



## Russia's war on Ukraine: There is worse to come (for the West as well)

by Ian Bond, Elisabetta Cornago, Camino Mortera-Martinez and Luigi Scazzieri,  
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**The EU has reacted robustly to Putin's invasion of Ukraine. But it must now mitigate the economic, social and political consequences, which will hit ordinary citizens and challenge Western cohesion.**

The EU's response to Russia's invasion of Ukraine was resolute. Divisions between member-states melted away within days, and the EU imposed unprecedented economic sanctions on Russia. In co-ordination with the US, the UK and other democratic powers, the Union has moved to cripple the Russian financial system, including the central bank's capacity to use much of its foreign reserves to maintain economic stability, and banned EU companies from exporting critical goods to Russia, including in the high-tech sector. The Union will also provide Kyiv with €1.2 billion in financial aid and €450 million of lethal military assistance. The Union's High Representative for Foreign and Security Policy, Josep Borrell, has [asked](#) member-states to come up with an additional €500 million in military support. The EU has opened its doors to Ukrainian refugees, granting them protection for at least one year. And EU leaders have promised to examine Kyiv's application for membership – even if realistically accession is at least a decade away.

French Foreign Minister Jean-Yves Le Drian was almost certainly correct to [say](#), however, that the worst phase of the war was yet to come. This phase will be even more painful for Ukraine and will increase pressure on Europe on three main fronts: energy security, defence spending and accommodating the influx of Ukrainian refugees.

### **The implications of war in Ukraine for Europe**

First, the EU needs to ensure that European consumers and businesses can cope with higher energy prices and the broader inflation that they will trigger. European countries have not cut off Russian oil and gas imports; but Russia might make the decision for them. Even if Putin does not turn off the taps, pressure will increase on Europe to follow the US in implementing a full or partial embargo on Russian energy imports, to cut the Kremlin's most important source of revenue. Reducing energy imports from

Russia to Europe would increase demand for alternatives, further raising oil, gas and coal prices, and therefore electricity prices. Poorer households, who spend a larger share of their income on energy bills, would suffer most. Operating costs for [energy-intensive industries](#) such as long-distance transport, metal and fertiliser manufacturing would also rise. The global economy's ongoing recovery could be threatened, but there are ways to manage these costs and reduce Europe's reliance on Russian energy.

At the Versailles summit on March 11<sup>th</sup>-12<sup>th</sup>, European leaders [agreed](#) to phase out dependency on Russian energy imports "as soon as possible" and asked the Commission to come up with a plan. Reducing energy dependency on Russia requires long-term steps like investing in renewable energy and in energy efficiency to cut demand of fossil fuels. But this will take time, so it should be coupled with measures with immediate impact. In the coming weeks, the Union and its member-states should focus on shielding lower-income households and small and medium-sized businesses from the consequences of higher energy prices. Member-states launched many support [measures](#) to counter energy price spikes last autumn. Today it is clear that prices will remain high for the foreseeable future. Governments should opt for targeted transfers for vulnerable consumers over sweeping VAT and energy tax cuts or energy retail price caps: transfers maintain incentives for consumers to cut energy consumption, while keeping energy prices artificially low does not. Without such support measures, EU citizens may come to resent the sanctions against Russia – which would eventually erode support for them, foster divisions across the Union, and endanger Europe's ambitious green transition.

Second, the conflict has forced Europeans to take their defence much more seriously. At Versailles, EU leaders agreed to increase defence spending "substantially". Some EU countries have already announced large increases. German defence policy has [undergone a seismic shift](#), with Berlin pledging to meet NATO's target of spending 2 per cent of GDP on defence from now, and announcing a €100 billion ad-hoc defence fund to help achieve that goal. But not all member-states will find it easy to raise defence spending in the face of competing spending priorities (like healthcare and high energy prices) and/or high debt levels. The EU must ensure that Europe-wide defence spending can grow, to fill well-known gaps in military capabilities and improve the readiness of armed forces.

