



TEPSA

Trans European Policy Studies Association

# EUROPEAN COUNCIL EXPERTS' DEBRIEF

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# FOREWORD



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TEPSA Secretary General

As has now become traditional, TEPSA provides an Experts' Debrief after each session of the European Council. The debriefs are done in the shape of a short introduction by the SG of TEPSA, contributions by TEPSA experts from our network as well as sometimes by outside experts (they all offer their insights under their own responsibility) and concluding remarks by Professor Wessels. The comments made by the experts directly refer to the conclusions of the European Council and questions they raise or comments they invite.

The October EUCO meeting was both important and complicated. Important because it had to tackle fundamental issues, complicated because in the run up, including at the informal EUCO in Prague, there had been serious divergences of views notably on the gas price issue. According to most observers, both the meeting itself and the outcome went better than expected and showed the continued political will to stick together.

On Ukraine and Russia, the message was rock solid: the EU remains extremely firm towards an aggressive Russia, does not show any signs of being intimidated, and fully stands behind Ukraine. The questions we submitted to our experts touched on further sanctions and the effect of sanctions on Russia, on the new CSDP missions in support of Ukraine, on how to provide structural assistance to Ukraine, and on the so-called Solidarity lanes. There was also a question on critical infrastructures.

Concerning energy and the economy, the EUCO had a difficult discussion. As is often the case, this translated into sometimes rather convoluted language, like the one on the voluntary joint purchasing of gas and other technical issues. One more reason to ask our experts whether they can shed some more light on these issues. We also wanted to hear about how a structural reform of the electricity market could look like. It is clear from the conclusions, that on this issue (including the capping of gas prices) the leaders moved towards each other and showed their will to overcome differences, but that we are not there yet. The EUCO commissioned more work by Commission and Council and may well come to the issues itself. But the positive tonality of the post EUCO press conferences augurs well for the future. We also added here a question on the behaviour of Iran.

Finally, the leaders had a debate about relations with China. This is a key issue for the future. They did not of course produce a written text, and the discussions were well protected as they should be, but we know what the big questions are and therefore invited our experts to share any thoughts they may have on the issue, including on the visit to Beijing of Chancellor Scholz.

All the opinions expressed in this publication are the sole view of the authors, and do not represent the position of their Institutes nor of the Trans European Policy Studies Association (TEPSA).

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# UKRAINE - RUSSIA

Concerning sanctions, what further room is there for extending them? Thoughts on the effect of sanctions on Russia?

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The emphasis in the conclusions is now on limiting ‘regime leakage’, meaning a circumvention of the Western sanctions that are already in place, sometimes to the benefit of those states outside the EU – like Turkey – who choose to stay out of the regime. The idea is of course that the sanctions also hurt the states that impose them while any leakage constrains the gravity of their effect on the target – Russia. There is less clarity about what further sanctions would entail. It seems that Belarus’ and Russia’s activities in and through Belarus could be in the crosshairs.

Generally, considering the effect of the sanctions on Russia, it is clear that they have not yet compelled the Kremlin to ending its reckless war of aggression. We don’t know, on the other hand, how the world would look like without the sanctions – would the Kremlin have behaved differently in the past few months? I’m not sure, but the possibility cannot be discounted. . In any case, it seems unlikely that the use of sanctions was meant to stop the Russian invasion. The aim was instead rather to impose severe costs on Russia for this war of aggression, limiting its capacity to engage in militarised imperialism in the long term – and also, importantly, influencing Moscow’s calculus once diplomatic negotiations take place. This is the moment when the EU (and others who take part in the sanctions) can facilitate and reinforce a peace deal by conditionally suspending some of the sanctions. Hence, one can expect this is one clear way in which the sanctions will prove to be ‘effective’, hopefully sooner rather than later.



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The EU has exhibited an unprecedented level of resoluteness and ingenuity in its use of economic policy tools to curb the Kremlin's ability to finance the war in Ukraine. The Russian government responded to the several EU sanctions packages by supporting import and export substitution from/to China and non-EU countries, and finding domestic alternatives to achieve technological sovereignty, coercing its trading partners to accept the ruble as the currency for transactions, diverting or repurposing inputs from civilian production for the military uses, and increasing the state ownership in the economy by taking over enterprises in critical industries that used to be owned by foreign firms. At the same time, the Kremlin tightened control over civil society and citizens, and launched extensive propaganda efforts that shifted the blame for current economic costs to the West. The economic effects of the sanctions on the economy are hard to estimate accurately due to deliberate attempts by the Kremlin to restrict access to macro-economic indicators (e.g. trade and finance flows, aggregate and sectoral output, hard currency reserves) that are used as measures for the health of an economy. As such, Western analysts' assessments of the sanctions' effect vary depending on the underlying assumptions used to forecast current economic conditions based on the 2021 data. There seems to be a consensus that the Russian economy will be less resilient and dynamic in the medium- and long-term, even though the measures implemented by the Russian Central Bank, coupled with an unprecedented increase in global energy prices, enabled the Kremlin to partially stabilize the economy in the short-term..

