

**ELIZABETH
WOOD:**

Hello, everybody and welcome to today's MIT Starr Forum, Energy as a Weapon of War: Russia, Ukraine, and Europe in Challenging Times. I'm Elizabeth Wood, professor of Soviet and post-Soviet history and faculty director of the MIT Eurasia program and the brand new MIT Ukraine program. And Carol Saivetz, my co-moderator and co-organizer, is senior advisor in the MIT Security Studies Program.

Before I introduce today's speakers I want to briefly thank our sponsors, the MIT Center for International Studies, the MIT Security Studies Program, and the MIT Eurasia and Ukraine programs, especially our fearless organizers Michelle English and Sabina Van Mell, and our center director Dick Samuels. As is our custom we will have Q&A at the end of the talk, so please feel free to use the Q&A feature on the bottom of your toolbar to type your questions. We will try to get to as many as possible.

If you keep them short that is much easier for Carol and me as moderators, since we have some 600 people preregistered for today's talk. In addition, please note that the chat feature, also on the bottom of the toolbar, will have resource links such as bios, upcoming events, and other information that may be of interest to you. This topic, Energy as a Weapon of War, is obviously of critical importance today.

How energy is being used by Russia as a tool of aggression, how Ukraine is suffering with the attacks on its critical infrastructure, and how the alliance of Europeans and the US are responding to these issues of energy supply, energy demand, and so on. So our speakers today are Margarita Balmaceda and Constanze Stelzenmuller. Let me introduce them in the order they will speak.

Margarita Balmaceda is Professor of Diplomacy and International Relations in the School of Diplomacy and International Relations at Seton Hall University, and she's an associate of the Harvard Ukrainian Research Institute as well as the Data Center for Russian and East German studies. Her most recent book is *Russian Energy Chains, the Remaking of Technopolitics from Siberia to Ukraine to the European Union*.

It couldn't be more timely, and it has just won two prestigious awards from the Association of Slavic Eurasian and East European Studies, the Marshall Shulman prize for Outstanding Monograph in International Relations, and the Ed Hewitt Prize for Outstanding Monograph in Political Economy in the Eurasian Region. So congratulations to Margarita.

Constanze Stelzenmuller is the Director and Fritz Stern Chair of the Center on the United States and Europe at the Brookings Institute. She's an expert on German, European, and transatlantic foreign and security policy and strategy. Stelzenmuller's essays and articles in German and English have appeared in a wide range of publications, including *Foreign Affairs*, *Internationale Politik*, *The Washington Post*, and *Suddeutsche Zeitung*.

She writes a monthly column in *The Financial Times* which I highly recommend. She is also a frequent commentator on American and European radio and television, including *PBS NewsHour*, *National Public Radio*, and the *BBC*. Most recently she has written about the Russian attacks on critical infrastructure in Ukraine, on choices about neutrality for European nations, on European cohesion in the face of Russia's ongoing aggression in Ukraine.

So it's my great pleasure to welcome our speakers. Margarita will speak first and then Constanze, and then we will begin the time of Q&A with Carol and me moderating those questions. Thank you to our speakers and to all who have come.

**MARGARITA
BALMACEDA:**

Thank you so much for the invitation to be this important forum. It is really a pleasure and an honor to be able to engage in this important discussion with colleagues I have been admiring and learning from for many years. So this is really a wonderful occasion. And I also want to congratulate MIT on the creation, the establishment of a Ukrainian studies program. This is very much needed, especially at a place like MIT. So congratulations, hats off.

So I will like to start this discussion by simply raising three points and bringing to your attention three issues which perhaps-- or three ways of looking at issues which perhaps have remained a little bit outside of the radar. And I would like to start by saying that when I'm asked to comment on energy being used as a weapon of war, the first thing that I need to say is that certainly Russia has been using energy as a weapon of war, as a weapon of this war, before February 2022.

We saw that very clearly with the way in which Russia was manipulating energy prices already starting in October, gas prices October of 2021, trying to get Nord Stream 2 to be certified for use, and we know what happened with that. But having said that and acknowledging that my own acceptance of Russia's use of energy as a means, as a weapon of war, has become much deeper in the last months. Having said that, I want to go back to something else.

I want to go back to what I consider is really essential for us understanding this energy power, and that is understanding that it is not simply an issue of threat. It is not only an issue of Russia using energy against a state. It is not only an issue of an external power. In some other of my work I have, for example, paid a lot of attention to the domestic governance side of energy. I wrote a book on energy corruption in Ukraine in the 2000s, for example.

And in my latest book, *Russia Energy Chains*, I try to understand this relationship between Ukraine, Russia, the European Union through the lens of, on the one hand, the different materialities of different energy goods-- natural gas, oil, coal-- but also through the framework of understanding this relationship as one having to do with threat, yes. But also with the opportunities or even temptation of participation in those Russian energy chains.

And even when you may-- when I have discussed this mainly in terms of Ukraine in the past, we need to understand, for example, the European Union states' participation in Russia's energy chains, Germany's participation in Russia energy chains also from the perspective of this threat and temptation.

And if we look, for example, at the way key European Union players, including German players, managed to somehow reconcile the reality of Russia's aggression starting in 2014 with the temptation of continued access to Russian natural gas and oil at relatively low prices, we can see that temptation side was extremely strong.

