially between Member States, as Figure 3 shows. However, countries like Poland, one of the most affected, are calling for a more radical break with dependence on Russia, in contrast to Germany's more accommodative attitude, pressured by industry and electricity groups, and conditioned by the position of the Greens in coalition. A study by the [University of Bonn](#)<sup>3</sup> shows that an immediate embargo on Russian natural gas would lead to a demand shortfall of around 30%, but the effects on GDP would be limited to around 0.3-0.5% of GDP, as substitution effects take hold.

Figure 1

Dorsal Network of Gas and Oil Pipelines from Russia to Europe



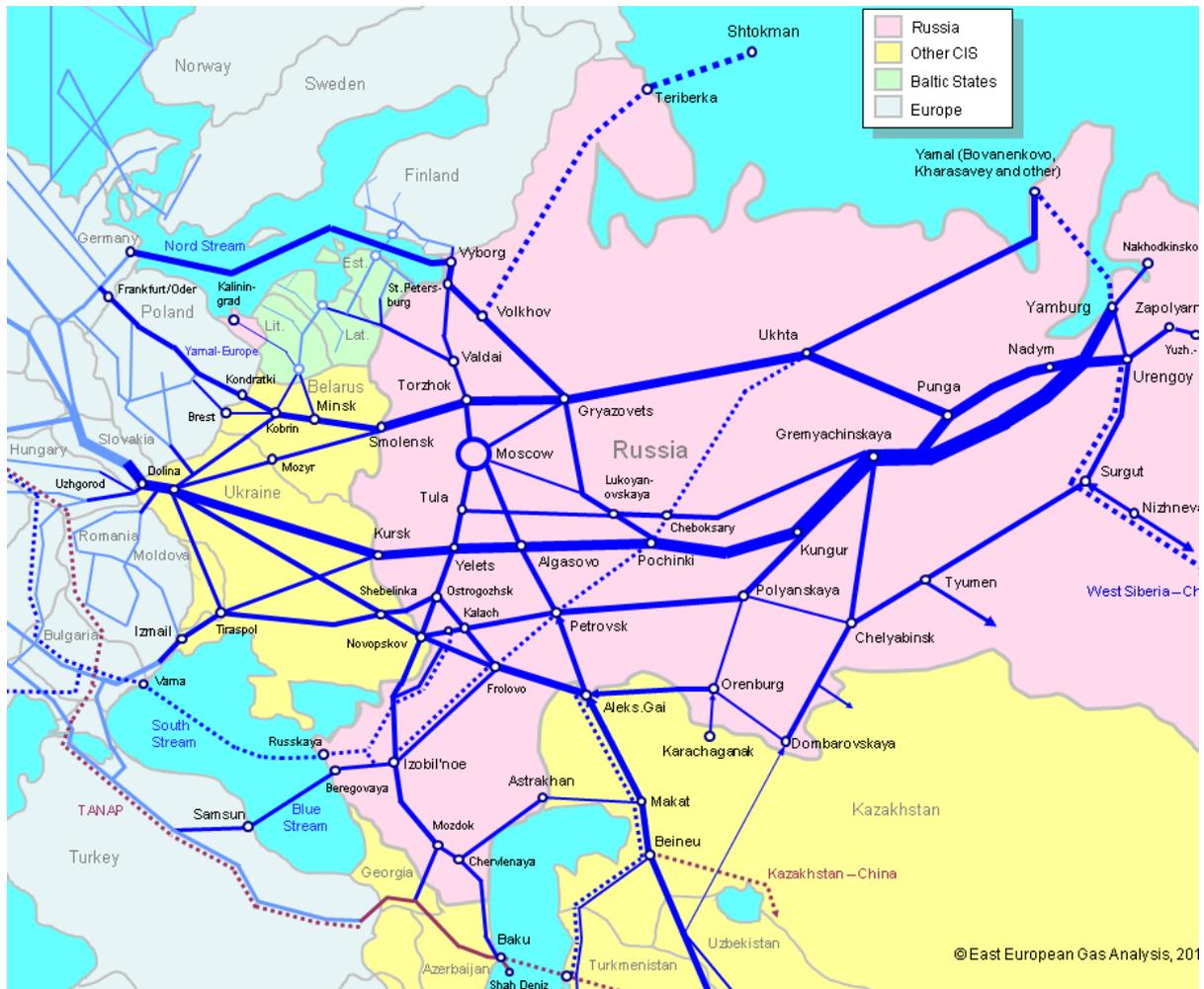
Source: National Geographic Society

Figure 2

<sup>2</sup> Economist (2022).

