

Testimony of Mr. Edward Lucas

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Good afternoon. Thank you for inviting me here today. It is an honor and a privilege to give testimony to this committee and I would like to thank Chairman Murphy and Ranking Member Johnson for this opportunity. I will give a short oral version of my written testimony and then look forward to taking questions.

I have been dealing with European security for more than thirty years, as an activist for freedom and democracy during the Cold War, as a foreign correspondent and editor for major international media outlets, and also as a senior non-resident fellow at the Centre for European Policy Analysis – CEPA – here in DC. I speak Russian, German, Polish, Czech and some other languages.

In 1989 I was the only foreign newspaperman living in Communist-era Czechoslovakia and witnessed the Velvet Revolution bring down that regime. I was the last Western journalist to be expelled from the Soviet Union, for having crossed the border with the first visa given by the new but unrecognized Lithuanian authorities. In 1992 I founded and ran the first English-language weekly in the Baltic states. In 2010 I coordinated the defense for my employer, The Economist, in a high-stakes libel action brought against us by Gennady Timchenko, a Russian energy tycoon who denied our claim that had benefited from his association with Vladimir Putin.

I am the author of two books on the regime in Russia. The first of these, “The New Cold War”, was written in 2007, at a time when most Westerners were still reluctant to face up to the threat the regime poses both to its own people, and to Russia’s neighbours. Many accused me of scaremongering. Few do that now.

Yet conventional thinking about Russia has surprisingly deep roots. Many people in Washington, Brussels, London and Berlin believe that Vladimir Putin’s Russia can be accommodated diplomatically. Money doesn’t smell. Energy is just a business. There is no need to take radical measures in response to the latest crisis in Ukraine. The danger is of a provocative over-reaction, not of appeasement.

I disagree profoundly. My views are based on my experiences over many years in Estonia, Latvia, Lithuania, Poland, the Czech Republic, Russia and other countries in the region. People there have been warning us for years of the dangerous direction of events. We have not listened to them. Instead, we have systematically patronized, belittled and ignored those who know the problem better than we do. Now they have been proved right. I hope that my voice may be heard, where theirs, still, is not.

My first point is that Russia is a revisionist power. The Kremlin not only regards the existing European security order as unfair but actively seeks to change it. It wants to weaken the Atlantic alliance, to divide NATO and to undermine the European Union's role as a rule-setter, especially in energy policy. On issues such as the South Stream pipeline, access to gas storage, reverse flow and other issues the unsung bureaucrats of the EU Commission represent an existential threat to the Kremlin's business model.

Russia begrudges the former captive nations of the Soviet empire their freedom, their prosperity, and particularly their independence. It maintains an old-fashioned idea of "legitimate interests" and "spheres of influence" in which the future geopolitical orientation of countries such as Ukraine and Georgia is not a matter of sovereign choice for the peoples of those nations, but a question in which Russia has, by right, a veto.

My second point is that Russia, a leading petrostate, now has the means to pursue its revisionist approach:

- it ruthlessly uses its energy weapon against European countries, particularly in pipeline-delivered gas, where it has a substantial monopoly in the eastern half of the continent.
- it uses money. It bolsters a self-interested commercial and financial lobby which profits from doing business with Russia and fears any cooling in political relations. Austrian banks, German industrial exporters, French defense contractors, and a slew of companies, banks and law firms in my own country, the United Kingdom, exemplify this. These energy and financial ties constrain the Western response to Russian revisionism.
- it practices information warfare (propaganda) with a level of sophistication and intensity not seen even during the Cold War. This confuses and corrodes Western decision-making abilities.
- it is prepared to threaten and use force.

My third point is that Russia is winning. Too much attention is paid to the ebb and flow of events in Ukraine. The big picture is bleak: Russia has successfully challenged the European security order. It has seized another country's territory, fomented insurrection, and engaged in repeated acts of military saber-rattling, subversion and economic coercion. The response from the West has been weak and disunited. The United States is distracted by multiple urgent problems elsewhere. You rightly wonder why you should be bearing the cost of increasing European security. For their part many European countries have no appetite for confrontation with Russia.

My fourth point is that greater dangers lie ahead. Russia has mounted a bold defence of its market-abusing South Stream pipeline, signing up Austria, Hungary, Croatia, Slovenia, Bulgaria and Greece in support of a direct challenge to the EU's rules on pipeline construction and third-party access. The Ukrainian adventure has given a big boost to the Putin regime in Russia, which had previously shown some signs of declining popularity, amid economic failure and growing discontent about corruption and

poor public services. The big danger is that as the effect of seizing Crimea wears off (and as the costs of doing so bear more heavily on Russia's sagging finances), the regime is tempted to try something else.

