



LVMI - EUROPE Newsletter
Spring Member's Edition 2022

Table of Contents

LVMI-EUROPE: AGENDA	2
PRESIDENTIAL ADDRESS	4
GLOBAL MONETARY VIEWPOINT	9
REPORT: Virtual Event How the United States Can Help Defend Ukraine....	14
REPORT: Virtual Event How to Win the Disinformation War in Ukraine.....	19
NEW EU LAW AND REGULATIONS	26
MEMBERSHIP IN THE LVMI-EUROPE	27

LVMI-Europe: Agenda

Future Events

October 12, 2022

LVMI-Europe 20 years, Dinner Debate to celebrate the 20 years of existence of LVMI Europe

June 29, 2022

General Assembly

June 15, 2022

**Conference Free Market Roadshow, “The Way Out of the Gridlock”
A cooperation with Austrian Economic Centre and European Liberty Forum in the European Parliament . Host: Ilhan KYUCHYUK, MEP**

May 11, 2022

Board Meeting of LVMI Europe

April 26, 2022

Mises Circle with Robert Cutler. Location Holland House

Past Events

March 4, 2022

Meeting of the Research project, set up by LVMI Europe, in Holland House.

January 17, 2022

Meeting of the Research project, set up by LVMI Europe, in Holland House.

December 9, 2021

Zoom meeting with Mr. Kaddik and Lauren Mason of ELF and Britt Schiers , (Hayek Institute Austria)

December 2, 2021

Zoom meeting with Mr. Jahn of BVMW and Mrs. Haug Sempre Avanti

November 26, 2021

Second meeting of the Research project, set up by LVMI Europe, in Holland House.
October 15, 2021 First meeting of the Research project, set up by LVMI Europe, in Holland House.

September 27, 2021,

A **Get-together** for Members and Alumni of LVMI Europe in Holland House

July 15, 2021

Brainstorming meeting

June, 30 2021

General Assembly

May 26, 2021,

Board Meeting

April 21, 2021

Conference

“Disruptive innovation: Banks versus Cryptocurrencies” with **Ondřej Kovarik**, **MEP**, shadow rapporteur on the MiCA proposal, **Mark Valek**, Partner of Incrementum AG and **Max Rangeley**, editor and manager The Cobden Centre

Moderator: Heiko de Boer, Country Head Netherlands Pictet Asset Management.

February 24, 2021

Conference online

« Private cybersecurity firms and States » with as speakers **Phédra Clouner** Deputy Director of **The Centre for Cyber Security Belgium** » (CCB), **Dr. Harri Ruoslahti**, ECHO PoC for Laurea, **Etienne Verhasselt** Cyber and Information Security & Risk Management Expert, Orange Cyberdefense and **John Robb**, American author, military analyst, and entrepreneur **Moderator: Filip Smeets**, Area Manager Seris Security, Belgium

Presidential Address

Annette Godart-van der Kroon, LL.M.,

President of the Ludwig von Mises Institute Europe

Ukraine or the new world order

What if this war in Ukraine was also started because Putin wanted to distract the attention of the world to the unruly situation in Russia itself?

What if the situation is far more complex than we expect it to be on first sight? It is also possible that there are internal conflicts in and around the Kremlin. There are some indications of this, but perhaps that is wishful thinking on the part of those who hope that there will be a major shift of power in the Kremlin towards a more peaceful faction. The impression is created that there are problems, especially within the secret service. Among others rumor has it, that a senior commander of the National Guard, the Rosgvardia, would have been arrested for corruption. There is also talk of the arrest of a very senior official of the fifth branch of the FSB, who is responsible for the foreign arm of the state security service. The official would have been placed under house arrest because he would have completely misjudged or communicated the resistance in Ukraine.¹

Ukraine and the role of Uzbekistan and Kazakhstan

How will the decision of Uzbekistan to join and support Ukraine influence the course of war? And then we have Kazakhstan, a country where the demonstrations in January against the regime, were suppressed with the help of Russian soldiers just recently and now the demo against the war in Ukraine was allowed?

Kazakhstan, one of Russia's closest allies, has denied a request for its troops to join the offensive in Ukraine and will not recognize the so-called republics of Donetsk and Lugansk. Instead, an airplane carrying humanitarian assistance is supposed to have left Kazakhstan for Ukraine on 3 March. However, Kazakhstan does not recognize the Russia-created breakaway republics upheld by Russia's president, Vladimir Putin, as a pretext for its aggression in Ukraine. In the past, Kazakhstan has refused to recognize the annexation of Crimea and the so-called republics of Abkhazia and South Ossetia,

¹ Hubert Smeets, a Dutch Russia expert on VRT news dd 9-3-2022

Georgian territories occupied by Russian troops following the August 2008 war between Russia and Georgia.

“The Kazakhs never had their own state”, Putin averred. Instead, he continued, the country was “created” by President Nursultan Nazarbayev (who ruled from 1991-2019).

Like his predecessors, Putin dreams of re-creating a Byzantine empire, containing those countries that profess the Orthodox faith. He distinguishes Russia in Great Russia, Little Russia (that includes Ukraine) and White Russia (Belarus). Ukraine as such does not exist in his opinion. At best, “Little Russia” is a province that is entitled to its own picturesque traditions. But autonomy equals disloyalty (in the opinion of Putin). Those who seek it are “Nazis”. The term assimilates campaigners for Ukrainian independence to the invaders routed by the Soviet Union (for which read, Russia) in the great patriotic war between 1941 and 1945. At the same time, it erases from the record the crucial contribution to victory in that war of Ukrainians themselves. Only such willful forgetting could allow Putin, a Leningrader, to inflict on Charkov, Mariupol, Kyiv and Mykolaiv the siege warfare that devastated his birthplace in 1941-1944².