This suggests that the EU strategy in the future could prioritize the following areas: 1) improving the enforcement of the current sanctions, particularly by addressing loopholes and the circumvention of rules by business, especially those located in the countries belonging to the Eurasia Economic Union, who enjoy privileged accesses to the Russian markets;

2) working together with EU Member States to address the particular concerns of specific industries at the EU-wide level, as a replacement for the use of ad hoc exemptions granted at the Member States level;

3) countering the Kremlin narrative. As concerning the latter is, so far, the EU's efforts to counter Russia's disinformation have been inward looking, i.e. they prioritized the protection of the information space in the EU, while leaving largely unchallenged the Russian narrative, not only in Russia itself, but in the countries that are member of the Community of Independent States (CIS), many of which are experiencing the negative economic and social costs of the war in Ukraine.

Consequentlym the EU should be countering much more proactively the Kremlin's official narrative in the CIS countries and, to the extent possible, in Russia as well. Greater transparency about macro-economic indicators, the human costs of war, and the war crimes that the Russian troops are committing in Ukraine is a precondition for holding the Russian regime accountable to its citizens and triggering the political mechanisms of the sanctions. These same recommendations are to a large extent also applicable to countries in the wider developing world.

What is the importance of the EU Military Assistance Mission in support of Ukraine? How will it be organised? Is there a need for protective measures against Russian actions targeting the mission? Thoughts on the Civilian Advisory mission?

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The mission should take place over the next two years in EU member states. The direct effect on the conflict will be limited. However, the mission is still significant in the sense that it enrolls CSDP more substantially in the overall effort to assist Ukraine. More importantly, whenever there will be a peace deal in place, and whatever form it might take, Ukraine will need a dissuasive defensive capability for peace to last.

While Ukraine's military has improved much over the past few years, and the war made it even more experienced, this can be a real contribution the EU can make as a whole in further deterring Kremlin's imperialism by denial.

# ENERGY

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Since Russia's invasion of Ukraine on 24 February 2022, the geopolitical and economic importance of energy has been plain to see. According to the European Central Bank, around 80% of the energy consumed in the euro area corresponds to gas and oil. The EU imports 90% of its gas consumption, with Russia, its largest gas supplier, providing around 45% of those imports in 2021.

Countries in the EU have different degrees of reliance on Russia for their natural gas supply. Austria and Poland imported more than 80% of gas from Russia in 2021, Germany more than 50%, while for France, Spain and Portugal the share was less than 8%.

Following the Russian invasion of Ukraine, the EU has committed to phasing out its dependency on Russian fossil fuels. Additional investments of €210 billion are needed between now and 2027 to phase out Russian fossil fuel imports, which are currently costing European taxpayers nearly €100 billion per year.

Germany, in particular, is eager to shore up natural gas pipeline alternatives to Europe. Russia was Germany's main supplier of natural gas, but Moscow has severely reduced the flow of Russian gas to Europe.

Other European nations are better prepared. Across the continent, there are now 37 such terminals, out of which 26 are located in EU member states. According to the European Commission, liquefied natural gas (LNG) imports cover about a quarter of the bloc's overall gas demand. Germany currently has to get LNG deliveries via terminals in Belgium, France and the Netherlands.

The war in Ukraine continues to constrain the international context, not only because of the heightened uncertainty but also due to the consequences of oil and gas becoming «weaponised». Indeed, Western powers are seeking to limit Russian energy exports in an effort to reduce the country's financial resources, while the EU is searching for alternatives in order to reduce its dependence on Russian energy. Russia, meanwhile, is responding by seeking alternative markets for its crude oil (mainly India and China), while cutting its gas exports to Europe.

Moreover, EU countries have struggled to find common ground on how to wean the bloc off its reliance on Russian natural gas. Russian President Vladimir Putin has weaponised gas exports to pressure the bloc into reducing its sanctions over the war in Ukraine.