Our weakness over Ukraine makes that more likely. We have set the stage for another, probably more serious challenge to European security, most likely in the Baltic states. Estonia, Latvia and Lithuania are loyal American allies and NATO members. If any one of them is successfully attacked or humiliated, NATO will lose its credibility overnight, permanently and irreversibly. These are our frontline states: the safety and security that we have taken for granted since the end of the Cold War now hangs on their fate.

But geography is against them: the Baltic states form a thin, flat strip of land, lightly populated and with no natural frontier and little strategic depth. Russia knows that. NATO has only a token presence in the region. We have no hardened infrastructure, no pre-positioned military forces, weapons or munitions. Russia knows that too. Their economies are liable to Russian pressure (especially in natural gas, where they are 100% dependent on Russian supplies). Estonia and Latvia are also vulnerable to Russian interference because of their ethnic make-up (between a quarter and a third of their populations self-identify as "Russian" in some sense).

What can we do?

The first task is to see clearly what has happened. European security will not be fixed with a few deft diplomatic touches. To cope with a revisionist Russia it needs a fundamental overhaul. American and European policymakers need to explain to the public that the war in Ukraine was a game-changer.

We need to rebut the phony Realpolitik arguments, which advise us to make the best of a bad job. We should accept the loss of Crimea, so the argument goes, do a deal with Russia over the future of Ukraine, and get used to the new realities, of a Russian *droit de regard* in neighboring countries.

Such an approach would be morally wrong and strategically stupid.

Securing a Europe whole and free after 1991 has been a magnificent achievement in which the United States has played a huge part. True: we made mistakes. We declared "job done" in 2004, when 10 ex-communist countries joined NATO. That was far too early. We overlooked Russian resentment at the way Europe was evolving, and our vulnerability to Russian pushback. We neglected Ukraine, Moldova, Belarus and the countries of the Caucasus. But having made these mistakes is no reason to compound them now, by retreating into a grubby defeatism. To go back to business as usual would send a message that the kleptocratic regime in the Kremlin would understand all too well: crime pays.

Legitimising Russia's land-grab in Ukraine, and its attempted power-grab in the wider neighborhood, would also fly in the face of historical justice. The Crimean Tatars—

whose suffering at Soviet hands is all but unmatched—are now under the rule of their former tormentors. Are we really proposing that whole countries, which the past masters of the Kremlin occupied and despoiled, should be subject to renewed interference and manipulation?

Instead, we should make it clear that we will boost our allies and weaken our opponents. We do not want to be enemies with Russia. But if the Putin regime treats us as an enemy, we help nobody by pretending otherwise.

The most immediate priority is military. A security crisis in the Baltic region is the single most dangerous threat facing the Atlantic alliance. Reckless behavior by Russia could face us with a choice between a full-scale military confrontation (including the potential use of nuclear weapons) or surrender, with the collapse of our most fundamental security arrangements. We must make every effort to ensure that this does not happen.

That means American and other allies prepositioning military equipment and supplies in the Baltic states. It means NATO creating a standing defense plan—one which assumes that there is a real and present danger of attack. We need to put a major NATO base in Poland, to reassure that country that it can safely deploy its forces to the Baltics as reinforcements in the event of a crisis. We need to boost the NATO presence in the Baltic states with rotating visits by naval vessels, extended air-policing, and ground forces—initially on persistent rotation, but as soon as possible on permanent deployment.

Russia will complain vigorously about this. But the fact that the Kremlin is unhappy when its neighbors are secure is telling. We should explain to the Russian authorities that when NATO expanded in 2004, we did not even draw up contingency plans for the military defense of the new members, because we assumed that Russia was a friend, not a threat. It is Russia's behavior which has changed that. Russia attacked Georgia in 2008. It rehearsed the invasion and occupation of the Baltic states a year later, in the Zapad-09 exercise (which concluded with a dummy nuclear strike on Warsaw). It has continued to menace the Baltic states ever since, with air-space violations, propaganda and economic warfare, and state-sponsored subversion. We take the step of securing our most vulnerable allies belatedly and reluctantly, and solely as a result of Russian policy directed towards them.

A further vital military component of security in north-eastern Europe is the closest possible integration of Sweden and Finland into NATO planning and capabilities. These countries are not members of the alliance, so they cannot formally be part of its command structure. But we should make every effort to maximize cooperation in every respect. We cannot defend the Baltic states or Poland without their help. It is commendable that the United States is selling the JASMM missile to Finland. It should continue the further sale of advanced precision and stealth weaponry on a wide scale to both countries. NATO's summit in Wales this fall, which will have little to offer on expansion, should make a point of offering a "gold card" partnership to Sweden and Finland. The United States should take every opportunity to foster high-level political

dialogue with both countries in and around NATO. Rich, well-run countries with serious military capabilities, excellent intelligence services and strong strategic cultures are in short supply in modern Europe. We should make the most of what we have.

