

October 2022

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# Update: *Ukraine and Russia*

## *Revisiting our five theses for the future*

*In our September update, we put forward five theses on the further implications of the war for global geopolitics. Now, a month later, there is still no end in sight to the conflict, despite Ukraine's recent successes on the battlefield. Russia has doubled down with a mobilization and the announced annexation of four territories in Ukraine that it doesn't even entirely control, while a (presumably) state actor has sabotaged the Nord Stream pipelines. In response, EU member states are adopting a new sanctions package. In a manner unthinkable even just a few years ago, EU governments are intervening in energy markets to secure supplies for the coming winter and dampen the effect of skyrocketing prices on industry and households. Within the EU, Italy's newly elected right-wing populist coalition, despite the pro-Ukrainian stance of the presumptive new prime minister, poses new challenges to achieving European unity. More than enough developments to put our five theses to the test.*



## *Update: How the war in Ukraine continues to shape the global (business) environment*

### *Military situation*

***Thesis #1: The war of attrition between Russia and Ukraine, and by extension the West's proxy war with Russia, will likely continue deep into 2023, at least.***

- This prediction still stands. Ukraine's recent capture of thousands of square kilometers of Russian-occupied territory further highlighted the competence of the country's armed services, the deficiencies of Russia's far larger military, and the importance of Western military support for Ukraine.
- Yet despite these dynamics on the battlefield, neither Ukraine nor Russia is prepared to make the concessions necessary for successful ceasefire or peace negotiations.
- President Putin's decision to mobilize at least part of the country's male population brought the war home to Russian society. The domestic situation in Russia is now becoming an increasingly important variable influencing the trajectory of the conflict, even if it appears that support for Putin is still stable for the time being. It remains to be seen how the steadily growing impact of western sanctions and the human cost of the war will influence domestic sentiment in Russia, especially if Putin is unable to deliver victories on the battlefield.

### *Reshuffling of interstate relations*

***Thesis #2: The war will accelerate competition and distrust between the West and China, which other non-Western states will attempt to use to their advantage in different policy fields, without choosing sides.***

- This prediction still stands as well. China and India are feeling the economic fallout of the war and appear increasingly concerned about Putin's handling of the conflict. Yet neither side can be expected to disengage from Russia or change its stance because of western pressure.

*“It [Russia] may hope Europe might pressure Ukraine to recognise territory annexation, in return for Russia restoring pipeline flows”*

David Fyfe, Chief Economist  
Argus Media



- Other states are now using the new negotiation power they have gained to increase their influence. Saudi Arabia, for example, joined Russia and other major oil exporting countries this week to announce a major production cut aimed at raising prices, resisting U.S. calls, and personal intervention by President Biden, to increase output. With the EU anxious not to jeopardize a gas agreement it signed with Azerbaijan in July, Baku is using its new found leverage to revive a longstanding territorial dispute with neighboring Armenia.
- Other gas-rich countries, like the UAE and Qatar, seek to exploit the surge in gas demand by concluding lucrative deals, and they do not hesitate to play off potential buyers against each other. During his recent visit to Abu Dhabi, for example, German Chancellor Scholz could secure only one shipload of LNG for this year and several more in 2023. LNG-exporting countries insist on long-term contracts, which Germany is reluctant to enter. On the day Chancellor Scholz visited the Gulf countries, Qatar picked TotalEnergies of France as an international partner to increase LNG production.

### *Global energy markets*

***Theses #3: Recent events continue to underscore that this war will go down in history as marking a geopolitical turning point in global energy markets, rewriting past certainties around supply and demand.***

- The attacks on the Nord Stream gas pipelines destroyed whatever minimal hope still existed in Europe for a return to the pre-war energy status quo. It may never be conclusively determined who was responsible for the attacks, yet continued operation of the pipelines appears impossible from both a technical and political point of view.
- These developments have further increased pressure on European governments to diversify sources of fossil fuels in the short term, and to accelerate the energy transformation. More attention is being directed towards the security of Europe's energy infrastructure. Norway has now become Germany's top supplier of natural gas, prompting discussions about the vulnerability of the gas pipeline between the two countries to attacks like those that affected the Nord Stream pipelines.
- Governments will continue to intervene heavily in energy markets in a manner that would have been unthinkable just a few years ago. From October onwards, energy companies in

