

Peterson Institute for International Economics

Are the sanctions on Russia finally working?

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[00:00:16.21] - Cecilia Malmström

Good morning, good afternoon, good evening. Welcome to this episode of Trade Winds. We are going to talk about the economy of Russia, about the impact of the sanctions, the economy of Ukraine, and the future. But of course, we will start by discussing the outcome of the recent meetings in Anchorage, Alaska, and in Washington. And unless you live in a cave, you have not missed that there's been a lot of high-level meetings involving President Trump, President Putin, President Zelensky, and a lot of European leaders. My name is Cecilia Malmström, and I am a nonresident senior fellow at the Peterson Institute for International Economics in Washington. The Minister of Economy of Russia, admitted publicly at the St. Petersburg Economic Forum last spring, last May, that his country is likely heading into a recession. This is quite remarkable statement in a country that is not known to publicly admit any weaknesses at all. When Russia illegally invaded Ukraine in February '22, the West, the EU, the US, and other allies were very quick to impose sanctions on Russia, hoping that they would erode the economy and harm the ability of Russia to continue the war. But the Russian economy proved to be remarkably resilient and quickly turned into a war economy.

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But now we do see clear signs of economic problems. How serious are they? And what would they mean for the war? What is the way forward after these meetings and the attempt to create peace? And what can we in the West, in the Allies, do to continue to support Ukraine during the war, but also in the reconstruction? These are some of the important questions we will discuss today, and I have an excellent panel starting with Dr. Torbjörn Becker, who is Director at the Stockholm Institute of Transition Economics at the Stockholm School of Economics in Sweden. And you're also at the board of the Kyiv School of Economics in Ukraine, and you have a long background working several years for IMF and other institutions. We also have Dr. Jacob Funk Kirkegaard, who is a non-resident fellow at Bruegel— no, a non-resident senior fellow at Peterson Institute and a fellow at Bruegel. And you also are a graduate from the Danish Special

School of Intelligence and Linguistics. I guess that makes you a spy, um, more or less. Anyway, it's great to have you both here. A warm welcome. And we of course need to start with the meeting in Alaska the last week and the follow-up meetings in Washington last Monday evening.

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So what's your take on this? Are we really any closer to peace? Who wants to start? Torbjörn?

[00:03:07.02] - Torbjörn Becker

Yeah, maybe. I don't know for sure, of course, because all of these meetings seem to be a little bit of a show-off between Trump and Putin about who is the bigger leader and who decides the outcomes of any negotiations, basically. But of course, I mean, if we now will have a meeting between Putin and Zelensky finally. I think this is a step in that direction. The problem, though, is that we're not sure what kind of promises Trump made in the meeting to Putin or what he was actually telling behind closed doors to Zelensky and the European leaders. So my worry is that we or the West or Trump actually in person is giving up a lot of things to Russia as a result of its aggression against Ukraine instead of putting a lot of pressure on Russia to get out of Ukraine completely. So, you know, yeah, I hope we're getting a step closer to peace, but I think it's a long way before we understand what that peace agreement will look like, basically.

[00:04:16.27] - Cecilia Malmström

What's your take, Jacob? Do you really think there will be a bilateral meeting between President Putin and President Zelensky?

[00:04:23.07] - Jacob Funk Kirkegaard

I would certainly agree very much with Torbjörn that if it were to happen, that would be, if you like, tangible progress coming out of, I guess, both meetings, partly because it would invalidate what I would consider the, at least domestic Russian propaganda, the way Putin always talks about Zelensky in Russian as an illegitimate leader, an upstart, and someone who's not on par with the great Russian czar. If if you can use that expression. He's going to have to revise that media or that narrative quite a bit if he actually meets with him in an international summit setting, whether or not Putin— sorry, Trump is there with him or not. And that again, he's going to have to, I think, recalibrate the justifications that he has evoked to launch this war, namely that fundamentally Ukraine is an artificial state, it's not legitimate, et cetera. So I think almost irrespective of what were to come out of such a summit, because I would absolutely agree with

Torbjörn, I think it's highly unlikely that you're going to have a summit in the near term and that then out of this summit would come something that looks like a tangible peace agreement.

[00:05:47.14]

We are much, much further away from that. And I would also agree with what Torbjörn said, that we don't know what Trump promised. In Alaska. But we do know one thing, and that's a bad thing. We do know that he seems to have put off the threat of further economic sanctions on Russia for the time being, perhaps for a very long time. And that means that even if the— yesterday or the summit in Washington went well for the Europeans. I think coming, you know, all of Team Europe, 7 leaders plus Zelensky, obviously prevented, it kept Trump on his best form as a host. I think he could not ignore that, if you like, show of force. And I think we did get back to discussing security guarantees and this possible bilateral or trilateral summit. But doesn't change the fact that concretely nothing in Washington, there was no discussion of how to actually increase pressure on Russia. And Trump in Alaska lifted some of that pressure. So my concern there really is that as we move forward without additional economic or for that matter military pressure on Russia, what incentive does Putin have to suddenly agree to something that he has obviously been resisting in the last 3.5 years.

