European Parliament, Committee on Foreign Relations

Public Hearing "The State of EU-Russia Relations"

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Thank you, Mr. Chairman, thank you to the Foreign Affairs Committee for this hearing and for inviting me to share my perspective.

Had we had this discussion a year ago, there would likely have been agreement that not all in the relationship between the EU and Russia was ideal but that some form of partnership existed, and that the Ukraine crisis might be a bump but not a breakpoint.

Merely a year later, there is a growing understanding across capitals in the EU and the West that what we have witnessed in Ukraine to date is part of a broader confrontation between Russia and the West. Instead of a partner, Russia is increasingly seen as a challenge, a problem, a threat.

As this understanding emerged, many have asked for the root causes of this new confrontation. For some, Putin's personality and irrationality became the key subject of speculation. For others, external developments were to be blamed, including EU and NATO insensitivities for Russian interests, or Ukrainian politics.

In my view, the key to understanding the formidable Russia problem we all face is to be sought elsewhere. My main point is that a shift has taken place in the mechanics of Russian power, quite some years prior to the Ukraine crisis. As a result of that shift, foreign policy is driven almost exclusively by domestic power preservation, it projects a strength on the outside that compensates for weakness on the inside.

Let me detail this and discuss a few consequences this has for the war we see in Ukraine, for the likely evolution of this crisis, for the inner workings of Russia, and for European and broadly Western policy.

A shift in Russian politics, or what Vladimir Putin's power rests on

When he came to power first, Putin's primary task was to re-establish stability from inside, after a decade of political, economic and social turmoil. He did so with a strong hand, autocratically rather than democratically, but he ultimately succeeded. Many in Russia applauded him for this.

In returning stability to Russia, Putin benefited from a sharp rise in world oil prices, from about $30/barrel when he came to power in 2000 to over $130 in 2008. These unprecedented revenues allowed Putin to compensate both elites and the population at large for political acquiescence to his style of government.

The deal was simple: political autocracy in exchange for material prosperity.

By 2012, when Putin returned to the presidency, it became clear that this deal was not sufficient any more. First, Putin returned to power with a damaged legitimacy – the Bolotnaya protests were a wake-up call that quite some Russians wanted change in their country's archaic ways of government.

Second, it was foreseeable that revenues were not going to be as plentiful as they had been before. Russia's own economic growth started to slow down, and world resource prices pointed downward in the long run.

A new deal was necessary, and Putin shifted from the material to the immaterial, or ideological. He invoked Russia's greatness, the unjust way in which history had treated Russia. He started to stress its superiority over a decadent and decaying Europe, and its unique role to stand up to the United States. He even portrayed Russia as a distinct civilization, with an almost messianic mission to the world.

The new deal is basically: Russia has a historical mission to fulfill. It requires sacrifice from all, and those who are unwilling to partake are considered traitors.

This fundamental shift has a number of consequences.

Consequence 1 – Putin can only rule in a permanent state of external conflict

The nationalist frenzy that Putin invoked needs to be fed permanently and successfully. Crimea worked out beautifully in this respect, and it boosted Putin's ratings among Russians at large. It allowed Putin to close the ranks at home, not least among many who may have had doubts in his return to the presidency.

The problem is that this effect wears off. Eventually, Russian elites and citizens start to feel the social and otherwise costs, whether it is the maintenance costs of new territories like Crimea or the effect of Western sanctions. Before any doubts set in, a new conflict is needed, ideally one that replicates the smooth success of Crimea.

Effectively, this means that there cannot be a settlement of the war that Russia has waged in Eastern Ukraine. More logically, this dynamic requires further advances - against Ukraine, likely against Moldova and Georgia, possibly in Belarus and Kazakhstan, eventually even in the Baltic states.

Consequence 2: Russia increasingly resembles a war-time society

Conflict abroad will serve to reshape all aspects of Russian politics, economy and society at home.