The Monday before the attack Putin pronounced a fulminating speech, wherein he shouted that the history of the 20th century had so much disadvantaged Russia. He now justifies his policy with a long saga of the suffering of Russia, that has been deceived by the West and betrayed by Ukraine³. But that is not true. Russia was taken the grounds of the former Soviet Union only in 1990. That is ten years of a whole century, not the entire 20th century. The Soviet Union has expanded after WW II with states that did not belong to Russia for decades, even centuries.

This is going to be a turning point, not immediately, but later...

All we know, is this: A ground war that is stalled, disagreements within the Kremlin, arrests of senior officials: the war in Ukraine is causing Russian President Putin and his colleagues more headaches than they expected. On the one hand, there is a tendency in Russia, it is reported, to slow down a bit and accept, for example, an 'Austrian variant' of Ukraine. In addition, Ukraine could not become a member of NATO, but could, for example, become a member of the European Union.

"On the other hand, there is also talk on Russian television of escalation, of the use of even harsher means and violence to bring Ukrainians to their knees. The latter voices assume that Putin feels humiliated and that he wants to lash out because he has been hurt. "It

² Catriona Kelly: ‘We must try to understand the complex history of Russian imperialism’

³ Die Zeit dd 24-2-2022, p. 4 “Der Geschichtsvollzieher” Michael Thumann,

could be that the Russians want to gain time. Overall, we can assume that the Russians suffer three times more losses than the Ukrainians. Also when it comes to equipment, such as tanks; armored vehicles or aircraft (and food)."⁴

The state of affairs

The Russians also do not have a sole domination in the airspace until now. Russian warplanes are still shot down every day. The Russian president has created a fictional image of Ukraine in his head. In his speech after the recognition of the Donetsk and Luhansk people's republics, he made that clear: the Ukrainian people are oppressed by a neo-Nazi leadership that was preparing an attack and a genocide of the Russian speakers in Donetsk and Luhansk. Russia could therefore only intervene to protect that population and also to prevent Ukraine from ever becoming a member of NATO. The Kremlin is now blowing those facts out of proportion to justify the Russian invasion. For example, the radical right never scored in the Ukrainian elections after 2014 and never exceeded the 5 percent electoral threshold. During the second World War, there might have been Ukrainians who thought that the Germans would liberate them from the soviet yoke and genocide by the Soviet Union. It was even forbidden to speak the Ukrainian language in Ukraine. Those people could be shot. The status of the Russian language is certainly fodder for political discussions, but can hardly be used as a real casus belli. Apparently the Kremlin also realized this because fictitious facts had to quickly escalate the threat to the Russian speakers in Donetsk and Luhansk⁵.

The Press

In the article "The power over history"⁶ the situation of foreign journalists is discussed: due to the vague and widely interpretable laws, however, it is unclear how highly endangered foreign journalists are. That is exactly the point: in a Rule of Law (a Rechtsstaat) the regulations and laws should be clearly formulated so that the citizen knows in advance where they stand. Surely we all know that Russia is not a real Rule of Law but now it is more than confirmed.

⁴ Liveblog Oorlog Rusland-Oekraïne dd 21-3-2022 VRT

⁵ According to VRT Specialist Jan Balliauw dd 24-3-2022

⁶ Die Zeit dd 10-3-2022, p. 25 "Die Macht über die Geschichte" of Julian Hans and Charlotte Parnack

It is also communicated (21-3-2022) that Navalny has to serve another sanction of 9 years. He was already in jail, because he had “violated his conditions”, but now he has also been found guilty of fraud and contempt of court. Navalny finds the accusations unfounded and his supporters see it as yet another attempt to keep the opposition leader behind bars. Putin must be extremely frightened!

Sanctions:

The reactions are very different about that. On the one hand, it is said that by freezing the foreign exchange, the Russian authorities do not have access to their money reserves (in the West). On the other hand, it is reported that Putin will not let a bank go bankrupt and can create money as much as he wants. According to Smeets, an expert on Russia, "The rouble has collapsed"⁷. On the other hand there are these news messages: “The idea that Putin has to withdraw due to a shortage of money is false” says the economist Jens Südekum, (the Heinrich-Heine Universität Düsseldorf)⁸ Putin pays the employees in rouble and the rouble can be printed as much as Putin wants”, but that was a conclusion of two weeks ago. In any case Russia can feed itself. But Russia also finances its economy including the war by selling their rough diamonds. A quarter of all rough diamonds traded in the world come nl. from Russia, from Yakutia in Eastern Siberia, where it is very cold in winter. Eighty percent of all rough diamonds, which go from hand to hand in the world, flow through the trade channels of the South African company De Beers and its Central Sales Organization (CSO). De Beers and the Russian state authority are condemned to cooperate. The Russian government supports a (provisional) program for the development of its own diamond processing industry. That would mean that fewer diamonds would be traded through De Beers' Central Selling Organisation. 'If we had a well-developed infrastructure for the processing of diamonds, we would of course be more interested in selling diamonds in Russia', said Ivan Gurevich, deputy director of the Precious Metal Committee, to the Reuter news agency. 'That would probably mean that we would indeed sell less through the CSO. We have never hid the will to work with our own diamonds more ourselves. After all, it is more profitable to trade processed instead of rough diamonds⁹.

⁷ All this information from Hubert Smeets in “ Liveblog” Radio I, dd 21March 2022

⁸ Die Zeit dd 10 March, 2022, p. 21, Michel Thumann “Ruslands letzter Kaufrausch”

⁹ In “De Tijd”, a Dutch journal dd 24-3-2022

Michael Thumann in "Die Zeit"(see note 2) concluded by saying that according to a research the countries who were punished by embargos (even in Venezuela whose economic power has shrunk with 76 %) there was in the end no regime change¹⁰. So, success because of the sanctions is not evident, but perhaps there is another way. Uzbekistan is poor, Kazakhstan is not, but they are no member of NATO, so they can legally fight together with Ukraine against Russia

¹⁰ Die Zeit dd March 17, 2022 p. 46: Alles stürzt in sich zusammen"
In Russia regime changes happened through palace revolutions rather than through revolutions by the people.