<sup>3</sup> Bachmann (2022).

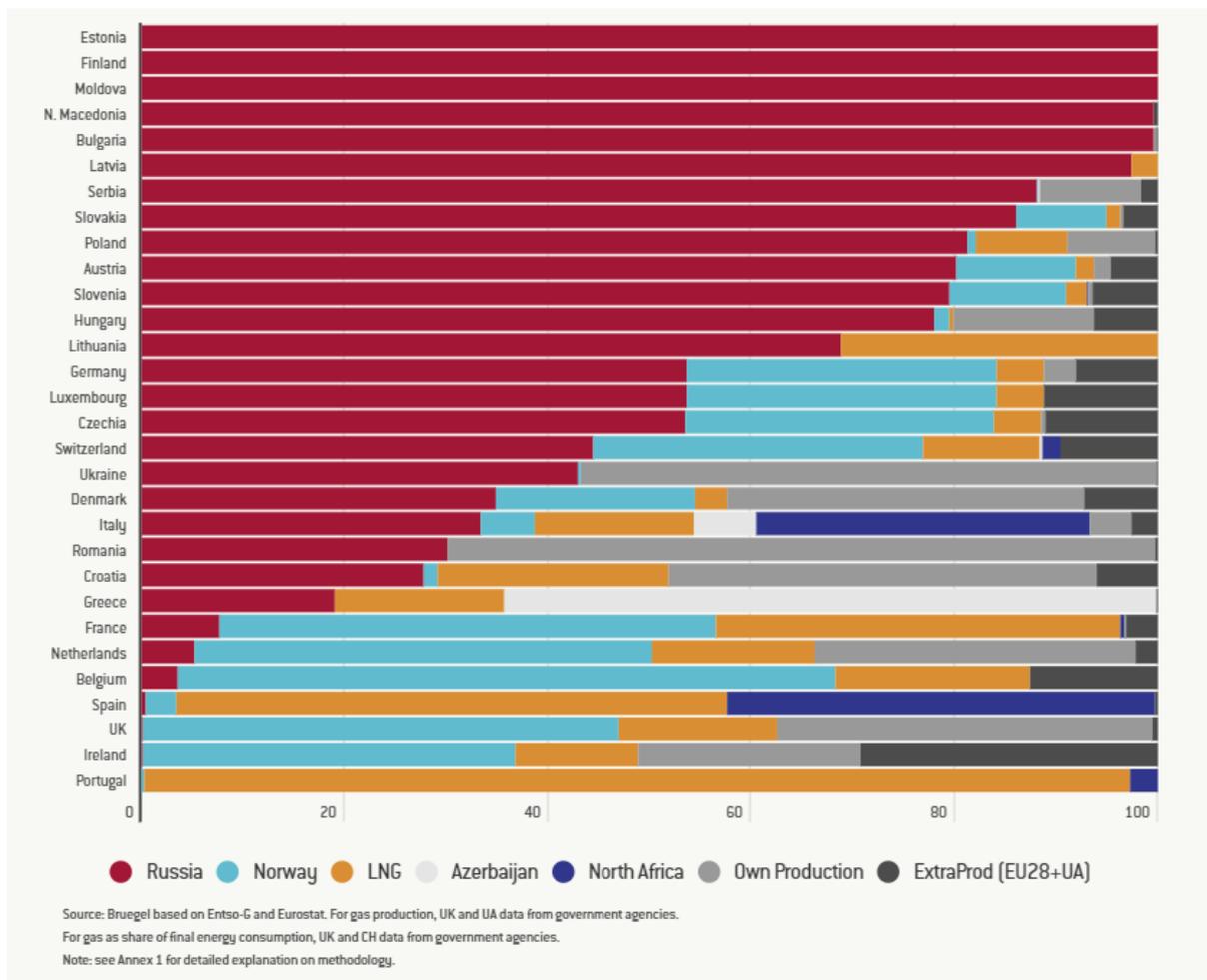
## Map of the Network of Gas Pipelines of Russia that connect with Europe



