

**Czech University of Life Sciences Prague**

**Faculty of Economics and Management**

**Department of economics**



**Master's Thesis**

**The impact of the war in Ukraine on European economy**

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# **DIPLOMA THESIS ASSIGNMENT**

Anna-Diana Novikova

World Economy

Thesis title

**The impact of the war in Ukraine on the European economy**

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## **Objectives of thesis**

The main goal of this work is to determine the impact of the war in Ukraine on the European Economy, by using data analysis and information gathering.

## **Methodology**

1. The problem definition
2. The relevant state of the arts/ Literature review
3. Research objectives definition
4. Data collection
5. Data processing
6. Research results and conclusions

## The proposed extent of the thesis

60 – 80 pages

## Keywords

Ukraine, Russia, war, conflict, crisis, economy, Europe, inflation, sanctions, trade, military, occupation, deficit.

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Budustour, L. (2022). The Impact of the War in Ukraine on the European Union. [online] papers.ssrn.com. Available at: [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=4266257](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4266257).

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## **Declaration**

I declare that I have worked on my master's thesis titled "The impact of the war in Ukraine on European economy" by myself and I have used only the sources mentioned at the end of the thesis. As the author of the master's thesis, I declare that the thesis does not break any copyrights.

In Prague on 27.03.2024

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I would like to thank Ing.Tomas Vacek and all other persons, for their advice and support during my work on this thesis.

# **The impact of the war in Ukraine on European economy**

## **Abstract**

The purpose of this thesis research is to analyse the War between Ukraine and Russia on the European economy. To understand this in more detail, we also have to study the key moments in the History of Independent Ukraine that led to the climax in 2014. Since that year, Russia began the war by illegally taking the territories of the Luhansk and Donetsk regions, as well as the Crimean peninsula, and making it part of the Russian Federation. Since that year, the war was waged only in the occupied territories, but from February 24, 2022 it became full-scale. The consequences of such a war began to spread internationally at lightning speed, especially affecting Ukraine's role as a transit and export hub. My thesis research will focus on various sectors such as international trade, energy and military industries, as well as the resulting refugee crisis and sanctions against Russia. By combining theoretical knowledge about the History of Ukraine with the analysis of empirical data, our research will be able to provide a comprehensive understanding of the economic consequences in the European economy market.

**Keywords:** Ukraine, Russia, war, conflict, crisis, economy, Europe, inflation, sanctions, trade, military, occupation, deficit.

# Dopad války na Ukrajině na Evropskou ekonomiku

## Abstrakt

Tato diplomová práce se zabývá dopady války mezi Ukrajinou a Ruskem na Evropskou ekonomiku. Abychom tomu porozuměli podrobněji, musíme si také prostudovat klíčové momenty v Dějinách nezávislé Ukrajiny, které vedly k vyvrcholení v roce 2014. Od tohoto roku Rusko zahájilo válku nezákonným zabráním území Luhanské a Doněcké oblasti, stejně jako Krymský poloostrov a učinit jej součástí Ruské federace. Od tohoto roku se válka vedla pouze na okupovaných územích, ale od 24. února 2022 se rozvinula naplno. Následky takové války se začaly mezinárodně šířit rychlostí blesku, což ovlivnilo zejména roli Ukrajiny jako tranzitního a exportního uzlu. Výzkum mé diplomové práce se zaměří na různá odvětví, jako je mezinárodní obchod, energetika a vojenský průmysl, stejně jako na výslednou uprchlickou krizi a sankce proti Rusku. Spojením teoretických znalostí o historii Ukrajiny s analýzou empirických dat bude náš výzkum schopen poskytnout komplexní pochopení ekonomických důsledků na evropském hospodářském trhu.

**Klíčová slova:** Ukrajina, Rusko, válka, konflikt, krize, ekonomika, Evropa, inflace, sankce, obchod, vojenství, okupace, deficit.



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# 1 Introduction

The purpose of this work is to determine the impact of the war in Ukraine on the European economy. After all, since Ukraine became independent, various revolutions and corruption scandals have taken place on its territory, which created favorable conditions for attacks from neighbors, which ultimately led to the war that began in 2014, when the Russian authorities illegally occupied and declared several regions of Ukraine, namely Donetsk and Lugansk, People's Republics under their patronage, and also took the Crimea peninsula, which became a full-fledged object of the Russian Federation. The escalation of the conflict has become a serious test for the international community and has threatened the principles of international law. Since February 24, 2022, the war between Ukraine and Russia has become full-scale, causing a humanitarian crisis and the destruction of critical infrastructure in Ukraine. Large-scale fighting has disrupted production chains and trade flows, with significant impacts on global markets. World powers condemned Russia's actions and imposed unprecedented sanctions aimed at isolating the Russian economy. The damage from the war was inflicted in various areas, including international trade, energy and the military sector, and also led to a refugee crisis and a huge number of sanctions against the Russian Federation, complicating its existence and reducing its income. The consequences of the conflict are felt not only in the warring countries, but also in Europe and throughout the world. The war provoked a rise in energy and food prices, exacerbating inflationary pressure in European countries. In addition, the destruction of Ukraine's infrastructure has created obstacles to the transit of goods through its territory, negatively impacting trade links between Europe and other regions. In this thesis, for a more accurate analysis of the situation and the damage caused, we will have to study the key factors in the history of Ukraine, which implies a theoretical part of the work, and then, by collecting information from various sources, we will conduct a data analysis that will help us better understand the situation occurring as both on the international and European markets.

## **2 Objectives and Methodology**

### **2.1 Objectives**

The purpose of this work is to find out the impact of the War in Ukraine on the European economy. In this work we are interested in several sectors, namely: trade, energy prices and gas exports, the refugee crisis that the wars led to, as well as military spending, (which affected not only the warring countries) and the sanctions that were involved from the beginning of the war to relation to the Russian Federation. We can perform this work by using the collection and analysis of information received from various sources. Having done this, we will get a complete and reliable picture of what is currently happening in the European economic market and how it is reflected in modern realities.

### **2.2 Methodology**

#### **1. The problem definition**

The main problem in this thesis is to determine the new economic realities in which Europe currently lives due to the war in Ukraine, which was contributed to by the Russian Federation. We will separately consider each of the sectors that interest us and understand the real situation in the economic market.

#### **2. The relevant state of the arts/ Literature review**

A study of existing books and articles shows that conflicts between countries can severely impact the region's economy. For example, the war between Ukraine and Russia has had devastating consequences for trade, investment and economic growth. Some studies discuss the extent to which Ukraine is vulnerable to external pressures and problems with corruption and governance. Other studies emphasize Ukraine's important role in the transit of energy resources and how this affects stability in Europe. Our aim is to add something new to this discussion by examining how the war between Ukraine and Russia is affecting the European economy.

#### **3. Research objectives definition**

The purpose of the study is to assess the impact of the war in Ukraine on the European economy. This thesis will examine the historical background of Independent Ukraine, including revolutions and corruption scandals that contributed to vulnerability to attack from a neighboring country. The study will focus on the escalation of the conflict since 2014, highlighting the Russian occupation of areas such as Donetsk, Luhansk and the Crimean

peninsula. As the conflict has intensified since February 24, 2022, the study aims to analyze broader economic damage, including disruptions to international trade, the energy market and the military sector. Also in the thesis we will touch upon the study of such consequences as the refugee crisis and sanctions against Russia.

#### 4. Data collection

Data collection for this study will involve a comprehensive approach to collecting relevant information from various sources. First, historical data from the time of Independent Ukraine will be collected to provide context for the analysis. This will require access to scientific literature, government reports and archival documents. Second, data on the escalation of the conflict since 2014 will be obtained from a variety of sources, including news articles, official statements and academic studies. Third, information on the scale of the war after February 24, 2022 and its impact on various sectors will be collected through a combination of media reports, economic indicators and expert analysis. Also, data related to the refugee crisis and sanctions against the Russian Federation will be collected from humanitarian organizations, government agencies and international organizations.

#### 5. Data processing

The data processing phase of this study involves analyzing the collected information to assess the impact of the War in Ukraine on the European economy. To begin, the historical context will be synthesized to understand the background conditions that led to the conflict. Data relating to the escalation of the war since 2014 will then be examined to assess the extent of the damage caused to various sectors. This analysis will include identifying patterns, trends and key events in the conflict. Also, data on the refugee crisis and sanctions against the Russian Federation will be processed to assess their implications for regional stability and economic dynamics in Europe.

#### 6. Factual research

Using the information gathered, we will conduct case studies to further investigate the impact of the war in Ukraine on the European economy. This includes summarizing historical data, analyzing the escalation of the conflict since 2014, and assessing the wider economic damage caused by disruptions in trade, energy markets and the military sector. We will also consider the impact of the refugee crisis and sanctions against Russia on regional stability and economic dynamics in Europe. This case study will provide crucial insight into the current state of the European economic landscape in the context of the ongoing conflict.



## **3 Literature Review**

### **3.1 Ukraine post Soviet Union**

A collapse of the Soviet Union occurred in 1991. In December 1991, the Ukrainian Soviet Socialist Republic, a constituent republic of the Soviet Union, was recognized as an independent state after issuing a declaration of independence that received overwhelming support through a popular referendum. Since achieving independence, Ukraine has been struggling to establish itself as a stable democracy and economy, and has also dealt with government corruption. Moreover, it has been caught between pro-Western and pro-EU state notions of the government and movements that promote a pro-Russia agenda (Claybaugh, n.d.).

#### **3.1.1 1990-1999**

##### **1991**

##### **December 1, 1991: Ukraine Votes for Independence**

Amid the dissolution of the Soviet Union, Ukraine votes for independence in a referendum, with 92 percent of Ukrainians supporting independence [The vote successfully took place and gained support in all 27 administrative regions of Ukraine, including Crimea, Donetsk, Luhansk regions and the city of Sevastopol.], and elected Leonid Kravchuk as president. At that point in history, Ukraine was second in the list in terms of population and ranked fifteenth in terms of economy among the Soviet republics (Council on Foreign Relations, 2022).

Through the referendum, Ukraine's international recognition was confirmed by the Declaration of Independence of Ukraine, which was adopted by the Verkhovna Rada of Ukraine on August 24, 1991. Despite the efforts of the organized Ukrainian diaspora, Ukraine was recognized as an independent state worldwide from December 2, 1991, with Poland and Canada being the first two countries to acknowledge its independence.

Despite Moscow's official recognition of a free Ukraine, Russian politics has always accepted the decisions of the Ukrainian people. Until the last moment of 1991, the Russian leadership did not take Ukraine's desire for independence seriously, considering it only political speculation. As a result, the results of the referendum came as a shock to Moscow, which dreamed of including Kyiv in some "renewed union" (Ukrainian world congress, n.d.).

*Figure 1: Revolution of Independence.*



Source: Ukrinform, n.d.

## **1994**

### **January 14, 1994: Securing Nuclear Warheads**

The leaders of Russia, Ukraine, and the United States signed an agreement under which Ukraine pledged to transfer all of its strategic nuclear warheads to Russia and to dismantle strategic missile launchers on its territory. As part of this agreement, Russia confirmed its readiness to provide Ukraine with financial compensation for the highly enriched uranium contained in the transferred warheads. The statement also indicated the readiness of the United States to assist Ukraine in dismantling its nuclear launchers. In addition, the security guarantees that Ukraine will receive by joining the Treaty on the Non-Proliferation of Nuclear Weapons as a state that does not possess nuclear weapons were clarified (Council on Foreign Relations, 2022).

*Figure 2: Soldiers prepare to destroy a ballistic SS-19 missile at the former rocket base in Vakulenchuk, west of Kyiv.*



Source: AP Images, n.d.

### **February 8, 1994: Ukraine joins NATO's Partnership for Peace program**

Ukraine was accepted into NATO's Partnership for Peace program, a cooperation program open to all European countries and former Soviet republics that are not yet members of NATO. By including Ukraine in this program, NATO took a step towards a closer partnership with the country.

In addition, Ukraine and Hungary became the fifth and sixth countries to officially join NATO as full members. Surprisingly, Russia also joined NATO in June and will participate in various cooperative activities, such as joint military exercises, until NATO plans to cut ties with Russia in 2014.

The move runs counter to Russia's historic opposition to NATO's eastward expansion since the end of the Cold War. However, the situation has now developed to such an extent that 13 countries that were not previously NATO members have joined the alliance (PBS NewsHour, 2022).

### **July 10, 1994: Kuchma becomes president**

In a historic event that marked the first defeat of an incumbent president in an election in a former Soviet state, Leonid Kuchma defeated then-incumbent Leonid Kravchuk. Kuchma's presidency was marked by slow economic growth, recurring economic crises, and widespread allegations of corruption in his government (Council on Foreign Relations, 2022).

***Figure 3:** Ukrainian President Leonid Kuchma visits Athens, Greece, in November 1994. Viktor Korotayev.*



Source: Reuters, n.d.



### **December 5, 1994: The Budapest Memorandum was signed**

The USA, Great Britain, Russia and Ukraine signed the Budapest Memorandum on Security Guarantees. This agreement was reached after Ukraine joined the Treaty on the Non-Proliferation of Nuclear Weapons, thereby renouncing its status as a nuclear-weapon state. According to the memorandum, the USA, Great Britain and Russia undertook to respect the sovereignty, territorial integrity and independence of Ukraine. They also pledged to refrain from threats and the use of force against Ukraine (Council on Foreign Relations, 2022).

***Figure 4:** Russian President Boris Yeltsin, US President Bill Clinton, Ukrainian President Leonid Kuchma, and British Prime Minister John Major signed the Budapest Memorandum.*



Source: Win McNamee/Reuters, n.d.

## **1996**

### **June 28, 1996: Ratification of the new constitution**

Ukrainian deputies ratified the new Constitution. Although it ostensibly establishes the separation of powers between the branches of government, the president has enormous influence. For example, the president retains the power to dismiss the prime minister and overturn cabinet decisions. The Constitution protects, among other things, such freedoms as freedom of speech and the right to private property. In addition, the Ukrainian language is officially declared the only state language (PBS NewsHour, 2022).