If we look at the case of Germany, a country that I know a little bit about because I have been doing research here for many years and I have a study group in Germany, you can see that the temptation of this reliance in particular on Russian natural gas was not simply something that you could ascribe to one or two corrupt politicians. Many people talk about Gerhard Schroeder and his joining the board of several Russian energy companies right after nuclear power.

No. It's something that went through all levels of economic life, from the interest of large natural gas users, including in the industrial sector, to the interests of large companies that distributed this natural gas to the interests of regional governments such as in Mecklenburg-Vorpommern, which have an economic interest in supporting Nord Stream 2, to even some or many greens which saw natural gas as the perfect bridge fuel in the transition from a coal based and oil based past to a renewables future.

So it's really important to keep this in mind because what this meant is that no wonder the European Union's dependency on Russian energy actually increased from 2014 when Russia had invaded Ukraine already to 2022, and in the case of Germany, even much more. That's my first one. My second point has to do with the fact that we pay a lot of attention to the electricity and the heating side of energy and what lack of access to Russian natural gas could mean in these two areas.

This is very important. This is what the headlines are paying attention to. But in my view, the real story and the story that we need to pay much more attention to has to do with industrial users. In particular, industrial users' natural gas. And I do not mean industrial users which are using natural gas to generate electricity to then get their machinery to work.

No. I'm talking about industries which are using Russian natural gas for a couple of other things, such as feedstock for the petrochemical and chemical industry, such as reaction and high temperature process driver in steelmaking, or such as playing a very important role in glass manufacturer or even paper manufacturing. This type of use of Russian gas has fallen outside the radar.

It's still very important because it's the hardest to replace. It's very difficult to replace by renewables, and I expect this type of player to be really important in terms of the interest group side of the equation. Taken together, you have here 8 million jobs in Europe that are dependent on these type of industries that I have mentioned-- paper, cement, steel, chemical industry. And you have also very important individual companies, such as BASF, the largest chemical industry company in the world and the largest user of Russian natural gas in Europe.

So these are things that we need to pay attention to in order to understand what's coming next because it is my view that the temptation side of the equation is still there. There are many people which would be very, very happy to go back to a happy world of relatively cheap Russian natural gas, and we need to just be aware of that.

And finally, I simply want to flag how important it is to include in our analysis countries outside North America and the European Union. Some of you may be aware of the fact that Russia has actually increased its revenue from natural gas, and especially oil exports since February. The reason for this has to do, in the case of natural gas, with price dynamics. In the case of oil it has to do with two things. It has to do with the fact that-- and again, this is an issue related to the larger issue of materiality I discuss in my book.

But because of a series of issues related to materiality and price dynamics, the price of particular types of Russian oil have gone down and countries like China, and in particular, India, have emerged as really eager to purchase this quote, unquote, "discounted" oil. It's very important to keep in mind the concerns of these countries. We will not get India and China to formally sign in to G7 and EU restrictions on the purchase of Russian oil or attempts to cap the price, but indirectly they may sign in if they understand that this may help in their own bargaining with Russia.

And that is, perhaps, what we should aim to. But more generally, I think it's very important to understand that this story does not end in the European Union and North America, and if we do not deal with the real energy concerns of Global South countries we will not get very far in trying to reduce Russia's energy power looking forward. So thank you very much and looking forward to a good discussion.

CONSTANZE All right. Hi, everyone I've been asked to just jump in after Margarita. Thank you. That was really fascinating.

STELZENMULLER: Again, my name is Constanze Stelzenmuller. I work at the Brookings Institution and direct the center on the US and Europe there. It's my job to contextualize what Margarita has just said in sort of alliance and European geopolitics, and look a little bit forward from the short term to the long term the potential implications.

As my name suggests, I'm a German national. I've spent a lot of time traveling in Europe talking to other European countries, though, so I think I can give you, with a little bit of confidence, a sense of what the overall European mood is here. And I think it's worth acknowledging just how remarkable not just alliance, but European responses have been here.

I think if you go to European capitals you will hear people saying policy makers, as well as in the public, that we would not have been able to offer as steadfast and as united to response to Russia's aggression without the leadership of the Biden administration. And while that's very true, it's also remarkable how steadfast and united the European response has been, and I think people like me have been pleasantly surprised by that. It was something that I was very worried about before February 24.

This has breathed new life into not just NATO, which has returned to its original beliefs of defense and deterrence and resilience. It has brought on a new round of NATO enlargement, which, before the invasion, none of us would really have thought possible. The accession requests of Finland and Sweden still being blocked by Turkey, but I think that is likely to be overcome, presumably by spring next year.

It's even breathed new life into a very much weakened United Nations and UN General Assembly and into the International Criminal Court. We've also seen a degree of energy decoupling in Europe and especially in Germany, which was not the most dependent of the European countries on Russian energy. Particularly some of the Eastern European countries where 100% on Russian energy imports. But of course, Germany, because of its location, its the economic power, its weight in Europe and in the alliance is, of course, a key player here, and one where Russian purchase on German decision making was obviously going to be more important than in some other places.

And the German economic ministry has been decoupling German dependence from Russian gas and oil imports in ways that I honestly would not have thought possible, and with a speed and determination that I think lacks a parallel in recent decades in German transformations. And the other thing that has been remarkably surprising is that industry has been able to substitute for Russian gas without reducing its output, as a recent study by the economic analysis institute, IFO, in Munich has shown.

