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A year of war in Europe

The balance sheet

By Ian Bond, Elisabetta Cornago, Zach Meyers, Camino Mortera-Martinez, Luigi Scazzieri and Sander Tordoir

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★ Russian President Vladimir Putin clearly expected a quick victory when his forces invaded Ukraine. He did not get it. Ukraine has suffered terrible losses, but has inflicted significant defeats on Russian forces. The West has rallied to its aid. After decades of asking, Ukraine finally has gained EU candidate status.

★ Overall, it would be an exaggeration to say that Ukraine is winning the war; but it is not losing it. Russia has also suffered enormous military casualties. With a much larger population and defence industrial sector than Ukraine, it would be wrong to say that it is losing the war, but it cannot win it either.

★ NATO has been revived – no other organisation can deter Russia. The EU has played a complementary role, including in co-ordinating economic aid and helping supply Ukraine with weapons. The US role in defending Europe remains essential, but Europeans are taking defence more seriously, with budgets increasing. Over time, with more money and more joint defence procurement, the EU could make a bigger contribution to European defence and security.

★ Western sanctions have not led to the collapse of the Russian economy but they are damaging it. Shortages of key goods and increased prices for imports are causing economic disruption. The goal for sanctions at this stage should be to weaken Russia's military industrial capabilities and make it harder for Moscow to win the war.

★ Despite having been heavily dependent on Russian oil and gas supplies before February 2022, the EU has managed to cut its imports dramatically; it is unlikely ever to return to 'business as usual'. Consumer energy prices remain high, however. Investment in renewables and efforts to reduce consumption have increased and should help to bring prices down.

★ The reduction in imports of oil and gas from Russia and shortages of agricultural products from Ukraine have stoked inflation in the EU. The EU has avoided an acute energy crisis or economic contraction, but central bankers now have to bring inflation down without raising unemployment too much. Energy-intensive industries will struggle if energy prices stay high. And the EU will be at the forefront of efforts to reconstruct Ukraine – a $1 trillion task.

★ The war has given new momentum to EU enlargement, but it may not last. Ukraine (and other candidates) have a lot to do to meet EU standards. The EU will have to find ways to co-operate more closely with candidate countries that may be many years away from membership.

★ The EU's unity has been its biggest challenge and its biggest success. The Commission has strengthened its position by acting decisively to support Ukraine, and few have been willing to challenge it. But cracks are appearing. The need to take many decisions by unanimity has given leverage to Hungary and Poland, both looking for concessions in their disputes with the Commission over the rule of law. And there are disagreements over whether Ukraine should be helped to drive Russia out of all its territory, including Crimea, or whether it should be advised to moderate its demands and make territorial compromises.

★ The war is likely to continue for months, if not years. Ukraine cannot afford to stop fighting, and Putin does not want to. Whenever the war ends, Europe will have changed irrevocably. Relations with Russia are likely to remain cold for the foreseeable future, while Ukraine will become much more deeply integrated with the EU.

When Vladimir Putin sent Russian forces across the Ukrainian border on February 24th 2022, he clearly expected a quick victory with limited if any negative consequences for Russia. He probably believed that the US – already looking weak after its ignominious withdrawal from Afghanistan – would acquiesce in the removal of Ukraine's sovereignty and concede the sphere of influence in Europe that Russia craved. A year into the war, he has not achieved success, but nor has he lost. The war has nonetheless had major effects on Ukraine, Russia and other powers and organisations, including the EU and NATO.

Ukraine – damaged, but not losing

The most serious consequences have inevitably been for Ukraine. Almost 20 per cent of its territory is now occupied (including Crimea and the areas of the Donbas that have been under Russian occupation since 2014). Its military losses, in terms of killed and wounded, may be between 100,000 and 150,000 (according to Western estimates – Ukraine itself has avoided giving figures), with tens of thousands more civilian casualties.[1] More than 8 million Ukrainians are refugees and another 5.4 million are internally displaced, out of a pre-war population of 44 million.[2] GDP shrank by 35 per cent in 2022 and is likely to stagnate or even fall again this year.[3]

After initial losses, however, Ukraine has pushed the Russians back in the north and the south. It has received massive military and economic aid from its Western partners, with the promise of more to come, as well as visible political support, culminating in US President Joe Biden's visit to Kyiv on February 20th 2023. After 30 years of unsuccessful lobbying, it finally has a perspective of EU membership (though the road to it will be much longer than Ukraine hopes); and Western officials are starting to discuss the kind of post-war security guarantees that the country would need. There is even serious discussion among analysts and a small number Western politicians of taking Ukraine's bid for NATO membership more seriously.[4] Still, it would be wrong to say that Ukraine is winning the war; so far, its success consists in not losing it, despite facing Russia's much larger forces and economic resources.