Executive Summary

The dollar is now gaining from the drumbeat of Fed rate hikes. We should not lose the perspective, though, that the monetary inflation “mistake” was of a higher order in the US than elsewhere during the pandemic, and so this represents a tremendous blot on its already severely tarnished image as a good store of value.

We do not share the view here the high inflation of the 1970s is now resurrecting itself. The US Fed and Government administered three back-to-back monetary inflation shocks during the mid-1960s to late 1970s (and two energy supply shocks during this interval which came and went). The pandemic monetary inflation shock of 2020-1/2 is unlikely to be followed by a further immediate monetary injection.

A global recession is now viewed as more probable during 2022-3 than the metamorphosis of the 2021-2 jump of consumer prices (led by the US) into a sustained high consumer price inflation over many years from now.

Article

A second global supply shock in two years

But this time without new injection of monetary inflation

Rising danger of global recession

A puzzle of the dollar

Triple monetary inflation shock of mid-1960s to late 1970s
in retrospect

The latest act of the Powell Fed theatre confirms that there is a total lack of seriousness to find out what went wrong with monetary policy through 2020-1, such as to bring about the most tremendous inflation shock since the late 1960s.

And why should there be any seriousness when the leading actor Powell is on course to get his re-nomination by President Biden confirmed by the Senate? Instead, we have the same fumbling and recital of labour market statistics. For Mr Powell and his staff, inflation danger emanates from the labour market, which is now redhot in his

description. We beg to differ here at MHA. Monetary inflation stems from money supply persistently veering ahead of money demand. The tight labour market can become less tight for a whole variety of reasons which are only tangentially related to monetary factors and much more cyclical including post-pandemic spasm effects. More of this below!

In the currency markets, the Powell theatre show of March 16 lacked broad impact, and indeed except for the yen, there was some relapse of the dollar, matched by a rebound of the gold price.

Stepping back from the most recent events, we can say that in normal times massive monetary inflation, all the worse because it seems at least partly administered in error, should not be good for the currency's reputation in question.

And yet we have the paradox of the currency for which the monetary inflation shock has been the most severe, the US. The dollar is the one that is now on top, and it seems because nominal interest rates are currently set to rise.

The greenback is gaining the drumbeat about Fed rate rises ahead when at best it seems these will bring US inflation back on to the programmed course of 2.5% inflation a year from the mid-2020s onwards (as now discounted in the T-bond markets). But there is hardly anyone who thinks there is any real prospect of even a small refund of the giant inflation tax the Fed and US government levied through 2021-2?

Yes, the monetary inflation during the pandemic has indeed been an infliction of all fiat monies. But that response is not as straightforward as it seems, with year-on-year CPI inflation in Japan and Switzerland at below 2 per cent. In part, there are natural explanations here (for example, in Switzerland, new competition laws, significant domestic energy sources from hydro-power, falling Swiss healthcare costs). But on top, neither country had such tremendous fiscal ease as the US, which was directly monetised.

In broad terms, yes, monetary inflation has been more severe in the US than in Switzerland or Japan, though not by as much as a simple comparison of CPI data would suggest. The comparison between the US and the euro-zone is much more nuanced. (And even within the euro-zone, there are substantial differences – for example, France has much lower CPI inflation than Germany partly because of less exposure to high energy prices).

Part of the difference in symptoms of monetary inflation, and why these have been awful in the US, might be related to how the monetary excess found its way into the economy.

In the case of the US, we have had this fantastic boom in demand for consumer durables, without parallel anywhere else in the globe, and going a long way to explain the severity

of the "bottleneck" problem. Markets might sense that this will have payback further down the road when normalizing consumer durable demand in the US could mean a sharper recession.

So it does not make total sense for the dollar to be excused for monetary excess by the claim that there is a monetary plague on all houses. Maybe instead, there is a sense in the marketplace that bygones are bygones. Yes, there was a significant US monetary inflation mistake from Autumn 2020 to Autumn 2021 when the Fed did nothing to reign back monetary stimulus even though every indication suggested the spasm in economic activity resulting from the pandemic's onset was over. Financial markets with the apparent exception of gold seem to be convinced that the US mistake does not go along with a raised likelihood of similar or worse inflation break-outs in the future.

Here at Macro Hedge Advisors, we would disagree with such complacency – but not in the sense of diagnosing a situation of us having entered a high-inflation decade similar to the 1970s. Instead, we consider that the so-called "2 per cent inflation standard" has collapsed- it was an emperors' new clothes story. The idea that benign monetary officials and the political establishment to which they were responsible had the toolbox (in this case, including a giant econometric model) always to steer inflation at 2% should have been implausible. That has now been demonstrated to be the case (implausible) though many in the marketplace do not see the collapse yet.

Reflecting by contrast on the significant inflation of the mid-1960s to the late 1970s in the US, there were three back-to-back robust monetary inflation administered – first the Martin inflation from 1962-8; then the first Burns inflation from 1970-73; and then the third and arguably the most potent monetary inflation of all from 1975-8. All these financial shocks back then occurred in a global economy spawning economic miracles – in Japan and Continental Europe in the 1960s, again though somewhat less so in Japan and Continental Europe in the mid/late 1970s, a big contrast from today.

In contemporary history, we should think of the long monetary inflation from 2013-18, which did not come through into goods inflation mainly because of the general economic sclerosis of those years. Asset inflation, though, was virulent. Then there was the great pandemic inflation shock of 2020-1, which has come through to goods prices with a vengeance and robust asset inflation. The pandemic one is winding down because the steep rise of prices today has eroded the excess supply of money in real terms, and the velocity of money is likely to continue to fall. There is no subsequent back-to-back monetary inflation at this point.