In some ways, Putin did us a favor by starting this conflict in February because it gave us all summer to substitute-- sorry, to fill up storage by buying up LNG all across the world. And the other thing that's truly notable is that we have seen a steadfast support, popular support in polling with 2/3, 3/4 majorities throughout the past months, and continuing now, for resisting Russian aggression by Europe, by NATO, even if that costs the consumer in terms of energy prices and inflation.

That's, I think, a testament to the fact that Europeans understand that this is-- or are not just appalled by the depredations Russia is currently visiting on Ukraine, the war crimes it is committing, but that this also has an impact not just on European and alliance security in the long term, but on really on global stability and the future of the rules based international order.

The other thing that's been remarkable to see in the long term is a much weaker Russian military and much weaker military culture than we had been led to expect by analysis of Russia's military modernization in the past decade. And we have seen despite the declaration of limitless support to Russia that China signed with Russia during the Beijing Olympics on February 4, we've seen a China that, while it has been supporting Russian disinformation and Russian messaging, it has actually been holding back on key counts, not least on military support.

So for the moment I think the situation, the geopolitical situation that Europe and the alliance find themselves in has turned out to be much more positive than the gloomier analysis would have suggested. The problem, of course, is the long term. In the long term there are truly significant concerns. And let me begin, again, with Ukraine.

Despite the remarkable battlefield prowess of the Ukrainians, it is unclear at this point still whether Ukraine will have the means to retain full control over its territory and not just-- by territory I mean not just Crimea but mainland Ukraine. Russia is digging in, clearly. There is a bloody battle of attrition going on around Bakhmut and it is also not clear that we as the west, whether in Washington or in Berlin or in Paris or in London, are willing to give Ukraine the support that it would need to mount a decisive victory over Russia's invasion.

And on that, I think much, much depends, and it won't surprise those of you who know me that I am an advocate of giving Ukraine what it needs and giving it what it needs now. But part of the problem here is, of course, that Ukraine-- that we have found out in the course of this past 10 months that we ourselves do not have all the means that we need.

Even if we wanted to give Ukraine all that we needed, we don't have those heavy weapons, we don't have the air defenses, and we don't have the ammunition that we would need to give to Ukraine, that Ukraine would need, and that would enable us to defend ourselves at the same time. That, I think, has exposed a huge weakness in our force planning and our defense industrial planning.

There are those open disagreements between defense industries and western governments as to how this problem should be resolved, and I don't expect that to happen any time soon. I already mentioned that we have been hoovering up LNG around the world and that Germans have been hoovering up more than most, and the result of that has been that we have angered some of our partners and we've driven up the prices.

It's not clear how we will resolve this interalliance competition for scarce liquid natural gas and what geopolitical consequences that could have. The other aspect which I think can still potentially undermine alliance cohesion is the degree to which we have, shall we say, bought popular consent with massive subsidies and bought industrial consent with massive subsidies. What will happen if, at some point, we are no longer able to do that for economic reasons or from political reasons?

We have also-- most of us, although we are fully aware that the current situation requires us to increase our defense spending, the current NATO spending obligation is 2%. The discussions on the margins of NATO meeting suggests that we should be moving towards 3%. Yet I think at least half of NATO's member states, and very much including Germany, have just had to declare that they are not capable of reaching 2%, not just because of inflation, until the due date of 2024.

Finally, we have-- we're seeing an economic competition within the alliance around climate subsidies. The Biden administration's Inflation Reduction Act, which is really a huge climate legislation package, was, on one level, an immense success for climate advocates in the United States and globally. It is the first time that a United States government has legislated such a massive package of climate mitigation activities.

The problem from a European point of view, of course, is that the subsidies that it advances are available to American companies only and not to European companies, and there is a very genuine fear in Europe expressed just last week by President Macron during his state visit that this could lead to a giant movement of European companies across the Atlantic to America. And even if that-- that there would be tremendous economic disadvantages to European companies.

The other aspect that is deleterious to climate policy is, of course, the fact that this energy crisis and the invasion of Ukraine by Russia has led all of us to go back, or many of us, to go back to coal and to nuclear power, something that is in direct contravention with our more ambitious climate policies.

Finally, while it's clear that sanctions are degrading Russian ability to-- in manufacturing and its defense sector are degrading Russia's ability to trade, they are by no means limiting Putin's ability to act. They're certainly not limiting his ability to commit war crimes in Ukraine and to continue challenging Ukrainian defenses.

And the great open question for all of us there, I think, is what if the Chinese, at some point, decide to actively support Russia militarily in Ukraine? That would be, I think, the worst game changer of all, and one that, even if all the factors that I've just listed weren't capable of dividing us in the medium to long term, that one would be the single greatest challenge that I can envisage to our ability to help Ukraine win and to maintain our own security in Europe and to maintain the transatlantic alliance. Thank you.

CAROL SAIVETZ: Thank you so much to both of our speakers, Margarita and Constanze. I have a question for each of you and then we will go to the Q&A. Margarita, there's been a lot of writing about how difficult it's going to be for Russia to maintain the cutting off of sales to the Europeans particularly, that it could ruin some of the gas and oil fields and that the infrastructure isn't yet there to allow Russia to complete, especially with gas, to complete this shift that it keeps threatening about selling to China and selling to Asia and to Europe.

So I was wondering if you could talk about that a little bit. And Constanze, I wanted to ask you about the impact of a very cold winter-- and obviously this is up to the weather gods and not us-- of public support for the governments that are right now supplying Ukraine and willing to maintain the transatlantic alliance.