## **1997**

### **July 9, 1997: NATO and Ukraine deepen partnership**

During a meeting with NATO leaders in Madrid, President Kuchma formalized a special partnership agreement between Ukraine and the North Atlantic Treaty Organization.

According to this partnership agreement, the newly established Ukraine-NATO Commission will meet at least twice a year to facilitate discussions and cooperation between Ukraine and the defense alliance (Council on Foreign Relations, 2022).

### 3.1.2 2000-2009

#### 2000

##### **September 2000 – November 2000: Gongadze Scandal Prompts Protests**

On September 16, Ukrainian journalist Heorhiy Gongadze, who was investigating alleged corruption in President Kuchma's government, disappeared. Two months later, his decapitated body was found in a forest near Kyiv. Later, audio recordings emerged showing Kuchma instructing his subordinates to kill Gongadze. This scandal caused a public outcry due to elite corruption in Ukraine and provoked street protests. Given the controversy and apparent human rights violations, Western countries began to reconsider their support for the Kuchma government (PBS NewsHour, 2022).

***Figure 5:** An angry protester waves a poster of missing opposition journalist Heorhiy Gongadze during a rally calling for Kuchma's resignation in Kyiv, Ukraine, in December 2000.*



Source: Gleb Garanich/Reuters, n.d.

#### 2001

##### **April 2001: Prime Minister Yushchenko is removed from office amid reforms**

Prime Minister Yushchenko was forced to resign after the National Assembly expressed no confidence in him. Surprisingly, this resolution was supported by parties

associated with President Kuchma, who unexpectedly appointed Yushchenko as prime minister in 1999, surprising the public. The driving force behind Yushchenko's downfall were energy sector reforms that he and his deputy, Yulia Tymoshenko, promoted and opposed by many oligarchs closely associated with the Kuchma government.

*Figure 6: Outgoing Prime Minister Viktor Yushchenko, surrounded by deputies, prepares to address a crowd of supporters.*



Source: Mikhail Chernichkin/Reuters, n.d.

## **2004**

### **November 2004 – December 2004: Orange Revolution Overturns Flawed Election**

During the 2004 presidential election campaign, the Western-oriented Yushchenko ran against Viktor Yanukovich, who was favored by former President Kuchma and supported by Russia. It was a conflict between those who advocated closer integration with the European Union, NATO and the West, and those who advocated stronger ties with Russia. In September, Yushchenko was mysteriously poisoned with dioxin and survived, but was left with a disfigured face. After Yanukovich won two rounds of elections that were marred by irregularities, mass protests erupted in the streets, dubbed the "Orange Revolution." Yushchenko's supporters were dressed in the signature orange color of his campaign. This forced a rematch in December, which Yushchenko won. This second "color revolution" in the post-Soviet space, which took place a year after the Rose Revolution in Georgia, raised concerns in Moscow about the spread of Western-backed democratic movements in Russia's neighbors (Council on Foreign Relations, 2022).

**Figure 7:** *Ukrainian President Viktor Yushchenko signs an Orange flag, a symbol of 2004's Orange Revolution, in his office in Kiev November 21, 2005.*



Source: Gleb Garanich/Reuters, n.d.

## **2006**

### **January 2006: Russia Shuts Off Gas**

A pricing and transit dispute erupted between the Yushchenko administration in Ukraine and Russia's state-owned energy giant Gazprom, resulting in a temporary cessation of natural gas supplies. This abrupt cutoff rapidly triggered shortages across European nations that rely on Russian gas transported via pipelines traversing Ukrainian territory. The conflict exposed the mutually dependent energy relationship between Russia and Ukraine - with 80% of Russia's gas exports to Europe transiting through Ukraine, while Ukraine itself depended heavily on subsidized Russian gas supplies priced below market rates. This energy supply disruption unfolded against the backdrop of an economic downturn that had already begun to erode Yushchenko's domestic standing and approval ratings as president.

**Figure 8:** *A Ukrainian operator at the main pipeline in the village of Boyarka, near Kyiv.*



Source: Ivan Chernichkin/Reuters, n.d.

## **2008**

### **April 3, 2008: NATO Expansion Bid Meets Opposition**

During the 22nd NATO Summit, an important discussion was held on providing Croatia, Georgia and Ukraine with a Membership Action Plan (MAP) – a crucial step towards full membership in NATO. However, during the negotiations between NATO representatives and Russian President Vladimir Putin, the latter expressed strong opposition to the extension of the MAP status to Georgia and Ukraine. In the end, NATO member states could not reach a consensus on this issue, which led to the rejection of proposals for the MAP of Georgia and Ukraine.

In a separate meeting, Putin reportedly bluntly told US President George W. Bush that Ukraine "isn't even a real nation-state," underscoring Russia's position against Ukraine's integration into the Western military alliance.

Failure to obtain MAP status has become an obstacle to Georgia's and Ukraine's aspirations for closer ties with NATO and possible future membership. Putin's tough stance and disparaging comments about Ukraine's statehood underscored Moscow's determination to oppose the inclusion of its former Soviet republics in the US-led security bloc on its borders (PBS NewsHour, 2022).

### **August 2008: Russia Invades Georgia**

Following Georgia's military offensive against the breakaway region of South Ossetia, Russian troops launched an invasion into Georgian territory. This escalated into a five-day war, resulting in an increased Russian military presence in Georgia's separatist republics of Abkhazia and South Ossetia, which collectively comprised around one-fifth of Georgia's land area. President Yushchenko voiced support for Georgia, further straining the already tense relations between Kyiv and Moscow. In the aftermath, Russia formally recognized both Abkhazia and South Ossetia as independent states, a move that was not accepted by most other nations around the world.

*Figure 9: Russian armored vehicles advance outside of Gori, Georgia.*



Source: Gleb Garanich/Reuters, n.d.

### **September 2008: Talks Open on New EU Relationship**

Ukraine and the European Union have initiated negotiations towards a new "association agreement", jointly issuing a statement affirming that "Ukraine's future lies in Europe." From the EU's perspective, such association agreements represent legally binding treaties that mandate participating countries to foster closer political, legal, and trade ties with the bloc - sometimes seen as a stepping stone towards potential EU membership down the line. The implementation of this prospective Association Agreement with Ukraine could catalyze far-reaching reforms, aligning its policies and practices more comprehensively with the standards and norms upheld by the EU. Ultimately, it signals Ukraine's trajectory towards deeper integration within the EU's sphere of influence (Council on Foreign Relations, 2022).

**Figure 10:** *European Commission President Jose-Manuel Barroso, French President Nicolas Sarkozy, and Ukrainian President Viktor Yushchenko greet before an EU-Ukraine summit in Paris.*



Source: Charles Platiau/Reuters, n.d.

### **3.1.3 2010-2019**

#### **2010**

##### **February 7, 2010: Yanukovych Elected President**

Viktor Yanukovych won a narrow victory over incumbent Prime Minister Yulia Tymoshenko in the presidential elections, which most international observers recognized as free and fair. Under the leadership of American political advisers, Yanukovych signaled a growing openness to European integration. His victory reflected voters' disillusionment with the leadership of Tymoshenko and Yushchenko after years of economic hardship and hardship in the country. The election result was perceived as a desire of the electorate to change direction (PBS NewsHour, 2022).

*Figure 11: Viktor Yanukovich greets his supporters during a rally in Kyiv.*



Source: Sergei Supinsky/AFP/Getty Images, n.d.

## **2011**

### **May 2011 – December 2011: Tymoshenko Sentenced, Brussels Freezes Agreement**

Yanukovich had his main political rival, Yulia Tymoshenko, arrested and convicted on charges of "abuse of official position", sentencing her to seven years in prison. International observers widely viewed these charges as politically motivated by Yanukovich to neutralize his key opposition. The U.S. ambassador described the trial as a "farce", echoing sentiments shared by many. Tymoshenko's detention stalled negotiations with the European Union aimed at strengthening trade and political ties between Ukraine and the EU. Consequently, Brussels refused to sign the association agreement at the scheduled Ukraine-EU summit in Kyiv that December, citing concerns over the prosecution's credibility (Council on Foreign Relations, 2022).

*Figure 12: Former Prime Minister Yulia Tymoshenko outside of court.*



Source: Sergei Svetlitsky/AFP/Getty Images, n.d.



## 2013

### November 21, 2013: Yanukovych Withdraws From EU Talks

In an unexpected move, the Ukrainian government has announced that it will not sign the long-awaited association agreement with the European Union at the upcoming summit in Lithuania. Instead, President Yanukovych's government announced its intention to resume dialogue with Russia regarding possible membership in the Eurasian Customs Union. The abrupt policy shift sparked immediate protests in the capital, Kyiv, as Ukrainians took to the streets to voice their opposition to moving away from closer integration with the EU and focusing more on Russia's sphere of influence. The government's decision drew sharp criticism from those who advocate strengthening ties with the West and the European path of reforms for Ukraine (PBS NewsHour, 2022).

*Figure 13: President Viktor Yanukovich and Russian President Vladimir Putin during a meeting in Moscow.*



Source: Sergei Karpukhin/Reuters, n.d.

## 2013 – 2014

### November 2013 – February 2014: Euromaidan Protests Lead to Government Collapse

Yanukovych's statement regarding Ukraine's relations with the EU caused massive protests across the country. For two months, the demonstrations in Kyiv's central square, the Maidan, remained mostly peaceful. However, violence erupted after the authorities tried to disperse the protesters by force, resulting in a brutal crackdown that left over a hundred dead. On February 21, Yanukovych and opposition leaders agreed to hold extraordinary presidential elections later this year. Shortly thereafter, Yanukovych fled to Russia, leaving behind his luxurious residential palace, which protesters saw as evidence of his corrupt

practices. The current president and prime minister of Ukraine made it clear that the desire for rapprochement with Europe will be the main priority of the government.

*Figure 14: An anti-government protester waves the national flag from the top of a statue during clashes with riot police in Independence Square in Kyiv.*



Source: Reuters, n.d.

## **2014**

### **February 2014 – March 2014: Russia Seizes Crimea, Holds Referendum**

Russian troops, including troops known as the "little green men" who wore Russian uniforms without insignia, launched operations to take control of Crimea, a Ukrainian peninsula with an ethnic Russian majority. Shortly thereafter, Crimean authorities held a controversial referendum in which voters chose to leave Ukraine and join the Russian Federation. The referendum was widely condemned by Brussels as "illegal and illegitimate", while Washington vowed never to recognize the results. On March 21, Russia officially annexed Crimea, leading to the UN General Assembly voting 100 to 11 against recognizing the referendum and subsequently expelling Russia from the G8. A month later, President Putin acknowledged the Russian military's direct involvement in the annexation, describing it as a necessary measure to protect the region's ethnic Russian population, who he said were at risk of violence from authorities in Kyiv (Council on Foreign Relations, 2022).

**Figure 15:** A campaign poster in Crimea compares Ukrainian control to Nazism and urges voters to choose to join Russia instead.



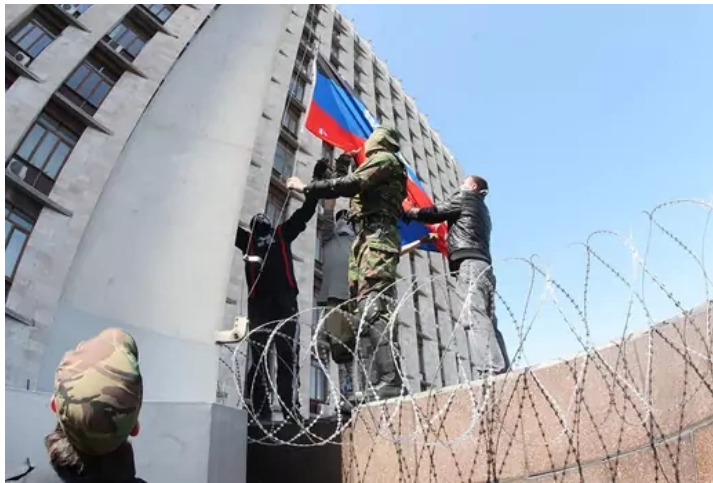
Source: Viktor Drachev/AFP/Getty Images, n.d.

#### **April 2014: Russia Backs Bloody Separatist War**

Russia fomented an armed separatist uprising in the Donbas region of eastern Ukraine, with rebel forces seizing government buildings and facilities. Ukraine's military engaged in operations to counter the separatists, but remained cautious of escalating into a broader confrontation as Russia amassed troops along the border in a menacing posture. By early 2022, the protracted conflict had already exacted a staggering toll, with over 14,000 casualties, including a quarter of them civilians, while forcing the displacement of 2 million Ukrainians from their homes. The separatist factions had by then unilaterally proclaimed parts of the Donetsk and Luhansk oblasts as breakaway independent republics.

The situation turned into a prolonged armed conflict between Ukrainian forces and Russian-backed separatists who seized parts of Donbas. As Kyiv tried to regain control, it had to tread carefully, potentially provoking a larger war with Russia, whose military buildup near the border posed a constant threat of further intervention or invasion. Years of hostilities caused great damage to the civilian population and led to the actual creation of pro-Russian separatist states in eastern Ukraine (Council on Foreign Relations, 2022).

*Figure 16: Pro-Russia activists raise the flag of the so-called Donetsk People's Republic.*



Source: Alexander Khudoteply/AFP/Getty Images, n.d.

### **May 25, 2014: Poroshenko Elected President**

Surprisingly, the pro-Western oligarch Petro Poroshenko won an absolute majority in the first round of the presidential elections of Ukraine. During the campaign, Poroshenko promised to revive the struggling economy by achieving closer integration with Europe and fighting the systemic corruption that has plagued Ukraine since independence. The administration of US President Barack Obama has expressed interest in supporting Poroshenko's anti-corruption efforts and even instructed Vice President Joe Biden to take the lead in working with the new Ukrainian government on this issue.