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He seems to continue to pursue his very maximalist war aims from February 2022. And that could take quite a while before he reverses course.

[00:07:38.22] - Cecilia Malmström

Yes, because at the same time, both as they were speaking in Alaska and during the weekend and also during the other meeting, the bombs kept on falling in Kyiv. In other places in Ukraine, and the killing continued. And it's quite, if you study the art of diplomacy and peacemaking, it's a quite unusual way to go directly into peace without starting with some sort of truce and creating a process. How likely is this to work? You spend a lot of time in Kyiv, Trubin. What's the Ukrainian reaction to this?

[00:08:16.17] - Torbjörn Becker

Well, I think they are all still also, like Jakub was talking about, disappointed by the fact that we don't see actual things happening. We hear a lot of good words and we hear, you know, things about meetings. But why did not Trump put in place these additional sanctions to put pressure on Putin, for example, in these circumstances? So every time he says something that could be actually working against Russia, We're supporting Ukraine. It only takes 5 minutes and then

these things are gone. So I think, you know, there's a reason for people to be a bit disappointed. At the same time, of course, I think people in Ukraine and in Kyiv, they certainly want to have a peace agreement. So, you know, hope is the last thing that abandons people, I guess. But, you know, I think they have been promised so many things along the way and not seen them actually being delivered. And this so far is another example of this, unless, you know, there were things said behind closed doors that we're not aware of. So that's, again, we don't know why Putin in this special moment actually agreed to have this meeting, uh, if it now happens.

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Maybe it was something that was said that we're not aware of, uh, and, and of course we cannot exclude that. But, but again, it's, it's obvious that What was said before was not actually implemented by Trump or the US administration. The other thing is, of course, that the European leaders, they have had plenty of opportunities to come together and show much more support for Ukraine financially, not least backing up Zelensky's plan of, of, you know, buying US weapons funded by Europe. So I think European leaders could also have put together a package of money to support that idea, not least by using actually the frozen Russian assets. But maybe that's something we will talk about a bit more later.

[00:10:29.23] - Cecilia Malmström

Yeah, we'll come back to the assets. But it seems like now they are all hurrying and there's been a very intense level of meetings, both bilateral meetings and Zoom meetings and contacts to show that Europe is setting up a sort of plan, both by now agreeing at least to buy some weapons, but also to see how security guarantees could be elaborated, which is a very important issue to discuss, obviously, even if we are not at a peace situation right now. But there's been a lot of meetings there. I think in all our countries it's being discussed, what would that mean? Will we send our boys to Ukraine? Will we have some sort of NATO plus or NATO minus? This is still not clear, of course. What— how do you see this, Jacob?

[00:11:19.29] - Jacob Funk Kirkegaard

No, I mean, I think to some extent the fact that we are now back and I think I want to reemphasize we're back to discussing security guarantees. This was an issue that was very much atop of the agenda back in 2022, 2023. It was a core component of the initial Istanbul negotiating process. And it all comes back to the same thing as you just laid out. The frontline in Ukraine is somewhere between 1,000 to 1,300 kilometers long. That is a very long frontline. And if you need to put in a credible "peacekeeping force" to monitor that, you need a lot of troops. And it's also worth remembering that as soon as you say, well, we need, I don't know, 20,000

troops or whatever the number is, you need to multiply that by 3 to allow for rotation of troops there. So you are all of a sudden talking about very large numbers deployed potentially for a very long time, and they need to be combat ready. Does Europe actually have the capacity to do that even with US air support or whatever you want to say? I am personally quite skeptical in the near term because, you know, rearmament focus in Northern Europe has only just begun.

[00:13:00.26]

The only country that probably could deliver a sizable number of troops, and that by that I mean in the tens of thousands, in NATO is Turkey. Turkey is obviously therefore a core part of this, is part of the coalition of the willing. But from the EU point of view, what might Erdoğan want in return for such a troop commitment? So I think it's therefore very premature for Europe to put together credible security guarantees with or without frankly US participation, since I don't consider it plausible that US troops would be on the ground in Ukraine. And I think therefore the speed, why it is that Europeans are so keen on coming up with a plan, without being too cynical, I think it's not because they are expecting that plan to ever be implemented in the next weeks or months. It is because they want to put the ball firmly back in Vladimir Putin's court and basically force him to reject this and thereby hoping again that, well, maybe then Trump will do what he hasn't done so far, as Torbjörn said, namely to impose more economic sanctions on the United States. So it's really about this sort of hot potato handling.