Russia – damaged, and not winning

Russia, by contrast, is not yet losing the war; its problem is that it cannot win it either – and in the long term, that gives Ukraine the advantage. Russia has reverted to the tactics of the Second and even the First World War. At the front, it launches heavy artillery bombardments before throwing masses of infantry at Ukrainian positions until ammunition shortages and physical exhaustion force Ukrainian troops to retreat a few hundred meters – at which point, the process is repeated. Meanwhile, Russia has launched frequent missile and drone attacks on civilian targets, especially on energy infrastructure, in an effort to demoralise the population and freeze Ukraine into submission. The Ukrainians are awaiting a spring offensive, with Russia having troops in reserve, in addition to those it has so far deployed in Ukraine. It seems inevitable that the Kremlin will mobilise further forces this year; but having lost considerably more troops and equipment than the Ukrainians, it is unlikely to be able to achieve a decisive breakthrough.

1: Cecile Feuillatre and Joris Fioriti, "Terrible toll': Russia's invasion of Ukraine by the numbers', AFP-JIJI in *The Japan Times*, February 14th 2023.
2: UN High Commissioner for Refugees, 'Operational data portal: Ukraine refugee situation', updated February 13th 2023; International Organisation for Migration, Displacement Tracking Matrix, 'Ukraine – Internal displacement report – General population survey round 12 (16 – 23 January 2023)', February 2nd 2023.
3: International Monetary Fund, 'Ukraine: Datasets'.
4: For example, Dasha Litvinova, 'Estonian PM says West should heed, not appease Putin threats', *AP News*, October 4th 2022.

Away from the battlefield, however, some economists argue that Russia is doing better than expected and that sanctions have failed. According to official data, Russia's economy shrank by only 2.2 per cent in 2022, and the IMF forecasts that it will grow by 0.3 per cent this year – not stellar, but seemingly a success in the teeth of Western sanctions. These figures obscure much of the significant damage sanctions have done to Russia's military and economic capabilities, however. Politically, despite occasional signs of Chinese disquiet at the way the war was going, Beijing's relationship with Russia remained strong, and there were indications early in 2023 that Chinese firms were supplying some of the technologies that Russia could no longer buy from the West. In spite of the high rate of casualties and the lack of real victories, there is very little sign of popular unrest in Russia.

European security – work in progress

For the West, the most obvious consequence of the war is that NATO, which French President Emmanuel Macron branded as 'brain-dead' in 2019, has been revived. The conflict underscored that NATO is the bedrock of European security and that there is no alternative to the alliance's structures in deterring Russia. NATO countries have deployed more forces along the alliance's eastern flank to deter any Russian incursion, and have agreed to increase massively the number of troops that can be deployed at short notice. And, if Turkey lifts its veto and Finland and Sweden join the alliance, they will add valuable capabilities on the alliance's northern flank. Conversely, it seems likely that NATO will devote less attention to the southern flank.

> *"If the US had not provided so much assistance, Russia would probably have seized much more of Ukraine's territory."*

The war has also highlighted the EU's role as an important security provider, complementing what NATO offers. Member-states have co-ordinated their economic response to the conflict through the EU, and have also provided Ukraine with substantial military assistance through the European Peace Facility (EPF), spending €3.6 billion of it on defence equipment.[5] In addition, the EU is contributing to strengthening NATO's deterrent posture, especially through its efforts to make it easier to move military equipment across Europe (for example by improving infrastructure). The EU is playing an increasingly important role in encouraging member-states to co-operate more in developing and maintaining military equipment. The Union is developing new programmes to increase defence capabilities that could over time make a significant difference, particularly if member-states allocate more money to them.[6]

The conflict has also underscored the essential role of the US in European security. If the US had not provided so much assistance to Ukraine, Russia would probably have seized much more of Ukraine's territory than it has. America's nuclear arsenal and US forces in Europe, which have increased in number over the last year, continue to provide the backbone of deterrence against Russia. But China's growing assertiveness means that there will be pressure on the US to focus on security issues in Asia, increasingly leaving Europeans to deal with Russia and threats to their south.