Source: East European Gas Analysis

Figure 3

Degree of dependence on Russian natural gas by countries in Europe



Rebuilding the EU's energy security requires three plans: a short-term emergency plan, until the summer/end of 2022, and a medium-term plan that allows ending the dependence in 3 years, creating an efficient alternative system. A third key initiative is the revision of the Green Deal, which was mapping the EU's action in the climate domain, until 2050, to reduce CO2 emissions, but in a technological and economic efficient path, safeguarding the Union's economic and energy security.

There are already suggestions for a short-term emergency plan, prepared by [Bruegel](#),<sup>4</sup> regarding natural gas, but it is essential that the planners and regulators of the sector of the Member States meet in an Emergency Council to define an Energy Emergency Plan to face the embargo of natural gas and oil to Russia. The sketches made show that in the scenario of cutting natural gas imports (in February 2022) and given that the current winter has been relatively mild in Europe, the existing reserves allow to supply the market until the next winter. The problem is [preparing for the next winter](#).<sup>5</sup>

The Union and the European Commission are notorious, as demonstrated in the research for a vaccine and the initial stages of the vaccination campaign against Covid, for their lack of flexibility and speed to mobilize resources in a crisis's situation. There is a new opportunity to demonstrate their response to the pressing needs of the European citizens.

<sup>4</sup> Williams (2022a).

<sup>5</sup> Williams (2022b).

Europe is a situation of war in the energy sector, and in these circumstances, it is necessary to understand that market mechanisms in the energy sector do not work efficiently. It is urgent to reach a possible decision to suspend the market mechanisms temporarily and replaced them by price controls and national/community resource allocation.

To mitigate the effects of rising costs in the electricity sector, carbon payments should be immediately suspended. And to mitigate the effects of the rise in fuel prices, not only suspend carbon payments, but also reduce the impact of taxation on prices, bringing it back to the pre-crisis level. Furthermore, the impact of fuel and heating costs to the poor should be mitigated.

Regarding the electricity production mix, it must also be planned by the regulatory bodies of the Member States. The mix needs to be extended to the entire spectrum of generation sources, including the reactivation of coal plants and the extension of nuclear power plants operation. The [International Energy Agency](#)<sup>6</sup> has also made a proposal of 10 points to reduce dependence on Russian gas in the short term, which go in the same direction, also including important measures to increase efficiency in the consumption side, although most of the proposals can only be effective in the medium term.

The second suggestion is for a medium-term Energy Security Plan, which should be prepared by the planning bodies of the Member States and presented by the summer. This should include measures to diversify production sources, reduce current electricity production costs, and improve efficiency in buildings, industries and transport, as specific objectives, and respective financing.

Finally, it is necessary to undertake an in-depth [review the Green Deal](#). The teams that had prepared previous versions should be replaced by more competent teams, with close external academic and specialized technical advice, the models used for planning (by the university of Athens) should be scrapped, as they do not have any technical-economic rationality: it is a demand driven model and does not have the channels of energy costs to the production function adequately formulated, as has been recognized by several economists. The leadership of the Green Deal must be “ring-fenced” from the major interests and lobbies involved, which in our opinion implies a radical change in the leadership of the process, with a more balanced view, giving French and Eastern European proposals and concerns the due weight v.a.v. the German Greens. European leaders should know that there is a need to rebalance political and economic forces among European Member countries, in the face of the failure of the German Energiewende, as this article by a French study group ([Transition et Energie](#))<sup>7</sup> shows. Here the role of France is pivotal, and the views of Eastern European countries need to be taken in due account.