This view that US monetary inflation is now decreasing (with prices having moved up and no new stimulus) may help to explain why we are not seeing at this point general dollar weakness. Yes, this time war has a new global supply shock, which sends prices higher, but a new monetary stimulus does not accompany this.

Global supply shocks are not frequent events. And it is all the rarer when two come together within the space of two years. Even rarer are when the supply shocks combine with a Great Monetary Shock.

So first, we had the great pandemic, with its maximum influence on supply felt through 2020, especially the second quarter of that year.

This was accompanied by the Great Monetary Inflation injection led by the Powell Fed, which amazingly continued to be administered throughout 2020-21. Now we have the war shock – a combination of the military war between Russia and Ukraine on the one hand and the economic war between the West and Russia on the other. There is no new inflationary monetary injection this time, though there are grounds to speculate about a further unleashing of monetary inflation, in consequence, some way down the road.

Markets are reacting to all of this in remarkably measured ways. The five-year forward five-year T-bond rate is still just below 2.5 percentage points, barely higher than in 2018, and similar to where it was through much of 2021 (well below this level during 2019 and into the first year of the pandemic). So essentially, the T-bond markets are expecting inflation in line with the Fed's targets beyond the present continuing hump in prices reflecting supply shortages. Five year forward five-year real interest rates are at -0.10%, indicating no strong expectation of a dawning age of economic dynamism coupled with sound money.

One way to explain these low forward real rates is to build into revealed expectations of a recession ahead. And given the extent of monetary inflation through 2021-2 and the vast distortions this has created, it is reasonable to assume that this will unwind. In particular, we should consider the cool-down of capital spending in the areas which caught fire during the pandemic; and there is the already mentioned normalization of consumer durable spending in the US. We should also consider the near-term recessionary tendencies in China and Germany and how these could spread globally.

For example, Germany is exposed to negative demand shock from Russia and Eastern Europe, a sharp slowdown in its number one export market (China), a squeeze on real household incomes (from energy shock). More generally, Europe is exposed to the risk of negative wealth shock globally, especially in how this relates to its vital luxury goods sector, a massive gainer from asset inflation (including crypto-mania) under pandemic conditions.

In a likely long economic war between the West and Russia, the negative spillovers for Europe are likely to mount – both as regards the squeeze from energy prices (and availability of energy) and from falling demand (from Russia and percolating through Eastern Europe). The main scenario is that the economic war continues far beyond the

end of the military war – and the timing of the latter depends on huge unknowns amidst the dense fog of war. Most of all, perhaps, how suddenly cities in South Ukraine could fall, wherein there is a potential drama playing out between military defenders and local populations in severe distress in each case.

Our bottom line is that recessionary downside risks now dominate the global economy despite further upward "surprises" on headline CPIs in the US and elsewhere related to the second global supply shock. The massive monetary injections in the US, which sourced the monetary excesses through 2020H2-2022Q1, have most plausibly ceased. We should reckon that the jump in prices has helped close the gap between excess money supply and money demand (though no one has any precise basis for estimating the latter given our present dysfunctional monetary systems). Yes, we should build in expectations of further monetary injections in the future, most likely when the economic downturn and asset deflation combine. But that is not the present situation.

20:00 – 21:00, 3 February 2022

Virtual Event | How the United States Can Help Defend Ukraine

Organizer: Hudson Institute

Written By: Damian DeSola – Intern at LVMI-Europe, Student at American University

Speakers:

Lt. Gen. (Ret.) Ben Hodges – Pershing Chair in Strategic Studies, Center for European Policy Analysis and Former Commanding General, United States Army Europe

Michael Doran – Senior Fellow, Hudson Institute

This webinar was organized in the form of a question and response between Michael Doran, the host, and Ben Hodges, the guest. They covered a variety of positions and outlooks regarding the ongoing crisis in Ukraine. This webinar was prerecorded and premiered at 20:00 on 3 February 2022.

Mr. Hodges, at the time of recording, had just returned from a visit to Ukraine’s capital city Kyiv. Where he says he was providing assurance to the Ukrainian government and the media that the United States is doing what it can to support Ukraine in its crisis with Russia. He briefly explained his main takeaways from his visit to Ukraine. The first of which is that President Zelensky is fully aware of the situation that his country has found itself in. There are disagreements between the United States and Ukraine, however these are limited to disagreements on how a potential conflict will occur. There is no illusion on either side of the U.S.-Ukraine table regarding the threat that is faced. The second takeaway Mr. Hodges has is that Ukraine has not asked the United States or any of its allies for soldiers, and that their support is mainly for specialized weapons systems and financial support to bolster the Ukrainian government’s ability to defend itself. The Ukrainian military needs to grow to around 100,000 soldiers and increase its technological capabilities to defend itself from Russian aggression, and it will be capable of doing this if it receives financial support. The Ukrainian government has not asked for anything more than this material support, and no promise of personnel support from the US has been asked for.

The topic then moved to the objective of Russia if they were to escalate this crisis. Mr. Hodges believes that controlling the coastal regions of Ukraine absolutely is the short-term goal of the Kremlin. Totally controlling the Sea of Azov would secure their hold on Crimea and the ability of the Russians to use the ports in that region more so. They would also try to secure Odessa for the same reasons. The Russians, however, do not want to

risk too many casualties. To do this, they are slowly attempting to annex Ukraine in pieces, as can already be seen by the invasions of Crimea and the Donbas. This will continue until Ukraine is proven to be a failed state to the West and no longer deserves their interest, allowing Russia to annex it.

