

February 26, 2025



# Executive Summary Report

The Ukraine-Russia War has entered its third year. Neither nation can militarily defeat the other. Both have suffered huge personnel losses and equipment – Russia more so than Ukraine, but it could withstand losses more than Ukraine. The war has developed into a relative stalemate with some gains and losses of ground. Russia has acquired ground in the east via slow and grinding assaults, while Ukraine has secured and retained a foothold in Russia's Kursk region. Another development is the new Trump Administration that has initiated a different approach to the war compared to the Biden Administration, especially pertaining to America's role in the war.

Russia's and Ukraine's leaders have maximalist positions for ending the war. Neither is willing to discuss trading land, or for that matter, anything at this stage for a future peace. It is doubtful that the war will end with either side obtaining all their goals, but both will try.

For the first time, there is some enthusiasm (although not widespread or uniform) for ending the war with negotiations. Two distinct types of negotiations are being used to entice peace. The first is the introduction of a neutral third-party facilitating negotiations between Russia and Ukraine. The second method uses force, or the threat of, by a third-party using punishment to drive compliance. The processes and costs for each negotiation type are dramatically different. Yet, there are common aspects with these two styles of negotiation in that both efforts are led by one nation, the United States, and both are simultaneously employed, perhaps even in concert with each other.

In a stalemate like this, with the U.S. assuming the role of a neutral third party that will lead negotiations, a settlement could be a challenge. For the last three years, the U.S. has not been a neutral party, siding strongly with Ukraine. Ukrainian support in the U.S. Congress had wide bipartisan support for the last three years and detesting Russia was domestically popular in the United States. There was good reason for Ukrainian support and condemnation of Russia given Russia's blatant violation of international order and criminal conduct. Under normal circumstances, it would be difficult for the United States to play the role of an intermediary, especially with Russia. But President Trump does not follow traditional approaches to foreign affairs and relationships.

The second style of negotiation, an imposed peace or an agreement backed up with U.S. coercive means, is a more familiar role played by the United States. But with a coercive approach a lasting peace will not be easy, as both Ukrainian and Russian long-term interests must be accounted for, along with credible and enduring security guarantees.

This report assesses the strategic situation from a number of lenses: Ukraine's, Russia's, Europe's, and China's. It then reviews conventional deterrence today and how it may change. Finally, as with all our reports, it provides implications and forecasts, especially to include economics.



[GEOIntelligence@bancroft4vets.com](mailto:GEOIntelligence@bancroft4vets.com)

## Discussion:

The outlook for Ukraine is not necessarily good – it probably cannot achieve its military objectives over Russia, which as a minimum, means restoration of Ukrainian sovereignty and territory to the pre-2014 boundaries. This means Russia must lose or give up the conquered territory from its initial invasion and the capture of Crimea by “Little Green Men” (Russian troops posing as local defense units) and the eastern parts of Luhansk and Donbas. All were seized in 2014 then annexed by Russia shortly thereafter. In addition, a Ukraine-favorable peace deal would include justice for Russian atrocities and reparations for reconstruction.

Similarly, Russia’s objectives include retaining the Ukrainian territories seized and annexed in 2014 plus the Ukraine states annexed shortly after the new phase of the conflict began in 2022. Russia has stated that it has annexed and will control out to the administrative boundaries of the annexed oblasts (states) of Luhansk, Donetsk, Zaporizhia, and Kherson, plus Crimea. With the exceptions of Crimea and Luhansk, Russia only controls perhaps two-thirds of the remaining three oblasts. Further, Russia’s version of a peace deal would include no NATO accession of Ukraine, as well as no outside forces deployed in Ukraine. Even more favorable for Russia would be installation of a pro-Russian regime and Ukrainian disarmament.

Both sides have extensive political and security conditions for agreeing to any peaceful settlement. What is clear is they have irreconcilable approaches to any peace deal and to secure one will require an outside entity to both mediate and coerce the parties to agree to terms that they would not otherwise accept.

It currently appears that the main actors in the peace initiative are only the U.S., Russia, and Ukraine. It is not entirely clear what part, if any, the EU or key nations like Germany, the UK, or France will play, however we know that the U.S. Administration is meeting at senior levels with the UK and France. After three years, the U.S. has not been neutral in the Ukraine-Russia War, with steady political support and slow but consistent military assistance to Ukraine. President Trump’s new centrist (or more neutral) policy and less conventional methods of messaging and negotiating are alarming to many observers. It should surprise no one that President Trump has an unconventional method of negotiating. Likewise, it should be no surprise that many of the more conventional-leaning thinkers and media outlets (international and domestic) are highly critical, voicing worry as they attempt to make sense of every move, meeting, or tweet. As such, these reviewers might draw the wrong conclusions. Yet, also predictably, others see this as at least progress in negotiating where negotiations stalled before. As an example, one camp might be critical that Ukraine was not part of the meeting between the U.S. and Russia in Saudi Arabia last week and see this as an intentional slight against Ukraine and perceive an intentional advantage to Russia. At the same time, other observers would label this merely as “shuttle diplomacy” where a neutral party (the U.S.) speaks to each antagonist separately because of great tension between them.

Regardless of the lenses one watches this through, this negotiation effort is going to ebb and flow many directions before it is completed, and our intent is not to either defend or critique the current administration’s approach, but simply try to discern the implications and possible outcomes of the new reality that this conflict finds itself in.