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How do we get Trump to side with us against the other? But I think at the same time, as also the Commission President von der Leyen talks about, I think fundamentally the only long-term credible security guarantee that Ukraine will have enabled by Northeast Europe is the porcupine strategy, which is basically the strategy that it is a Ukraine that is sufficiently armed and obviously with a sufficiently strong domestic economy to sustain such a strong standing army that will deter Russia. That, of course, however, is at best a medium-term perspective, and it will almost certainly require accelerated Ukrainian accession to the EU and a whole bunch of other things. So again, my view is that the security guarantee discussion is probably going to end like it did in 2022, 2023, with a lot of Russian conditions and ultimately European inability to implement.

[00:15:37.19] - Cecilia Malmström

Yes. And from Moscow, there were yesterday already signals saying that, well, we need to see what this is about. We need to make sure that the Russian minority and the Russian-speaking Ukrainians are protected and so on. And of course, you mentioned Turkey, very important

partner or potential partner. And there has also been talks about other countries who are in the group of allies. You have Australia, New Zealand, South Korea, and a few others. Do you know, Tuviaan, if there is— how is the discussion in Kyiv on this? If they could sort of make a wish, how would this be constructed? Because there's everything between a little, some sort of smaller troop that would be early warning until the very boots on the ground last scenario. And obviously, it's too early to say, and it's not, as Jacob said, immediately around the corner, but at least the discussions right now are very, very intense.

[00:16:37.00] - Torbjörn Becker

Yeah, I'm not really a military expert, so in terms of those details, I think Jacob would know more about that. But I think it's quite obvious that if you want to, for example, create porcupine Ukraine, that's going to also require a lot of money. And then the discussion is who's going to be paying for that? And again, I think at this juncture with the US having Trump in the White House, it's going to be Europe. So I think, you know, in Ukraine, they have understood that they really have to make sure that they have Europe on their side. And with Europe, I say sort of the bigger coalition of the willing, maybe also with Canada and other countries. But, you know, it's really about now turning money into weapons and self-defense. I think that seems to be the more realistic strategy. But of course, You know, wars are about the relative power between two fighting parties. So diminishing the Russian ability to wage the war with harsher sanctions is certainly part of the same package. So strengthening Ukraine is important, but at the same time weakening Russia by not allowing its incomes from oil and gas and making financial transactions— sorry, These are all part of the same calculus of shifting the balance of power between Ukraine and Russia.

[00:18:08.23]

So I think from the things that I've been involved in, that's really what we should be focusing on. And again, I agree with Jakub, building up armies and so on in Europe is going to take probably too long for Ukraine. So I think the US needs to be involved to deliver security guarantees now, regardless of what has been said so far. But that's an economist's guess of the military side, basically.

[00:18:41.06] - Cecilia Malmström

But talking about the economy, could we have a window of opportunity here as this sort of, at least something is happening, there is a process ongoing, we don't know really where it will start, but there are also increasing clear signs that the Russian economy is deteriorating and that it has problems. Is this a situation that the West can push even further? How bad is the

Russian economy? Of course, figures and statistics are maybe not fully reliable, but we do know quite a lot.

[00:19:10.26] - Torbjörn Becker

Yeah, no, I mean—

[00:19:12.09] - Cecilia Malmström

Reports on unemployment and, you know, increased inflation, lower growth, etc. How bad is it?

[00:19:19.26] - Torbjörn Becker

Yeah, I mean, it is not going in the right direction from Putin's perspective. That's clear. And we have to remember that Russia has always relied on selling oil and gas on the international market to finance the whole economy and not least the government's budget. So if we can limit the money coming in that way, that's absolutely crucial. The other thing is, of course, it has been using its welfare fund as a backup for the missing gas revenues, Europe not buying all the same amount of gas from Russia anymore. So, you know, that money is also running out. It will not last for maybe more than this year, which means that, you know, in an autocratic state, they also have a budget constraint. So even if Putin can relocate some of the funding from schools and hospitals or pensions towards the military, it's going to be increasingly painful to, to keep financing this war because he will have to make harder and harder decisions on other types of spending. Given that the revenues are going down. But, you know, we can, as you said, accelerate that process by making it even more expensive to wage the war, both by limiting oil and gas income, but also have more serious talks about what kind of stuff Russia is buying from China and India and other countries.

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So, you know, it's both on the cost side and on the income side, and we should make sure that the budget constraint that Russia is facing is as tight as possible, because that will mean that, you know, instead of producing 100 rockets, maybe you can produce 70 rockets. So it's not a zero-one thing, but it's really about just making sure the production capacity of Russia is as small as possible. And, you know, Ukraine is going to be happy that if we take away 30% of Russia's production— that's a step in the right direction. But, you know, we cannot get caught in the discussion that we have sometimes that sanctions don't work because the war doesn't stop immediately, because it does matter if they can produce 100 or 70 or 50 or something else. So, you know, we should keep up that pressure, basically.

[00:21:44.01] - Cecilia Malmström

So does this mean that the sanctions are finally starting to work? Because we do see those clear signs and the declaration by the Minister of Economy who said that we are probably going into a recession. How do you see this, Jacob?