Putin has already cut off gas exports to more than a dozen EU nations and reduced exports to key industrial powerhouses like Germany. Many European officials fear he could cut off gas exports to most of Europe over the winter, a time of key demand.



In light of Russia's escalating war of aggression against Ukraine and the illegal annexation of Ukraine's Donetsk, Luhansk, Zaporizhzhia and Kherson regions, the EU announced, in October, that it had adopted an 8th package of economic and individual sanctions against Russia.

The agreed package includes a series of biting measures intended to reinforce pressure on the Russian government and economy, weaken Russia's military capabilities, and make the Kremlin pay for the recent escalation. The package introduces into EU legislation the basis to put in place a price cap related to the maritime transport of Russian oil for third countries and further restrictions on the maritime transport of crude oil and petroleum products to third countries.

Furthermore, Europe has vowed to cut its reliance on Russian fossil fuels by 2027 by scaling up renewable energy. This transition away from oil and gas was already a key goal before the war in Ukraine, as the EU seeks to become climate neutral by 2050.

The EU has been attempting to rebalance its relationship with China by first and foremost seeking to decrease its economic dependence vis-à-vis Beijing. Scholz's attitude seems to go in the opposite direction. Is this a sign of a renewed European division in determining the strategy to adopt with regard to China?

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The European Union's relationship with China is becoming more and more a balancing act in light of Russia's unprovoked and unjustified military aggression against Ukraine. As stipulated in the Strategic Compass for the EU, China is a partner for cooperation, an economic competitor and a systemic rival and this requires, in this author's opinion, a more nuanced diplomatic stance where pragmatism is intertwined with Western values and principles.

In this context, the November visit of the German Chancellor Olaf Scholz to China is of outmost importance, as he is the first EU leader to visit this Asian country since the start of the COVID-19 pandemic, hence the first visit also since the beginning of the conflict in Ukraine. The diplomatic approach is going to be put to the test, as the German leader will press China to open up its markets and will raise human rights concerns. Moreover, Berlin is against "decoupling" the EU from the Chinese economy and expects Beijing to show reciprocity in trade relations. This visit generated a series of reactions at European level, considering that the EU is trying to control the investments of foreign state-owned enterprises in the European economy. As a result, the European Commissioner Thierry Breton said on 31 October that European governments and companies must realise China is a rival to the EU and they should not be naive when approving Chinese investment.

Nevertheless, one cannot ignore the fact that Germany, like many other European countries affected by the war and facing a possible recession, has strong economic ties with China, whose disruption may have a significant impact on the German economy. An economic and social crisis due to a strained relationship with China may lead to new vulnerabilities, affecting all EU member states. In fact as one German official put it: "We do not believe that it is an option to walk away and do not engage in dialogue. Whether we like it or not: China cooperation is vital when it comes to dealing with global problems. Therefore, we need to engage on the highest level."

For some EU countries this raises a series of questions but, in this author's opinion, anticipatory thinking and patience could prove themselves more useful in waiting for new developments. Only upon analysing the public messages of both parties on the topic of interest can we have a better understanding of the situation. Romania also has a blurred approach with regards to China, as stated in the Governing Programme 2021 – 2024, by continuing the activities agreed in the cooperation partnership, while respecting Romania's economic and strategic interests, in line with the EU documents on the relations with China. Romania is also interested in contributing constructively to the consolidation of a single voice of the EU member states in relationship with China.

In times of incertitude, it is better to act wisely and avoid making judgements based on incomplete information. For that purpose, walking a tightrope between pragmatic interests and humanitarian concerns is something to be closely observed by the European Union and its member states. Therefore, investing in developing strategic insights into EU-China cooperation should not be considered a topic that deserves less importance and resources.



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It is a sign that, while rhetorically the EU is up to rebalancing the relations with China by investing more in relations to other countries in the Indopacific region, there is currently no visible coherent approach on how this (re)balancing act should look like in practice. Instead, the position on China remains suspended in the partner-competitor-rival triangle. So, it is not so much about division but rather lack of coherence and common strategy. Scholz's attitude shows that while *Zeitenwende* progresses slowly at best, there is little evidence in terms of change of heart when it comes to revisiting the German prosperity model vis-à-vis China, its biggest trading partner.

No one can reasonably expect any revolution here. However, it would be widely appreciated to see Berlin as one of the EU's key motors acting more in concert with others in addressing the risks associated with critical dependencies. In addition, Germany should also use the significant leverage it has due to the intensity of trade and capital flows to pursue more forcefully the human rights agenda.