*“We believe that all countries deserve respect for their sovereignty and territorial integrity, that the purposes and principles of the UN Charter should be observed, that the legitimate security concerns of any country should be taken seriously, and that support should be given to all efforts that are conducive to peacefully resolving the crisis”*

Wenbin Wang, Chinese Foreign Ministry spokesman



Europe will surrender part of the so-called excess profits they earn due to skyrocketing energy prices, and revenues from electricity generation are to be capped.

### *Western consensus on Ukraine*

#### ***Theses #4: A winter of political discontent is looming in Europe, lowering the appetite for new sanctions, whereas a tough stance on Russia may play well domestically in the U.S.***

- European cohesion is holding up better than we predicted. The EU announced its eighth sanctions package in response to Russia's declared annexation of Ukrainian territory. The new sanctions would ban EU-based companies from shipping Russian oil priced above a cap set by the G7. The sanctions package had to take account of reservations expressed by Greece, Cyprus, and Malta, but EU member states managed to strike a compromise that also includes new export restrictions of certain electronic components found in Russian weapons, certain chemicals, and technical items used in the aviation sector, as well as additional import restrictions for certain Russian steel products.
- The winter of political discontent already begun in early autumn in Italy, the EU's third largest economy, where Giorgia Meloni is poised to become the new Prime Minister, spearheading a center-right coalition supported by Silvio Berlusconi's Forza Italia and Matteo Salvini's Lega.
- Meloni's government will take a less balanced approach towards Brussels and EU partners than that of her predecessor, Mario Draghi. Under the expected coalition government, Italy will act as a brake, rather than a promoter, of deeper European integration.
- On Ukraine, however, continuity in Italy's policy appears to be the most likely scenario in the short- and medium-term. Italy has successfully diversified its energy supplies away from Russia, and Meloni is a staunch supporter of the transatlantic alliance.
- While in opposition, Meloni has been the most supportive voice of Ukraine in her right-wing alliance, especially compared to the more ambiguous statements Berlusconi and Salvini made on Russia. Given the relatively solid majority of Meloni's in the coalition, neither of her two partners will be able to shape Italy's foreign policy significantly.

*“I put my hand today on fire that she is not going to bend. (...) She [Meloni] is very gung-ho about Russia.”*

*Nathalie Tocci, Director of the Institute for International Affairs Rome*



- Still, Italy’s foreign policy will be less value-based and more opportunistic. Italy will seek new alliances within the EU, especially with other right-wing governments, and promote identity politics. The cohesion of the coalition, and hence Meloni’s ability to conduct a foreign policy aligned with NATO and key partners in Europe, will be tested this winter against the background of an economic recession, sustained inflation, and potential energy rationing.

### *Global food crisis*

***Thesis #5: Global food security will continue to be a key challenge for policymakers – businesses that can increase their output while also promoting sustainability are best placed to succeed in this environment.***

- The World Food Programme and the Food and Agriculture Organisation have once again sounded alarm bells over global food security, warning that a record number of people are “either already starving or on the brink of disaster”.
- The deal struck between Ukraine and Russia to permit grain shipments by sea has already led to exports of 4.9 Mio tons of grain via the Black Sea. Yet the agreement remains fragile and its effects insufficient to significantly ease pressure on global food systems. The “solidarity lanes” promoted by the EU – new road export lanes from Ukraine to Europe’s ports – have not succeeded in making up for the war’s disastrous effect on food availability and inflation.
- At the global level, policymakers struggle to find joint responses or even agree on a standard narrative for what’s causing the crisis. The September meeting of G20 Agriculture Ministers, of which Russia is a member, notably did not include a joint statement on the global hunger crisis.



## *Have more questions?*

The team is happy to further elaborate on our assessment and assist clients in navigating the crisis as the situation develops.

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