Third, the EU will be faced with large numbers of Ukrainian refugees as the conflict continues. Almost 3 million people have fled Ukraine since the invasion began, and no-one knows how many more may follow. At this pace, the UN's [estimation](#) of 4 million refugees by the end of the conflict seems very conservative. The EU has learnt from the mistakes of its 2015-2016 refugee crisis and taken swift measures to avoid the collapse of member-states' asylum systems – granting [blanket protection](#) for up to three years to all Ukrainian citizens and their family members, and to non-Ukrainian long-time residents fleeing the war. Brussels has also [pledged](#) €500 million in humanitarian aid and an additional €420 million for support to member-states welcoming refugees. So far, the EU's response to the refugee side of the war has assumed that most Ukrainians will want to return home once the conflict ends and that member-states close to Ukraine will bear the brunt of arrivals. But the Polish government is doing very little to welcome those fleeing war – instead relying on the incredible generosity of its citizens. In Hungary, private citizens and companies are also plugging the gaps. As more refugees arrive, this citizen-led approach will become unsustainable. EU leaders should prepare for a situation where a long-term, attritional conflict means that Ukrainians cannot go home in the short term and need to integrate in their host country.

Reducing energy dependency, increasing defence capabilities and integrating refugees will not be

cheap. To address the dual challenges of phasing out Russian energy and investing in defence, French President Emmanuel Macron has put forward the idea of more joint EU borrowing. In Versailles, European leaders agreed that more investment in these areas was needed. But there is still substantial opposition to the idea of a second recovery fund, especially amongst fiscally hawkish northern European states, who insist that countries must first make use of existing loans from the EU's recovery fund, and that more flexible state aid rules will be enough to cushion the blow of the conflict.

EU leaders should not be under any illusion: Putin's invasion will have lasting economic effects. These are no ordinary times – and it's certainly not the moment to wrangle about alleged [unpaid bills](#) or bicker over fiscal dogmas. All EU countries will have to face the consequences of this war, but not all of them will suffer to the same extent or be equally able to respond: about half of [natural gas imports](#) to Germany and Italy come from Russia, while Spain's share is just over 8 per cent. Poland is currently hosting over 60 per cent of those who have fled Ukraine over the last three weeks. And the EU's security will suffer unless defence spending across the Union rises substantially as a whole. It makes sense for EU countries to raise funds jointly to face common challenges that create asymmetric risks.

### What next?

As the conflict escalates, maintaining European and Western unity is likely to become more difficult – not least because Putin will try to undermine it in every way he can. The Russians' failure to make military progress will probably lead them to attack even more indiscriminately, resorting to yet more brutal tactics. This escalation will probably lead some European leaders and citizens to call for more military assistance to Ukraine. So far, support for Ukraine has seemed relatively risk-free for European publics. But Putin will do all he can to change this perception and curtail European military assistance to Ukraine. He has already threatened to strike Western military supplies in transit to the country and could do so to show that he is willing to raise the stakes higher. The attack on the military training facility at Yavoriv, about 20 kilometres from the Polish border, where NATO has trained with Ukrainian forces and US and Canadian trainers were based until recently, was a clear warning. The fear of a direct clash with Russia might yet turn governments and public opinion in some member-states against more military support for Ukraine. Others, who worry they may be next on Putin's hit list if he succeeds in subduing Ukraine, will want to increase Western military assistance. Similarly, rising numbers of refugees may end up creating tensions amongst European countries. While EU citizens have been eager to help their fellow Europeans, the 2015-2016 crisis shows that the mood can change quickly. European migration politics have been toxic for many years, and Putin and his minions are not shy of exploiting that – as Belarusian leader Alyaksandr Lukashenka showed by [manufacturing](#) a crisis on the Belarus-Poland border in 2021.

Europeans must think more seriously about how they will deal with the conflict as it progresses. It seems unlikely that Putin himself will back down: he has shown in various public speeches how emotionally invested he is in returning Ukraine to what he regards as its rightful place in the *Russkiy Mir* ('Russian World'). It is conceivable, though far from likely, that he would use chemical or nuclear weapons against targets in Ukraine. His goal would be either to force Zelenskyy to sue for peace, or to intimidate the West into forcing the Ukrainian government – which Putin regards as a puppet of the US – to surrender. More likely, Putin will throw even greater forces into the fight: though Russia's progress so far has been slower than he expected, the Russian army continues to advance, particularly in the south, and he may think that he can win if he mobilises Russia's reservists and brings in mercenaries from the Middle East as well as Chechen fighters.