Fortunately, Europeans are taking security more seriously, with EU member-states announcing an extra €200 billion in defence spending since the start of the conflict. Whatever happens, in a few years their military forces will be stronger than they were prior to Russia's invasion. The question is how much stronger European armies will be, and whether Europe's defence industry will retain (or in some cases regain) the ability to develop and produce advanced defence equipment on its own. One variable will be whether governments live up to their defence spending pledges. Countries which feel directly threatened by Russia will find it easier to increase defence budgets than those which do not – with the latter accounting for a much larger share of the EU's GDP and military capabilities.

Another important factor will be the degree to which Europeans co-ordinate their defence spending and buy equipment together, generating economies of scale. Eastern EU member-states distrust France and Germany, seeing Berlin and Paris as soft on Russia, and want to build close political and military ties with the US. That will limit co-operation between Europe's eastern and western members. But even more important is whether Europe's western and northern member-states (which account for most of EU defence spending) deepen co-operation, developing and procuring military equipment together, and whether they will shut out the UK – which has one of Europe's largest defence industrial sectors. The UK defence secretary, Ben Wallace, has warned of the risk to NATO co-operation of an EU-only approach.[7] If diverging industrial interests and short-term political considerations torpedo co-operation efforts, then the European defence industrial base would risk becoming less competitive.

5: Council of the European Union press release, 'Ukraine: Council agrees on further military support under the European Peace Facility', February 2nd 2023.

6: Luigi Scazzieri, 'Is European defence missing its moment?', CER insight, January 16th 2023.

7: Bruno Waterfield, 'Ben Wallace fears 'EU-first' arms plan undermines Nato', *The Times*, February 16th 2023.

The effectiveness (or not) of sanctions

Following the invasion, a united West imposed a growing range of sanctions on Russia. The initial sanctions were targeted: for example, they limited Russian banks' access to Western financial systems and networks, and froze Russian foreign reserves held in the West and the assets of a small number of Russian nationals. Exports of various high-tech goods to Russia were restricted, but Russians were still allowed to buy Western consumer electronics (although in practice many Western consumer firms left Russia voluntarily). As the conflict escalated, sanctions became less targeted: for example, they now cover not only mobile phones but manufacturers of refrigerators, dishwashing machines, and water heaters.[8] The West has also tried to limit Russia's ability to circumvent sanctions. For example, the G7 recently imposed a price cap on Russian crude oil and seaborne petroleum products.

Economists disagree about the effectiveness and the long-term consequences of the West's plans to cut cashflows to the Kremlin. Russia's economy has not collapsed.[9] Its technocratic economic managers may not have wanted the war, but they have had more success in limiting the impact of Western sanctions than the Russian military leadership has had in countering Western weapons on the battlefield. Dire predictions that the Russian economy would contract by more than 10 per cent in 2022 did not come to pass. But reports of the resilience of the Russian economy ought to be viewed with some scepticism.[10]

"The West's failure was not to deliver a credible threat of sanctions before the invasion."

Some economists have pointed to Russia's enduring current account surplus to argue that some important sanctions, such as freezing Russia's foreign reserves, have had little effect. That criticism has been dampened somewhat by the G7 oil price cap and recent evidence that Russia's public sector budget has fallen into deficit as its oil and gas revenues have shrunk.[11] The criticism also fails to recognise the significant economic disruption caused by shortages (or price increases) of critical goods, and the slowdown in manufacturing and high-tech sectors. This disruption has led to much less private sector employment and a 'brain drain' of talented Russians who have fled the country.

Russia's overall economy is also doing better than expected, at least according to some authorities: the IMF reports that GDP only fell by 2.2 per cent in 2022, and it forecasts that GDP will grow by 0.3 per cent this year and 2.1 per cent in 2024.[12] However, the IMF-reported figures partly reflect high global prices of oil and gas last year (which have recently declined), and the fact that Russia has been able to redirect some of its fossil fuel sales to countries like India and China (though the prices Russia can demand should be reduced by the price cap, which only started taking effect at the end of 2022). GDP figures are also inflated by huge public spending on the military – a short-term sugar rush which will not increase Russia's long-term growth prospects.

Overall, there are signs that sanctions may be making an impact. Putin's regime has obscured the drop in private sector employment, for example by cutting working hours and salaries rather than jobs. The ruble's stability is the consequence of tight capital controls rather than Russia's economic strength. And Moscow suffered a federal budget deficit of over 2 per cent of GDP in 2022, entirely caused by a massive deficit in December 2022 when the G7 oil price cap scheme came into effect – setting the maximum price of Russian crude at $60 per barrel.

