

## EUROPE: Even before US polls, a complicated outlook for Ukraine support

- If at the 1-2 February European Council, Hungary maintains its veto, the remaining 26 EU members will act alone to support Ukraine with a four-year EUR 50bn macro-financial support package.
- The biggest signpost for future support to Ukraine is the US election, but given the knock-on effects of the geopolitical standoff, domestic tensions in Europe are complicating the outlook.
- As a clear-cut defeat for Moscow seems out of reach, the focus moves to strengthening Western defense capabilities and stabilizing Ukraine through defensive pacts and closer EU ties.

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Ahead of the 1-2 February European Council meeting, policymakers remain relatively optimistic that despite Hungarian resistance, agreement can be reached on the four-year, EUR 50bn macro-financial support facility for Ukraine. If Hungary maintains its veto, the remaining 26 member states will act alone. However, this could lead to further delays due to legal and technical questions.

A bigger challenge is European coordination on military aid. Hungary has blocked some EUR 6bn in European Peace Facility (EPF) reimbursements to member states for weapons already delivered. So far, around 39,000 Ukrainian soldiers have been trained in EU countries with EPF financing. Of the promised 1mn artillery rounds by March 2024, one-third has been provided, with further delays highly likely. Brussels policymakers are also frustrated at individual member states – including Ukraine’s biggest supplier in Europe, Germany – acting bilaterally rather than through the EPF. Amid these challenges, member states are debating changes to the functioning of EPF.

### Sanctions and assets

Beyond the Council meeting, the EU’s 13<sup>th</sup> sanctions package is expected around the second anniversary of Russia’s invasion in late February, targeting more individuals and entities, as well as the problem of sanctions circumvention. The US and UK want the G7 to agree on seizing frozen Russian central bank assets around the same time.

However, the EU remains unlikely to agree, amid concerns about Russian retaliation through further nationalizations and the generally unprecedented nature of such a step. The ECB is also opposed. More likely is an eventual utilization of windfall profits from frozen Russian assets which have generated a return of around 1%. Still, it remains unclear whether this money would be directed at the war effort, reconstruction, or both.

### EU moderation

The biggest signpost for the future of Western support to Ukraine is the US election. Already in the run-up, however, the political backdrop in Europe is clouding the outlook. Immediate backing for Ukraine remains solid, but amid the knock-on effects of the geopolitical standoff, domestic tensions motivate an increasing focus on defending the status quo.

Brussels is concerned that many countries of the global south are less interested if not negative on supporting Ukraine, accusing the West of double standards amid the war in the Middle East. Within the EU, the June European Parliament elections will likely see a further strengthening of the far-right, with migration a key wedge issue. So far, EUR 17bn have been spent on supporting the 4mn Ukrainian refugees now in the EU, mostly in Poland and Germany. Across key European countries, domestic repercussions weigh on the ambitions for supporting Ukraine.

### CEE

With the notable exception of Hungary, CEE countries are generally highly supportive of Ukraine. Donald Tusk’s new Polish government will likely reinforce this. However, recent protests in the farming and transport sectors highlighted important fault

lines. Support wavers when domestic economic trade-offs are at stake. These issues will remain pertinent as EU members negotiate the extension of liberalized trade regime with Ukraine beyond June 2024. In the longer term, many CEE countries are eyeing opportunities associated with Ukraine's reconstruction.

As Ukraine integrates more closely with the EU, the real conflicts about structural funds and agricultural subsidies are still ahead. Previous enlargements entailed major fights, at a time when far right and nationalist forces were still much weaker than today. When EU institutions start screening the body of Ukraine's laws and regulations in early spring – the very first step towards accession talks – CEE countries' reactions will be crucial to watch.

## UK

The UK is Ukraine's most vocal supporter in Europe and the first to sign bilateral security guarantees. However, words and actions have been at odds for some time. UK military aid amounts to roughly a third of what Germany spends. Despite the dire fiscal situation, electoral pressures will likely lead to tax cuts, rather than tough decisions to bring actual levels of support in line with rhetoric.

Politically, solid levels of military aid come at the price of outright non-cooperation on refugees. Polish or German levels of arrivals would risk breaking the already struggling Conservatives. The declared long-term strategy for stabilizing Ukraine is membership in a bloc the UK has left, the EU.

## Germany

Anticipating greater uncertainties around US support, Germany is calling for additional European commitments. Despite a self-inflicted fiscal crisis due to the constitutional debt brake, this year's budget foresees another EUR 7bn for Kyiv. If Western support weakens, Berlin wants to avoid international blame and a domestic backlash from progressive voters.

Germany is the biggest military supporter in Europe, but it remains reactive. The debate about Taurus cruise missiles is the latest example. Chancellor Olaf Scholz's hesitations reflect continued skepticism outside Berlin policy-elites. The far-right Alternative for Germany (AfD) and Sahra Wagenknecht's new left-conservative project are polling strongly, demanding an end to confrontation with Moscow. The country managed to wane itself off Russian gas within months, but the dire effects of geopolitical tensions on the export economy are clouding the political outlook.

## France

Scholz's call to spend more on Ukraine has triggered some disgruntlement in Paris. French policymakers have questioned the underlying (German) statistics, highlighting that Paris is delivering the weapons it promised. This focus was further underscored by President Emmanuel Macron's recent announcement of bilateral security guarantees, including the provision of long-range cruise missiles.

In terms of capacity, however, a recent French Senate report highlights the defense industry's difficulties with ramping up production of crucial ammunitions such as 155mm artillery shells. The political will to back Ukraine remains strong, but it is driven by long-term strategic goals such as improved European defense and greater French influence in Europe.

## Implications

The EUR 50bn package for the next four years could mark a turning point. There is consensus that Ukraine requires enough support to prevent major Russian advances. However, as the Russian threat is unlikely to be resolved in a clear-cut defeat for Moscow, the focus moves to strengthening Western defense capabilities amid US uncertainty.

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Regarding Ukraine, the focus is shifting towards stabilization, through defensive pacts and closer EU ties. Still, the associated tradeoffs will continue to provoke domestic contestation across Europe.

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