The analysis of the political economy of the Green Deal, which is based on German Energiewende, will be done one day. Its foundation comes from the agreements between the SPD and the German Greens promoted by Chancellor Schroeder in 2002, which agreed with electricity companies to close all nuclear plants by 2023 and built the gas pipeline to directly link Russia to Germany (Nordstream 1), in addition to the massive investment in intermittent energies. After finishing his term, he joined the Board of Directors of Gazprom, promoted Nordstream 2, and remains there, even though its staff has all resigned.

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<sup>6</sup> International Energy Agency (2022).

<sup>7</sup> Transition Energies (2021).

A new Energy Policy needs to be defined, well grounded in technological and economic mainstream theory, taking into account the dual and balanced objectives of Energy Safety and Climate objectives, but subordinated to the minimization of costs to the economy and the technical optimization of the systems. Either the EU, faced with the enormous challenges it faces, takes the appropriate measures, or we are condemned to make the same mistakes and will not be able to compete at a global geostrategic level, with the serious consequences that Russia's interventions and China's threats poses to the Union.

In conclusion, to protect the EU from the effects of war and strengthen energy security, we propose that an Energy Emergency Plan be drawn up, in response to the embargo, with a system of allocation and controlled prices of natural gas and fuels for different uses, giving priority to meeting the basic needs of populations. We recommend the suspension of carbon payments during this phase. At the same time, draw up a plan to strengthen the EU's energy independence and security in the next 3 (objective of autonomy from Russian sources) and 5 years. These two plans should consider, among others: (i) integration of gas pipeline systems in order to allow greater injection through liquefied gas, greater North-South and East-West flexibility, and reinforcement of storage, (ii) reinforcing the role nuclear, along the lines proposed by the French government, and in particular by new cleaner generation reactors and modular nuclear to shorten build-up times; (iii) reconsider the role of shale gas, of which Europe has substantial reserves; and (iv) optimize the systems in terms of wind and solar (intermittent) energies and reliability given by dispatchable electricity.

We address next the question of Security and Military Defense aspects of the EU.

## **5. Regain strategic initiative, protect the EU's eastern flank, and deter a Russian incursion**

Game theory teaches us that in a war, the postures, and threats that one party makes to the other and the expected counter-reactions are fundamental. But it is necessary to distinguish clearly between what is bluff and what represents credible threats. In the nuclear age, threats to use the nuclear arsenal with its catastrophic results, have a limited effectiveness, although it is always necessary to consider its effective use, in a desperate last resort, by a cornered leader. Hence, conventional military weapons continue to have the greatest relevance, as well as the capability to inflict major destruction of infrastructure, terrorize populations and disinformation and propaganda that have been developing since the wars of the 20th century. These are now joined by cyberspace attacks and conventional-digital hybrids, in which Russia has distinguished itself. It is, however, essential to mention that the brute force of armies and weapons is not enough. The case of Ukraine shows that the quality of the armed forces is crucial, given by the technological level of weapons and the human capital of the personnel, their motivation and above all the quality of leadership (and the value of the cause).

NATO Secretary General Stoltenberg has already stated that the invasion of Russia was the “most serious threat that the Euro-Atlantic Alliance has seen in decades”, and that “Russia had destroyed the peace in Europe”.<sup>8</sup>

All the leaders of the eastern flank of NATO, and especially those of the Baltic States, have expressed their concern about the vulnerability to an incursion by Russia, especially the aspiration of Putin to

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<sup>8</sup> Reuters (2022).

expand the Kaliningrad enclave between Poland and Lithuania, where the Russia has stationed medium-range missiles with the potential to hit from Germany to Poland.

NATO and the EU must continue to be particularly alert to any troop movements to protect EU countries that could be threatened by Russia's continued advance.

NATO must continue to be incisive in the defense of the eastern flank and continue to emphasize that it will respond immediately and unconditionally to any aggression by Russia against any Member State, and that it will respond immediately to any nuclear threat. We are of the opinion that the reinforcements sent are clearly insufficient. NATO should immediately send six US army battalions to the Baltics and Poland; and additionally, the EU Rapid Response Forces were to add six battalions to the eastern flank, including Bulgaria, Romania, and Slovakia as a sign of resolute defense, although with escalating the war.