The West has placed some of its hopes on a 'palace coup' in the Kremlin that would replace Putin with a new leader who would end Russia's attack on Ukraine. But this is only one possibility and not a particularly likely one, unless order begins to break down in Russia itself as a result of economic collapse and military losses. Putin will ruthlessly crush any dissent. Even if he is somehow removed from power, his successor could initially want to continue the war and rectify errors in its conduct. Or they may wish to end the failing offensive against Ukraine, but without being willing to compromise on the annexation of Crimea or de-facto annexation of the Donbas.

Europeans therefore need to consider what they would do in a number of scenarios. Ukraine's formidable resistance certainly makes it possible that Russia will never succeed in taking the major Ukrainian cities – that was the view of the panellists at a recent [CER seminar](#). But Europeans must accept that Russia may yet manage to take Kyiv and then set up a puppet government controlling large parts of the country's territory. If this happens, the European consensus for sanctions on Russia would probably remain solid, as member-states would not want to legitimise Russia's subjugation of Ukraine. But the challenge of deterring Moscow from further aggression would only increase, and member-states would also have to tackle the divisive question of how to deal with any organised Ukrainian resistance to Russia's occupation, and whether to have any contact with the de facto authorities in Kyiv. There may even be a rump sovereign Ukraine in the western half of the country that continues the struggle with Russia in some form. Some member-states would probably want to support the Ukrainian resistance, both out of principle and in the hope that this will wear Russia down. Others, however, could see this as fuelling an unnecessary conflict that causes more destruction and raises the risk of a NATO-Russia military clash.

Another possibility that Europeans have to consider is a peace deal between Putin and Zelenskyy. So far, talks between Russia and Ukraine have not shown much promise, but both may eventually come to see a negotiated settlement as preferable to continued fighting. Zelenskyy or another legitimate Ukrainian leader could become convinced that the costs of fighting are too high and that a deal with Putin (perhaps involving formal neutrality) is the best option. Zelenskyy acknowledged in a video address on March 15<sup>th</sup> that Ukraine would not be able to join NATO. Putin may also choose to cut his losses and declare victory after gaining some relatively minor concessions. In such a scenario, Western unity could come under some strain. Putin would probably demand the lifting of Western sanctions as part of a deal, and there might be disagreements among Western countries about which sanctions should be lifted and which ought to remain in place. Some member-states might also argue that sanctions would only cement the Russian-Chinese alliance, by pushing Russia further towards Beijing.

But it would be foolish for Europeans to try to turn back the dial to anything like business as usual with Russia in such a scenario. As with the Minsk agreements after Russia's 2014-2015 military intervention in Ukraine, Putin would regard a ceasefire as merely a pause in fighting and an opportunity to learn lessons, regroup and attack again – as long as he remains in power, his [belief](#) that Ukraine is "not even a country" will not change. Europeans would therefore have to double down on efforts to improve their military capabilities, help Ukraine to rebuild its defences to the extent allowed by any agreement with Russia, quickly eliminate their reliance on Russian energy and maintain most sanctions on Moscow – particularly those that constrain its ability to threaten the security of its neighbours, whether EU members or not.

EU leaders have understandably hailed the Union's response to the conflict in Ukraine with considerable enthusiasm. But Europe's toughest challenges, like Ukraine's, lie ahead of it. The EU needs to shield consumers and businesses from rising energy prices, free itself from dependency on imports of fossil

fuels, strengthen deterrence against Moscow through more defence spending and military co-operation, and integrate millions of Ukrainian refugees into European countries. European governments, including the UK's, will have to be honest with their populations: defending democracy in Europe will be expensive, and both consumers, industry and taxpayers will face additional burdens. Finally, European leaders need to be clear that however the conflict ends, anything like a return to business as usual with this Russia, whether under Putin or another authoritarian leader, would be a mistake.

**Ian Bond is director of foreign policy, Elisabetta Cornago is a senior research fellow, Camino Mortera-Martinez is head of the Brussels office and Luigi Scazzieri is a senior research fellow at the Centre for European Reform.**