Because I could foresee a situation, not so much about the coup attempt, alleged coup attempt in Germany the other day, but what-- could the Russians manipulate public opinion to begin to have demonstrations in various cities against the high price of energy to heat one's homes, to cook one's foods, et cetera, and could that begin to tear apart this sort of reconstruction of the western alliance that you were talking about? So I'll stop there. Margarita first and then Constanze, and then we'll open up the floor.

**MARGARITA
BALMACEDA:**

Well, thank you so much, Carol, for this question. And at a very personal level-- when we talk about infrastructure that already exists and that we can count on versus infrastructure that Russia wishes perhaps could exist, at a very personal level I just want you to know that perhaps 15 years ago you very kindly told me, when I was writing another book, a different book, you said, oh, it's great you're writing about the pipelines that already exist as opposed to pipelines where people are just dreaming about.

And maybe you don't remember that but I always remember that. It warms my heart to remember that. That was a very encouraging point. But the larger question is that Russia is threatening to reshape those supply chains, but it does not have the infrastructure to do that. And certainly to reshape the largest export chains to China concerning natural gas it would require a very, very-- it requires a very serious investment.

It's not only about new pipelines, but it's also about tapping the natural gas fields which are in the eastern part of Siberia as opposed to Western Siberia where most of the development is now. So that's a very important issue. This is also an issue where the issue of materiality and of the material differences between different types of energy is really important because given the fact that Russia has very, very limited liquefied natural gas facilities, that is facilities for turning regular natural gas into liquefied natural gas.

Given that reality, Russia has much less opportunities to redirect those natural gas exports that it has concerning oil. And concerning oil, because of the nature of the good, obviously you can do much more not only through pipelines but also through vessels. And actually, right now the whole question is whether the ban on seaborne oil imports by the European Union will be foiled by Russia exporting by vessel to elsewhere and whether financial and insurance restrictions on that supply chain will play a role.

So these are two different types of situations. Russia is trying to maximize that oil income because it can do more with oil in terms of materiality to reshape the export chains. But I think it's much harder than what they have originally thought or what they would like us to believe.

CAROL SAIVETZ: Constanze?

CONSTANZE Yeah, sure. I was waiting for your cue. Look, the problem with your question is that it's speculative on two
STELZENMULLER: counts, right? One is, what's the weather going to be like? Secondly, how will people react? And there is, I think, no intellectually honest or accurate way of predicting either-- I mean, the weather, maybe, but not popular reactions.

I just want to say that I've been pleasantly surprised so far by the resilience of popular support for cutbacks on energy consumption in European countries. I mean, yes, as I said, those are supported to some degree by subsidies, but for a lot of normal consumers, gas prices and inflation have put a real pinch on their disposable income.

And so I think if you still see polls saying we need to withstand this kind of aggression because this is about more than just our ability to heat apartments in the winter, I'm, for now, willing to take that seriously. And we haven't seen a [INAUDIBLE] movement in Germany recently. Even the news that shook Germany this week of a coup attempt in Germany strikes me as having been on the whole, while nasty, far from being as menacing as January 6 was, on which this coup attempt was very much modeled.

These guys wanted to storm the federal legislature or the Bundestag and then overthrow the government and install a monarchy. And they had clearly been surveilled from the get go by German police and domestic intelligence, and it seems to me that German police orchestrated a show of force across the country with 3,000 policemen, 130 arrests, including some in Italy and Austria.

And certainly the figureheads that these people were using, an obscure minor prince and a retired member of the Bundestag who was also a judge from the AFD, were in no way plausible as new national leaders. The thing that I am concerned about and that I don't want to minimize at all is the fact that that's something that we already knew beforehand, that the hard right in Germany has been trying to tunnel in to the security services, into the armed forces, the police, and into domestic intelligence.

But we knew that, and the government had been cracking down on this. And it's not the kind of thing that you can eradicate in one go so I would, I think, encourage people who've been wondering about the stability of governance in Germany to see this as a very determined show by the German authorities that they're not willing to stand for any of this. So on the whole, I'm not that worried about this winter.

I am worried and concerned about our long term ability as western governments in America and in Europe to withstand an immediate future of continuous and determined and-- what's the word? Multiple level probing of our vulnerabilities, of deliberate disruptions, and our ability to both muster the defenses and the resilience against that that is necessary and to transform the way we defend ourselves in a way that is enough to meet those challenges. There I think I see a massive challenge, both to our capabilities, our resources, and our public cohesion.

**ELIZABETH
WOOD:**

Fantastic, you guys. So I want to take a question for Margarita. You've talked about the threats of the use of energy and also the opportunities, the ways in which countries have benefited. And I know in earlier work you talked about Ukraine and Belarus, and the pipelines and the ways in which those pipelines created an incentive for those countries to keep supplying them even once the war started.

I remember you saying this to me at one point. So I think it would be interesting for our audience, and I would love to hear. Talk more about, does Ukraine have any resilience to deal with these massive attacks on their infrastructure? What's going to happen? How is it going to play out? Do you think the International Atomic Energy Agency will be able to do anything to shore up the energy coming out of Zaporizhzhia?

And we've also had an audience question asking about the effects of this all on Russian industry and consumers. Are they being affected by any of this? I haven't heard that they are, but that doesn't-- you would know better than I. I guess the core question is whether-- how Ukraine is going to cope this winter. Are there any secret ways that they can survive that you can comment on?