The United States should also continue to make good on its promises of missile defense installations in the region. The administration should also consider the interim deployment of armed Patriot missiles in Poland – a promise which the Polish government believes was solemnly made by the George W Bush administration, but never honored.

Having shored up our most vulnerable allies, the next task is stabilizing Ukraine. It is hard to overstate how parlous the situation is. How much more Ukrainian territory ends up under direct or indirect Russian control is of secondary importance. Ukraine is going to be in the political and economic emergency room for years to come. That is Russia's doing. Ukraine is suffering a world-class economic and financial crisis, which even in a stable and secure country would be far worse than anything experienced elsewhere in Europe. The economy is fundamentally uncompetitive. The main export market, Russia, is at risk of closure at any moment. Public finances are in ruins. The government subsists on a hand-to-mouth basis, relying on ad-hoc donations from wealthy oligarchs for even core spending requirements such as national defense. Even if everything else goes well, simply fixing Ukraine's economy will take five years.

The outside world must respond generously and imaginatively. A new Marshall Plan for Ukraine should involve not only direct financial support, but the widest possible relaxation of tariffs and quotas on Ukrainian products such as steel, grain, textiles and agricultural products. The European Union has led the way with the newly signed deep and comprehensive free trade agreement, but much more remains to be done. In particular, European countries should accelerate efforts to supply Ukraine with natural gas by reversing the flow of existing pipelines. Russia has already threatened unspecified sanctions against countries which re-export Russian gas – a sign of how seriously the Kremlin treats the issue.

Second, Ukraine faces a political and constitutional crisis of a kind unseen since the end of the wars in ex-Yugoslavia. Every political institution was degraded and discredited under the previous Yanukovich regime. Decades of bad government, corruption and abysmal public services have corroded public confidence in the state—one reason for the initial public support enjoyed by the insurgents in the poorest parts of eastern Ukraine. The United States should press for early parliamentary elections, and offer support for institution-building, and especially the vexed question of relations between the center and the regions.

Third, Ukraine faces a geopolitical and security crisis which could lead to full-scale war. Here the need is twofold: First, to offer Ukraine military training, assistance, arms and equipment in order to defeat the separatist insurgents; Second, to deter the regime in Russia.

Deterring Russia, not only in Ukraine but elsewhere, is the hardest part of the task ahead. Russia is an integrated part of the world economy and of world decision-making on everything from space to sub-sea minerals. It cannot be simply isolated and ignored. But that does not mean that we cannot raise the cost of doing business for the Putin regime.

In particular, we should greatly extend the use of sanctions against individuals. The United States has commendably paved the way here with the Magnitsky Act – a move which other countries, sadly, have mostly so far failed to follow. The furious Russian reaction to the American imposition of even a handful of visa bans and asset freezes on those responsible for the death of the whistle-blowing auditor Sergei Magnitsky shows the effectiveness of this approach. The scope of such sanctions should be widened to include hundreds or even thousands of Russian decision-makers and policy-makers. It could include all members of the legislature (Duma and Federation Council), all members of the General Staff, military intelligence (GRU) domestic security (FSB), foreign intelligence (SVR), the interior ministry (MVD) and other “power agencies”, the presidential administration, and presidential property administration (and companies which represent it abroad), companies run by personalities linked to the Putin regime, and any banks or other commercial institutions involved in doing business in occupied Crimea. Such visa bans and asset freezes could also be extended to the parents, children and siblings of those involved.

This would send a direct and powerful message to the Russian elite that their own personal business in the West – where they and their families shop, study, save and socialize – will not continue as usual. The United States should make vigorous overtures to its allies to encourage them to follow suit. The more countries which adopt sanctions, and the longer the list of those affected, the more pressure we are putting on the Putin regime to back off and change course.

We can also apply much tougher money-laundering laws to keep corrupt Russian officials out of the Western payments system and capital markets. We should intensify investigations of Russian energy companies which have mysterious origins, shareholders or business models. We can tighten rules on trust and company formation agents to make it harder for corrupt Russian entities to exploit and abuse our system. It is often said that offshore financial centers are beloved by the Russian elite. But the shameful truth is that it is Britain and the United States which make life easiest for them.