## **6. Rebuild EU Defense Systems within NATO and Preserve Democracy**

As we pointed out in the previous section, for countries that hold thousands of nuclear weapons capable of mass destruction, conventional military capabilities are even more important. Table 3 shows an estimate of the military strength and economic strength of NATO, Russia, and China, in addition to the EU and main member countries. There is no doubt about the enormous superiority of NATO in economic terms, with a global GDP of 42.3 trillion USD, compared to 4.3 for Russia and 24.3 for China. The EU also has a dominant power, with 20 trillion USD, equivalent to the US. These estimates are all made in purchasing power parities, which avoid price distortions.

NATO's superiority remains both in terms of military expenditure, due to the contribution of the US, which undoubtedly has the greatest military power in the world today, and in terms of available forces. For example, NATO already has 2.98 million active military personnel, against Russia's 850,000, and with an annual expenditure of USD 1,022 billion, against Russia's 154. Only in ground forces Russia is a match, but even here the quality of its armies is much lower than Western forces.

However, the EU, on its own, is in a situation of great vulnerability vis-a-vis Russia. Military expenses are similar, but with Russian lower wages and costs, the EU expenditures are much lower. In terms of ground forces, it is about a third of Russia's, and only in air and naval terms can it be somewhat equivalent. The deterrent capacity of a country is only imposed with clear superiority, otherwise it can be tested, as Putin is currently threatening.

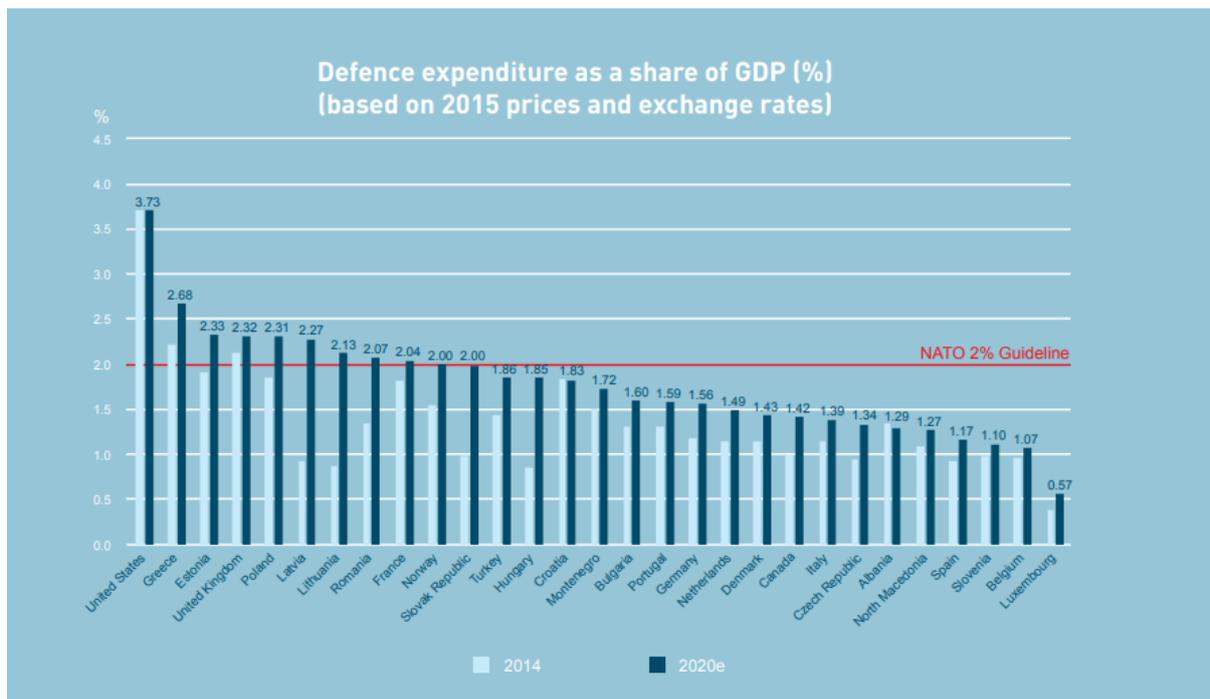
Using a Military Power Index that summarizes these indicators (see the Table source), with a value of zero corresponding to the greatest military power in all dimensions, we see that the US has the highest score with an index of 0.0453, while Russia and China have the second score with a somewhat similar index of 0.0501. The EU currently has a population-weighted Military Power or Security and Defense index that is about 4 times lower than Russia!