The West's failure was not to deliver a credible threat of sanctions before the invasion, when it could have made a difference to Putin's calculus. By not conveying a unified message about the consequences of invading Ukraine, Western leaders allowed Putin to believe that Russia would not be punished much for going to war, and that Europe would prioritise its own economy and energy security. Now, the prospects of Putin voluntarily withdrawing from Ukraine seem poor. Moreover, by affecting the lives of everyday Russians, broader sanctions risk reinforcing Putin's narrative that the West sees Russia as an inherent threat, and poisoning relations between the West and younger Russians, who are less supportive of the war than the older generation.

A more realistic goal for sanctions now is to target Russia's military capabilities and make it harder for Moscow to win the war. On this count, at least, Western sanctions have been somewhat successful.[13] The West has seriously limited Russia's ability to access various high-tech goods, such as semiconductors, especially those used for military purposes. That appears to have had a direct impact on Russia's military strategies. Much of its most sophisticated weaponry relies on Western technology and components which it is struggling to procure, meaning its high-tech equipment and munitions cannot be easily maintained, repaired

8: Council Regulation 2022/1903 of October 6th 2022.
9: Ravi Agrawal, 'Are U.S. Sanctions on Russia Working?', *Foreign Policy*, February 7th 2023.
10: Vladimir Milov, 'The Sanctions on Russia Are Working', *Foreign Affairs*, January 18th 2023.
11: Max Seddon and Anastasia Stognei, 'Russia's budget deficit soars as energy revenues slump by almost half', *Financial Times*, February 6th 2023.
12: International Monetary Fund, 'World Economic Outlook Update: Inflation Peaking amid Low Growth', January 2023.
13: James Byrne, Gary Somerville, Joe Byrne, Jack Watling, Nick Reynolds and Jane Baker, 'Silicon Lifeline: Western Electronics at the Heart of Russia's War Machine', Royal United Services Institute for Defence and Security Studies (RUSI), August 2022.

or replaced. Instead, Russia has been relying on indiscriminate artillery shelling and using its poorly trained conscripts as cannon fodder, while procuring drones and missiles from Iran (which has more experience of circumventing US sanctions).

Western sanctions have been effective but not a panacea. Many countries have not joined in the sanctions, giving Russia the ability to divert trade to mitigate at least some of the damage. Recent reports that China is now considering supplying Russia with high-tech weaponry risk undermining the most important effect of sanctions. More importantly, Putin has shown that he is prepared to waste Russian lives, damage the economy, and drive the country into a partnership with China where it will be the supplicant, rather than withdraw from Ukraine. Sanctions may not change that. But they are making it harder for Russia to win militarily or to grow economically. And they were essential to show Western countries' unity and resolve – and their willingness to accept economic pain of their own. That should give the West's future threats of sanctions more credibility and cause China to think carefully about its plans for Taiwan. Meanwhile, China will also be looking closely at Russia's experience and learning how sanction-proof its own economy.

Energy – an accelerated transition from hydrocarbons

Russia's attack on Ukraine has had significant impacts on the energy trade between Russia and Europe, as well as global energy markets, and it has prompted a range of radical developments in EU energy policy.

When it comes to energy trade, the embargo on Russian coal was the first to be implemented in the EU in August 2022, but also the least consequential in aggregate terms, because it affected a small share of the EU energy mix. It took longer to agree sanctions on Russian oil, but eventually the EU banned Russian seaborne crude oil and refined petroleum products such as diesel, which can no longer be imported as of December 2022 and February 2023 respectively.

> *"Gas prices in Europe are likely to remain higher than they would otherwise have been for several years."*

Because EU member-states imported a larger proportion of their oil from Russia than other Western countries, the EU's sanctions came later than those enacted by the US and Canada, and notably excluded pipeline oil, on which Eastern member-states like Hungary are heavily dependent. But the G7 and EU have acted as one in implementing a price cap on Russian oil. The cap aims to ensure that the Kremlin's revenues from oil trade are reduced, by conditioning the access of Russian oil traders to Western services like insurance or shipping on their respect for the price cap. This means that Russian oil and oil products will continue to flow onto global markets, but at a discount. The downside risk is that Russia may circumvent these sanctions by selling its crude directly to third parties who then refine it and sell it to Western countries.

