**A conversation with Michael McFaul, former US Ambassador to Russia, on the Russian invasion of Ukraine and the geopolitical ramifications.**

*The views shared below are those of Ambassador McFaul and not necessarily those of UBS. The conversation took place on the morning of Tuesday 8th March, HK time.*

**Summary**

* The invasion has not gone to plan for Russia, they have had to switch to the more brutal siege methods from Aleppo.
* Russia does not have the forces to occupy and control this giant country, prolonged partisan warfare looks likely.
* The Ambassador is cautiously optimistic that Putin will not attack NATO countries, however mistakes can be made that would trigger escalation.
* A non-fly-zone would risk escalation and has been ruled out by Biden, but there is a lot of pressure in the US to do more, including a no-fly-zone. Polish MIGs raise the ante for the West and US drones would add new levels of ambiguity.
* Putin putting his nuclear forces on alert is the first such instance Ambassador McFaul was aware of. Not a zero-probability situation.
* Much of Russian society has been shocked by the invasion and shocked by the West’s economic reaction.
* The US and UK have now moved to ban Russian oil imports, it’s much trickier for Europe to do that, but there are middle paths like the freezing of oil proceeds as used for leverage with Iran.
* Global companies exiting Russia responding to stakeholders and reputation not economics or sanctions. It could be a long time before any return.
* Putin is unlikely to be interested in compromise, still chasing his objectives, however the US and others need to provide off-ramps. Putin’s spokesperson Dmitry Peskov outlined a potential framework on Monday which the Ambassador believe Ukraine might now find approachable.
* China could play a historic role in mediation that the US would support.
* The outcome will have impacts globally. If Putin wins it’s a bad message for those tied to the US for security needs; if Ukraine wins it would be a victory for the liberal democratic world.

**The invasion and its objectives.**

* Putin has been very frustrated the evolution of the democratic system of government in Ukraine, since the *Revolution of Dignity* in 2014, and the country’s drift to the West. He annexed Crimea in 2014 in response, in what was a successful invasion. **This took NATO expansion off the table** as they could not expand to a country with Russian soldiers on their soil. President Zelensky initial started to negotiate with Putin. That didn't work. He then pivoted hard towards the West, further exasperating Putin.
* On the eve of invasion, Putin set out two goals: **1) To demilitarize Ukrainian, and 2) To ‘*denazify’* the government of Ukraine.**
* The initial plan was a *shock & awe* campaign, expecting a quick capitulation by Ukraine and President Zelensky fleeing. This has clearly not happened, so Putin has had to **change to much more brutal siege tactics** using air and artillery, like Chechnya in 1999-2000, in Aleppo in 2016.
* We are **learning a lot about modern conventional warfare**, especially the limitations of tanks and jets against mobile defensive weaponry.
* Ambassador McFaul predicts the Russians will surround the major cities, Kharkiv and Kyiv in particular, and will try to squeeze them, to get them to quit. This means the campaign has got bigger and just two days ago, Putin had hinted that he plans to subjugate all of Ukraine. The Ambassador believes Putin is fixed on achieving his set goals across Ukraine, with **no time to entertain compromises**.

**Has Putin overreached & what next in Ukraine?**

* Ambassador McFaul believes Putin had been in a good position. **NATO was not going to expand** in his opinion but maintaining ambiguity on the issue is part of diplomacy sometimes. The situation was stable from the US perspective, but now that’s all changed, and insecurity has risen for all.
* This is Putin’s 5th war, the prior 4 (Chechnya, 1999, 2000, Georgia, 2008, Ukraine, 2014, Syria, 2015) were arguably successes for Russia. In all of those, **the use of force meant they largely achieved their objectives**.
* Ukraine is Europe’s largest country by landmass; it has a population of 44m; **Russia does not have the forces to occupy and control this giant** country. This is a marked difference to Putin’s previous successes in wars in Georgia, Chechnya, Aleppo and Crimea.
* Putin hasn't really made an argument for what he's bringing to the people of Ukraine outside of Luhansk and Donetsk and Crimea. Unlike previous Russian leaders marching west, **it’s not clear what they are bringing**, not an ideology like their predecessors that was easier to rally around.
* Tragically, **it will probably evolve into prolonged partisan warfare**, potentially dragging on for years, where Russia hold the cities, but Ukraine do not give up the country.
* According to the Ambassador, the current events are **reminiscent of Brezhnev overreaching when he invaded Afghanistan** after a series of successes for the Soviet Union in the 1970s.