Table 3

	GDP in billions USD, in PPP	Population in thousands	Military Expenditures in thousands USD (annual)	Active military personnel in thousands	Airplanes	Tanks	Naval vessels	Power Index
<b>NATO</b>	42,300	845,433	1,022,461	2,980	19,028	12,565	1,597	0.1787
USA	20,953	334,998	770,000	1,390	13,247	6,612	484	<b>0.0453</b>
United Kingdom	3,124	67,081	68,000	194	693	227	75	0.1382
Turkey	2,297	82,482	9,690	425	1,057	3,022	156	0.1961
<b>European Union</b>	20,045	448,043	186,041	1,010	4,427	3,025	1,444	0.2674
France	3,166	68,084	40,900	205	1,055	406	180	0.1283
Germany	4,561	79,903	50,300	184	617	266	80	0.2322
Italy	2,491	62,390	29,198	170	862	200	184	0.1801
Spain	1,788	47,260	11,750	120	503	327	139	0.2900
<b>Russia</b>	4,367	142,320	154,000	850	4,173	12,420	605	0.0501
<b>China</b>	24,283	1,397,897	250,240	2,000	3,285	5,250	777	0.0501

Source: World Bank, and <https://www.globalfirepower.com/countries.php>

Table 4



Source: Report of Secretary General of Nato for 2020.

[https://www.nato.int/nato\\_static\\_fl2014/assets/pdf/2021/3/pdf/sgar20-en.pdf#page=50](https://www.nato.int/nato_static_fl2014/assets/pdf/2021/3/pdf/sgar20-en.pdf#page=50)

The neglect of the security aspects by most of the Member States has prevailed for decades. Table 4 shows the defense expenditures of NATO countries, as a percentage of GDP, and the inductive target of 2% of GDP, a commitment taken by the defense ministers in 2006, in peacetime. As can be seen, important EU countries such as Germany, Italy and Spain have rates between 1.17 and 1.56% of

GDP, clearly below that target. Chancellor Scholz has already announced<sup>9</sup> the correction of this situation and the immediate creation of a €100 billion fund from the 2022 budget for military re-equipment expenses. Even so, the Table estimates err on the side of excess. Portugal, for example, includes police forces in Defense, its correction would place the ratio close to 1% of GDP. The Portuguese government has not taken any decision to increase this budget so far.

However, we must stress that these goals were set before the Russian threat. Today, it is urgent not only to set a more ambitious objective, but above all to establish plans for the modernization and retrofitting of the Defense of each Member State. This effort would primarily be the responsibility of the Member States, but it should have the coordinated by NATO. The EU should also establish a Strategic Council for Security Reconstruction that coordinate Member-State efforts, to define complementarities and strategic targets avoiding major holes in the defense capabilities, in addition to use stat-of-art technologies and defense strategies.

This reconstruction effort should be an opportunity to strengthen European industries, in particular the EU's arms industry, and for the recovery of industrial value chains.

To immediately strengthen NATO and EU Defense capabilities, we propose a declaration by NATO that all countries will increase their military expenditures by at least 2 percentage points of GDP in the next two years, and with a minimum of 2% already in 2023, as well as the tripling of Rapid Intervention forces. Simultaneously, the EU Council should announce the setup of an EU Defense Reconstruction Fund, with at least €500 billion for the next 5 years, with European Commission own resources.

European leaders need to deeply review the existing Security Strategy and define new energy strategies for sustainability and strategic independence; within NATO (the concept of strategic autonomy needs also be revised), with national plans to rebuild the capacity of Member States in terms of conventional army, navy and air force, cybersecurity and hybrids, as well as nuclear defense.