Poroshenko's decisive victory in the elections exceeded many expectations. His mandate focused on strengthening ties with Europe and the West as a path to economic revival, while implementing comprehensive reforms to eradicate the endemic corruption that had hampered Ukraine's development since the collapse of the Soviet Union. The Obama White House viewed cooperation with Poroshenko's government, particularly through Biden's involvement, as critical to promoting transformative anti-corruption efforts in the country.

*Figure 17: Presidential candidate Petro Poroshenko on election night.*



Source: Sergei Supinsky/AFP/Getty Images, n.d.

### **July 17, 2014: Passenger Jet Shot Down With Russian Missile**

A Malaysia Airlines passenger jet flying from Amsterdam to Kuala Lumpur was brought down by a surface-to-air missile over the conflict zone in eastern Ukraine controlled by Russian-backed separatist forces, resulting in the tragic deaths of all 298 people aboard. A subsequent investigation by Dutch authorities determined that Russia bore responsibility for the incident, as the missile system used was operated by a Russian military brigade. However, the Russian government continued to deny any involvement in the downing of the civilian aircraft.

The downing of a Malaysian airliner over territory in eastern Ukraine seized by pro-Russian separatists marked a terrifying escalation in the armed conflict. Although a Dutch investigation concluded that the missile was fired by the Russian military, Moscow rejected claims of responsibility for the attack, which killed nearly 300 innocent civilians. The incident further increased tensions between Russia and Western countries over Moscow's destabilizing role in the Ukrainian crisis (PBS NewsHour, 2022).

*Figure 18: Debris from Malaysia Airlines Flight 17 burns in a field in eastern Ukraine.*



Source: Pierre Crom/Getty Images, n.d.

### **September 5, 2014: First Minsk Agreement Signed**

Russian forces launched a full-scale invasion of Ukraine, claiming it was a necessary intervention to counter Ukrainian operations aimed at regaining control of Donbas, which is held by pro-Russian separatists. Shortly after the start of the invasion, the negotiators agreed to the first Minsk Agreement, which included a ceasefire. However, the terms of this agreement were not respected by the warring parties, and fighting continued on the front, despite the supposed cessation of hostilities.

The Kremlin justified its open military invasion of Ukrainian territory as a defensive measure to thwart Kyiv's efforts to regain control of the separatist republics of Donbas. Although the first Minsk agreements were quickly agreed upon to end hostilities, the failure of both sides to fully implement the provisions meant that the agreement did little to actually end the armed conflict on the ground. Clashes between Ukrainian forces and Russian/separatist elements have not stopped despite the supposed ceasefire (Council on Foreign Relations, 2022).

**Figure 19:** *A column of Ukrainian tanks rolls through the Donetsk region in September 2014.*



Source: Anatolii Stepanov/AFP/Getty Images, n.d.

## **2015**

### **February 11 – 12, 2015: Second Minsk Agreement Signed**

Ukrainian President Poroshenko and Russian President Putin, along with French President Hollande and German Chancellor Merkel, met in Minsk to negotiate a ceasefire agreement aimed at ending the conflict in eastern Ukraine. The outcome of the negotiations was the Minsk II Agreement, which included 13 measures to end hostilities. They included an immediate cessation of hostilities and withdrawal of heavy weapons by both sides to create a demilitarized "security zone."

However, along the contact line, violations, artillery shelling and combat clashes in violation of the ceasefire conditions continued. Both Russia and Ukraine exchanged accusations of non-fulfillment of Minsk II obligations. While responsibility was disputed, international observers tended to place more blame on Russia and its separatist aides for undermining the agreement by continuing offensive operations.

Despite the Minsk agreements brokered by European leaders, a deadly conflict gripped eastern Ukraine as each side accused the other of failing to fulfill its obligations. Independent observers have highlighted Russia's complicity in continued violence, rather than compliance with the agreed terms of a permanent ceasefire (PBS NewsHour, 2022).

**2017**

**December 2017: Lethal U.S. Arms Sales Allowed**

The Trump administration has increased US military support for Ukraine, allowing the sale of lethal weapons and expanding non-lethal aid provided under the previous Obama presidency. Last summer, President Trump appointed Kurt Volker as his special representative on the crisis in Ukraine. Previously, the US Congress created the Ukraine Security Assistance Initiative, a program that provided hundreds of millions of dollars in additional military aid to strengthen Ukraine's defense capabilities.

Under President Donald J. Trump, there has been a shift toward providing lethal offensive weapons systems to Ukraine, as opposed to the non-lethal military aid approved under Obama. Trump also appointed Kurt Volker as his special envoy on the conflict in Ukraine in an effort to reinvigorate diplomacy. In addition, Congress created the Ukraine Security Assistance Initiative, unlocking significant new funding totaling hundreds of millions of dollars to enhance U.S. military assistance and training of Ukrainian forces.

These measures reflect the Trump White House's tougher stance on Russian aggression in Ukraine compared to his predecessor. Deliveries of lethal weapons and increased military funding signaled increased American commitment to strengthening Ukraine's ability to fight Kremlin-backed separatists in Donbas.

*Figure 20: A Ukrainian soldier displays a Javelin anti-tank missile during a military parade.*



Source: Gleb Garanich/Reuters, n.d.



**2019**

**January 2019: Schism Emerges in Orthodox Church**

In an important decision, the Ecumenical Patriarch of Constantinople, who has primacy in the affairs of the Orthodox, granted independence to the Ukrainian Orthodox Church, officially severing its centuries-old ties with the Russian Orthodox Church. The move came amid accusations that the Ukrainian Church continues to be overly influenced by the Kremlin-backed Russian Patriarchate.

Russia strongly opposed the move, accusing the United States of stoking religious differences to undermine Moscow's interests. A Kremlin spokesman reaffirmed Russia's commitment to protecting the rights of ethnic Russians and Russian-speaking citizens and expressed concern about the possible consequences for these communities.

The decree of the Patriarchate of Constantinople abolished the historical subordination of the Ukrainian Church to the power of Moscow. By recognizing its autocephalous status, Constantinople enabled the creation of an institutionally independent Ukrainian Orthodox denomination, free from alleged Kremlin interference. However, Russia condemned it as a US-backed move aimed at weakening Russian influence and promised to defend the interests of the Russian diaspora in the event of consequences (Council on Foreign Relations, 2022).

**Figure 21:** *Ecumenical Patriarch Bartholomew and Metropolitan Epifaniy, head of the Orthodox Church of Ukraine, attend a ceremony marking the Ukrainian Orthodox Church's independence.*



Source: Murad Sezer/Reuters, n.d.

### **April 21, 2019: Volodymyr Zelensky Elected**

In a stunning political explosion, Volodymyr Zelenskyi, a comedian with no previous political experience, won a landslide victory in the second round of Ukraine's presidential election. Having collected more than 70% of the votes, Zelenskyi clearly defeated the incumbent President Petro Poroshenko. Two months later, Zelenskyi's newly formed party won the majority of seats in the parliamentary elections. It was the first time in the years of independence when the Ukrainian president received the support of the majority party in the national parliament.

Zelenskyi's campaign resonated with voters as he highlighted his criticism of widespread corruption and the economic hardships facing many Ukrainians. He promised to make anti-corruption reforms a priority and resolve the protracted conflict in eastern Ukraine. His overwhelming election victory was seen by many as a clear rebuke to Poroshenko and his government for their failure to confront systemic crime.

The political newcomer channeled public disillusionment with persistent corruption and stagnant living standards to win a surprising but overwhelming mandate at both the presidential and parliamentary levels. The rise of Zelenskyi's position reflected the desire of Ukrainians for tangible changes after years of unfulfilled promises to seriously overcome entrenched corruption, which hinders the country's development and the resolution of the conflict in Donbas (Council on Foreign Relations, 2022).

***Figure 22: Volodymyr Zelensky celebrates following the announcement of the first exit poll at his campaign headquarters.***



Source: Valentyn Ogirenko/Reuters, n.d.

### **July 25, 2019: A Phone Call Reverberates**

The phone call between President Trump and President Zelensky later became the subject of a congressional impeachment inquiry into allegations of abuse of power and obstruction of justice against Trump. A US government whistleblower expressed concern that Trump was unfairly pressuring Zelensky to continue investigating Biden, Trump's potential 2020 opponent.

Testifying to lawmakers in November, several former and current U.S. officials said the Trump administration postponed a meeting between the two presidents and withheld congressionally approved military aid to Ukraine in order to force Kiev to open an investigation into Biden. White House officials dismissed these complaints as politically motivated.

Ultimately, the Senate acquitted Trump of impeachment charges in January 2020 after weighing the evidence largely along party lines. The controversial episode raised questions about whether Trump was wrong to call for Ukraine to interfere in personal political interests, linking official actions to calls for an investigation into his domestic opponent (PBS NewsHour, 2022).

#### **3.1.4 2020-present days**

### **2020**

#### **June 2020: Making a Deeper Commitment to NATO**

Ukraine is named a NATO Enhanced Opportunities Partner in June, joining Australia, Georgia, Finland, Jordan, and Sweden as countries with deeper cooperation on NATO-led missions and exercises. The alliance says the new status “does not prejudice any decisions on NATO membership.” In September, Zelensky approves Ukraine’s new National Security Strategy, which provides for the development of a distinctive partnership with NATO with the aim of gaining membership. The previous year, Zelensky’s predecessor signed a constitutional amendment committing Ukraine to become a member of NATO and the EU (Council on Foreign Relations, 2022).

### **2021**

#### **February 2021: Zelensky Cracks Down on Pro-Moscow Oligarchs**

Zelensky is ordering a number of measures to be taken against oligarchs, including Viktor Medvedchuk, a businessman, leader of Ukraine's largest pro-Russian political party and a close friend of Putin. The government froze his financial assets for three years and

shut down three pro-Russian television channels controlled by Medvedchuk, saying they spread "disinformation." In May of this year, the authorities charged Medvedchuk with treason, claiming that he handed over licenses for oil and gas production in Crimea to the Russian authorities. Zelensky says these steps are necessary to protect the country, while Putin calls them anti-Russian prejudice.

**Figure 23:** Viktor Medvedchuk appears before a Kyiv appeals court.



Source: Anna Marchenko/TASS/Getty Images, n.d.

#### **April 2021: Russian Military Buildup Raises Alarms**

Officials from Ukraine and EU member states warn about recent Russian deployments near Ukrainian border areas and in Crimea. Adding up to more than a hundred thousand troops, along with tanks, rocket launchers and other weaponry, analysts call it the largest troop buildup since Russia's 2014 annexation of Crimea. Biden, now U.S. president, and Putin agree to a June summit to discuss a range of contentious issues, including Ukraine, and launch dialogues on strategic stability and cybersecurity. The following month, Putin publishes an article titled "On the Historical Unity of Russians and Ukrainians," in which he questions the legitimacy of Ukraine's borders, asserts that Russians and Ukrainians are "one people," and blames the collapse in bilateral ties on foreign plots and anti-Russia conspiracies (PBS NewsHour, 2022).

*Figure 24: Russian troops participate in drills at a military airdrome in Taganrog.*



Source: Reuters, n.d.

### **September 2021: Nord Stream 2 Pipeline Completed**

Russian energy company Gazprom is completing construction of Nord Stream 2, a pipeline that will deliver natural gas to Germany via the Baltic Sea and could cut off an important source of income for Ukraine, the current transit country. Leaders in Kyiv are protesting that Moscow will use the pipeline, which could double gas supplies to the rest of Europe, as a geopolitical weapon. The Biden administration opposes the pipeline, but agrees to waive sanctions and reaches an agreement with Germany to finance alternative energy projects for Ukraine. Amid a Russian military build-up near Ukraine, Germany says the German company involved in the project must take administrative steps before the gas starts flowing, a process that could take until mid-2022.

*Figure 25: The Nord Stream 2 pipeline starts in Russia's Leningrad Oblast.*



Source: Peter Kovalev/TASS/Getty Images, n.d.

## **2021 – 2022**

### **December 2021 – January 2022: Russia Demands Security Concessions**

As Russia continues to mobilize tens of thousands of troops along the border with Ukraine, the Putin government demands a set of security guarantees from the United States and NATO. This includes a draft treaty calling for tight restrictions on U.S. and NATO political and military activities, notably a ban on NATO expansion. The Biden administration delivers written responses in January; few details are made public, but it rejects Russia's insistence that Ukraine never be accepted into NATO and proposes new parameters for security in the region (Council on Foreign Relations, 2022).

**Figure 26:** *A satellite image shows tanks and other military equipment in the Russian town of Yelnya, about 160 miles from the Ukraine border, in January 2022.*



Source: Maxar Technologies/Reuters, n.d.

## **2022**

### **February 2022: Russia invades Ukraine**

Putin sends Russian troops into the Luhansk and Donetsk regions of Ukraine after the Kremlin recognizes the independence of the Luhansk and Donetsk regions. The military action raises fears that Russia could take full control of the region, which is part of Ukraine, and use it as a pretext to invade Ukraine. In his speech, Putin said that the Kiev government is a "puppet government" run by foreign powers and that NATO is ignoring Moscow's security demands. In response to Russia's actions, Germany announced the suspension of construction of the Nord Stream 2 gas pipeline, and the US, EU and UK imposed additional financial sanctions against Russian companies.

*Figure 27: People watch as smoke rises after a Russian airstrike hits Lviv, Ukraine, on March 26, 2022.*



Source: Pavlo Palamarchuk/Reuters, n.d.

### **August 2022 – November 2022: Fall Counteroffensive Deals Blow to Russian Military**

Ukraine launches a “lightning” counteroffensive to reclaim major cities in Russia-occupied territory in the northeast and south. Ukraine’s military liberates the southern regional city of Kherson, and in the north, troops push Russian forces back across the Dnipro River. They also recapture the region of Kharkiv, including the hubs of Balakliya, Izyum, and Kupyansk, in what is seen as a major strategic defeat for the Russian military. As Moscow faces mounting losses, Putin orders a partial mobilization of some three hundred thousand military reservists. He also announces Russia’s annexation of , claiming the residents of Donetsk, Luhansk, Kherson, and Zaporizhzhia as “our citizens forever.” Following Putin’s announcement, Zelenskyy says Ukraine is submitting an accelerated application to join NATO (Council on Foreign Relations, 2022).