We also need to improve the West’s resilience and solidarity in the face of Russian pressure. American exports of LNG will be a small but welcome addition to the global natural gas market. Lithuania has built its own floating LNG terminal, which will become operational in December of this year, with the arrival of the aptly named “Independence” a vessel constructed in South Korea. Already, Gazprom’s grip on Lithuania’s natural gas market has slackened, and Lithuania has been able to negotiate a discount from the extortionate price – the highest in Europe – which the Russian gas giant had been charging. As energy editor of *The Economist*, I am skeptical of the idea that we will ever have a deep and liquid global LNG market: the technology and costs involved hinder the

development of the needed supply chain. However at the margins, LNG does make a big difference, blunting the edge of any artificial emergency that Russia may try to create with selective supply interruptions.

Europe can do much more. It can build more gas storage, and liberalize the rules governing it, so that all parties have access to the facilities. It can complete the north-south gas grid, making it impossible for Russia to use supply interruptions on its four east-west export pipelines as a political weapon. Most of all, the European Commission should proceed with its complaint against Gazprom for systematic market-abuse and law-breaking. This move – in effect a prosecution – is based on the seizure of huge numbers of documents following raids on Gazprom offices and affiliates. The Commission had expected to release this complaint -- in effect a charge sheet – in March. Then it was postponed until June. Many now wonder if it has been permanently shelved. The United States should urge the European Commission to enforce its laws.

I understand that the United States Justice Department is rightly suspicious of the way in which Russian companies operate in the world energy market. There are grave suspicions of price-fixing, insider trading, money-laundering and other abusive and illegal behavior. My own researches suggest that these suspicions are amply justified, though writing about them is hampered by the costs and risks imposed by English libel law. In the course of researching the defense case in the libel case I mentioned earlier, I met several potential witnesses who were frightened for their physical safety if they cooperated with us. The more that the criminal justice system of the United States can do, through prosecution, witness protection and plea bargains, to drive the Russian gangster state out of international energy markets, the safer the world will be.

Next, we need to revive our information-warfare capability. We won the Cold War partly because Soviet media lied as a matter of course, and ours did not. They tried to close off their societies from the free flow of information. We did not. In the end, their tactics backfired.

Just as we have underestimated the potential effect of Russian energy, money and military firepower, so too have we neglected the information front. Russian propaganda channels such as the multilingual RT channel are well-financed and have made powerful inroads into our media space. They create a subtle and effective parallel narrative of world events, in which the West are the villains, mainstream thinking is inherently untrustworthy, and Russia is a victim of injustice and aggression, not its perpetrator.

Combatting this will require a major effort of time, money and willpower, involving existing media outlets, government, non-profit organisations and campaigning groups. We need to play both defense and offense. We need to begin to rebut Russian myths, lies and slanders, highlighting the factual inconsistencies and elisions of the Kremlin narrative, and its dependence on fringe commentators and conspiracy theorists. We also need to start rebuilding the trust and attention we once enjoyed inside Russia. The collapse of respect and affection for the West inside Russia over the past 25 years has

been a catastrophic strategic reverse, all but unnoticed in Western capitals. After the fall of communism, Russians believed we stood for freedom, justice, honesty and prosperity. Now they believe that we are hypocritical, greedy, aggressive custodians of a failing economic system.

Finally, we need to reboot the Atlantic Alliance. As memories fade of the Normandy beaches, of the Berlin Wall's rise and fall, and the sacrifice and loyalty of past generations, we are running on empty. Without a shared sense of economic, political and cultural commonality, the Kremlin's games of divide and rule will succeed. This will require renewed and extraordinary efforts on both sides of the Atlantic. The revelations surrounding the secret material stolen by Edward Snowden have stoked fears in Europe that America is an unaccountable and intrusive global hegemon. This year I wrote a book – "The Snowden Operation" attacking the "Snowdenistas" as I termed the NSA renegade's unthinking defenders. I believe that our intelligence agencies as a rule function well, within the law, and to the great benefit of our nations. But much damage has been done. At a time when we need to be restoring transatlantic ties, they are withering before our eyes, especially in the vital strategic relationship with Germany. The Transatlantic Trade and Investment Partnership (TTIP) offers a rare chance of a big-picture, positive project which could help revive what sometimes looks like a failing marriage.

A final footnote: whereas Russia once regarded the collapse of the Soviet Union as a liberation from communism, the regime there now pushes the line, with increasing success, that it was a humiliating geopolitical defeat. That is not only factually false; it is also a tragedy for the Russian people. They overthrew the Soviet Union, under which they had suffered more than anyone else. But they have had the fruits of victory snatched away by the kleptocratic ex-KGB regime. The bread and circuses it offers are little consolation for the prize that Russians have lost: a country governed by law, freed from the shadows of empire and totalitarianism, and at peace with itself and its neighbors.