[00:22:04.29] - Jacob Funk Kirkegaard

No, I think—

[00:22:06.03] - Cecilia Malmström

I think that are quite interesting figures, right?

[00:22:10.00] - Jacob Funk Kirkegaard

Yes, I think so. And I think that directionally the sanctions are working, not as fast as we would. But as the work of our colleagues, Gary Hofbeyer and Jeff Schott shows, that it's very, very difficult through economic sanctions to coerce a major power into political U-turns, especially when those sanctions aren't imposed by the UN Security Council. I mean, this is not 1990 with a UN embargo against Saddam Hussein in Iraq, which by the way, didn't coerce him to leave Kuwait. So the fact that it has taken this long to have a serious macroeconomic effect, I think realistically was what we could expect. Also recalling that ahead of the war, not only was Russia, if you like, the darling of the IMF in terms of macroeconomic management, they had saved a lot of money up. We can obviously debate whether or not they did that in anticipation of launching this war, but they did have a lot. Of savings. Tuur Björn mentioned the National Wealth Fund and others. And then, of course, they were able to weaponize the increase in sales of fossil fuels immediately after the war. And so where we are now, I think actually we might be forgetting an important sanctions package, if you like, which is the damage that Ukraine appears increasingly to be doing on Russia's energy infrastructure.

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And that is a capability that I think is likely to increase going forward because Ukraine's long-range strike capability, whether it's by drones or perhaps even soon by ballistic missiles, will increase. And Russia is a very large country. They are incapable of seriously or adequately protecting its key energy infrastructure. Against those types of air attacks. We have seen it in recent weeks again against oil refineries. But I think you could imagine scenarios where longer-range Ukrainian weapons would also be launched against, for instance, the crude export terminals in Novorossiysk or by the Baltic Sea, maybe even some of the LNG terminals in the

Russian Arctic. And those are obviously potentially very damaging to Russia's near-term prospects for exporting oil. We saw it also last week with the strike against the Druzhba oil pipeline. And certainly the Hungarian and Slovakian government that continues to benefit from the purchase of these— this oil under— even under EU sanctions, they were very upset about that. Clearly, I think together with the military capacity of Ukraine have the capacity, and it's an open question, for instance, for Donald Trump. Similarly to the previous Biden administration, Trump seems to not be willing to allow the global oil price to go down.

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He's clearly interested in having a counter to any inflationary impact of tariffs in the US. So he might be hesitant to, if you like, allow Ukraine to strike Russia's crude oil export terminals in the same way that clearly the Biden administration was. So to what extent are we also impinging on Ukraine's ability to do as much damage to the Russian energy infrastructure as possible? Well, I think that's one of those things that are not entirely public. But again, I think it is encouraging that the strikes against Russian domestic oil refineries are now picking up again. And if you certainly believe some of the video footage on my personal social media, there are fuel queues building up in Russia. So there seems to be an effect and we can only want more of that, in my opinion.

[00:26:47.14] - Cecilia Malmström

That's interesting. But also President Trump 10 days ago, put pressure on India to not buy oil and gas from Russia and threatened with sanctions. And it has— the administration has imposed a lot of sanctions on India to do this.

[00:27:06.07] - Jacob Funk Kirkegaard

Yeah, I mean, on that, although it seems to me that that is more related to pressuring Modi into striking an unbalanced, broader trade deal with the US. Aka opening up its agricultural sector, than really punishing Russia. Because from what you hear from the oil market is that, well, some of that crude that was going to India is now going to China, and the Chinese have asked for a bigger discount. So why is he doing that? As I said, I think it has more to do with India than Russia, unfortunately.

[00:27:48.08] - Cecilia Malmström

Probably, but the effect of the 40% tariffs has not really facilitated the negotiating will from New Delhi. But of course, this would have an impact. I mean, we have been talking about EU

sanctions and other ally sanctions, but also secondary sanctions on China and India when it comes to buying the Russian oil and gas. Is there anything more we can do there, Torbjörn?

[00:28:15.22] - Torbjörn Becker

Well, I think we have to remember why we had the price cap rather than an embargo on Russian oil export, which was exactly because we didn't want to have a spike in oil prices. We wanted to keep the Russian oil in the international market, but make sure that Russia gets paid less for what it sells on that market. So I think, you know, also now, Now, if we actually take off a lot of the Russian oil from the market, I think we have to actually consider what happens to international oil prices. And I would be still in favor of keeping better enforcement on the shadow fleet, making sure that we lower the oil price cap from 60 to 40, something like that, and just making sure Russia gets paid less for the oil it exports. So I think that discussion we can still have, and we can involve, I think, instead India and China on our side in making sure that we enforce these price caps. And to some extent, it's obviously in the interest of India and China not paying too much for the Russian oil. So, you know, if, if we play this right, we can actually make them part of our coalition because They would benefit from paying \$40 rather than \$60 for the Russian barrel of oil.