### **December 2022: Zelenskyy Addresses U.S. Congress, Appeals for More Wartime Aid**

During a visit to Washington, Ukraine’s president urges U.S. lawmakers to continue providing aid and weapons to bolster Kyiv’s defenses through the winter. Since the outbreak of the war, Ukraine has become by far the , the first time that a European country has held the top spot since World War II. Dozens of other countries, including most members of the EU and NATO, provide Ukraine with large aid packages during the first year of the war. Many countries have also given Ukraine advanced weapons systems, . Zelenskyy’s Washington trip is his first out of the country since the war began and it comes as Congress

debates a spending bill that includes an additional \$45 billion in aid to Kyiv that is ultimately approved.

## **2023**

### **May 2023: Russia Claims Control of Bakhmut After War's Bloodiest Battle**

Russian forces declare control of the eastern city of Bakhmut after nearly a year of fighting in the longest and bloodiest battle of the war so far. It marks the first claimed Russian victory of a large Ukrainian city since summer 2022, though Ukraine says its forces continue to fight for control of Bakhmut. U.S. intelligence estimates that Russian casualties from the monthslong battle amount to some , which includes ten thousand members of the Russian private military company Wagner Group.

*Figure 28: A Russian attack destroyed buildings in Bakhmut, Ukraine.*



Source: Press Service of the 93rd Independent Kholodnyi Yar Mechanized Brigade of the Ukrainian Armed Forces/Handout/Reuters, n.d.

### **June 2023: Ukraine Begins Spring Offensive to Breach the Front Line**

Ukraine's military goals are to reach the Russia-occupied cities of Berdyansk and Melitopol, as well as disrupt Russian supply routes by cutting Moscow's land connection to the Crimea. Expectations in Ukraine and the West are high following the previous year's successful counteroffensive in the northeast and south, and Kyiv's success in this campaign could lead to more financial and military aid. On the battlefield, Ukraine's military is equipped with extensive artillery and ammunition, but it faces established Russian defensive infrastructure, including ditches, landmines, and trenches. The counteroffensive is slow, and Ukrainian troops make only incremental gains over the next several months.



## **June 2023: Prigozhin's Wagner Group Stages Mutiny, Challenging Russian Leadership**

The Wagner Group and its leader Yevgeny Prigozhin against Russian leadership, seizing military installations in the southern city of Rostov-on-Don before advancing toward Moscow. The Wagner Group has played a significant role in the war, and its troops were heavily involved in the battle for Bakhmut. While Prigozhin reaches an agreement with the Kremlin the following day, the short-lived rebellion sows momentary political chaos in Russia. Two months after the rebellion, Prigozhin and other senior Wagner leaders die in a plane crash that U.S. intelligence assessments conclude was caused by an intentional explosion. Ukrainian forces, meanwhile, have made only gradual progress so far in their attempt to retake Russian positions in the east and south.

***Figure 29:** Wagner Group leader Yevgeny Prigozhin leaves the headquarters of Russia's Southern Military District in Rostov-on-Don.*



Source: Alexander Ermochenko/Reuters, n.d.

## **July 2023: Russia Withdraws From Grain Deal, Alarming Global Food Markets**

Moscow announces that it is pulling out of the Black Sea Grain Initiative, an agreement brokered by Turkey and the United Nations in July 2022 in which Russia agreed to ease its military blockade of Ukraine's Black Sea ports to help facilitate exports of Ukrainian fertilizer, grain, and oilseed. Russia says its withdrawal is due to Western sanctions that are impeding exports of its own fertilizer and food. Russia's exit from the deal generates alarm in many lower-income countries in Africa and the Middle East that are grappling with food insecurity and rely on Ukrainian grain. But Ukraine pivots and makes

use of so-called —alternative routes via rail, road, and rivers—that were created shortly after the war broke out and allow Kyiv to transit food through neighboring countries. However, in September, Hungary, Poland, and Slovakia impose import bans on Ukrainian grain after their own farmers express concern about selling their crops (Council on Foreign Relations, 2022).

### **December 2023: EU Opens Accession Talks With Ukraine**

EU leaders agree to open accession negotiations with Ukraine, marking a step forward in the country’s pursuit of membership in the bloc, though the process is expected to take several years. Zelenskyy hails the decision as a “victory” for Ukraine and Europe. The move comes amid a grinding military stalemate in the war and as political support for Ukraine falters in some Western countries, including the United States.

## **2024**

### **February 2024: Ukraine Loses Avdiivka as War Enters Third Year**

Eight months after launching its spring counteroffensive, Ukraine’s military has made little progress in retaking Russia-controlled territory in the east. Russian troops have fortified their defensive line, and Ukraine is eventually forced to withdraw from the city of Avdiivka in Donetsk province after months of fierce fighting. Hundreds of Ukrainian troops are feared to be captured or missing after the pullback. The move gives Russia its biggest military victory since the fall of Bakhmut in May 2023, and is seen as bolstering Russia’s hold on Donetsk. Ukraine’s foreign minister says the loss of Avdiivka is due to the United States’ failure to approve additional emergency wartime aid as Kyiv’s supplies run low. Russia’s seizure of Avdiivka follows a reshuffling of Ukraine’s military leadership and comes just ahead of the second anniversary of Russia’s full-scale invasion.

**Figure 30:** *The Russian military leaves a trail of destruction in the city of Avdiivka, Ukraine.*



Source: Kostiantyn Liberov/Libkos/Getty Images, n.d.

## 4 Practical Part

### 4.1 Impact of the war in Ukraine on European economy

The war in Ukraine and the resulting security crisis are changing the EU's political landscape and will have a long-term impact on the European economy. The Russian invasion of Ukraine will also have a lasting impact on the EU policy agenda, primarily and in the first instance on its foreign, defence and foreign policy. However, the economic and financial repercussions of the conflict and the Western response will have implications for the broader economic and financial policy agenda, not least because of the financial sanctions imposed on Russia. While these sanctions have been mainly the result of a reaction against an external threat, and under the rationale of protecting European security and opposing Russia's military intervention in Ukraine, they will not come without significant economic consequences for the EU (Sandoval Velasco, Beck and Schlosser, 2022).

Below are some of the main impacts of the war in Ukraine on the European economy:

**1. Trade Disruptions:** The armed conflict in Ukraine has significantly disrupted trade flows between Ukraine and its European partners. The ongoing hostilities have damaged critical infrastructure and disrupted supply networks, creating significant disruptions for companies struggling to maintain operations. In addition, the introduction of economic sanctions against Russia negatively affected the economies of countries that are heavily dependent on trade with the Russian market.

**2. Energy prices:** The conflict affected Ukraine's strategic position as an important transit corridor for the supply of Russian natural gas to Europe. Disruptions in gas supply have caused energy prices to rise on the European continent, putting financial pressure on both businesses and consumers.

**3. Economic sanctions:** The start of hostilities in Ukraine prompted the European Union and other countries to introduce economic sanctions against Russia. While these measures were aimed at putting pressure on the Russian economy, they also inadvertently affected European companies that had extensive trade relations with Russia, disrupting their operations.

**4. Refugee crisis:** The conflict in Ukraine triggered a refugee crisis, with large numbers of Ukrainian citizens fleeing to seek refuge in other European countries. This sudden influx of displaced people has placed enormous pressure on the resources and capacities of host countries, while exacerbating social and political tensions in their societies.

**5. Military spending:** Many European countries have increased their military spending in response to the conflict in Ukraine. As a result, resources were withdrawn from other areas of the economy and there was also an increase in national debt.

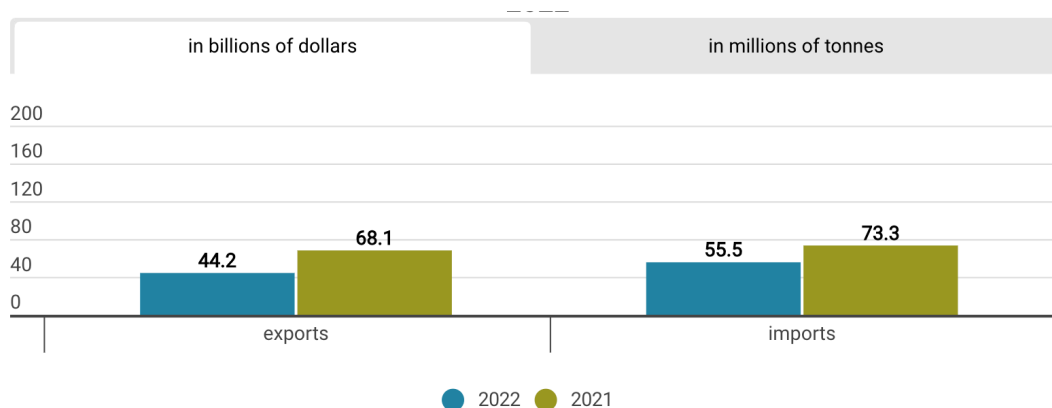
In general, the war in Ukraine had a significant impact on the European economy. The conflict has created economic instability and disrupted trade relations, leading to rising energy prices, economic sanctions and a refugee crisis. The ongoing conflict in Ukraine continues to threaten the stability and prosperity of the European continent.

#### 4.1.1 Trade disruption

Trade disruptions caused by the conflict in Ukraine have had a significant impact on both Ukraine and its European neighbors. Ukraine has traditionally been an important transit country for the movement of goods between Europe and Russia, and the conflict has interrupted this trade flow.

2022 saw a very serious **decline in Ukraine's exports (-35.1%) and imports (-24.2%)**. Aside from the reasons directly linked to the war (Ukraine losing a portion of its territory, and the damage caused to its industrial facilities in export-oriented sectors), the main cause of this decline was the blockade of Ukraine's Black Sea ports, through which Kyiv had shipped around two thirds of its exports before the Russian invasion. Although the blockade was partly lifted in August 2022, this only covered agricultural produce rather than Ukraine's other key exports, such as iron ores and metallurgical products (OSW Centre for Eastern Studies, 2023).

**Graph 1:** Comparison of Ukraine's commodity exports and imports in 2021 and 2022.



Source: State Customs Service of Ukraine, n.d.

#### 4.1.1.1 Agro Sector

This is a key branch of the Ukrainian economy as **it generates over 10% of the country's GDP**. Up to 70% of agricultural land is cultivated by enterprises. Although some of them have plots of over 100,000 ha, the largest role is played by medium-sized companies cultivating an average of up to 2000 ha of land. Before the war, the ten largest agrohholdings leased 9.2% of all arable land in Ukraine, and the fifty largest ones 16.1% (OSW Centre for Eastern Studies, 2023).

One of the main areas of trade disruption has been in the agriculture sector. A major priority for EU countries in addressing growing food insecurity is to help Ukraine export its agri-food production, which has been severely compromised by the Russian invasion, because Ukraine is a key producer and exporter of food staples, such as wheat and maize. Some 90% of its wheat exports went to Africa and Asia between 2016 and 2021, supporting food security in some of the most disadvantaged regions of the world (consilium.europa, n.d.).

At the European Council meeting on June 23-24, 2022, EU leaders emphasized that Russia must bear full responsibility for the global food crisis and called on the country to immediately stop attacks on Ukrainian agricultural enterprises and grain exports.

«Russia, by weaponising food in its war against Ukraine, is solely responsible for the global food security crisis it has provoked» (*European Council conclusions, 23 June 2022*).

EU leaders underlined that EU sanctions against Russia allow the free flow of agricultural and food products and the delivery of humanitarian assistance. They expressed strong support for the work on the **solidarity lanes**, which are facilitating food exports from Ukraine via land routes and EU ports, and called for more efforts to support developing countries in coping with the consequences of the crisis (consilium.europa, n.d.).

#### **The Grain Trade Dispute between Ukraine and the European Union**

The European Union established alternative export routes for Ukrainian agricultural goods, known as "solidarity lanes," as part of its economic support package for Ukraine. The package included autonomous trade measures (ATMs), which waived tariffs and quotas for the import of Ukrainian agricultural products to the European Union. However, the infrastructure in neighboring countries was not equipped to export large volumes of Ukrainian agricultural products, leading to increased costs for exporting via the solidarity lanes.

By April 2023, the glut of Ukrainian goods in the "frontline five" member states (Poland, Romania, Hungary, Slovakia, and Bulgaria) suppressed prices for locally produced agricultural products, reducing farmers' incomes. Farmers protested, pressuring their governments to implement trade restrictions on the transit and sale of Ukrainian products within their borders. The European Union's attempt to mitigate farmers' losses through financial support packages and loosened restrictions was insufficient compensation for the challenges farmers faced competing with Ukrainian products in local markets.

In May 2023, the European Union adopted "exceptional and temporary preventative measures" to uphold the ban on domestic sales of Ukrainian wheat, maize, rapeseed, and sunflower seed within the five member states while facilitating exports to other countries within and outside the bloc. The Joint Coordination Platform was established to improve the flow of trade between member states and Ukraine, and the ATMs for Ukrainian products and the safeguard ban on domestic sales were extended.

In July, five frontline agriculture ministers of Ukraine signed a joint declaration to extend the ban on domestic sales of Ukrainian wheat, maize, rapeseed, and sunflower seed until the end of the year, regardless of the European Commission's decision. The ministers argued that the ban had prevented further destabilization in their agricultural markets and improved grain flow. The European Union's agriculture commissioner and former agriculture minister of Poland, Janusz Wojciechowski, noted **that 3.4 million tons of Ukrainian grains entered Poland from April 2022 to March 2023, while only 700,000 tons had been exported to other countries.** Ukraine's Ministry of Foreign Affairs spokesperson, Oleh Nikolenko, argued that Ukrainian products are not responsible for destabilized markets in Europe and that farmers in neighboring countries still face problems despite the ban. The European Commission concluded that market distortions in the five member states bordering Ukraine have disappeared, allowing the exceptional and temporary preventative measures to expire. The decision comes alongside renewed commitments from the European Union and Ukraine to prevent another grain glut in the member states.