**What are the red lines for a wider conflict?**

* The Ambassador **is cautiously optimistic that Putin will not attack NATO countries**. The US and other members are clear that an attack on one is an attack on all. However expect to see more reinforcements of NATO’s frontier and in times of war, accidents happen. The Ambassador cited the risk that attacks on supply lines of weapons coming from NATO countries are likely and could escalate if mistakenly done on the wrong side of a border, though he sees this as a low risk.
* The Biden administration and other NATO members have ruled out a no-fly-zone over Ukraine, rightly according to Ambassador McFaul. Enforcing a no-fly-zone means being prepared to shoot down any offending Russian pilots, a declaration of war to Russia. However, **in the US there is a** **big political debate on the no-fly-zone**, with congressional support in both parties. The Biden administration is under a lot of pressure to do more.
* Ukraine themselves have prioritized a no-fly-zone in their demands. Following that, they are after that **Soviet era MiG- 29s aircraft** that the Ukrainian pilots know how to fly. There are 27 of them in Poland, 70 all together from the frontline states. There is a push in the US to transfer those planes with Poland asking for F-16s in return [[news since the call suggests Poland are willing to transfer the MIGs, though this took the US by surpise and they have called it ‘untenable’](https://neo.ubs.com/r/7/?id=h26e86da1%2C48f1ffa7%2C477f778e&s=CjiJJRaHfaXvN_SCpEz8ieMjG_5g6TbtozMRm444HOc)]. This is dangerous because Putin has hinted that he might consider transferring the planes as an act of war.
* **Supplying armed drones** presents a new dilemma. If the US were to supply predator drones what are used to attack Russian forces, how can it be determined who’s flying them? This is a dangerous new gray area.
* **On the nuclear question**. Putin has put his nuclear forces on ready alert, this is the first time it has happened since the end of the Cold Wart and possible even before. This is a deterrence, but Ambassador McFaul ventured that it's not a zero-probability event that Putin would use his nuclear forces if things start to go badly.

**What is the state of Russia domestically?**

* The Ambassador’s sources make clear that most of Russian society, from the very top down, were **shocked by the invasion**. It appears to be a decision he took alone. The intelligence in America was there though, this is be a significant boost for the intelligence community’s reputation.
* The economics measures taken so far are having a serious impact on Russians everyday life, but more in panic than actual transmission yet according to the Ambassador’s sources. Some Russians, from across society, are leaving Russia.
* **Domestic challenges to Putin are impossible to predict**. The Ambassador sees Putin remaining in control for a long time yet such is the system he has built around him.

**Economic/Market impact**

* The **Western/Global reaction came as a shock too**, in Russia and the West. Not just for the range of economic sanctions, but the speed in which they have been put in place. Targeting the Central Bank ([see UBS note from 28th Feb](https://neo.ubs.com/r/7/?id=h26e86da1%2C48f1ffa7%2C477f778f&did=AC7-S-1223819175&off_id=AC7-S-13484203646052&ma=X57544A7945564B47&camp_id=EM%3AUNKW%3A2022-03%3A09%3ASmartEmail&s=lZIAzKHm7Ov3ZUsmkp6Y2lRZzwq9MYtTHhz3wZrZ6GA)) likely came as a surprise to the Russians, and Western powers will be in an ongoing process of developing ideas to make life hard and hard for Putin’s regime economically.
* The Ambassador argue that was **highly likely the US will stop oil imports from Russia**, within hours of our conversation this had been [confirmed by the US (and UK)](https://neo.ubs.com/r/7/?id=h26e86da1%2C48f1ffa7%2C477f7790&s=uhYQPRZ1nhHLDcN-zkjpNSnjNxkCinhJXucgs8e2u8U) government.
* **European Oil & Gas imports from Russia is obviously much trickier** to address given far higher dependence. But it’s not necessarily binary. In the case of the Iran oil sanctions, the oil wasn’t cut off, but the proceeds were frozen. Billions of dollars receivable piled up and the prospect of release was an important tool for leverage getting Iran to negotiate. Other tools include changing import taxes.
* The **move by western and other companies to leave Russia** to protect reputations is significant and the pace of exiting what took years to build up has shocked many Russians. The speed with which some of the **western oil majors have extricated themselves** from Russian ventures is extraordinary. Theses had been joint ventures that the US government previously supported. They weren't forced out by sanctions, the Ambassador expects more to come.
* **It will take a long time before companies can reconnect to the Russian economy.** Some parts of the economy have to be there with contractual agreements, but for those companies pulling out of Russia now, they are unlikely to return any time soon. It is not about economics or even sanctions, but the politics of stakeholders, customers, and shareholders for publicly traded companies. It is becoming reminiscent of the apartheid days in terms of corporate responsibility.
* **Russia itself is not in a strong position to impose economic counter measures.** Energy export proceeds will be needed more than ever given the economic stress. The 1998 debt default is still well remembered, Russia is stronger today, but getting off oil exports to Europe would be very risky. The **Russian Financial institutions and the corporate landscape themselves will also be in shock**. Many have been building carefully for the past 20 years and now face significant uncertainty.