[00:29:37.02]

But somehow we have not been able to really make them our partners in this discussion, which is a bit disappointing. And I think the bigger prize— of course, India is important, but the even bigger prize is China. And to me, it seems It seems like the US and also Europe is still being way too careful with China. It feels like we're handing them all of the bargaining power in all of these discussions. Why is not Trump telling China, or why is not the EU telling China, look, if you're going to trade all of these things, not only buying the oil at a too high price, but also selling a lot of components that go into the Russian war industry, we will put tariffs on you. I know that we are afraid of what's the impact on our economies, but we have to remember that the alternative to this is not that it doesn't cost us anything. It will cost us a lot of money if we don't make sure that this war ends in a in a favorable way to Ukraine and not in a favorable way to Russia. So, you know, I just think that we need to understand what really are the alternatives to not doing the right thing.

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And I think that discussion has to be a little bit more clear in Europe.

[00:31:08.21] - Cecilia Malmström

That's interesting. There was an EU-China summit end of July this year, which didn't really end in anything. I don't know if this was discussed, maybe it was, but nothing came out of it anyway. But the EU launched a new set of a new sanction package earlier this summer, the sanction package number 18, where there was discussions on targeting the shadow vessels, the banking sectors, and also tougher measures against European countries who were still buying oil and gas and trying to find alternatives and ending deadlines and so on. And Ursula von der Leyen said when she came back from Washington, one of the first things she said, that the Commission is preparing for 19th package that will be presented to the member states just as the autumn resumes its work. Do you know anything what would be in that, Jacob?

[00:32:03.28] - Jacob Funk Kirkegaard

Or what would you like to be in that package? No, I mean, on the 19th package content-wise, I don't know. But again, I think it's important to signal, not least also to the Trump administration, that we're not actually talking about lifting any sanctions on Russia. We're talking about imposing more on them because there's been a lot of speculation that actually maybe Trump is looking to lift some of the sanctions on Russia. And I— but I also want to pick up on what Torbjörn said, that we could do a lot more on actually enforcing our technology sanctions increasingly on especially Chinese companies. And in the 18th package, there was for the first time, to my knowledge at least, EU secondary sanctions on Chinese companies for work with the Russian military-industrial complex. But when you see Russia's ability to clearly scale up the production of drones, missiles, etc., they're able to do that almost exclusively through the purchase of Chinese components. So I think I very much agree with Torbjörn there. We need to be much tougher on individual Chinese firms that do that, whose components are found in these drones and missiles as they hit places in Ukraine.

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There needs to be, in my opinion, a near automaticity in EU sanctions on companies whose products are found repeatedly, maybe twice or three times in such drones. They need to be hit by EU sanctions. And then we will have to address that potential Chinese retaliation, which I agree will come. But as Torbjörn says, what is the real counterfactual here? The real counterfactual here is that Russia has a better position on the battlefield, which is much more expensive for Europe in the long run. So absolutely much tighter, much tougher secondary sanctions, which traditionally is an area that the EU has not been so, so willing to engage in, uh, uh, and I would certainly say focused, uh, on Chinese, uh, firms because we have— I believe, yes, uh, the Chinese obviously sort of established escalation dominance or whatever we call it against Trump when they threaten to cut off critical minerals, uh, uh, and the like. But because of the still very high U.S. tariffs on China, the EU market is the only remaining high-margin large

large advanced economy market for China. That gives us some negotiating power, basically telling Xi Jinping, look, if you want still relatively unfettered access to the EU market, you've got to rein in those companies that are actively helping the Russian war effort.

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I think that would be a most welcome feature. And then of course, we could also accelerate our complete phase-out of Russian fossil fuel. Now it's 2027. Well, maybe it's July 2026 or maybe even the end of this year. It's all a matter of finding alternative sources and to some extent buying off the Hungaries and the Slovakias of the world. But if the Dujba oil pipeline, for instance, is already being taken out of operation, well, maybe that problem, quote unquote, has hold itself because of Russian— sorry, Ukrainian military action. But those would certainly be some of the areas where I think we could and should take action in the very near term.

[00:36:04.03] - Cecilia Malmström

Problem is, of course, as you alluded to, that the sanctions have to be taken by unanimity and secondary sanctions. I can already see a few member states who would raise objections on that, but it's a very important point. And that would certainly have an effect. Torbjörn, what do you think about the next sanction package? Do you agree with Jacob or anything else you think should be in it?

[00:36:27.27] - Torbjörn Becker

Yeah, I mean, it is about oil and gas, but it's also about the financial sector. I mean, we can see how the stress in the financial sector has been building up in Russia. They have been— the banking system has been lending out a lot of money to the military-industrial complex to finance their investments and production. They also made subsidized loans to households that they had to stop with because the government couldn't afford to keep that going. So I think we can put more pressure on the financial system. And we know that if we think about creating economic problems, if you get a financial system problem, banking crisis, etc., this is something that's not so easy to deal with on your own, especially if you don't have a lot of government reserves left to bail out the banking system, especially if you cannot go to the IMF or international lenders to finance such a bailout. So I think, you know, putting more pressure on the financial system in Russia today would certainly make a lot of sense. And we have heard a lot of people also now talking about how the banking system is more vulnerable, how the incomes in the banking system is going down, how will they deal with the interest rate structures, how will they handle inflation, etc., etc.