Following the European Commission's decision, Poland, Hungary, and Slovakia resumed state-level bans on the domestic sale of Ukrainian agricultural products, causing divisions in EU support for Ukraine. Member states outside eastern Europe opposed the unilateral measures, arguing they threatened solidarity within the EU and put the "European project at risk." Romania and Bulgaria, however, held off on extending the bans despite pressure from farmers. Ukraine had been outspoken in its opposition to the state-level bans

since they were first enacted in April 2023, arguing that such unilateral measures are illegal and unacceptable. Following the September 2023 bans, Ukraine escalated its concerns to the World Trade Organization (WTO) and threatened retaliatory import restrictions on certain goods from Poland and Hungary unless the bans were lifted. Tensions were on display at the UN General Assembly High-Level Week, with Ukrainian president Volodymyr Zelensky referencing the situation during his address at the Sustainable Development Goals summit. Polish president Andrzej Duda warned against supporting domestic farmers, while Polish prime minister Mateusz Morawiecki threatened to revoke military aid to Ukraine. Slovakia's then frontrunner candidate and current prime minister Robert Fico echoed Poland's threat to withdraw military aid as both countries headed into national elections the following month.

In late September 2023, Ukraine and frontline five countries reached compromise plans for export control through a licensing system. Slovakia lifted the ban in exchange for the new system's successful implementation and removal from Ukraine's WTO complaint. However, Robert Fico's victory in parliamentary elections extended the ban to include additional agricultural products. Polish truckers and farmers organized a large-scale blockade of border crossings with Ukraine, protesting for a return to pre-war trade measures and additional financial support packages. The protests left over 1,000 trucks backed up in the first two months, leading to Prime Minister Tusk's new government maintaining the import ban and opposing the extension of ATMs for Ukraine. The European Union's decision to extend ATMs for Ukraine on January 31 broke down rising tensions, and farmers resumed their blockade early this month. Poland, Hungary, and Slovakia maintain import bans on Ukrainian agricultural goods despite pressure from the EU to trust safeguard mechanisms. Polish farmers have also blocked the Poland-Ukraine border, spilling grain, blocking passenger buses, and refusing exceptions for humanitarian aid, fuel, and food.

Ukraine is exporting grains through European neighbors due to the war limiting access to its Black Sea ports and export routes. Any threat to unified EU support benefits Russia's military and political goals, draining the bloc's financial resources. The Black Sea Grain Initiative guaranteed safe access for Ukraine's grains through three Black Sea ports until Russia backed out in July 2023. President Putin pledged to rejoin the deal if the West fulfills obligations to Russia. **Russia is likely to continue to threaten Ukraine's Black Sea export routes, negatively impacting Ukraine, the EU, import-dependent countries, and global agriculture markets** (Dodd, E. and Welsh, C., 2024).



In 2024, farmers' protests, accompanied by the closure of border checkpoints, began on February 9. Almost immediately after the end of the two-month blockade of the Ukrainian border by Polish carriers, who demanded the renewal of permits for Ukrainian drivers to work in the EU, they say they cannot stand competition.

On February 18, farmers blocked 6 out of 9 checkpoints: "Yagodin", "Ustylug", "Ugryniv", "Rava-Ruska", "Sheghini" and "Krakivets". At the same time, 4 of them are the largest, through which trucks weighing more than 7.5 tons can pass.

From February 20, Polish farmers agreed to block all border checkpoints with Ukraine for a whole month.

**In 2022, Ukraine received \$20 billion in profit from the export of agricultural products.** This is certainly half less than in the pre-war years. For comparison, **the export of IT services brought Ukraine \$7.34 billion in 2022. More than 50% of the goods were exported to the EU.** Also, almost half of all agricultural products are grains.

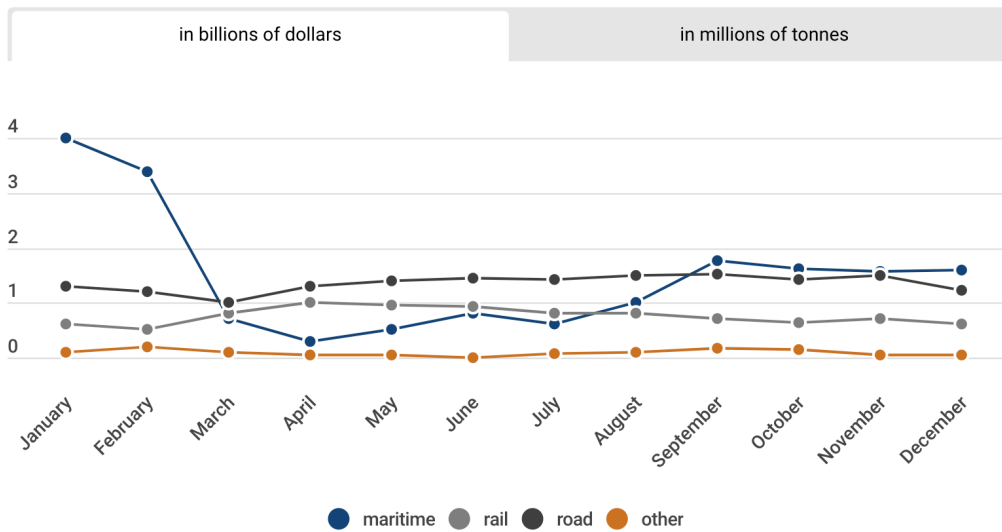
**About 10% of Ukrainian agricultural exports went through Poland, 6% - through Hungary, and 1.5% - through Slovakia.**

In general, the head of the parliamentary committee on finance, tax and customs policy, Danylo Hetmantsev, noted that **if the border is blocked until the end of February, the budget of Ukraine may not receive UAH 7.7 billion** (visitukraine.today, n.d.).

#### **4.1.1.2 Transport issues**

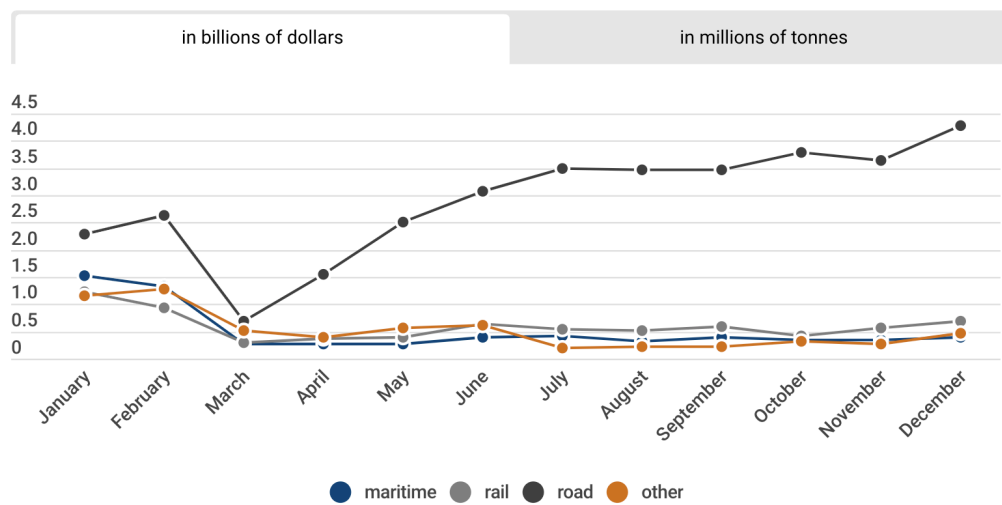
Before the war, maritime transport had been the main export route for Ukrainian commodities in terms of both value and volume. Ukraine attempted to circumvent the blockade which Russian troops had organised in the first days following the attack by increased use of its ports on the Danube. However, it was only following the opening of the 'grain corridor' in August 2022 that Kyiv managed to restore the significant role of maritime transport. It should be noted, though, that in December 2022 the volume of goods transported in this manner was 60% smaller than in January. Following the war's outbreak, road and rail transport gained ground, and Ukraine's land border crossings with EU countries (mainly Poland) became the main routes for Ukrainian exports (OSW Centre for Eastern Studies, 2023).

**Graph 2: Monthly commodity exports in 2022 according to means of transport.**



Source: Ministry of Infrastructure of Ukraine, n.d.

**Graph 3: Monthly commodity imports in 2022 according to means of transport.**



Source: Ministry of Infrastructure of Ukraine, n.d.

### 4.1.1.3 Metallurgical industrie

The blockade of the Polish border, which started on November 6, 2023, and has lasted until today, has hit the Ukrainian economy very hard. According to the NBU, **Ukraine lost \$160m in exports and \$700m in imports** last November alone. The losses of Ukrainian

steel trading companies are a small percentage of the total damage, but are becoming a huge threat to their export operations.

The cost of export delivery in November-December 2023 increased several times, customers canceled contracts and made claims due to the failure to meet delivery deadlines, imported products were delayed – these are not all the consequences of the blockade for companies in the industry. Cumulatively, the blockade has already cost millions of dollars in direct and indirect damage, which is only growing.

Due to the war, road transport has become more important for exports of steel products due to the almost complete stoppage of maritime transportation and limited capacity of railway border crossings and European railway infrastructure. Therefore, any restrictions on transportation at the borders with the EU, which is our main trading partner, negatively affect the export potential of Ukrainian metallurgy and import opportunities.

*«The blocking of the main Ukrainian-Polish crossings has led to an accumulation of traffic at Slovak and Hungarian crossings, which are physically unable to cope with them. The 400 km detour, which carriers are forced to make, costs customers at least 600 euros, and if you add 14-25 days of idle transport at 100 euros per day, then the cost increases by 2000-3000 euros per car. The turnover of flights of carriers has fallen by half – previously they made 1.5-2 round trips per month, at the moment – it is not always possible to make 1 round trip, respectively, the delivery time for customers has increased by 2-3 times, depending on the direction. But the worst thing is that nobody knows when and how it will all end,»* Diana Piloyan, director of Forlogist LLC, commenting on the blockade of the Polish-Ukrainian border (GMK, n.d.).

We will also consider more extensive information related to the export of various types of metal from Ukraine in order to understand the real picture of what is happening:

#### **Export of iron ore:**

Before the war, Ukrainian iron ore exports reached 28.4 million tons in 2021, with China being the largest market, accounting for 41.9% of the total. However, total iron ore exports fell to 17.75 million tonnes in 2023, 60% below pre-war levels. This decline was due to the destruction caused by the Russian invasion.

The loss of traditional sales markets forced Ukraine to look for new strategic partners in Eastern and Central Europe. In 2023, Slovakia becomes the largest importer of Ukrainian iron ore, accounting for 28.39% of total exports in foreign currency. The Czech

Republic (19.7%) and Poland (19.6%) are behind, which together account for a significant share of Ukrainian iron ore exports.

#### **Export of steel semi-finished products:**

Exports of semi-finished steel products from Ukraine have also been hit hard, falling to 1.2 million tons in 2023, down 36.7% from 1.64 million tons in 2022 and down a significant 82.2% from 2, 19 million tons in 2021. In Mariupol, important steel sheet producers, contributed to this decline. Thus, by 2023, about 90% of the export of semi-finished steel products from Ukraine will be billets.

With a currency share of 36.7%, Bulgaria will become the main destination for exports of steel semi-finished products to Ukraine in 2023, followed by Poland with 23%. Instead, Italy (30.9%), Turkey (12.8%) and the Dominican Republic (8%) are the main export markets in 2021.

#### **Export of finished metal products:**

The war also significantly affected Ukrainian exports of finished steel products. According to the Global Trade Tracker (GTT), in 2023 Ukraine exported about 361,000 tons of rolled steel of all kinds, which was significantly reduced by 75% compared to 1.5 million tons exported in 2021. European neighbors have become an important sales market and will absorb about 80% (292,000 tons) of Ukrainian rolled products exported by 2023. This is in stark contrast to 2021, when only 20% of these exports are reserved for Europe, while Africa (36.6%), the Middle East (20.6%) and the South The largest share of the market belongs to the USA (15.4%).

#### **Export of hot rolled steel (HRC) to the EU:**

In the segment of flat rolled products, Ukrainian exports of high-strength metal to the European Union (EU) gained momentum: in 2023, 603,916 tons were shipped, which is 18.4% more compared to 509,896 tons in 2022. Poland became the main destination market with a market share about 42%. PVC export from Ukraine to the EU.

Ukrainian suppliers are mainly active in the market of HRC raw materials and offer their products at a discount of about 20 EUR/t compared to raw materials of European origin. European steel companies using Ukrainian raw materials can export finished products to the United States without paying import duties, as the United States suspended Section 232 import duties on steel from Ukraine in May 2022 and extended the suspension for another year until May 2023.

In addition, Ukraine is exempt from all protective and anti-dumping measures of the EU, which additionally supports the export of steel from the country to the region.

In September 2023, Ukraine successfully crossed the Black Sea with two ships with steel and raw materials. This is the first time since the Russian invasion that the country has used its traditional export route. However, the export of high-quality metals from Ukraine remains irregular, while the majority of flat rolled products are shipped by rail to the countries of Central and Eastern Europe.

#### **Export of pig iron:**

It is interesting to note that the trend of export of pig iron from Ukraine differs from the trend of export of other metallurgical products. In contrast to the general decline, Ukrainian exports of pig iron to the EU have declined over the last two years of the war. In 2023, Ukraine exported a total of 1.39 million tons of pig iron, but only 228,878 tons (16%) were delivered to EU countries, compared to 23% in 2022 and 29.86% in 2021.

America was born due to higher prices in this market, as it is the destination for Ukrainian pig iron suppliers in 2023. In 2022, the average price of pig iron imported into the US Gulf region was \$117.16. USA/month higher than the price in Italy. However, this gap will decrease in 2023, which makes the Italian market more attractive for Ukrainian suppliers. By mid-February 2023, the difference in the US-Italy price had narrowed to \$45 per tonne, and freight rates to Italy had fallen.

#### **Export of steel sheet:**

Due to the war, Ukrainian exports of sheet steel to the EU practically stopped. Prior to the invasion, Ukraine was the main supplier of steel sheet to the EU, supplying 864,637 tonnes in 2021, which accounted for 43% of total EU steel sheet imports that year, or 2.02 million tonnes.