**Compromises and ‘Off-ramps’ for Putin?**

* **The US and others need to create ‘off-ramps’, ways for Putin to pull back.** The Ambassador recently argued in his [column in the Washington Post](https://neo.ubs.com/r/7/?id=h26e86da1%2C48f1ffa7%2C477f7791&s=01AFA-HknKAHUlGkvPQmkc5SWi7l5VUbrbxhyFXyw0g) that if Putin agrees to withdraw his forces, the US must lift sanctions. The Ukrainians won't like that, a lot of members of Congress don't like that, but the goal of sanctions is to achieve a foreign policy objective, not a blunt punishment.
* It would be unwise to push Putin into a corner, experience dealing with him teaches us that he does not back down, he doubles down. **The ambassador does not currently think Putin wants a compromise**; he is fixed on achieving his objectives (as stated in the top section, and likely, the removal of President Zelensky). That said, he answers to nobody so can of course change his mind.
* Putin’s spokesperson Dmitry Peskov, who is very close to Putin and does have his respect, [laid out parameters for a deal on Monday](https://neo.ubs.com/r/7/?id=h26e86da1%2C48f1ffa7%2C477f7792&s=TUm3dzaHrzRLSVwcm9gPqJckwrE0ImAG7ObzUIpex1Y). He said, "Recognition of Crimea, recognition of the two people's republics as independent countries, neutrality for Ukraine”.  **The Ambassador doubts this is what Putin wants but given the source, thinks we should watch this space**. President Zelensky could never have accepted that deal before this war, however his reputation has surged and he could plausibly accept it, giving both sides something palatable under the circumstances.
* **China could play a role.**Ambassador McFaul sees **potential for Xi Jinping to play a historic role in mediation**, if he wants it. Xi Jinping is the only leader in the world that Putin respect according to the Ambassador, and he also believes the Americans would accept the assistance. This would be new ground on the world stage for Xi Jinping and could do good for US-China relations too. [*Since the call with the Ambassador, President Xi held a call with French and German leaders on which*[*onshore state media*](https://neo.ubs.com/r/7/?id=h26e86da1%2C48f1ffa7%2C477f7793&s=u4bw3CIkSEatoel16J9gvQjgDKSBW05yYO93tCXpphU)*are reporting Xi as saying China deeply regrets the outbreak of war again on the European continent*.]

**Are we getting a glimpse of the new geopolitical fault lines?**

* The list of abstainers in the UN’s resolution demanding that Russia immediately end its military operations in Ukraine had a few surprises, notably India. This **raises questions over the strength of the Quadrilateral Security Dialogue or ‘Quad’** with the US, India, Japan and Australia.
* The invasion of Ukraine can have **major impacts, not just for Europe, but for the Middle East and for Asia**. If Putin wins, that sends a very bad signal to anybody that thought that having a relationship with the United States was good for their security interests. That the US wasn’t ready to do no fly zone, didn't give them patriot missiles when we could have, didn't convince ally Israel to send iron dome and arrow missile systems. Lots of countries will start hedging their bets. But a victory for Zelenskyy is a victory not just for him, but I think it's a victory for the liberal democratic world.