**MARGARITA
BALMACEDA:**

Thank you for these two very important questions. Unfortunately, I do not think Ukraine has access to any secret weapons or any secret types of energy to survive this winter. Yet Ukraine has surprised us in the last nine months with its ingenuity, its creativity, and its tremendous commitment to defend their motherland in the face of a war of choice against it.

The reality, however, is that if Ukrainians are able to somehow withstand the continued attacks on their energy infrastructure, this is because western states, and in particular Germany, have been supporting Ukraine with a number of generators to compensate for a lot of the capacity that has been taken out. Within the government of Ukraine itself, there has been a plan to create 2,000 warming centers where people can warm up, charge their phones, and so on.

But the reality is that this is a massive escalation of the war by attacking basic civilian infrastructure that is needed for simple survival, and no, Ukraine does not have silver vault here. I would also like to note that, perhaps surprisingly, the only pipeline through which Russian natural gas is still flowing to Europe is the pipeline through Ukraine. So this also tells us about the seriousness of those chains. It tells us also about a somewhat contradictory situation faced by Ukraine.

On the one hand, telling the west to stop relying on those Russian fossil fuels, but at the same time continuing to-- if you wish-- fulfill its duty, its contractual duty to transit that natural gas or benefiting from this. I don't know whether I could use that word concerning December of 2022, but this is a very complex situation. I do not remember if there was a second question here, but this is my take on the infrastructure one.

CAROL SAIVETZ: Great. A couple of our viewers have asked related questions that I want to ask to both of you. You both referred to the non-Western aspects of the issues that we're talking about. Margarita, you talked about the Global South and providing energy to India and China. And Constanze, you too talked about the Chinese support for the Russian position. So the question is, how much support really can Russia count on?

How long will these other markets be able to continue to purchase Russian oil and natural gas, and could the West do anything to further disrupt or attenuate those connections? There were rumors that when Biden met with Xi Jinping he basically said, get the message to Putin to stop talking about nuclear weapons. That's a no no. You know? And to try to attenuate somehow that relationship between the two. So that's a group of questions together, but I'd love each of you to answer. Why don't we start with Constanze this time?

**CONSTANZE
STELZENMULLER:** On the issue of nuclear weapons use, you remember that Olaf Scholz went to China on November 4 against a background of background of a great deal of criticism because it was the first visit by a Western leader after the really quite dramatic scenes at the 20th Party Congress of the Chinese Communist Party where Xi Jinping had made it visibly clear, if any such clarity was needed, just how hardline and authoritarian the leader he intended to be in this next round of his tenure.

And it was also criticized that Scholz went on his own rather than taking President Macron of France or Ursula von der Leyen, the president of the European Commission, with him, and that he took as much industry-- as many industry leaders as he did, including the CEOs of companies like BASF who have been very determined and very, very vocal pro-China lobbyists in Germany and in Europe. That said, Scholz said a lot more critical things in public of China than I would have expected, which was a relief.

And the most significant success that he extracted out of Xi was that Xi said, in public, that the Chinese disapproved of escalation in the Ukrainian conflict, disapproved of threats with nuclear weapons by the Russians, and even more if the Russians were to use them. Obviously, the burden of proof that anything comes of that is still to be fulfilled, and it is on us whether we believe in that or not.

I think it's been made clear by most Western leaders, and especially the Americans whose word would have the greatest weight here, that things would be very, very bad for Putin if he used substrategic nuclear weapons in the battlefield in Ukraine, or even worse, on civilian infrastructure. But that said, I'm not a Russianist. But I do wonder how much Putin is willing to listen to any of this. We will see. I hope we won't, frankly.

The question of Chinese support, which was asked in the chat, I think, is-- frankly, it was speculative on my side. I think the Chinese cannot be happy with a partnership with Russia in which Russia is increasingly laying open the weaknesses of its military and of its political elites, in which popular discontent in Russia is becoming clearer all the time, and in which such Russian elites are moving away from Russia, out of Russia in such large numbers.

But on the other hand, I think it would be foolish of Western policymakers to therefore assume that China does not have an interest in Russia maintaining momentum or even ultimately winning this war against Ukraine and basically obliterating Ukraine as a viable sovereign state. I think that we need to continue all efforts that we can make to make it clear to the Chinese that that would not be in their interests, and the so-called swing states or hedging states in the world have a great deal to do with that.

Carol, you were asking about that. The Germans, in particular, have embarked on a sustained campaign of talking to the major non-Western swing states like India and others and wooing them with trade agreements, with economic support on terms that are less coercive than the Chinese Belt and Road Initiative.

I think the jury is still out on how successful that's going to be. It certainly gives these swing states a degree of power and ability to set rules in an increasingly chaotic international order that they have not had in a very long time. And frankly, one can't help but sympathize with their willingness to exploit that power. I think we're in for a very, very bumpy ride for the next few years.

**MARGARITA
BALMACEDA:**

To this really excellent answer concerning China by Constanze, I would simply like to add that in the same way that China cannot be happy about being enmeshed in an escalating Russian military engagement, Russia cannot be happy about the idea of becoming more and more economic dependent on China, and that is exactly what is happening.