Russia was the EU's main supplier of natural gas before 2022. Today the picture has completely changed. Russia had started turning off the pipeline valves even before it attacked Ukraine. Afterwards, it interrupted gas flows via the Yamal and Nord Stream 1 pipelines and stopped supplies to countries refusing to pay for gas in rubles. Some EU member-states, such as Lithuania and Estonia, have stopped buying Russian gas entirely. In spite of the absence of EU-wide sanctions on gas, in the third quarter of 2022 Russian pipeline gas imports were down over 70 per cent year on year.[14]

Russia's weaponisation of its energy exports, Western sanctions and the interplay of the two on global markets have led to a sharp increase in prices of natural gas over the course of 2022. While they have since come down, gas prices in Europe are likely to remain higher than they would otherwise have been for several years. Preserving energy affordability and guaranteeing energy security have been the guiding principles of EU energy policy in the past year.

In March 2022, EU leaders vowed to phase out energy imports from Russia as soon as possible.[15] Following this, the European Commission presented the REpowerEU strategy to contribute to achieving this goal. On the demand side, the EU pushed for energy savings targets both for gas and electricity, but these were largely voluntary. On the supply side, EU member-states agreed to mandatory targets for refilling natural gas storage within a specific timeline, to ensure the EU would be as prepared as possible for a cold winter if Russia entirely cut off its gas exports. In the past year EU governments have mostly gone it alone on a buying spree to acquire liquefied natural gas (LNG). But a new EU-level platform for member-states to procure natural gas jointly is a potentially important innovation, designed to use the EU's purchasing power to get better deals.

14: European Commission, Market Observatory for Energy, DG Energy, 'Quarterly report on European gas markets', Volume 15 issue 3, covering third quarter of 2022.

15: European Council conclusions, March 24th-25th 2022.

As the winter draws to a close, the target for filling gas storage has been met, by buying gas over summer, which contributed to the record increase in gas prices. Targets for energy savings are well on the way to being fulfilled by the end of March, thanks to an impressive reduction in energy demand by both households and industry in response to high energy prices. This has reduced the fear that Europe may face gas and power shortages this winter, but the same concerns may arise again for next winter.

European governments have tried to ensure that energy remains affordable by offering generous subsidies and slashing energy taxes. This has somewhat mitigated increases in energy bills, but not entirely: the European economy is still bearing the brunt of energy cost inflation. In search of a scapegoat for the energy crisis, in December 2022 European governments approved a 'price correction mechanism' – a price cap – to prevent gas prices from spiking as they did last summer. Market analysts are generally sceptical, and fear that enacting such a cap may put off gas suppliers and leave Europe with insufficient gas to meet demand. But because the winter has been warm so far, gas prices have fallen, and this mechanism has not yet been activated.

The EU energy scene looks very different from a year ago: while imports of LNG have spiked, natural gas is no longer considered as the cheap bridge fuel to help Europe transition to a fossil-free energy system. Business-as-usual energy trade with Russia is unlikely ever to come back. There has been a marked acceleration away from fossil fuel consumption and towards renewables in 2022, as investment in the latter reached record levels. And thanks to a range of co-ordinated decisions and targets from energy savings to gas storage, 2022 represents a pivot towards a more integrated EU energy policy.

The war and the EU economy – shocked, but not fatally

The war put a spoke in the wheel of the EU's economic recovery from the pandemic but did not derail it entirely. The culprit was not the loss of business or financial ties between the EU and Russia. But Russia is a global powerhouse in energy and commodity exports; and Ukraine a leading exporter of agricultural products. The reduction in exports of energy and food as a result of the war created a supply shock for the European economy, stoking inflation, which was already elevated as a result of the post-pandemic re-opening and supply chain disruptions. Given their proximity, and their reliance on Russian gas, the EU and the UK were more exposed to the shock than other major advanced economies and are inevitably poorer now as a result of Putin's war.

> *"The war put a spoke in the wheel of the EU's economic recovery but did not derail it entirely."*

EU governments have used fiscal policy instruments to subsidise energy costs for businesses and offset the loss of household incomes. The measures were often broad-based, poorly targeted, and expensive for state coffers, with governments in the EU, the UK and Norway earmarking almost €800 billion for support to energy consumers.[16] But, helped by an unusually warm winter, they worked. The EU avoided an acute energy crisis or economic contraction. Putin's gas weapon misfired. And, despite declining real incomes and soaring energy bills, European consumers remained remarkably resilient over 2022, supported by a very strong labour market and excess savings accumulated during the pandemic lockdowns.