Mr. Doran then asks why the Kremlin does not take everything east of the Dnieper River if they are already planning an invasion. Mr. Hodges answers this by continuing his previous statements regarding the goals of Russia and Vladimir Putin. He thinks the preferred way for Russia to take Ukraine is to defeat it without a full invasion. Control over Odessa and the Sea of Azov would turn Ukraine into a land-locked country that is incapable of naval commerce, which would greatly weaken the already fragile economy of Ukraine. Vladimir Putin wants to be able to reunite the Russian Empire and doing so in this manner is required when dealing with the United States and its European allies. Mr. Putin is deathly afraid of a color revolution, and this methodical strategy can be done indefinitely without rousing too much intervention domestically or internationally.

Mr. Hodges then began to explain why a full invasion of Ukraine is not as feasible as some may think. Ukraine is a very large country, and a single city would require many battalions to take. Mr. Hodges states that the invading Russian forces would have a hard time taking Kyiv and would likely be “swallowed” by the city.

Mr. Doran continues by asking if the Russians could shut Odessa down without even taking it over by force. Mr. Hodges says in return that Russia continuously carries out live-fire naval practices near the port of Odessa and has been causing those who would trade with Ukraine to become more hesitant of sending their ships into the region. So, in effect, the Russians already partially control Odessa indirectly.

Attempting to look at a more positive point of view, Mr. Doran asks what Ukraine can be doing to protect themselves from Russia. Mr. Hodges says that the Ukrainian military is far more modernized and experienced than it was in 2014, and that they will fight hard to protect themselves. Thousands of Ukrainians want to join the defense force to protect their freedom as a country. Mr. Hodges solemnly explains that thousands will equivocally die protecting Ukraine from Russia. It is still a young force, but with the right equipment, such as anti-ship weaponry, it is capable of making the Russians far more cautious. Weaponry for this force at its current state will easily be wiped out by Russian bombardment, so proper support from the United States is required for a proper defense. This weaponry will be difficult to train the Ukrainians on in such short time, however unmanned sabotage that do not need intense training to use such as sea mines would be a good stopgap.

Mr. Doran then asked what advice Mr. Hodges would give to President Biden to properly respond to the crisis. Mr. Hodges replies that he would tell Mr. Biden that he should make sure the United States' allies are strongly committed to saving Ukraine. Various countries with strong economies and militaries standing together would greatly deter Mr. Putin from taking action in Ukraine. Anything that would threaten his plans so severely would prevent them altogether.

On the topic of allies, the discussion shifts to the United Kingdom and its response to the crisis at hand. Mr. Hodges explains that since exiting the European Union, the United Kingdom has been trying to prove its capacity to apply international policy and aid without the assistance of the European Union. They have been aiding the Ukrainians with financial aid and military equipment. The United Kingdom has proven to be essential to the effort in Ukraine.

Mr. Hodges, then began to discuss Poland and its aid to Ukraine and its relationship to Ukraine as a neighboring country. He was surprised that Poland did not do more earlier since it would be directly bordering Russia if Ukraine were to be annexed. He noted, however, that recently Poland has begun supplying the Ukrainians with air-defense systems. Mr. Doran asks if the Poles did not act earlier due to a history with Ukraine that may not be friendly. Mr. Hodges affirmed that there was a history between Poland and Ukraine, but that they are on positive terms. Poland is not worried about provoking the Kremlin likely because of their historical distaste for Russia.

The conversation continued to focus on Germany and its role in the crisis. Mr. Doran asked if the Germans are a weak link in the coalition of West countries. Whether their resistance to taking further action is preventing a proper united response against Russia. Mr. Hodges then responded that having Germany in the coalition of Western countries is key for deterring Russia. Germany has been having difficulty with coming to grips with protecting Europe since it has been historically the aggressor country. The United States is attempting to repair its relations with Germany after years of an administration that actively soured these relations. Germany has great potential to help the Western coalition to deter Russia, however Vladimir Putin is attempting to drive a wedge between Germany and the United States. Germany is historically predisposed to look eastward, and since World War II has begun to feel guilty over the many Russian deaths it was responsible for during that war. Mr. Hodges says that this guilt is misplaced and that this is more of an excuse to save German businesses by preventing direct involvement in this confrontation.

Mr. Doran asks how President Biden should handle the German question. Mr. Hodges answers this by saying that the United States has been taking advantage of Germany for a long time and that German trust in the United States which existed during the Cold War has eroded. With very little understanding of the coalition system of Germany, the United States has a difficult time properly engaging with the German government, as its many ministers come from different parties and if this is not understood, putting pressure on Germany becomes complicated. The country also loves European Union institutions and trusts them more than it trusts itself. Therefore, for the United States to engage with it, engagement with the European Union to get to Germany may be a more effective option.

The second case that was discussed was that of Turkey, where Mr. Doran brings back up a point from earlier that Mr. Hodges made about how Turkey could be a useful counterbalance to Russia, but that current relations with Turkey are not enough. In response, Mr. Hodges says that Turkey feels unappreciated during the United States' operations in Syria and Iraq as it used Turkey as it has armed the YPG to fight ISIS but has subsequently put a strain on the relationship with Turkey. This relationship needs to be repaired as Turkey is far too geopolitically important to ignore in the case of challenging Russia. The United States needs to prove that they will help Turkey in cases where they confront Russia. If this happens, Turkey can cause many problems for the Russian navy with its control over the Dardanelles and the Bosphorus straits.

On the same topic, Mr. Doran asks how President Biden should improve the United States' relationship with Turkey. For this, Mr. Hodges says that the irritations that the United States is causing for Turkey must be identified, that he should make it completely clear that the United States will and must protect its NATO allies as there is economic potential and strategic importance in the Black Sea region, that there is a strategy being developed to help Turkey, and that he will meet Erdogan in Ankara within the next three months.