And I think if you look at history, look at the very complex history of Russian-Chinese relations through centuries, if you look at the whole set of issues concerning the population in Siberia and what this means in terms of dynamics on the border, I think that that is a call for caution. So I think we also need to keep this in mind. I would briefly like to go back to the second question that had been raised by Elizabeth concerning whether there were any effects on the Russian energy sector itself, and yes. Yes, there are.

And I would just like to flag two things. The first thing is that even if Russian income from the export of fossil fuels has not really gone down because of a variety of holes in the sanctions, Russia has been very, very much affected by another aspect of the sanctions, which is the ban on certain types of exports to Russia.

Russia's ability to continue to produce natural gas and oil, especially in more difficult fields, legacy fields which are harder to scrape for whatever's left, in Arctic fields. Russia's ability to do that depends enormously on Western technology, and the ability to buy that technology is gone. Russia's imports of those goods have basically gone down to zero, so that is a very important element.

The second element I want to flag here is that, as you probably know, as you all know, Russia's war against Ukraine also has an ethnic element concerning Russia itself. Vladimir Putin's desire not to bring this war to the life of people in Moscow and St. Petersburg, to the middle classes there, was an additional element prompting him to really go the extra mile in enlisting or pushing people from the peripheries, and in particular from very poor, non-Russian, non-majority Russian areas into this world. Buryatia, Tuva, Ingushetia, and so on.

And it's really important to keep this in mind for two reasons. First, when we're talking about the possible destruction of demand for some Russian fossil fuels, some of those losses are going to be in terms of lost workplaces, lost jobs. And quite a few of these traditional natural gas, and especially oil producing areas, are majority non-Russian ethnic areas. Not only the legacy areas in the North Caucasus including Chechnya, but especially areas such as Tatarstan and Bashkortostan.

And as the pie continues to get smaller in Russia, the dynamics around the weigh income from oil and oil exports, work involving those areas are going to become tighter. One of the topics I discuss in *Russian Energy Chains*, for example, has to do about the way different grades of oil were manipulated or not, brands of oil, so that Bashkortostan and Tatarstan could still get a good share. It's a complicated issue that you can read about in the book.

And the ability to do that as a way to appease politicians and common people in those republics is not going to be there. This within the background of new information we have about the Russian budget facing real challenges, up to 20% decline, and knowing that some of the republics or areas most affected are some of the areas that are sending lots of people per capita to this war, including Ingushetia and other areas in the North Caucasus. So yes, there is a domestic Russian component as well, and a very, very interesting one.

**ELIZABETH
WOOD:**

Thank you for getting back to that question. We also have a question that actually I was just going to ask about Europe and Ukraine, but I think it's true for Russia as well. [INAUDIBLE], I'm interested in the recognition that this is a carbon war, a climate war, and the explicit use of energy efficiency, energy conservation as a weapon against the Russian energy tactics. Could you address this?

And I think the other issue that goes with this I just want to add to the question is also to what extent this diversification can happen in Ukraine itself once-- if their very old, very Soviet energy stations are being destroyed massively, is it possible that, with European and American help, the Ukrainians could rebuild in a less fossil fuel dependent way?

And concerns of what are we seeing in Europe. To what extent are Europeans-- I know there's a lot of talk about getting less fossil fuel dependency, and you raised the very important issue of coal and nuclear, so thank you for that. What about other forms of energy, and how is that all being addressed? So perhaps Constanze and then Margarita. What are the climate effects and what are the-- I don't see [INAUDIBLE] know anything about the climate effects of all the armaments. I think that's going to be really interesting, but that might--

CONSTANZE OK. Well, I mean, I have to say here that I'm just not a climate policy or energy policy expert. My field is **STELZENMULLER:** geopolitics and geostrategy, but I mean, I see two ways that this can go in Europe. One is we get mired, because of the war, into our dependency on fossil fuels and just miss our climate goals, which are very ambitious.

The German government wants to be on 80%-- I'm sorry. How do I want to say this in English? The German government has decided that by 2030 it wants 80% of its energy consumption to come from renewables. There you go. And by 2045 to be at net zero for carbon emissions. I think we have to assume that this war is not going to be over any time soon.

And my footnote to that would be that by our prudence, to put it carefully, with regards to supporting Ukraine and our fear of escalation, we are contributing to that drawn out conflict which I'm not sure is an outcome that is really in our interest. I think that we risk falling further and further behind in our climate goals, and with the attendant risk of further alienation of the younger parts of the voting population that we're already seeing express itself in extremist climate protests.

I think that that is a patent challenge, as the strategists say, but one where I think Western governments ought to consider far more seriously whether it is really in the best interests for climate policy and energy policy outcomes to string out this military conflict in the way that we're doing right now. And I think I'll leave it at that.

MARGARITA Those are really interesting comments by Constanze because on the one hand, there is the-- she has made a very good case for real Western support for Ukraine perhaps having the ability to shorten this war. On the other hand, there is the argument that by supporting Ukraine more clearly this could somehow give Russia an excuse for engaging militarily directly with European states. So that is a very fine balancing point here.

Now concerning Ukraine's ability to move away from this fossil fuel dependency, which really, fossil fuels were not only the glue that kept the Soviet system together, but it was the bread and butter of life in Ukraine as well. This is not going to be easy. This requires a lot of investments. Let me remind all of you-- and this seems to be something from the far past.