As a result, the EU and eurozone economies outperformed expectations, both growing by 3.5 per cent in 2022.[17] The eurozone economy has returned to its pre-pandemic size, but unlike the United States, is nowhere near regaining its pre-pandemic growth path. Before the war, the euro area was on track to suffer no permanent output losses from the pandemic, but it is likely to suffer such losses from the energy crisis. After a decade of underperformance following the euro crisis, that is a real cost of the war.

Even if European policy-makers have helped the economy to absorb the initial supply shock from the war, the conflict continues to pose profound challenges for the European economy.

First, the supply shock from the war continues to force the ECB into an almost impossible balancing act. The central bank is raising interest rates and tapering its balance sheet to prevent inflation from triggering a self-sustaining spiral of wage and price increases. But Frankfurt needs to tread carefully to avoid raising unemployment too far, breaking the strongest labour market in generations and condemning the eurozone to an unnecessarily deep recession.

Second, the European continent is resource poor and, even if gas prices have come down, losing the ability to access cheap Russian gas calls into question the future of Europe's energy-intensive industries. For example, while overall industrial production in Germany has remained stable, production in energy-intensive industries declined by 15 per cent and for chemicals by over 20 per cent.[18] The EU will have to engineer a rapid

16: Giovanni Sgaravatti, Simone Tagliapietra, Cecilia Trasi and Georg Zachmann, 'National policies to shield consumers from rising energy prices', Bruegel Datasets, first published November 4th 2021.

17: European Commission, 'European Economic Forecast, Winter 2023', February 2023.

18: Berenberg, 'Germany: coping with the energy price shock', December 9th 2022.

transformation towards more efficient use of industrial energy and a swift relocation of capital and labour to industries and sectors where it retains or can capture a competitive advantage – at least until sufficient clean energy comes online.

Third, if the war is settled on Ukraine's terms, the EU will have a unique opportunity to bring the country into the EU, but it will have to develop a plan to pay for reconstruction costs, which may top $1 trillion. Much will have to come from public coffers and the EU will have to co-ordinate the negotiations about who pays. One thorny issue is whether to use the $300 billion in frozen Russian central bank reserves. There are good arguments to do so, but the US and the EU will have to consider the possibility that non-aligned countries' central banks might diversify away from the US dollar and, to a lesser extent, the euro-based international financial system, for fear of similar treatment.

Enlargement – when is an open door not an open door?

The war has given new momentum to EU enlargement. In the weeks after Russia's invasion in February, Georgia, Moldova and Ukraine applied for EU membership. In June, EU leaders agreed that Ukraine and Moldova would become candidates for EU membership and decided to give Georgia a 'membership perspective'. The membership applications of some of the Western Balkans candidates have also advanced. In July, North Macedonia and Albania began accession talks, after years of delay.[19] And, in December, the EU decided to give Bosnia-Herzegovina candidate status.[20]

> *"While the European Commission is enthusiastic about further enlargement, many member-states are more sceptical."*

Despite these developments, there are many reasons why this new-found enthusiasm may not last long. Assessments from organisations such as Transparency International and Freedom House show that all the membership candidates face daunting challenges in meeting the EU's Copenhagen criteria on the rule of law, stable institutions and open market economies. At the same time, while the European Commission is enthusiastic about further enlargement, above all to Ukraine, many member-states are more sceptical. Scarred by the experience of democratic backsliding in Poland and Hungary, many countries in the EU's north and west are unwilling to be pushed by the Commission to admit countries until they fully meet the membership conditions. Public opinion across the EU is generally supportive of membership, but that is not the case in France and Austria.[21] Support in other states may fall as the costs of admitting new members come into focus – they are all much poorer than the EU average and would therefore be eligible for large amounts of EU funding.

Finally, many member-states worry that admitting more members would make the EU even more unwieldy and prone to national vetoes than it is now. France and Germany have made EU institutional reforms to abolish vetoes a precondition of further enlargement. But there is little sign of any momentum behind efforts to reform the way EU institutions work. Some of the strongest advocates of enlargement, like Poland, oppose giving up their vetoes. Finally, as the prospect of enlargement grows closer, the fact that Ukraine, Moldova and others may still have unresolved territorial conflicts with Russia could make many member-states reticent. As Ukraine makes progress towards EU membership, it may find that there is a close connection between accession to the Union and the willingness of its partners to provide security guarantees. The question of NATO membership may force itself back onto the agenda – since only the alliance could hope to provide a credible defence guarantee for the country.