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So I mean, that would certainly be a priority sector also to consider. How can we make their life a little bit more complicated, basically?

[00:38:08.17] - Cecilia Malmström

Then of course, we have the frozen assets, which has been a feuilleton for quite a long time. But a lot of money that could and should be used. There has been a lot of going back and forth and it has been frozen and then you have used the interest rates and then something is blocked as a loan to Ukraine. But the main majority part of the frozen assets are still at Euroclear in Brussels. Where is, what is the situation right now on this? It is really going back and forth for 3 years now or more.

[00:38:46.02] - Torbjörn Becker

Yeah, I think— maybe Jakub wants to get a different story, but I think it's really our golden opportunity in Europe to finance Ukraine at the level that's both significant enough in terms of numbers and provide sustainable funding that will make it clear to Russia that it cannot outlast Ukraine from an economic point of view. I mean, if we take all of it, \$300 billion, and maybe we take off the \$50 billion that has been put in the fund based on the interest rates, you know, \$250 billion, that could be 2 or 3 years' worth of military production that will be at the level that Ukraine is at least at par with Russia in that perspective. So that to me, if you want to really create Porcupine Ukraine, this is the primary source of funding for that kind of vision. The problem, of course, is that a lot of the countries in Europe have banking and financial systems that have as a business model, unfortunately, to take care of money from all sorts of countries, individuals, and companies. Companies to sort of keep them safe from, you know, unfortunately, what would be proper legal procedures. And a lot of this money should not be kept in our financial systems.

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But, you know, given that they are there, people worry about what signals would it send if we actually confiscate the Russian money and send it to Ukraine. Maybe other states with not so clean records will get scared and pull out their money. To me, that would be a benefit as a European taxpayer, not having our financial system laundering dirty money. But of course, if you're the finance minister or the financial regulator in some of these countries—

[00:40:52.19] - Jacob Funk Kirkegaard

Or the ECB.

[00:40:53.03] - Torbjörn Becker

Curvy.

[00:40:53.26] - Jacob Funk Kirkegaard

Yeah, exactly.

[00:40:55.02] - Torbjörn Becker

And we have, I mean, just a small note, the country in Europe that was holding most Russian deposits before Crimea was actually the French banking system. Lagarde was the finance minister of France back in the days. I'm sorry, we just have to understand that this is not in the interest of the general public in Europe. Europe. It may be in the interest of certain groups of, you know, individuals and companies, but it's not in our common interest as European citizens to keep this safe haven for dirty money in Europe. And this is one of the big roadblocks when it comes to actually confiscating the Russian funds. So I think we have to just speak very clearly about this and say that this is a perfect opportunity for us to both fund Ukraine and get rid of our banking system laundering dirty money from these kind of regimes. So that would be my take on that.

[00:42:02.22] - Jacob Funk Kirkegaard

Well, but— no, but Torbjörn, what about the international role of the euro? Don't you worry about that? Uh, no, I mean, I largely agree with view that, you know, this is a golden opportunity, and it is largely because of vested interests, whether it's Euroclear specifically that wants to protect its custodian franchise, which of course could be in principle located anywhere in the world, or as you say, concerns about other, you know, gray area money being withdrawn from the European Union or certainly from the euro area banking system. Yeah, I think that's concern. I will, however, though, say that I think it's clear that these assets will never go back to Russia. That's the first part. And the first step, of course, was taken by the securitization of part of those assets for the G7 loan this year. Now, the question I think is what degree of, if you like, ownership ship, can we take over these assets without it being legally described as confiscation? Because there is a long debate about how should we invest all these assets and what could be the expected return, and because it's obviously those returns that are now being made available to Ukraine.

[00:43:36.03]

So if you assumed rather than very low rates of return, sort of a cash return, you basically invested in a more diversified portfolio, maybe French 10-year bonds, they've been yielding ever higher yields, there'd be more money left over for Ukraine. But it would require that we exert, if you like, more de facto ownership rights, which there is clearly continued political reluctance to do. I think there's also an argument that will be made by some, at least against confiscation today, which is that it would be better for— or the EU should be indifferent from the timing because the money will go to Ukraine as part of a final peace agreement that Russia would then voluntarily release it for reconstruction of Ukraine and that at that point in time would save the EU that amount of money. I suppose I have some sympathy for that argument, but that doesn't change the fact, as you said, Torbjörn, that it would be a very powerful signal if we today confiscated the money and gave it to Ukraine because it would provide them with several years of financial means. But there I would say that we, the EU, have the capacity to do that actually without confiscating it.