Let me remind all of you that in July of last year, a kind of consolation prize for the US agreeing to say yes to give the OK to the building up of Nord Stream 2-- because yes, the US gave that OK in July of last year. As a consolation prize for that, the US and Germany agreed on a green plan for Ukraine in which each of these two states would-- each of these two states pledged about \$175 million for a total of about \$350 million for helping Ukraine move to a more renewable and resilient energy system.

Well, at that time when that was discussed many people said, this is great, but with \$350 million you cannot do very much. People at that time calculated that about \$16 billion would be needed to really move Ukraine away from coal. And now that we have these daily attacks on Ukrainian energy infrastructure, obviously the cost will be much higher. However, there is a little bit of light at the end of the tunnel. And that little bit of light has to do with two things.

First, yes, when your infrastructure is so massively destroyed there is the opportunity for leapfrogging into new technologies. Some of you know that I was supposed to be in Ukraine right now doing another book on Ukrainian steel oligarchs, and one of my research questions was going to be, how come Ukraine is the only country in the world that still uses the most outdated steel making technology which is only museums everywhere else in the world?

Well, with Azovstal destroyed, that technology is not going to come back. So you can leapfrog into new technologies, but that's the first reason we can be optimistic. The second reason is that fantastically and very happily, we have a new model that is out there. That is the model of the so-called Just Transition Partnership.

This is an agreement model that has emerged recently in an agreement between the G7 and South Africa specifically intended to finance and support transition away from coal, but not with token amounts of \$350 million but with nearly \$20 billion. And a similar agreement is being just signed with Indonesia. So in the future, this kind of agreement for Ukraine would mean a reorientation of the Ukrainian economy to renewable energies away from coal, and I think that can be and would be very important.

Having said all this, let us remember that Ukraine will need to do much more than just reorient its energy to renewables. It will need to rebuild all kinds of infrastructure and it will need to rethink its role in the global economy. Ukraine was a top five net steel exporter, but that was based on certain supply chains, based on coal, and if you're going to move out of coal, that's not going to be possible anymore. There are some reasons to be optimistic, but also some other new challenges and new things to think about.

CAROL SAIVETZ: So we're nearing the end--

CONSTANZE May I?

STELZENMULLER:

CAROL SAIVETZ: Please.

CONSTANZE May I say something?

STELZENMULLER:

CAROL SAIVETZ: Absolutely.

CONSTANZE If I may.

STELZENMULLER:

CAROL SAIVETZ: Of course.

CONSTANZE I mean, I'm learning a great deal from Margarita. I mean, as far as I'm concerned she could have done this

STELZENMULLER: entire event on her own, which is really helpful for me. But I do want to add the following two scenarios.

Imagine if Ukraine fails. If Russia succeeds and if Putin succeeds in his endeavors to turn Ukraine into a massive failed state.

That's not going to lead to a Russian Renaissance. That is not going to make Russia a more powerful actor on the world stage because the signs of internal decay and dysfunctionality that we have seen in Russia and saw before February 24 are indicators of a profound rottenness at the heart of Russia. We will see a European security order that, for the foreseeable future, is constructed against Russia unless Russia, A, abandons its imperial ambitions, and B, governs itself differently internally.

Those two conditions will be necessary and essential for Europe to decide otherwise. First thing. But with a-- it seems to me that we would be looking at a slowly failing and fragmenting Russian state on our doorsteps together with a Ukrainian failed state. That is not just in Europe's interests, but I would argue it's also not in America's interest because the impact on Europe's security would be absolutely massive.

Whereas this crisis is-- one of the things that this crisis has shown, that European economic and political resources, power resources, the single market and its regulatory power, have been essential to a defense effort against Russia that has been waged with sanctions and other economic means such as export controls. That's the negative scenario, and it is bad for all of us.

The positive scenario, pending changes in Russia, of a Ukraine that recovers full territorial sovereignty and that is enabled to reconstruct itself with the help of the massive resources that it has-- steel, neon, grain-- and then could become, as Margarita was saying, a state that innervates, that leapfrogs, that moves away from its old climate damaging technologies, and that becomes a very well defended, very modern, transforming democracy on Europe's Eastern border.

That would be a huge gain to European security, also to European prosperity. The expectation would be, and is, from what I can see in Berlin and other European capitals, that Europeans would invest massively in Ukraine's reconstruction. That would be a game changer for European security.

And finally, it would also-- if all that became possible, and it seems to me that the Ukrainians have proven to us what they are capable of, how determined, innovative, pragmatic, and yes, European they are, that would prove to Russians that it is possible to be a Slavic Orthodox culture and to become a democracy, a functioning democracy and a prosperous country along Western models. And I think we all have an interest in enabling Ukraine to do that. Thank you.

CAROL SAIVETZ: That was quite an answer. Thank you. I was actually going to try to push us towards a conclusion by asking a speculative question which you chided me about before, but I think you've begun the conversation in that direction. So we're almost at the year marker now of the war, unfortunately for everybody. So the question, it seems to me, is, what does each of you expect in the near term and then in the middle term?

I think what Constanze was just outlining was sort of a very rosy scenario in which Ukraine can complete the transition to democracy with European help and with the United States help, rebuild, and kind of reconfigure the whole sort of European expanse. But short of that, what are the various scenarios that you each see?

And then we also had a couple of questions in the chat about the impact of the \$60 per barrel oil cap, the insurance issues and things like that on Russia's ability to continue to subsidize its war effort, and then of course, the sustained bombing and everything on Ukraine's ability even to exist. I hate to put it this way. Medium term, long term, what's going to be left at the other end? So Margarita, why don't you start with that one? It's a big question, I know.