However, Ukrainian exports of thick rolled products to the EU are reduced to only 195,719 tons in 2022 and to zero in 2023. This is due to the destruction of the main capacities of Ukraine for the production of thick rolled steel "Azovstal" and "Ilyich Metallurgy", located in Mariupol. , was destroyed during the invasion of Russian troops. With the loss of supplies from Ukraine and Russia (once the EU's second largest supplier of sheet steel), the European Union is becoming increasingly dependent on supplies from Asian suppliers, even if the bloc. This amount cannot fully compensate for the deficit that remains due to the two countries.

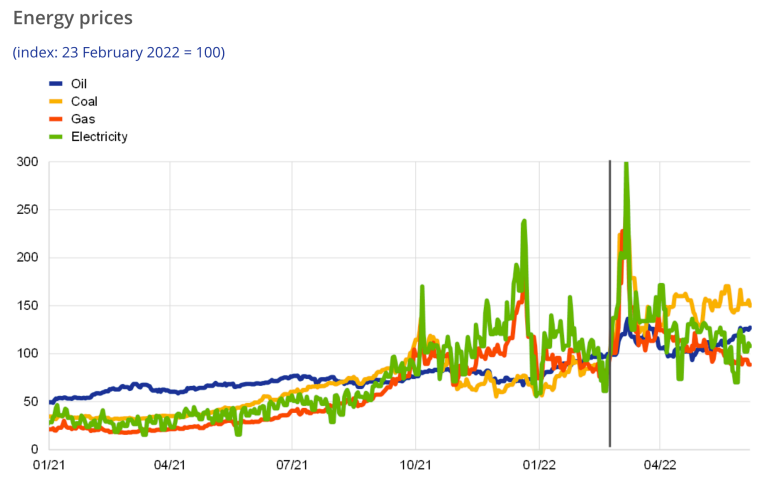
There has been a marked shift in trade flows within the EU trading bloc, with an increased presence of Italian plate steel in the German and CEE markets. However, trade in the European slab market has slowed in recent weeks as buyers shunned imports in anticipation of lower prices and slower sales, except in Central and Eastern Europe, where supply problems are leading to better market conditions (Price, 2024).

#### **4.1.2 Energy prices**

The second main channel by which the Russian invasion of Ukraine will affect the EU's economy is through rising energy prices. There are two ways in which member states will be impacted: first, through direct dependence on Russian energy imports; second, through rising gas, oil and coal prices on global energy markets as a result of the current conflict (Redeker, 2022).

**Oil, coal and gas prices spiked in the immediate aftermath of Russia's invasion of Ukraine and have been volatile ever since.** Energy commodity price volatility began mounting in December 2021 when reports of a potential Russian invasion of Ukraine increased. In the first two weeks after the invasion, the prices of oil, coal and gas went up by around 40%, 130% and 180% respectively (on pic). Gas prices also pushed up wholesale electricity prices in the eurozone. Since then, energy commodity prices have fallen, with oil and coal prices 27% and 50% higher than pre-invasion levels, respectively, and gas prices 11% lower than pre-invasion levels. Oil prices recently recovered on the back of the EU's approval of an embargo on most Russian oil imports and an increase in global oil demand as China eased restrictions related to Covid-19. Wholesale electricity prices are 8% higher than pre-invasion levels, but remain highly volatile, particularly due to policy measures taken in response to price increases (Adolfson et al., 2022).

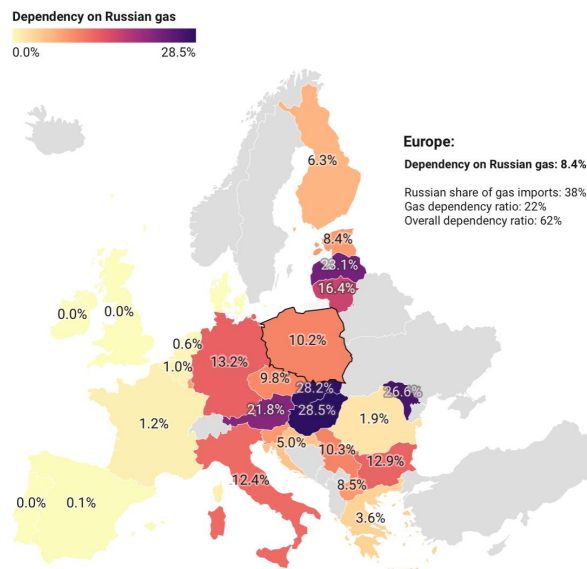
**Graph 4: Energy prices before and after the invasion of Ukraine.**



Source: Refinitiv, Bloomberg and ECB staff calculations, n.d.

Russia supplies around a third of the natural gas consumed in Europe, and much of that gas flows through pipelines that run through Ukraine. The conflict has led to disruptions in the supply of natural gas, causing shortages and price spikes in some countries (Pisani-Ferry, 2022).

**Graph 5: Mapping European dependency on Russian gas.**



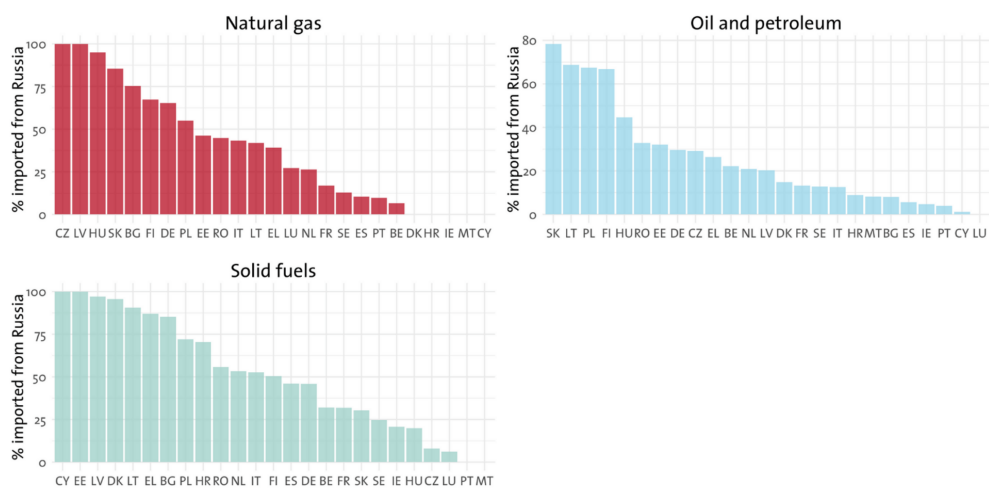
Source: Pisani-Ferry, 2022

The situation has been particularly acute in the winters, when demand for heating increases. In 2014, for example, the conflict in Ukraine led to shortages of natural gas in

some countries, which in turn caused prices to rise. This had a negative impact on businesses and consumers across the continent.

Again, these direct dependencies are not distributed equally across member states. As with overall trade, CEE member states rely much more heavily on Russian energy imports than the rest of the EU. For example, Latvia and the Czech Republic receive all their gas imports from Russia. Similarly, Latvia and Hungary also rely almost entirely on Russian imports when it comes to natural gas, whereas direct dependencies are much less pronounced in some Northern and Southern member states (Redeker, 2022).

**Graph 6:** Energy imports from Russia across member states in 2020. Calculations based on Eurostat. Solid fuel encompasses mostly coal.



Source: Eurostat, n.d.

In addition, many EU countries need to invest significantly in energy security. The European Commission has proposed a draft plan (REPowerEU) to promote investments in energy security. The EU has allocated €10 billion from its REPowerEU plan to support the development of LNG import terminals and gas storage facilities to improve energy security. Measures include diversifying gas supplies, accelerating the expansion of renewable gas use, and replacing natural gas in heat and power generation. EU members dependent on Russian energy imports have begun implementing their own plans. For example, Germany, according to the federal government, plans to invest €3 billion in two new LNG import terminals (including short-term leasing of floating LNG terminals) and to begin importing coal and oil from Russia. These plans are still being developed and their cost has not yet been disclosed (How bad is the Ukraine war for the European recovery?, n.d.).

The impact of the conflict in Ukraine on energy prices has highlighted the importance of diversifying energy sources and reducing dependence on a single supplier. It has also

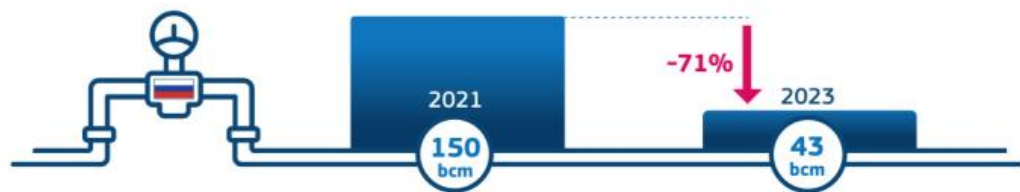


highlighted the need for greater cooperation and coordination between European countries on energy policy.

**Situation nowadays:**

Two years later, the landscape of energy imports into the EU has changed significantly. Although total pre-war gas demand was about 400 billion cubic meters (bcm) per year and only about 10% of this was met by domestic production, 150 billion cubic meters of natural gas (LNG and pipeline gas) was imported into Russia in 2021, a reduction almost doubled in 2022 (up to 80 billion m<sup>3</sup>) and decreased at the same rate in 2023 (up to 43 billion m<sup>3</sup>). In short, the EU's dependence on Russian gas fell from 45% in 2021 to only 15% in 2023.

**Graph 7:** Export difference between 2021 vs. 2023.



Source: energy.ec.europa.eu, n.d.

This goal was achieved in large part thanks to the European Commission's historic REPowerEU plan, launched in May 2022 as a direct response to Russia's reckless actions. Also, the combination of more reliable pipelines and liquefied natural gas (LNG) imports was crucial to overcoming the EU's dependence on Russian gas imports. As a result, Norway and the US became our largest gas suppliers in 2023, accounting for 30% and 19% of our total gas imports, respectively (energy.ec.europa, n.d.).

**4.1.3 Economic sanctions**

The conflict in Ukraine has also led to economic sanctions on Russia by the European Union and other countries. These sanctions were imposed in response to Russia's annexation of Crimea in 2014 and its support for separatist rebels in eastern Ukraine.

Since Russia's unprovoked and unjustified invasion of Ukraine in February 2022, the Council has adopted 11 packages of sanctions against Russia and Belarus. The sanctions aim to weaken Russia's ability to finance the war and specifically target the political, military and economic elite responsible for the invasion (European Council, 2023).

The cumulative effect of successive waves of EU sanctions since February 2022, constituting an exponential escalation of the 2014 sanctions previously in place, is intended to weaken Russia's economic base and curtail its ability to wage war. It is also designed to hamper Russia's access to military technologies and components, whilst targeting political and economic elites to undermine their support for the regime.

Sanctions set by the EU to date include (non-exhaustive list) (consilium.europa, n.d.):

**Economic Sanctions:**

1. Finance

- SWIFT ban for 10 Russian banks;
- restrictions on Russia's access to the EU's capital and financial markets;
- ban on transactions with the Russia Central Bank;
- ban on supply of euro-denominated banknotes to Russia;
- ban on provision of crypto-wallets;
- prior authorisation on transfers of funds outside the EU by Russian-owned or controlled entities in the EU;

2. Transport

- closure of EU airspace to all Russian-owned aircraft;
- ban on Russian road transport operators;
- ban on trailers and semi-trailers registered in Russia;
- closure of EU ports to Russian vessels;
- ban on maritime transport of Russian oil to third countries;
- no access to ports and locks in the EU for vessels engaged in ship-to-ship transfers (suspected of breaching the sanctions);
- ban on exports to Russia of goods and technology in the aviation, maritime and space sectors.

3. Energy

- ban on imports from Russia of oil and coal;
- price cap related to the maritime transport of Russian oil;
- ban on liquefied propane;
- ban on exports to Russia of goods and technologies in the oil refining sector;
- ban on new investments in the Russian energy and mining sector;
- ban on providing gas storage capacity to Russian nationals.

4. Defence, ban on exports to Russia of:

- dual-use goods and technology for military use;
- semiconductor materials, electronic and optical components;
- navigational instruments;
- drone engines, direct current motors and servo motors for drones;
- arms and civilian firearms and their parts;
- ammunition, military vehicles and paramilitary equipment;
- chemicals, lithium batteries and thermostats;
- other goods which could enhance Russian industrial capabilities.

The impact of the sanctions has been significant. They have restricted access to international finance for Russian companies and individuals, and have limited their ability to do business with European companies. This has had a negative impact on the Russian economy, which has struggled with low growth and high inflation.

The sanctions also affect European companies that depend on trade with Russia. Many European companies had to reduce their activities in Russia or face fines for violating sanctions. This has led to a decline in investment and economic growth in several regions of Europe.

At the same time, sanctions have political implications. They signaled to Russia about the unacceptability of their actions in Ukraine and demonstrated the solidarity of European countries in supporting Ukraine.

In general, the economic sanctions imposed against Russia in response to the conflict in Ukraine have had a significant impact on both Russia and Europe. They harmed the Russian economy and affected European business. At the same time, they send a signal to Russia about the importance of respecting the sovereignty and territorial integrity of Ukraine.