The topic that concludes this webinar is that of the political discourse of isolationism from both the left and the right in the United States. Mr. Doran says that both sides are asking why the United States should get involved at all with this Ukrainian crisis. It is all about values, Mr. Hodges says. Ukraine is a European country and is slowly moving towards becoming a proper democracy. After living under authoritarianism for so long, the United States must be patient with Ukraine as it develops a democracy from nothing. The United States also needs to be preventing dictators from acting like this, freely invading and annexing countries that they lay claim to. People who want to be free should be free, so defending Ukraine is the duty of the United States. It may not look like the democracy

that is found in the United States, but this is what the Ukrainian people want, and it is in the interest of the United States to protect them.

Note: This webinar and the writing of this report both took place before the war in Ukraine began

The attitude of Poland has been exemplary after the breakout of the war. They have received thousands of Ukrainians on their territories since then.

16:00 – 17:00, 9 March 2022

Virtual Event | How to Win the Disinformation War in Ukraine?

Organizer: German Marshall Fund

Written By: Damian DeSola – Intern at LVMI-Europe, Student at American University

Moderator:

Bruno Lete – Senior Fellow of the German Marshall Fund of the United States

Speakers:

Herohii Tykhy – Media Advisor of the Ukrainian Foreign Minister

Martyna Bildziukiewicz – Head of the East Stratcom Team at the European External Action Service

Bret Schafer – Senior Fellow of the German Marshall Fund of the United States, Head of Information Manipulation Team at Alliance for Securing Democracy

Viktor Berezenko – Member of the Supervisory Board at the Institute of Cognitive Modelling, Institute for Global Transformation

The webinar began with Bruno Lete introducing the topic. The war in Ukraine, at the time of this webinar, has been going for two weeks. While there has been much fighting on the ground, a disinformation war has been occurring on the internet and the media. The anti-West and anti-Ukrainian narratives from the Kremlin have intensified. Narratives such as claiming the goals of the war are for denazification, or that the United States has biolabs for the purpose of developing biological weapons on the Polish-Ukrainian border. Furthermore, the letter “Z” has become a symbol for Russian support due to its use by the Russian military on its vehicles. Mr. Lete then introduced the other speakers.

At first, a guest speaker is introduced, Viktor Berezenko, who is not on the panel, but gave initial introductory remarks. He said that since Vladimir Putin attacked Ukraine, people around the world have shown their support for the Ukraine. The Ukrainian government has also seen the support given by the United States and Europe, and they are very grateful for it. He went on to say that the massive propaganda machine that the Kremlin has become famous for is not working properly. The narratives that the Kremlin has attempted to spin have been quickly dismissed by the Ukrainians. Mr. Berezenko concluded by highlighting the work the Institute for Global Transformation has done to

bridge the information gap between Ukraine and the rest of Europe, as well their attempts to combat Russian disinformation. With his remarks done, Mr. Berezenko returned the floor to Mr. Lete, who then began the panel discussion.

Mr. Lete first asked Heorhii Tykhy, who is in Kyiv as of the webinar, about the status and ongoing challenges for the Ukrainians in this information war. Mr. Tykhy replied confidently that Ukraine is currently winning the information war against Russia. Even though Russia is highly experienced in waging information wars against other countries, the Ukrainians are “massively” and “unexpectedly” winning against Russian aggression. However, Mr. Tykhy did note that there are challenges for the Ukrainians as this war is waged. However, after years of already countering Russian disinformation, the Ukrainians have developed an institutional resistance to it. Ways to counter disinformation, the development of NGOs, and the role of civic society has given Ukraine the tools it needs to wage an effective information war with Russia. This has been shown by the Ukrainian’s ability to prevent possible false flag operations from occurring by disclosing their information before they could be carried out. While this has been effective, Mr. Tykhy does not think it is enough for a protracted war. He believes that a proactive strategy must be taken if the Ukrainians are to continue winning this information war. Reacting to narratives is not sufficient, the Ukrainian information sector must promote narratives first rather than always countering Russian ones.

He went on to say that the ability for Ukrainians to access the internet is becoming increasingly difficult. There is a full-scale war happening in terms of information, and all contingences that the Ukrainians had in the case of such a war occurring have already been used. This does not mean that Ukraine’s ability to fight it has not been depleted. Even with power and internet outages, less than a single hour is needed to return to fighting this information war. Furthermore, the world’s opinion of Russia has drastically changed, and the ability of the Kremlin to influence public opinion has greatly vanished. Such narratives are difficult to promote when the targeted populace is actively against them. Mr. Tykhy concluded his remarks by saying that the information war has become much more complicated as it has gone beyond general media and into the realms of hacking and other complex tools used to spread or counter information.

After Mr. Tykhy, Mr. Lete turned the conversation to Martyna Bildziukiewicz. His question for her was if the strategy for countering disinformation that Mr. Tykhy had just explained is the strategy of Europe. She said that it is in fact Europe’s strategy for fighting disinformation. Proactiveness in communication and high-speed information transmission are highly important for the European strategy against disinformation. The Europeans need to continually push back against the propaganda machine of the Kremlin. Ukraine has been a target of Russia for six years now, and many messages that the Kremlin has been putting out over that time span have been directly targeted against

Ukraine. Most recently, the narratives from the Kremlin have intensified. Not only have they become more frequent, but these narratives are more inflammatory than ever. The issue with these messages, Ms. Bildziukiewicz pointed out, is that they have been used by the Russians before. The same tactics have been used against other countries many times, and in fact, some of the stories that Russia is using against Ukraine now are the same ones used against Georgia years ago. Ms. Bildziukiewicz then made the case that these stories can easily be proven for repetition and should be actively promoted to be false. A large amount of energy should be put into debunking and pushing back against these false narratives. Her response concluded by saying that there should be consequences for those who propagate or spread these narratives.