**MARGARITA
BALMACEDA:**

Let me start with the one about the \$60 price cap on Russia's ability to finance the war. Well, so far this price cap has not done so much except to create a huge glob of oil in the coast near Turkey. The price of that cap is very high. Many people have argued that it is too high to make any real dent on Russia's income. We are to see.

A really important thing is going to happen on February 5, and that is when the European Union's embargo on Russian oil imports by ship. Because of course, Russian oil is still flowing by pipeline because thanks to Hungary and Slovakia. That's going to be very important because a lot of Russian fossil fuel income comes not only from crude oil exports but from the export of other goods, such as refined products.

Some of them are very familiar to us-- diesel, heating oil, other things that are the result of the refining process. Others are less known to us but also very important, such as, for example, fertilizers that are made actually from natural gas. So this is another side of the equation that is important, and concerning diesel, concerning gasoline, we still have a bit to see about what's going to happen once the ban comes in on February 5.

Concerning the short and medium term, I believe that if Ukraine receives significant support this war can end sooner rather than later because I think there will also be opposition to Putin's destructive stance from people in the Russian military. But this will only happen if there is significant real support for Ukraine, such as Constanze has talked about. So I think that's a very important element of the equation.

The sad thing is-- and here I'm coming back to the two scenarios Constanze was mentioning a moment ago-- is that it would seem that regardless of whether Russia "wins" this conflict or loses, the rottenness within Russia is deep enough to be bad news to all of us for a long time.

Yes, perhaps a blossoming Ukraine could be a model for Russia, and many argue that this is exactly the reason Putin wanted to destroy Ukraine as a state because it had shown an example through the Maidan. But for this to happen, it would require a very long time and a very strong cultural shift in Russia itself. So I'm not so optimistic about Russia itself. I'm actually more optimistic about Ukraine.

**CONSTANZE
STELZENMULLER:**

Yeah. I'm happy to come in on the back of that. That really tees things up very nicely. Look, the two scenarios I outlined, the negative scenario is unfortunately very realistic. And I think the positive scenario is not as unrealistic, Carol, as you suggest. Anybody who was in Kyiv and other Ukrainian cities before the war could see that.

And because of the issue of corruption in Ukraine that is addressed in the chat it seems to me that this war, horrific as it is for Ukraine's civil society-- and let me also just say again against some of the comments in the chat, the war crimes being committed here by Russia against Ukraine beginning with a crime of aggression and continuing with daily war crimes and crimes against humanity-- and I speak as an international lawyer who has covered war crimes tribunals and the creation of the ICC as a journalist before-- are extremely unlikely to be outweighed by any crimes that Ukrainian units might have committed in the course of this conflict.

Usually both sides commit some crimes. But what Russia has done here is so heinous as to go into the annals of history, and it shows no signs of stopping. That is also something that currently precludes any kind of negotiations. There is no basis for negotiations with a leader and a country that is committing daily war crimes on this basis. I think we have to be very clear on that, and I know that Western governments are.

There is no room for this right now unless Russia stops and recognizes these crimes and is made to pay for them. And unless leading figures actually are punished in one way or another. But I think Ukrainians have showed us of what they're capable of, and I think we should help them do that. So I think we should, frankly, have the courage of our own convictions. I think we should be a lot less worried about escalation because, to be honest, we already have a war with a global impact.

And instead we should show that we are willing and able to defend not just a country that has been attacked by a great power, but also willing to defend ourselves. Because imagine if we didn't do that, we would have set, for all the world to see, a precedent of giving in to blackmail, including nuclear blackmail, and allowing this to happen without us being willing to see the defense of Ukraine through to the end. I'm sorry. I think that any other choice but supporting Ukraine to the end for us would be, in fact, catastrophic.

CAROL SAIVETZ: Well, I wanted to thank both of you. First of all, this was a fantastic conversation. I think we probably could go for another hour or so with the up and back. Thank you for your insight and for all the information you provided to our audience. I also wanted to announce that we're in the stages of planning our next focus on Russia Starr Forum for February 27 at 2:00 PM, where we're going to focus on the impact on the home front in both countries, in both Russia and Ukraine.

And our speakers will be Yevgenia Albatts and Olga [INAUDIBLE] I can't pronounce her last name. Anyhow. So we're hoping to change the focus a little bit, and once we have all the details nailed down we will do that. So again, let me thank our speakers and let me thank CIS, [INAUDIBLE] Michelle and Sabine for helping us run this forum, and I wish you all a happy holiday season.

CONSTANZE Thank you for including me. I thought this was really terrific and I learned a great deal from Margarita,
STELZENMULLER: especially. Thank you.

CAROL SAIVETZ: Thank you for joining us, both of you.

MARGARITA Thank you for inviting us.
BALMACEDA:

CONSTANZE Happy holidays.
STELZENMULLER:

ELIZABETH Yeah, and thank you both for such a great dialogue. I think that was really exemplary of the way to do a panel.
WOOD:

CAROL SAIVETZ: Right.

ELIZABETH And thank you to our questioners, to our audience.
WOOD:

CONSTANZE Absolutely. Yeah. Pleasure.
STELZENMULLER:

CAROL SAIVETZ: Perfect.

CONSTANZE All right. Happy holidays, everyone.

STELZENMULLER:

CAROL SAIVETZ: Thank you.