All this means that there is a real chance that 'accession fatigue' will set in in Ukraine and Moldova, with citizens becoming disillusioned about joining the EU, as has happened in the Western Balkans and Turkey. Aware of the difficulties relating to enlargement, European leaders are trying to think how to co-operate more closely with candidate countries before they become members. Two ideas are advancing in parallel. The first is Macron's idea of a European Political Community, a flexible inter-governmental platform to foster closer political ties and high-level dialogue with most of the EU's eastern neighbours, plus the UK and all the accession candidates. The second idea is that of a gradual enlargement process, with candidate countries being integrated into individual EU policy areas prior to becoming members. The idea was already contained in the European Commission's revised approach to enlargement, adopted in 2020. But so far it does not have much substance. Over the next year, we are likely to see more of both ideas.

19: Czech Presidency of the Council of the European Union, 'Albania and Northern Macedonia open accession talks with the EU', July 19th 2022.
20: European Council conclusions, December 15th 2022.
21: Standard Eurobarometer 97 – Summer 2022.

EU unity – solid for Ukraine, but threatened by other issues

Following Putin's attack on Ukraine, unity was the EU's biggest challenge and also its biggest success. The Union agreed on several rounds of sanctions at unprecedented speed, triggered a previously unused law to grant millions of Ukrainian refugees instant access to the EU and its labour market, and gave Ukraine candidate status less than six months after the conflict began. There may be no winners in this war, but the European Commission has managed to strengthen its position by acting decisively and taking public positions (for instance, on refugees and on enlargement) that member-states find politically difficult to oppose.

In the face of Putin's aggression and Russian war crimes in Ukraine, very few EU leaders have been willing to challenge Commission President Ursula von der Leyen's expressions of support for Ukraine's eventual membership, for example. It is likely that the shift in the balance of power between the Commission and the Council will persist, as long as the war forces the EU to take decisions in real time, without the opportunity for the traditional long discussions, patient canvassing of the opinions of the member- states and cautious coalition-building.

"For anyone not fleeing Putin, the EU is still very much focused on controlling its borders."

By the end of 2022, cracks in the Union's initial unity were beginning to appear. Despite the EU's impressive record in hosting Ukrainian refugees (by the end of December 2022, over 3.8 million Ukrainian citizens had been granted temporary protection in the EU), member-states still disagreed over many elements of the Union's migration policy. The war in Ukraine has not mended those differences – on the contrary, it has highlighted the fact that for anyone not fleeing Putin, the EU is still very much focused on controlling its borders and returning failed asylum seekers.

Each sanctions package has been more difficult to agree than the previous one, as sanctions became more wide-ranging. The ninth package was the trickiest so far: EU capitals wrangled for days about whether or not the sanctions should extend to companies exporting agricultural and food products. At the time of writing, the Commission was pushing for early agreement on the tenth package of sanctions, in the context of the anniversary of the invasion. But EU capitals still disagreed on whether sanctions should extend to oil tankers that have re-registered from EU countries to the United Arab Emirates in order to be able to continue to carry Russian oil.

Aid to Ukraine also became unexpectedly controversial towards the end of the year. Hungary's Viktor Orbán, who had been a constant thorn in the EU's side as it tried to agree on a common response to Putin's war, refused to back an €18 billion aid package to Ukraine at the beginning of December. The package was briefly held up by Poland, too. While Poland, unlike Hungary, has been a staunch supporter of Ukraine, both countries saw a chance to wield their veto power to extract concessions in their long-standing rule of law disputes with Brussels – which have not gone away, despite the war .

Warsaw and Budapest have spent much of the past 12 months arguing with Brussels over money. In June, the Commission approved Poland´s post-pandemic recovery plan. The decision was taken by Commission president Ursula von der Leyen against the advice of five of her own commissioners. It was widely considered a political concession to Poland, which had been hosting by far the largest number of refugees from Ukraine. But the Polish government´s refusal to reverse judicial reforms that the European Court of Justice had found illegal soured relations between Brussels and Warsaw towards the end of the year. The Commission has just announced it is taking Poland to court once again, this time over a controversial ruling of the PiS-controlled Constitutional Court in 2021, which said that Polish law was superior to EU law.

Meanwhile, the Council agreed in December to freeze €6.3 billion of cohesion funds that were due to Hungary. Orbán has passed several anti-corruption laws to unlock the money, but so far, the Commission does not consider these enough to allay its concerns. Disbursement of Hungary's national recovery funding is still blocked, too.