The final speaker on the panel is Bret Schafer, and Mr. Lete asked him about the recent use of transparency on the part of the United States government. Mr. Schafer responded by talking about how historically the United States tends to keep most information classified. Recently, however, social media has changed the game in terms of combating disinformation. Instead of trying to hide information, the government has decided to get ahead in spreading information before any falsehoods are spread in the first place. He proceeded by saying that Russia is not losing this information war, they have, in fact, already lost. No one believes the Kremlin's narratives anymore after everything the Kremlin has done to protect itself and its narrative. He made the point that they have proven themselves to be liars. For example, it is hard to initially tell the public that you will not start a war, and then start a war regardless of what was said. Their narratives are no longer effective after wild and desperate attempts to shift attention from what they are doing in Ukraine elsewhere.

While this sounds encouraging, it must not be forgotten that there are still fault lines between the United States and Europe, and there are still problems within these two allies as well. Bipartisan support against Russia currently exists, but extreme polarization has shown to be crippling to the United States' legislative process. A breakdown of bipartisan support could paralyze efforts to counter Russia. In Europe, false narratives of Hungarian Ukrainians being stripped of their rights by President Zelensky have been spread, and support for Ukrainian refugees could possibly falter. Both sides of the Atlantic have issues that could result in problems for the united front that has been seen so far. They need to keep focused, as the people's attention spans are short. In terms of information, the West needs to be intensely concentrated on making sure the disseminated information is right every single time. Any falsehoods or failures in intelligence could be exploited by the Kremlin and effectively feed their propaganda machine.

After these final remarks, the webinar turned to a question-and-answer section. The first of these questions Mr. Lete directed towards Ms. Bildziukiewicz, it was about the

possibility of fighting the information war within Russia. She responded by saying that it has been a significant challenge to relay the truth to the Russian people. With the Russian government quickly shrinking the space for free debate and media within the country, people cannot speak the truth about the war. Now, only Russian state media or government approved media can inform the public. The non-state-owned companies are forced to refer to the war as a “special operation,” this, along with similar regulations, makes discussion of the truth or even alternatives to the Kremlin’s falsehoods impossible. Options for accessing information also have begun to run thin as social media platforms have been restricted or disabled. The only form of reliable social media left is Telegram, and Ms. Bildziukiewicz believes this would be a great way to talk to the Russian people.

On this very same topic, Mr. Lete asked Ms. Bildziukiewicz about how we should talk to the Russian people if we can. This is followed by a simple response of thinking creatively, and then is left by Ms. Bildziukiewicz for other members of the panel to answer. Mr. Schafer decided to take over and partially retracts his previous statement about whether Russia has lost the information war. He restated that while Ukraine may have won the information war outside of Russia, within it, Russia still remains dominant. However, he went on to say that sudden closure of Russia’s social media and news will likely make the Russian people suspicious. Unlike China and until recently, Russia has had fairly free news standards, and very free social media standards. As much as the Russian government tries to say otherwise, it is connected to the outside world. The people will find other ways to remain connected through alternative means of information gathering. Hiding this war will especially be difficult to hide since some Russian soldiers will not be coming home and explaining why such a large number of soldiers are dying is difficult when the narrative is that there is no war. With all of this, the Russian people will begin to realize that they are being lied to about the “special operation” in Ukraine.

Mr. Tykhy was the next panel member to answer the question. He started by splitting the Ukrainian target audience into five different groups. These groups are the pro-Ukraine Westerners, the skeptical Westerners, the Russians, the Belarussians, and the Ukrainians. Between the Russians and the Belarussians, sending information to Belarus has been much easier. Demoralizing relatives of Belarussian soldiers has been a tactic implemented by the Ukrainians. For the Russians, a weeklong window was open for the Ukrainians to send information to Russian people. The ability for Ukrainians to speak Russian is very useful for attempts at sending information to them, as most Russians do not speak Ukrainian. A large issue Mr. Tykhy pointed out is that most Russian people do support Vladimir Putin, and that those who do not approve have already left the country. Since this is the case, Ukraine is not optimistic about their ability to change the minds of the Russians, even if Ukraine could reach them. The only way to proceed is to find ways to sow doubt in Russia to prevent soldiers from wanting to take part in the war.

Mr. Lete asked another question to Mr. Tykhy about whether the Ukrainian people know that they are receiving support from the West. Mr. Tykhy answered this question by saying that the Ukrainian people are fully aware of all the support the West has been giving it. They have been able to dodge the many forms of Russian propaganda that try and convince them of an evil West. He goes on to say that there have been very clever decisions and actions by the Ukrainian leadership and media to further protect themselves from Russian propaganda. As an example, at the moment there is only one Ukrainian channel on air at the moment. All the major media networks decided to work together and air their programs on this single channel one at a time. This is to give the Ukrainian people a single place to find a variety of information without being exposed to other channels that could easily be influenced by the Kremlin. The Ukrainian people will also be able to be on the same page in terms of understanding the conflict.

Another question moved the conversation back to Ms. Bildziukiewicz as Mr. Lete asked about the extent Russian narratives have taken hold in the West. Ms. Bildziukiewicz responded that there is still much to be done on the part of the West to continue to win this information war. Many Western media outlets still actively promote Russian propaganda, leaving the Western populations exposed to disinformation. The West must continue to fight with all the tools it has at its disposal. Speaking the truth and spreading pure facts is one of the best weapons available, as a continuous spread of these can effectively stop disinformation from spreading. Even a focus on semantics, such as how the war is referred to by the media, is a good way of preventing any exploitation by the Russian propaganda machine. Calling the war a “conflict” allows others downplay the war in a way that plays into the hands of Russian disinformation. The West must constantly be vigilant and prepared to crush any possible exploitation from the Kremlin.