Another measure to consider is the gradual introduction of compulsory military service, in the wake of what Sweden has already announced. SEDES has already proposed an interim measure that would be a universal Civil Service.

But these security measures are not enough. **The European Union must preserve its greatest asset, which is Democracy.** And this has been surreptitiously threatened by the Putin regime. It has destabilized the Union by funding extreme right-wing nationalist and environmentalist parties, building bridges to illiberal regimes like Hungary. The role that Russia played in Brexit is well known, as the British Parliament reports show.

It is therefore urgent to take additional measures in the regulation of lobbying at European and national level, control of strategic sectors, especially information and infrastructure, as well as control funding for the purpose of destabilization our democracy.

## **7. Humanitarian Aid and Ukraine's Reconstruction**

We agree with NATO's stance to not sending troops to Ukraine and not declaring a "no fly zone" in Ukraine, because it could lead to the outbreak of a third world with unpredictable catastrophic

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<sup>9</sup> The Guardian (2022).

consequences. On the other hand, the military aid that the EU, Germany, the United Kingdom, and Turkey are providing to Ukraine is essential.

Of the greatest importance is the EU's reception of Ukrainian refugees, which according to United Nations estimates could reach 4 million by the end of March. Following this effort, it is important to draw up a plan for the distribution of refugees among the Member Countries, based e.g. on the population of each Member State (Portugal should take around 80,000 refugees). The EU should also set up a Humanitarian and Reconstruction Fund for Ukraine of around €50 billion for the next 5 years.

### **8. Blocking Foreign Direct Investment and Long-Term Sanctions will substantially reduce Russia's production capacity and lead to the downfall of Putinism**

The EU played an important role between 2000 and 2014 in the modernization of Russia's economy and industry, as we can personally witness on visits to the country, as a member of the Board of Directors of the European Bank for Reconstruction and Development (EBRD), which unfortunately was not duly recognized by Russia and are largely unknown to European citizens. The EBRD, before the interruption of operations due to the sanctions imposed by the annexation of Crimea, had an annual investment program totaling around 2 billion Euros. In this program, FDI from Germany played a key role, which was a way to expand its industry and markets to that country. These projects have led to the modernization of the automotive and agricultural equipment industry, supermarket chains, shopping centers, building materials and the banking sector.

The EU is still the biggest investor in Russia. In 2019, the stock of FDI in Russia totaled 311.4 billion Euros, while the FDI from Russia in the EU was estimated at 136 billion.

The blocking of further Foreign Direct Investment and Long-Term Sanctions will substantially reduce Russia's production capacity and lead to the downfall of Putinism. More than two dozen multinationals have already announced their cessation of operations in Russia, although companies such as Wolkswagen and others in the equipment industries continue to operate.

The case of Russia shows the limitations of foreign aid. Vast areas of Russia's interior, cities and industries remain at a technological level close to what was the Soviet Union, still devoted to the military-industrial complex, and where progress has not yet taken hold.

The other lesson is that intensifying trade and investment relations with an autocratic and dictatorial system oriented towards military aggression, in the name of reconstituting a past empire, will end-up in loosing most of the investments.

### **1. Conclusions**

The recovery from the pandemic, with interruptions in production chains, and the overheating of demand due to expansionary monetary and fiscal policies were already causing an increase in EU inflation. For 2022, international organizations initially forecast an inflation of 2.2%, which worsened to 3.2% due to these factors. It is estimated that the shock of the war could lead to an additional increase of around 1.2-1.4%, which from the outset represents an increase in the cost of living for European citizens, and could bring inflation to around 4.4-4.6%. Thus, in terms of GDP, the direct and indirect cost of the war's impact on energy and food could be equivalent to 1-1.2% of GDP,