#### **4.1.4 Refugee crisis**

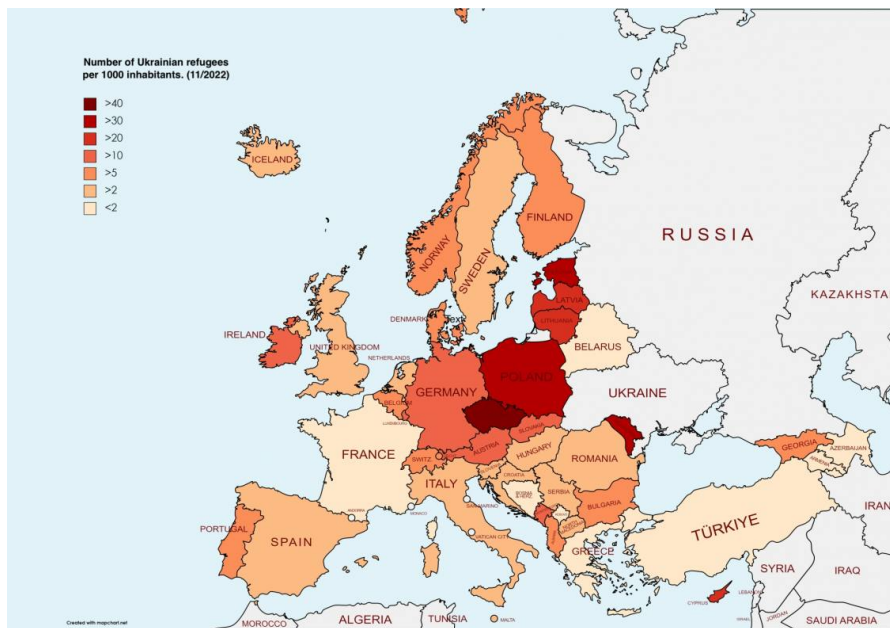
The conflict in Ukraine has also contributed to a refugee crisis, with tens of thousands of people fleeing the conflict and seeking refuge in neighboring countries and beyond.

Most of the refugees have fled to Russia, which shares a border with eastern Ukraine, or to other neighboring countries such as Belarus, Poland, and Moldova. However, some have also sought refuge further afield in Europe and beyond.

**Poland** has still granted the largest number of special visas so far at **1.58 million**. Then, out of the countries not neighbouring Ukraine, **Germany** has the highest number of Ukrainian refugees, with just over one million (922,000 of them have temporary protection).

**The Czech Republic** ranks third overall with around 500 thousand cases of temporary protection granted. Other European countries include the United Kingdom, Italy, Spain, Bulgaria, Romania, France and Slovakia who have also issued more than 100,000 special visas for Ukrainian refugees (Need, n.d.).

**Graph 8:** Number of Ukrainian refugees are in Central and Eastern European countries.

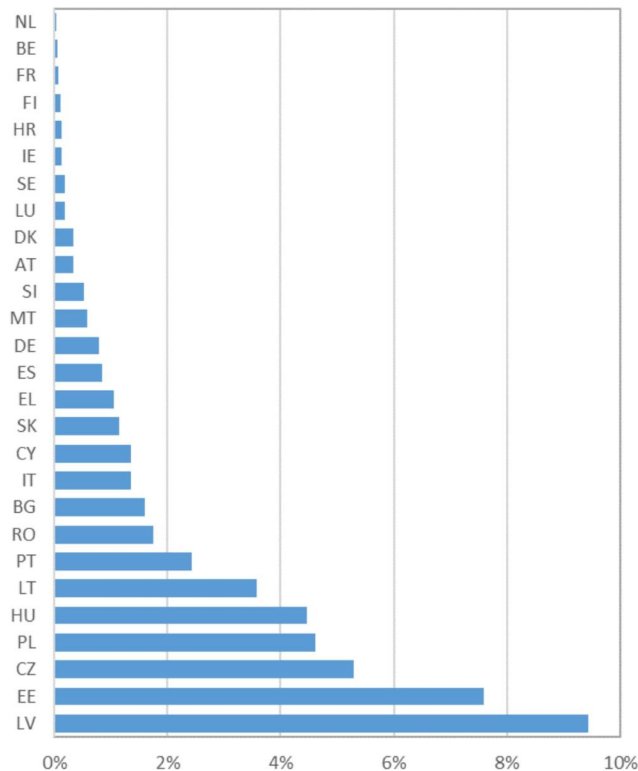


Source: unhcr, n.d.

The long-term cost of welcoming refugees is likely to be negligible, as they may either return to their home country or quickly integrate into the European labour market. But in the short term, they need food, accommodation, healthcare and education for children (Pisani-Ferry, 2022).

In the short run, the inflow of Ukrainian refugees will primarily strain the finances of EU members bordering Ukraine. Over time, however, refugees will likely relocate to countries in which they have family and friends, and that movement will be facilitated by the decision to grant work permits and free movement within the European Union. Taking into consideration where the Ukrainian diaspora primarily lived before the invasion, the countries expected to shoulder the biggest expenses for refugees are the Baltics, the Czech Republic, Poland and Hungary. Should refugees decide to stay for more than a few years, their host countries are likely to benefit financially from their presence (How bad is the Ukraine war for the European recovery?, n.d.).

**Graph 9: Expected costs of accommodating refugees (% of GDP).**



Source: EIB estimates, n.d.

Note: The figures assume that 3.5 million Ukrainian refugees will arrive in the European Union and that governments will have to spend €10,000 per refugee.

Estimates of the associated costs, such as those of UNHCR, are relatively low. However, experience shows that costs can rise quickly: in Germany, the cost of processing refugees in 2016 was €9 billion for around 750,000 applicants. If subsidies are estimated at around €10 billion per million refugees per year, costs could easily reach €30 billion by 2022. Host countries, which are relatively underdeveloped, cannot bear these costs. It needs to be shared, especially through the EU budget, but also through international organizations such as UNHCR and charities (Pisani-Ferry, 2022).

In addition, the refugee crisis also has a wider impact on Europe as a whole. This led to a debate about how to respond to the crisis. Some countries favor increased support for refugees, while others take a more limited approach.

The crisis has also raised questions about the European Union's ability to respond to such challenges, and has highlighted the need for greater cooperation and coordination between European countries on migration and refugee policy.

In general, the refugee crisis caused by the conflict in Ukraine has had a significant impact on the affected countries, as well as on the entire European community. The importance of addressing the root causes of conflict and displacement, as well as the need for effective international cooperation to address these crises, were emphasized.

### **Ukrainian refugee crisis: the current situation**

Russia's full-scale invasion of Ukraine caused, among other things, the largest forced migration in Europe since the end of World War II. Up to a third of the population has been displaced. About two years since the conflict erupted, ten million Ukrainians still cannot return to their homes. Almost four million remain internally displaced within Ukraine, and more than six million refugees have found shelter abroad, not only in Europe but also overseas.

The mass migration triggered by the Russian-instigated war is not just about fleeing Ukraine to the nearest safe country; it has become more complex. This complexity has become particularly evident in recent months as the movement of refugees from countries directly bordering Ukraine has expanded further west, mainly to Germany, but also as far as Canada, where there is a robust Ukrainian diaspora. Many Ukrainians maintain contact with home through short-term moves back and forth, building on pre-existing patterns of seasonal labour migration. Millions of refugees have returned permanently to their homeland but rarely to the areas where they fled.

### **The situation in Europe**

The United Nations High Commissioner for Refugees (UNHCR) estimates that there are currently around **6 million Ukrainian refugees in Europe**.

The distribution of refugees has changed significantly over the past year. While in the spring of 2023, Poland was still the country with the highest number of forcibly displaced persons, Germany is now the leading destination. According to official statistics, about **1.1 million Ukrainian refugees** currently reside in **Germany**.

The refugee situation has changed dramatically in **Poland** as well. Of the more than **1.6 million** refugees to whom Poland granted temporary protection, only about **960,000** remain there.

There are several reasons for the mass exodus of Ukrainians from Poland - most often to Germany, but to a lesser extent to other Western European countries. Recent sociological studies show that the main drivers of secondary migration to Germany are higher earnings

and better social security—nearly half of the out-migrants report being encouraged to move further west by recommendations from friends or relatives.

Focusing on the number of **refugees per capita**, **Estonia** tops the EU ranking, with about 37 Ukrainian temporary protection holders per 1,000 inhabitants. Only two other European countries, each located outside the EU's borders, report a higher proportion of refugees in their populations. In **Moldova**, refugees comprise almost a twentieth of the population, and in **Montenegro**, more than a tenth.

Of the Western European countries, perhaps somewhat surprisingly to many, it is not Germany but Ireland which boasts the highest relative number of refugees. With a population of just five million, the Ukrainian population in this island country has already passed 100,000 and continues to grow. Irish Prime Minister Leo Varadkar's government has struggled with the relentless increase in the number of refugees, particularly as it exacerbates the long-standing crisis in the housing market.

In this context, it is important to note that in the case of Ireland, as in Germany and Austria, the Ukrainian refugee crisis is just one of many. The mass arrival of Ukrainians is occurring at the same time as record numbers of asylum seekers from non-European countries such as Syria, Afghanistan, Sudan, and Venezuela are arriving in these countries.

### **Canada and USA**

A significant number of Ukrainian refugees find sanctuary overseas. **Over 400,000 Ukrainians** have migrated to Canada and the US since February 2022. Both of these countries have introduced special visa regimes for Ukrainian refugees. Those interested in staying in Canada can gain admission through the Canada-Ukraine Authorisation for Emergency Travel (CUAET) programme, through which they can obtain work and study permits, among other things. There is great interest in participating in the programme, with the Canadian authorities registering about 1.2 million applications. Almost two-thirds have already been approved, but the number of people who have taken advantage of the entry permit is significantly lower. According to the , just over 210,000 people have entered Canada under the CUAET programme.

The US granted either Temporary Protected Status or (for those who arrived after 1 April 2022) a special humanitarian visa granted under the Uniting For Ukraine (U4U) programme to most of the approximately 270,000 Ukrainians who came. The basic principle of this type of visa, granted for two years, is a guarantee by individuals or families who

already legally reside in the US. Relatives, applicants' friends, or volunteers from the general public can take on this sponsorship role.

The relatively high interest of Ukrainians in emergency movement to Canada and the USA can be explained, in part, by their deep and rich migration history. There has been a robust Ukrainian diaspora in both North American countries since the nineteenth century.

### **Russia**

The data on the number of refugees heading east to Russia remain highly uncertain. Official Russian sources from the so-called power structures speak of 5 and sometimes even more than 7 million refugees a year after the start of their "special military operation". According to an analysis by experts from the Russian non-profit organisation '**Civic Support**', these figures reflect the number of people crossing the Russian border and are drastically overestimated. Many experts estimated the actual number of displaced people at **1.2 million**. The newly revised UNHCR figures are consistent with this.

Not much is known about the fates of Ukrainians who resettled in Russia. Based on a previously adopted government resolution, the new arrivals are redistributed across all 85 Russian regions, starting with the Voronezh and Rostov regions, which border Ukraine, and ending in Chukotka, seven thousand kilometres away.

Leading Ukrainian officials, including President Volodymyr Zelensky, claim **that a substantial percentage of transfers to Russia are deportations**. In March 2023, the International Criminal Court in The Hague issued an arrest warrant for Russian dictator Vladimir Putin in connection with the abduction of Ukrainian children. According to Ukrainian sources, there are at least **8,000 abducted children** in Russian territory.

### **Returns**

A significant number of refugees have already returned to their homeland. The UNHCR has registered over 11 million border crossings into Ukraine as of early April 2023. This figure, however, includes repeat crossings. The International Organisation for Migration (IOM) estimates the actual number of returnees at around **4.6 million**.

Refugees' plans to return have remained constant for a long time: opinion polls of displaced individuals across Europe show that most intend to return to Ukraine. However, leading Ukrainian officials and independent experts agree that a mass return will only be possible if the country can meet three basic conditions: work, housing, and security.



### **Internally displaced persons (IDPs)**

Internal displacement is an often overlooked but integral aspect of the Ukrainian refugee crisis. According to the IOM's most recent report, as of October 2023, the number of internal refugees was approximately **3.7 million**. The Ukrainian authorities estimate that there are around 4.9 million IDPs, including those already displaced before 24 February 2022.

Almost half of those displaced come from the Kharkiv and Donetsk regions. The distribution of internal refugees has changed significantly over time: while in the early months of the war, most people sought refuge in the west of the country, more than a third now remain in the war-affected east. Nearly a fifth of IDPs have found temporary homes in Kyiv or the wider Kyiv region (reliefweb.int, 2024).

#### **4.1.5 Military spending**

The conflict in Ukraine has also had an impact on military spending in Europe. Most EU governments have committed to increase their military spending. Military spending in most NATO members in the European Union does not meet the target of 2% of GDP. To meet the targets, spending will need to be considerably increased, not only for countries in Western Europe such as Germany and Spain, but also for Eastern European countries such as the Czech Republic and Slovenia. Nevertheless, government budgets may not immediately feel the strain as most countries intend to phase in the spending increase. But it remains to be seen whether national parliaments will approve the increased military spending (How bad is the Ukraine war for the European recovery?, n.d.).

To support the Ukrainian military, on November 15, 2022, the Council approved an aid measure worth 16 million euros to support the development of the potential of the Ukrainian armed forces.

From 2022 to 2023, the EU mobilized €5.6 billion in the European Peace Fund for:

- strengthen the capabilities and resilience of the Ukrainian armed forces
- protect the civilian population from the ongoing military aggression

The agreed support measures will fund the supply of **equipment and materials** such as personal protective equipment, first aid kits and fuel, as well as military equipment and platforms for the use of force, lethal force for defensive purposes.

If we add military support from EU member states, the total **EU military support for Ukraine is estimated at more than 25 billion euros** (consilium.europa, n.d.).

In addition, the increased military spending has also raised questions about the sustainability of such spending over the long term, and about the need for greater cooperation and coordination between European countries on defense policy.

Also, on 7 October 2022, during an informal meeting of heads of state, EU leaders discussed - as part of the EU's military support - **military training missions for Ukraine** to help it prevail on the battleground. The new EU Military Assistance Mission (EUMAM) in support of Ukraine was established in October 2022 and launched in November 2022. The aim of the mission is to:

- contribute to **enhancing the capability of Ukraine's armed forces** to effectively conduct military operations
- allow Ukraine to defend its territorial integrity within its internationally recognised borders and effectively exercise its sovereignty and protect civilians

The mission will initially last two years. It ensures coordination with member states' bilateral activities in support of Ukraine, as well as with other like-minded international partners, and is open to participation by non-EU countries.

On 28 November 2023 the Council increased training support for Ukrainian forces, an additional €194 million in support for the Ukrainian armed forces brings the total to €255 million (consilium.europa, n.d.).