Mr. Schafer also took a chance to answer this question. He pointed to the many Westerners that have allied themselves with Russia, as they have begun to falter in their Russian promotion. They are far more effective at attacking the West than protecting Russia. The attempts of these people to create propaganda is focused mainly on making the West look as unattractive as possible. These people feel uncomfortable defending Russia, as most defenses they conjure are eventually undermined by the Kremlin’s own propaganda. Their best argument was that the Russians felt threatened by the expansion of NATO towards their borders. While they found this argument attractive, the announcement of invasion from Vladimir Putin declared the *casus belli* to be based on historical reunification rather than due to NATO expansion. Now, there is no narrative that these pro-Russian Westerners can use. Finding ways to attack the West is likely to be their only venue for any continued effort to spread propaganda.

With time running short in the webinar, Mr. Lete asked a variety of questions and allowed the panel members to respond to them for their conclusive remarks. These questions regarded VPNs for monitoring Russian media, American or European Russians to communicate to the Russian people, the uses of the social media application Telegram, and what the West could learn from Ukraine's handling of the information war.

The first response was from Mr. Tykhy. He built off the earlier ideas from Ms. Bildziukiewicz about finding new and creative ways to reach the Russian people. They are intensely vulnerable right now with the chaos of being shut out from the rest of the world. It is necessary to make it clear to the Russian people that Vladimir Putin is to blame for the many hardships they are experiencing. To properly talk to the Russian people, we must bring ourselves down to the level of them and talk to them in a way that would emotionally relate. Only then can we create proper communication with the Russian people. He then turned to discussing Belarus and how working to reach the Belarussian people can also be an effective strategy. There is much gray zone in the allies of Russia and exploiting these gray zones can drive them away from the Kremlin. If the right target audiences are found, the populations of these Russian allies can be convinced to move away from Vladimir Putin and his ambitions.

The next to respond was Ms. Bildziukiewicz. Telegram has been a tool that the European Union has been recently using to reach the people of Russia. While it is an effective application for this purpose, it has also been revealed to be infiltrated by Russian authorities attempting to combat Western influence. The European Union has also been working with Russian diaspora for the purpose of reaching Russian communities. There have been thoughts of working with Russian social media influencers that have popularity among the Russian youth. With all of this, the Russian audience is not easy to approach as they have been brainwashed by their government and are unwilling to receive the information the European Union is attempting to provide. Ways to get around this would come from forming personal discontent among the Russian people. The result of dead soldiers and economic collapse will drastically increase this discontent. It is important then to make sure the ordinary Russian people are not responsible for this, but that Vladimir Putin is responsible for their difficulties.

The last of the panel members to respond was Mr. Schafer. He referred to an interesting way Lithuania is attempting to reach Russia. There is a program called Call Russia, that encourages those who speak Russian from around the world to call Russian phone numbers to engage them in conversation. There are many different ways that the West and the world can reach the Russian people. While the Vladimir Putin and the Kremlin will continually get more restrictive as all these creative ways of communication are

discovered, these restrictive measures will result in blowback from the Russian people. As the Russians lose their ability to interact with the outside world, they will intuitively understand that something is wrong with their government. This understanding, however, will take a long time. Flipping the mindset of the Russian people is more than, as Mr. Schafer put it, “a two-week operation,” and that, “realistic expectation” must be set. Helping the Russian people realize their situation will require a concentrated effort over an extended period of time.

Mr. Tykhy then concluded the panel’s remarks with a few words about what the Kremlin and Vladimir Putin will be attempting to do in the near future. Their main goals will be to blame the suffering of Russians on the “evil West,” shifting the blame from themselves to the United States and the European Union. It is vital that we reach out to the Russian people as quickly as possible to prevent such a narrative from taking hold. Further, the West should make sure that all the blame falls on Vladimir Putin for any such suffering that the Russian people are enduring.

With this, Mr. Lete ended the webinar by thanking the panel members and saying that future webinars should take place on the topic of the information war.

New EU Law and Regulations

25/03/2022: Commission Implementing Decision (EU) 2022/500 of 25 March 2022 establishing the military aggression of Russia against Ukraine as the occurrence of an exceptional event causing a significant disruption of markets

23/03/2022: Council Decision (CFSP) 2022/472 of 23 March 2022 amending Decision (CFSP) 2022/339 on an assistance measure under the European Peace Facility to support the Ukrainian Armed Forces

15/03/2022: Council Regulation (EU) 2022/428 of 15 March 2022 amending Regulation (EU) No 833/2014 concerning restrictive measures in view of Russia's actions destabilizing the situation in Ukraine

15/03/2022: Council Implementing Regulation (EU) 2022/432 of 15 March 2022 amending Implementing Regulation (EU) No 282/2011 as regards the VAT and/or excise duty exemption certificate

03/03/2022: Commission Implementing Regulation (EU) 2022/365 of 3 March 2022 amending Implementing Regulation (EU) 2018/1624 laying down implementing technical standards with regard to procedures and standard forms and templates for the provision of information for the purposes of resolution plans for credit institutions and investment firms pursuant to Directive 2014/59/EU of the European Parliament and of the Council

30/03/2020: Regulation (EU) 2020/461 of the European Parliament and of the Council of amending Council Regulation (EC) No 2012/2002 in order to provide financial assistance to Member States and to countries negotiating their accession to the Union that are seriously affected by a major public health emergency

17/02/2022: Council Regulation (EU) 2022/212 of 17 February 2022 amending Regulation (EC) No 765/2006 concerning restrictive measures in respect of Belarus

16/02/2022: Directive (EU) 2022/228 of the European Parliament and of the Council of 16 February 2022 amending Directive 2014/41/EU, as regards its alignment with Union rules on the protection of personal data

17/01/2022: Commission Implementing Regulation (EU) 2022/64 of 17 January 2022 amending Implementing Regulations (EU) 2020/761 and (EU) 2020/1988 as regards the management system of some tariff quotas and the quantities that may be imported under certain tariff quotas

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