[00:45:11.12]

We could make a— and fund through common debt issuance or other means an adequately sized fund for that purpose. I think the earmarked €100 billion envelope in the next MFF NFF was clearly the Commission's, you know, move in that direction. This is the next long-term EU budget for those who are not experts in EU acronyms. Yeah, basically to show that the Commission is intending to make Ukraine's EU accession fully funded, if you can put it that way. But the member states could and absolutely should take such an initiative to put together an earmarked fund for Ukraine today. Of a 3-digit number in billions for military and other support if they do not want to actually proceed with confiscation in the very near term.

[00:46:12.29] - Cecilia Malmström

Well, the discussion on this is going to continue. It's very hard to find agreement. Unfortunately, it's been discussed for a long time. We do need that. I mean, the money is certainly needed now on a short-term basis for military investment, weapons and to help Ukraine arm itself. But it also has to be seen on a long-term basis. I mean, Ukraine's economy, obviously, with the war, it shrank very dramatically the first year. Now it has recovered a little bit, but it is still— and the Commission and the Allies are supporting also the more long-term. I mean, short-term reconstruction, when the bombing of the hospitals, they try to rebuild them, but also, you know, paying salaries to public forces to teachers, nurses, etc., and investing in the long-term economy. I think you, Jacob, you testified in front of the European Parliament on this and you called for a Marshall Plan for a long-term investment. Do you see this as something separate

from whatever happened to the frozen assets, or is this part of EU long-term loans that should be invested for the reconstruction if we think post-war?

[00:47:26.13] - Jacob Funk Kirkegaard

Yeah, I mean, I guess my view there is that we could certainly spend the frozen assets towards that purpose starting tomorrow if we wanted to. But if we don't want to do that, then we have to find another way today to provide the adequate amount of funding, first and foremost, of course, for military production, but as you said, also for ongoing budget. And I think quite frankly, for better or for worse, that's probably going to be the principal role for the EU, namely to provide money. I think if you're looking at the more on the military side, the military support, there continues to be a significant likely role for the United States, but also these coalition of the willing among a subset of EU countries that this will be done on a bilateral basis. I don't see much space for a big pan-European EU-level initiative here. Rather, that will be for financing ongoing of Ukraine. But at the same time, I think, yes, we need a Marshall Plan of investment in Ukraine. But I think, and this was some of the things that I told the European Parliament some months ago, that actually I think it's important not to be too bearish as well.

[00:48:55.29]

If your assumption is that Ukraine comes out of this war with a passable peace agreement, that means that it has complete freedom, obviously, to rearm, complete freedom to join the EU. And then we can— it's probably not so important to discuss specific territorial demarcations, but nonetheless, Ukraine, I think, will be an economy that has very strong growth prospects. If, for instance, it could look realistically forward to an EU accession, accelerated EU accession as advocated by some, for instance, by 2030. It is a large country. It is a country with very significant cost advantages for production of many industrial items simply because of low wages. That's obviously also why the Danish model tries to have military equipment produced in Ukraine. So I think Ukraine will actually, with the right investment incentive put in place already today, have very good opportunities to develop in the direction of Poland post its accession to the EU, which of course is one of the largest economic success stories in the EU in the last several decades. But again, it requires that the rest of the EU, in addition to obviously overcoming Hungarian opposition to progress on the accession, also makes the adequate financing available today as well as in the long run.

[00:50:35.23] - Cecilia Malmström

Torbjörn, I know you have written extensively about this as well, about the reconstruction, about what is needed and so on. What do you see if we look at a little bit longer long-term than the immediate.

[00:50:46.15] - Torbjörn Becker

I also think it's crucially important that we have security guarantees and sustainable peace as the baseline. That's when you get the significant amount of private investment. You will have some already today, of course, not least into the military-industrial complex in Ukraine. But, you know, to get the big money in there, you need to have this sense of stability and peace. I just want to add, though, it's one component that we also have to consider as an old IMF person. I guess I've been thinking about this is macroeconomic stability. So, you know, the European Union and of course the IMF, as always, are giving Ukraine loans. We really have to think about how sustainable it is to give them more loans going forward. Forward rather than grants, investments, and money that they don't have to pay back. Of course, there are generous terms now on the loans. There are long payment periods, etc. But at some stage, we have to take seriously debt sustainability and macroeconomic stability as part of creating the basis for also private investments into Ukraine. And I really hope that we think seriously in Europe about how can we make sure that the debt burden that Ukraine is going to enter into after this war, we don't take rushed decisions in terms of what, what should be the payment plans and, and how do we finance some of the reconstruction efforts.

[00:52:30.01]

Because again, we cannot ask Ukraine to take loans to rebuild hospitals and housing and roads and energy infrastructure. We have to make sure that we finance this in a way that's sustainable for the longer run. And I think this will also be important then as a foundation to get private investments that Ukraine needs in this because, you know, it's going to affect inflation, stability of the currency, all of these important things, basically.