More about the increase in military spending by European countries in response to the war in Ukraine:

### **Great Britain**

- Britain allocated \$68.5 billion (€62.24 billion) to its military budget in 2022, including \$3.1 billion for military financial aid to Ukraine.
- In January 2024, Chancellor Rishi Sunak signed an agreement on the development of Ukrainian drone production capabilities and promised to spend \$3.2 billion on defense aid to Ukraine this year.

### **Germany**

- Despite being a key NATO ally, Germany initially lagged behind in increasing defense spending, providing only 1.4% of GDP in 2022, up 2.3% from the previous year.
- However, in February 2022, Prime Minister Olaf Scholz pledged €100 billion in aid to Ukraine, although little is believed to have been spent so far.

- Germany plans to double military aid to Ukraine to 8 billion euros (\$9 billion) by 2024.

### **Poland**

- Poland, which borders Ukraine, is one of the most vulnerable countries in the conflict.
- In 2022, Poland became an important export destination for Ukrainian steel, accounting for about 42% of hot-rolled strip supplies to the EU.

### **Baltic countries**

- Estonia said it would provide 1.2 billion euros (\$1.3 billion) in military aid to Ukraine over four years, equivalent to 0.25 percent of GDP per year.
- Latvia promised to provide artillery, grenade launchers, drones and helicopters for the defense of Ukraine.
- After Russia annexed Crimea in 2014, Lithuania more than doubled its military spending.

### **France**

- France will provide long-range SCALP missiles as part of the military aid program to Ukraine.
- "We will provide more equipment and help Ukraine with what it needs to protect its airspace," President Macron said.

### **Other EU countries**

- As chairman of the NATO Military Committee, the Netherlands called for a "military transformation of NATO" in response to the conflict in Ukraine.
- Italy receives sporadic offers for Ukrainian hot-rolled products as deep-sea exports gradually recover.
- Due to supply disruptions, the presence of Italian thick panels in the market of Central and Eastern Europe has increased.

At the same time, the increased military spending has also had a negative impact on other sectors of the economy, as resources are diverted away from other priorities such as education, healthcare, and infrastructure.

To summarize, the conflict in Ukraine has led to increased military spending in Europe, which has had both positive and negative impacts on the economy. It has also highlighted the importance of balancing defense priorities with other priorities, and of finding ways to work together to address shared security challenges.

## 5 Results and Discussion

### 5.1 Economic of Great Britain after WWII

The years following World War II presented numerous economic challenges for Great Britain. The country had accumulated a massive war debt, estimated to be around £21 billion, equivalent to over £1 trillion in today's value. This debt burden put immense strain on the nation's finances, with the public debt-to-GDP ratio reaching a staggering 200.6% in 1950.

Emerging from the war, the British economy was subject to widespread controls on consumption through rationing, investment through allocation of materials, imports, and prices. However, by 1950, most of these controls were being phased out, only to be revived due to the Korean War and subsequent rearmament process. This led to acute shortages of raw materials and steep price rises, with inflation reaching 9.1% in 1951 and peaking at 9.2% in 1952.

To manage the economic situation, the UK followed a "stop-go" pattern of growth, where fiscal and monetary policies were actively used to fine-tune the economy. During "stop" periods, policies aimed to reduce inflation and imports, while during "go" periods, policies aimed to boost growth and reduce unemployment. This approach resulted in fluctuating GDP growth rates and unemployment levels:

- 1952: Growth slowed to under 2%, unemployment rose
- 1953-1955: Growth over 4% per annum, unemployment fell each year
- 1956-1958: Growth under 2%, unemployment rose each year
- 1959: Growth over 4%, unemployment fell to near 2% in 1960

Investment played a crucial role in the expansion of the economy, with public investment being predominant in the early part of the decade. As a share of national income, public investment was 7.3% in the 1950s, almost three times the 2.7% seen during the interwar years. Private investment significantly increased in the latter half of the decade, rising from 4.6% of GDP in 1950 to 8.9% in 1959, as controls were removed.

Despite the high levels of public investment, public borrowing remained relatively low throughout the 1950s. This favorable fiscal dynamic, coupled with strong economic

growth, allowed the public debt-to-GDP ratio to fall rapidly, from 200.6% in 1950 to 112.4% by 1959. Although interest rates rose during "stop" periods, with the Bank rate peaking at 5.6% in 1957, the declining debt ratio kept debt interest costs manageable at around 4-5% of GDP annually.

The economic expansion supported rising living standards, with real household disposable income growing by 22% between 1950 and 1959. This increase was underpinned by strong productivity growth and a system of industrial relations that ensured productivity gains were passed on to workers in the form of higher wages.

Prime Minister Harold Macmillan famously remarked in 1957 that "most of our people have never had it so good," reflecting the widespread prosperity of the time. Economic historians estimate that regional inequality in Britain was lower during this postwar period than at any other point in the 20th century, indicating that the benefits of economic growth were shared across different regions.

### **There are some notable similarities and differences between the current war in Ukraine and Britain's involvement in World War II from 1941 to 1945:**

#### **Similarities:**

1. Invasion and defense of the Motherland. Just as Ukraine is now defending itself against a Russian invasion, Britain faced an existential threat from the attempted invasion and bombing of Nazi Germany during the Battle of Britain and the Blitz of 1940-1941.

2. Fighting a bigger aggressor: in both conflicts, a smaller nation (Ukraine and Great Britain, respectively) had to defend themselves against a bigger, more powerful aggressor (Russia and Nazi Germany).

3. Civilian casualties and displacement: Both wars resulted in significant civilian casualties and the displacement of large numbers of people fleeing the violence.

4. International support: Ukraine received military and economic support from Western allies, similar to how Britain received support from its allies, particularly the United States, in World War II.

5. Importance of Morale and Propaganda: Maintaining public morale and using propaganda to gain support were crucial in both conflicts.

#### **Differences:**

1. Scope and duration: World War II was a global conflict that lasted six years, while the war in Ukraine was (so far) more localized and less prolonged.

2. Type of War: While World War II was about conventional warfare between nation-states, the conflict in Ukraine also included elements of hybrid warfare, such as cyber attacks and disinformation campaigns.

3. The nuclear threat: The conflict in Ukraine has raised concerns about the possible use of nuclear weapons, which were not a factor in World War II before the bombings of Hiroshima and Nagasaki.

4. Alliances and blocs: World War II was a conflict between the Allies and the Axis powers, while the war in Ukraine is seen through the prism of tensions between Russia and NATO/Western powers.

5. Economic Effects: World War II had a profound economic impact on Britain, as the country found itself heavily in debt after the war, while the full economic impact of the war in Ukraine remains to be seen.

Despite differences in scale and context, both conflicts involve a nation courageously defending itself against a larger aggressor, with civilians bearing the brunt of the violence and international support playing a critical role in resistance efforts.

## **5.2 The US invasion of Iraq in 2003**

**The US invasion of Iraq in 2003 had economic consequences for both the United States and Iraq itself.** There are some key economic issues related to this conflict:

1. The Cost of the War: The Iraq War was an expensive affair for the United States. Estimates range from \$1.9 trillion to more than \$6 trillion when the long-term costs of veterans' care and disability benefits are included. These huge costs created a significant burden on the US federal budget and contributed to the growth of the country's national debt.

2. Impact on oil prices: Iraq has significant oil reserves, and the invasion and the resulting instability in the region have led to disruptions in oil production and supply. This contributed to the rise in global oil prices, which reached record highs during the conflict and affected economies around the world.

3. Reconstruction Efforts: After the initial invasion, the United States and its allies began efforts to rebuild and reconstruct Iraq's infrastructure, institutions, and economy. However, these reconstruction efforts have faced numerous challenges, including corruption, mismanagement, and persistent violence, which have hindered economic progress.

4. Economic Sanctions and the Iraqi Economy: Prior to the invasion, Iraq was subject to UN economic sanctions due to Saddam Hussein's regime. These sanctions have had a devastating effect on the Iraqi economy, leading to mass poverty, unemployment and the deterioration of the country's infrastructure.

5. De-Baathism and the Iraqi workforce: The Coalition Provisional Administration implemented de-Baathism policies aimed at removing members of Saddam Hussein's Baath Party from positions of power and influence. This process disrupted Iraq's workforce and contributed to the country's high unemployment rate.

6. Privatization and Foreign Investment: After the invasion, there were attempts to promote privatization and attract foreign investment to Iraq. However, the volatile security situation and ongoing violence have made it difficult for foreign companies to operate and invest in the country.

7. Sectarian Violence and Economic Effects: The invasion and subsequent sectarian violence between Sunni and Shia groups in Iraq had a detrimental effect on the country's economy. This disrupted trade, commerce and economic activity and further exacerbated the problems faced by the Iraqi people.

Overall, the 2003 U.S. invasion of Iraq had a significant economic impact, both for the United States in terms of massive war spending and for Iraq itself, where conflict and instability hampered economic recovery and development efforts.

**There are some notable similarities and differences between the current war in Ukraine and the US invasion of Iraq in 2003:**

**Similarities:**

1. Territorial integrity: In both cases, a larger military power (Russia or the USA) invaded a smaller neighboring country (Ukraine and Iraq), thus violating their territorial integrity and sovereignty.

2. Claims of security threats: Russia has declared the need to "demilitarize" and "denazify" Ukraine, citing alleged threats to its security. Similarly, the US cited the potential threat of weapons of mass destruction (WMD) as a justification for invading Iraq, although no such weapons were ultimately found.

3. Regime change: both conflicts involved a change in the political leadership of the invaded countries. Russia tried to install a pro-Russian government in Ukraine, and the US tried to overthrow Saddam Hussein's regime in Iraq.

4. Economic factors. Significant economic factors played a role in both conflicts, including Russian interests in Ukrainian energy resources and the US desire to gain access to Iraqi oil reserves.

**Differences:**

1. Scale and duration: The war in Ukraine (so far) has been a more limited and shorter conflict compared to the US invasion of Iraq, which involved a larger military operation and a longer occupation.

2. International support: Although the US invasion of Iraq received some international support from allies, Russia's invasion of Ukraine was widely condemned by the international community and Russia was subject to severe economic sanctions.

3. NATO Involvement: The conflict in Ukraine has a direct impact on NATO, as Ukraine is a partner country seeking to join NATO, while Iraq was not a NATO member or partner.

4. Insurgency and Insurgency: The United States faced a significant insurgency and resistance movement after the initial invasion of Iraq, while Ukraine mounted a more coordinated and organized defense against the Russian invasion.

5. Nuclear issues: The conflict in Ukraine has raised concerns about the possible use of nuclear weapons, given Russia's nuclear arsenal and the presence of nuclear power plants in Ukraine, concerns that were not as prominent during the invasion of Iraq.

Although both conflicts involved the invasion of a smaller country by a larger military force, the specific contexts, motivations, and international response differed significantly between the war in Ukraine and the 2003 US invasion of Iraq.



## 6 Conclusion

This diploma thesis was focused on research on topic: “The impact of the war in Ukraine on European economy.” After conducting theoretical and practical research, we found out that the Russian invasion of Ukraine dealt a serious blow to the European economy. Costs reach hundreds of billions of euros due to trade disruptions, rising energy prices, the refugee crisis and increased military spending.

The disruptions in trade were huge: Ukraine's exports falling by 35.1% to \$49.6 billion and imports by 24.2% to \$72.6 billion in 2022 compared to 2021 levels. The blockade of the Black Sea ports, through which two-thirds of Ukrainian exports pass, worsened the situation. Exports of agricultural products to the EU, which accounted for more than 50% of Ukrainian agricultural products worth about \$20 billion in 2022, faced major bottlenecks, leading to losses of millions of dollars every day. Also, at the end of 2023, metal exports from Ukraine fell by more than 5% due to transport disruptions.

The supply of energy resources faced upheavals due to the termination of the transit of Russian gas through Ukraine. Natural gas shortages and price hikes have spread across the continent, putting significant strain on import-dependent economies such as Latvia and the Czech Republic, which in 2020 sourced 100% of their gas from Russia. This heavy reliance has prompted the EU's €10 billion REPowerEU plan to diversify energy supplies and increase renewable energy and storage capacity. However, the EU's dependence on Russian gas has fallen sharply from 45% in 2021 to only around 15% in 2023.

Western sanctions aimed at Russia's access to finance, technology and trade have undermined the Russian economy while inadvertently affecting European companies that rely on the Russian market. The European Council estimates that cumulative sanctions from February 2022 will cover areas as diverse as finance, transport, energy, dual-use goods and defense exports.

The conflict has also triggered Europe's biggest refugee crisis since World War II, according to the UNHCR, around 6 million Ukrainians sought asylum across Europe in early 2024, with Poland providing the largest number with 1.58 million temporary visas. Germany has accepted more than 1.1 million refugees. Even if host countries face short-term pressures, the integration of this workforce could bring economic benefits to Europe in the long run.

Military spending increased as European countries increased their defense budgets. Great Britain in 2022 provided Ukraine with \$3.1 billion in military aid. Germany has pledged 100 billion euros, although previously defense spending in 2022 was only 1.4% of GDP. Estonia promised to allocate 0.25% of annual GDP to Ukrainian defense for four years.

In summary, trade disruptions, energy shocks, sanctions, population displacement, and increased military spending have led to economic instability, supply shortages, and financial pressures across Europe.

A common European response is crucial to meeting these challenges, promoting open trade, sustainable energy, balanced sanctions, shared responsibility for refugees and coordinated defense efforts. Only this joint determination can restore economic stability and protect Europe from the serious consequences of the crisis in Ukraine.

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## 8.3 List of abbreviations

**CEE** – Central and Eastern European countries  
**CUAET** – Canada-Ukraine Authorisation for Emergency Travel  
**EUMAM** – EU Military Assistance Mission  
**GTT** – Global Trade Tracker  
**LNG** – Liquefied Natural Gas  
**MAP** – Membership Action Plan  
**NBU** – National Bank of Ukraine  
**UNHCR** – The United High Commissioner for Refugees