What is already visible is that authoritarian control will increase even further and put pressure on any dissidence, typically branded a fifth column. Examples abound, from additional legislation and administrative pressure against civil society to the tightening of state control over the media. Instead, shrill state propaganda dominates all societal discourse.

In the economy, state control increases sharply. As sanctions have cut off Russian business from global financial markets, the Russian state is the only remaining lender. Its bail-outs will serve to expand the influence of those closest to Vladimir Putin, and to bring in line those that may have been more independent-minded.

Most importantly, the military and security sector will become central to state spending and attention. Cuts will occur everywhere, from social spending to public investments, but the security sector will be spared. It is telling that according to the Russian finance minister, the reworked 2015 budget will see a 10 percent cut across all items, except for defense.

In short, Russia is internally being remodeled to permanent conflict externally. This annuls many of the positive developments of the last two decades, and throws Russia back for decades.

Given this transformation of Russia, Europe's response must be for the long-term – in two broad ways: it must maximize its defenses on the one hand, and minimize its vulnerabilities to Russian meddling on the other.

Consequence 3: Maximising Europe's defenses (and not just in military terms)

First and foremost, we have to understand that Ukraine today is the first frontline in a struggle for Europe. If Ukraine is allowed to falter under Russia's aggression, other countries of the Eastern neighbourhood and eventually the EU's Eastern-most members will be next.

In the case of Ukraine, Europe obviously needs to think of its support on a completely different scale than it has so far – financially, it offers too little; politically, it stops short of an EU membership perspective; militarily, it rejects defensive support out right. Support along all these lines needs to be stepped up. Much the same applies to Moldova and Georgia where renewed Russian pressures are only a matter of time.

There are, of course, further successive lines of defense that require strengthening, albeit in different ways. First and foremost, there are the Baltic states where Russia acts with direct military threats and interference through Russian-speaking minorities. Then there is Central Europe and the Balkans, which are very vulnerable to Russian influence both politically and economically, as Putin's visit to Budapest this week demonstrated again. Across the Eastern-most part of the EU, re-assurance, consolidation and investment are urgently needed.

The key defense, however, is unity amongst Europeans and with the United States and other countries of the West. That unity has proven remarkably resilient over the last year, which is encouraging, but it does remain fickle.

Consequence 4: Minimizing Russian leeway for meddling with its neighbors and Europe

Over the last year, the premier response to Russia's actions in Ukraine have been sanctions. Especially economic sanctions, introduced after long hesitation, have certainly had their effect, although their effect was amplified by a dramatic fall in oil prices.

That said, sanctions have not fundamentally altered Russian policy, nor could they have in the logic that I outlined. This does not mean that they should be lifted or reduced though. What is needed, however, is a different rationale for sanctions.

First and foremost, they should serve to dry up the revenue stream that funds Russian aggression. The primary source of income of the Russian state is revenues from oil exports, at some 40 percent. Especially at a time of falling oil prices, it should be possible to replace this commodity. Much the same applies to, so far, largely unhindered and unmonitored financial transactions in and out of Russia, including through the SWIFT systems. Both measures, limits on oil exports and on financial transactions, would inflict serious financial constraints to Russian adventurism.

In addition, we have learned a lot over the last year about the various forms of Russian influence across European countries, whether in politics, business or the media. Yet our existing institutions, from the intelligence community to business regulators to media supervision, have done little to scrutinize and sanction such interference. It is high time for our existing resources, rules and regulations to be applied to all those entities inside our countries that clearly pursue a Russian political agenda from inside of the EU.

Other protective measures could be added, including the ongoing diversification away from Russian natural gas, or efforts at better integration of the large Russian-speaking communities across many EU countries.

Conclusion

I understand that much of what I said will sound dramatic to some, alarmist to others, and even hawkish to yet others. I certainly hope that things will turn out only half as bad as it seems from my angle. That said, the last year has given me little confidence that worse is not to come, as we all have been negatively surprised by Russia time and again. If anything, I think we had better prepared for worse, and be relieved if things turn out better.

Thank you!