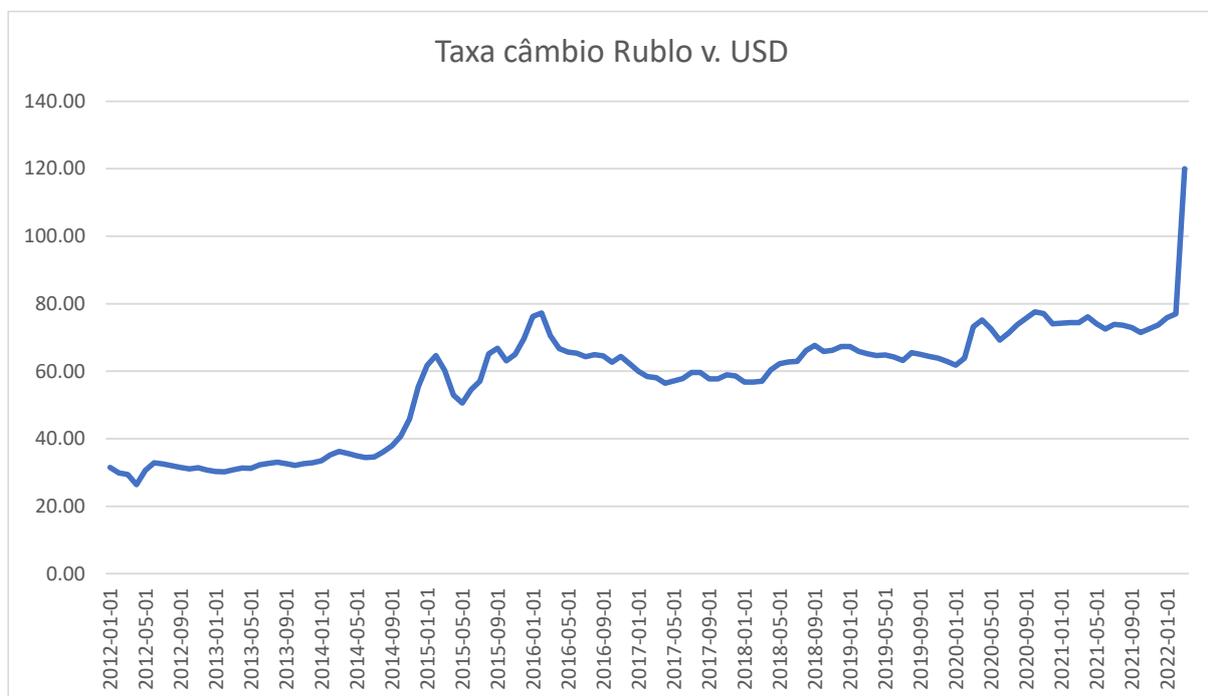
measured by the effects of rising costs in these sectors. [Bruegel<sup>10</sup>](#) has estimated the budgetary costs of the war at around 1.25% of GDP for 2022, as measured by the mitigating effects of the supply shock.

The costs to Russia of Putin's military interventions are already significant, as he himself has begun to acknowledge. The effects of sanctions imposed by the West due to the annexation of Crimea and interventions in the Donbas have already cost the country, according to IMF and World Bank calculations, around 10% of GDP, causing GDP to stagnate since 2015.

The costs of the current war for Russia are still difficult to measure, but they will certainly cause a significant drop in living standards and GDP. Inflation could rise from 6% last year to around 10-15%, and GDP could fall by 5-10%. However, the most important effect is in the long-term: continuous stagnation and decline in living standards, mainly due to the inability to modernize technology and participate in the global economy. Here it is crucial to see what China will do to help its new friend in the international order. The brain-drain of high-level technology and science professionals has already started and will accelerate, as autarky takes hold.

An important indicator of the impact of sanctions is the effects on the exchange rate (Figure1). The annexation of Crimea in March 2014 led a sharp ruble fall: 60% devaluation between 2014 and 2015 (annual average). After February 2022 the ruble has devalued again by 63%, but it is difficult to establish the exchange rate, since the Central Bank of Russia abolished the ruble's convertibility,

Figure 1



Source: FRED Data base

<sup>10</sup> Pisani-Ferry (2022).

Our main conclusion is that Putin's military-economic model, based on autocratic state capitalism and exploration of natural resources, is exhausted, and will not allow Russia's development in the long term. There will not be technological progress, and on the contrary, regress, and the aspirations of improving living standards as well freedom and democracy will continue to be frustrated.

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