The fissures in the Union are complicated, with different coalitions forming to promote or obstruct progress in different areas. The war has created a split in the previously harmonious Visegrád group of Poland, Hungary, Slovakia and the Czech Republic. Hungary and Poland may be on the same side when it comes to the rule of law, but they are at loggerheads over Orbán´s accommodating attitude to Putin and his hostility towards Ukraine. And the Czechs have recently elected former chairman of the NATO military committee Petr Pavel, a supporter of Ukraine, to be their president; he beat former Prime Minister and oligarch Andrej Babiš – who was indicted for misusing EU funds and ran his campaign on a 'no war' platform.

The West as a whole, including the EU, is divided over war aims. Some in the US and in Western Europe – reportedly including US Secretary of State Tony Blinken – want Ukraine to moderate its ambitions and be ready to compromise over control of Crimea, at least temporarily, to avoid further escalating the conflict.[22] Others, especially in Central and Northern Europe, think the only way to achieve a sustainable peace is by driving Russia out of all of Ukraine's internationally-recognised territory, including Crimea. Poland and other hawks dislike what they consider to be France's and Germany's excessively cautious approach to supporting Ukraine militarily and to sanctioning Russia. They also blame Germany for having been blind to the threat from the Kremlin in the past. But Germany has alienated other partners, too: Scholz's initial hesitation to impose energy sanctions on Russia for fear of harming the German economy irritated southern member-states, which a decade ago had to undergo painful and often counter-productive economic reforms largely to please frugal German voters.

Conclusion

Despite the entreaties of some in the West – who advise Ukraine to give up territory to Russia in order to achieve peace quickly – this war is likely to continue for many months, if not years. Ukraine cannot afford to stop fighting, or it will cease to exist as a sovereign state; Putin does not want to stop fighting until Ukraine is back in what he sees as its rightful place, subordinate to Moscow. Someday, however, the war will end. But even then Europe will not go back to how it was on February 23rd 2022. Too much has changed irrevocably.

The EU has acknowledged that Ukraine is a European state, eligible for EU membership – a declaration that successive Ukrainian presidents had sought for almost 30 years. The road to membership will no doubt be very long, but it is almost impossible to imagine future EU leaders rescinding the offer of eventual accession, if Ukraine meets the conditions for it. Meanwhile, the EU will need to be creative in finding ways to avoid accession fatigue – either in the EU or in the candidate countries.

Russia under Putin had violated the territorial integrity of its neighbours before February 2022: in Georgia in 2008; and in Ukraine in 2014 with the annexation of Crimea and seizure of parts of the Donetsk and Luhansk regions. No doubt eventually political contacts with Moscow will resume, as they did on those occasions – Russia remains a big power with enormous capacity to cause disruption, and a permanent member of the UN Security Council. But it is hard to see any return to pre-2022 relations with Russia, still less to the relative warmth of the early Putin years. In 2008, Russia suffered no consequences at all for invading Georgia and de facto annexing Abkhazia and South Ossetia. In 2014, the EU and US imposed sanctions, but they did not bite hard, even after the shooting down of Malaysian Airlines flight MH17 by Russian proxy forces with the loss of 298 lives – more than two-thirds of them EU citizens. Most business – particularly the purchase of Russian oil and gas – continued uninterrupted. This time, sanctions are more likely to stay in place, and to have a cumulative impact on the Russian economy.

One important reason for that is that Europe has taken a firm decision to end its dependency on cheap Russian gas. This is likely to have lasting structural effects on the European economy: energy-intensive industries, such as the chemical industry, may become uncompetitive unless they can find other sources of low-cost energy and become more efficient at using it. The renewables industry, by contrast, will see surging demand. Europe will have to adapt to very different economic conditions from those it has become used to. If member-states act on a national basis, the divergences between stronger economies, able to subsidise the costs of change, and weaker economies, unable to match them, will grow.

Such divergences would put EU unity under even greater strain. So far, for all the tensions, whether on sanctions or the rule of law, solidarity with each other and with Ukraine has largely prevailed. The West's ability to stick together during a year of war, and to keep increasing its support to Ukraine, has probably been an unwelcome surprise to Putin. If it holds for the next year, and beyond, Ukraine should be well on the way to victory – and a step closer to deeper integration with the EU and NATO.

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22: Alexander Ward and Paul McLeary, 'Blinken: Crimea a 'red line' for Putin as Ukraine weighs plans to retake it', *Politico*, February 15th 2023.