[00:53:04.13] - Jacob Funk Kirkegaard

I guess on that, I completely agree with that. But I guess two things there. One, the \$100 billion likely earmarked in the upcoming budget is grants, right? It's actually part of the budget. It's not a loan. That's certainly a step in very much in the direction that you call for. Torbjörn. And I guess I would also say that the Greek crisis, I mean, I remember a lot of the same discussion between, if you like, the European Commission and the EU leaders and IMF types back in 2010, 2012 on the Greek program, where the IMF insisted on much longer, much bigger write-downs, et cetera, et cetera. And the Europeans said, no, no, no, no, no, we're going to lend to Greece

forever. At highly concessional rates. And I think if you look at Greece today, it's arguably one of the success stories, not without its problems, but because it turns out that very long-term, highly concessional loans are no barrier, at least as far as I can see, to private investments coming into Greece. And therefore, were the European Union, and I would certainly be very certain that it would, be willing to lend to Ukraine for 50 years or whatever the time horizon is, 40 or 30 years at very concessional rates, because it is easier politically for member states to do that rather than doing it as grants because of the fiscal implications on national budgets, national balance sheets, I would be very much in favor of that approach because I think Greece, and for that matter, the other euro area recipient of bailouts shows that this model focusing on the financing cost of the debt rather than the debt-to-GDP ratio actually works quite well.

[00:55:15.04] - Torbjörn Becker

I just want to say, of course, it's much better to get them loans than no money at all. We just have to be aware of the fact that we cannot make them have regular loans and pay regular interest rates at regular— No.

[00:55:32.14] - Jacob Funk Kirkegaard

That's 100% agreed.

[00:55:37.03] - Cecilia Malmström

But this is also something, of course, that will come up in parallel with the accession negotiations that are ongoing. I mean, despite running back and forth to the protection rooms and escaping the bombings, there is a whole— the Hundreds and hundreds of people are working 24/7 on aligning the Ukrainian laws with the EU acquis in order to try to facilitate the accession. And the Ukrainian economy, of course, now it's at war, but it has powerful assets when it comes to trade in agriculture. It has a very innovative economy, has a lot of startups that can be turned into more civilian function right now. A lot of potential in this. The EU just renewed, it has a free trade agreement with the EU. It was just renewed and expanded. But of course, politics came in, so it had to be made some exceptions for some agricultural politics because there were complaints in the bordering regions, notably in Poland. But still, this has allowed Ukraine to align very much with the, already with the current laws of the European Union, which will facilitate also integration on the internal market, which in itself will, as we saw in Poland is the best example, as you mentioned, Jacob, will boost the Ukrainian economy at that.

[00:56:56.08]

But that is of course not for tomorrow, but at least it is happening in parallel. So all this is definitely linked. It's very much on the agenda. I read a headline from one important newspaper, it just came in, that the European leaders are pretending to believe that President Trump is working towards peace, so they are accelerating most likely, even if of course everybody wants peace. It's a long way still to go. We don't know if there will be a tri-party meeting at the highest level in the near future, but at least it is a process and that in itself is positive. If you were chief negotiators for this, what would be the one single advice you would give to them? Or if you— what would be the first, the next action you would do to facilitate this process?

[00:57:55.07] - Jacob Funk Kirkegaard

Don't trust Putin. That's the main thing. I mean, you can't enter into an agreement with this man. The only thing he understands is force, taking us back to rearmament of Ukraine, security guarantees, guarantees, this has to come first. Because as Torbjörn said, without credible such guarantees, you're not going to have the full economic revival of the Ukrainian economy. So that has to be the starting point. You are dealing with a fundamentally untrustworthy aggressor.

[00:58:28.08] - Torbjörn Becker

And I would add, just, you know, if Trump made some serious steps towards actually implementing the type of sanctions he had been that would change the negotiating table from the outset. You know, if you keep threatening and never implement what you're saying that you're going to do, to me, that's giving away your negotiating power. And it seems like we have to get out of this position of what can we give to Russia rather than saying how can we put pressure on Russia to get out of Ukraine without getting something. I don't like the fact that we constantly portray ourselves and Ukraine as weak and Russia as strong. That's not the way to enter a negotiation.

[00:59:23.23] - Cecilia Malmström

But the sanctions and the pressure on Russia would have to be much more than a 50% tariff because there's very little actual trade between the US and Russia right now. So it will have to be more credible threat of the sanctions, right?

[00:59:38.10] - Torbjörn Becker

Yeah, it must be the discussion with China and India that we alluded to before.

[00:59:46.03] - Jacob Funk Kirkegaard

Okay.

[00:59:46.15] - Cecilia Malmström

Torbjörn Becke, Jacob Kirkegaard, it's been a very interesting discussion. I think we could go on for a very long time to explore different scenarios and what could and what should and what should not happen. But you've been very generous with your time and knowledge. So thank you so much. Thank you all for listening in. Next time we will broadcast directly from the Public Forum WTO in Geneva. Geneva. So tune in, and thank you very much for, for listening today.