Instead of attempting to rehash a lot of recent back and forth with evolving conversations from many senior leaders in the U.S. Administration, Mike Waltz, President Trump's new National Security Advisor, summed up his perspectives in a recent interview with Megyn Kelly. Waltz highlighted Ukraine has had a presumed smooth path to NATO membership since 2008. Yet, while NATO as a body previously expressed the intent to bring Ukraine into the fold (echoed many times), the new Trump administration's most recent comments cast doubt – it is important to note that full NATO membership requires a unanimous vote by all member states. Second, it is not realistic to believe that every Russian can be ejected from Ukrainian territory, especially that of Crimea, which Russia has held since 2014. Third, Russia will have to give something as well, such as its objection to Ukrainian security guarantees.

To strike a deal, carrots and sticks will likely need to be applied to both sides. As reported by The Economist, Kurt Volker, Mr. Trump's former envoy to Ukraine, thinks the President is trying "both to entice Mr. Putin with warm talk and show he can put pressure on him." Perhaps President Trump applied an opposite approach with President Zelenskyy – instead of trying to warm him up, he applied pressure tactics to begin to nudge Zelenskyy and the Ukrainians toward a negotiated end to the war.

## **Analysis of the Peace Process:**

Neither side will get what it wants in a negotiated settlement. However, an unjust peace for Ukraine or a vindictive outcome against Russia will serve as precursors for future aggression. Further, no peaceful settlement will endure without meaningful security and development for Ukraine against an expansive and robustly armed Russia.

## **Ukrainian Perspective:**

Most of the war's direct effects on Ukraine are obvious: destruction of the eastern cities, devastation of its' critical infrastructure, a desparate Ukraine economy, along with significant losses of soldiers in an already demographically degrading situation. Ukraine simply does not have the means to drive Russia from its territory, and its international partners are either unable or unwilling to provide the help at the level necessary to defeat Russia's ambitions in Ukraine.

Sentiments in Ukraine are grim, and for good reason. Recent history has been unkind to the Ukrainians, and they are keenly aware of how great powers can leave the rest of the world in untenable situations.

First, the 1994 Budapest Memorandum removed nuclear weapons from Ukraine in exchange for security guarantees from the U.S., U.K, and Russia. Those guarantees have proved inadequate. Second, President Zelensky said he will not honor an agreement that Russia and the U.S. make without Ukraine. And, he has cause to fear that President Trump might box him out, as President Trump did with the Afghan government during his first term talks with the Taliban. Third, the U.S. Congress' weapons deliveries and funding to Ukraine enjoyed bipartisan support, but it was hotly debated and encountered delays. Fourth, the Russians were able to reverse their fortunes and seize the tactical advantage against Ukraine's ground forces. Fifth, security guarantees via western forces in Ukraine after the war or membership in NATO are not forthcoming. Finally, the apparent U.S. movement from staunch defender toward a balanced approach has caused significant trepidation.

## **Russian Perspective:**

In the case of Russia, there is not much military risk in either continuing the war or stopping hostilities. However, much is riding on the peace agreement in terms of political and geographic gains, economic stability, and the domestic support for President Putin. Many see this war as existential for Russia and Putin. For Russia, it has bet on expansion beyond its borders in the first post-Cold War major military conflict, in an effort to restore what the domestic propaganda describes as its version of “manifest destiny.” For Putin, everything rides on his ability to deliver for Russia and to save his oligarchic system. Some say his life is on the line, which is probably not an exaggeration.

Domestic support and stability are closely tied to the economy and Putin’s ability to convince the populous that their problems emanate from Western sources. He has lavished money upon the contract soldiers and their families, but this has directly contributed to inflation. He is essentially buying their support in the near term. A key factor will be if the Russian population will support him after the money stops as the war ends. Returning demobilized soldiers without generous post-war payments and true stories of what happened at the front will be politically destabilizing for the Kremlin.

## **NATO and European Perspective:**

On the positive side, Russia’s full-scale invasion has unified the NATO Alliance and its partners – the transatlantic community is stronger than ever after two decades of decline in NATO’s defensive capabilities. The war revolutionized NATO’s military strategy, moving the organization to a more capable warfighting alliance and enhanced deterrence by denial. It also shifted the balance of power in Europe to the East, ushering in the beginning of a strategic realignment. Defense spending is up across the Alliance – expect this upward trend to persist for the indeterminate future.

Russia will likely continue its clandestine activities to weaken European economies and political stability. Quite simply, Putin is getting away with his violent actions without any political or economic blowback. At the same time, Putin will continue to do other things below the line of an incontrovertible and internationally recognized attack on NATO. The operating theory behind his actions is the actions are below the threshold of a direct attack and most of the small-scale clandestine actions will not draw a military response from the West – if Putin does not go “too far.” With Russia reconstituting its military strength and forging closer defense ties with China, Iran, and North Korea, it is imperative that Europe reinvigorate and expand its defense capabilities. Subsequent to the outcome of November’s presidential elections, the United States has begun to focus more on the Indo-Pacific region. There is a new and growing awareness among the Europeans that Europe needs to be ready to secure itself as the U.S. focuses elsewhere.

In this vein, the Europeans recognize that Russia is not building its military for peace. Specifically, Russia has 130 active regular brigades with another 64 irregular brigades. This is compared to NATO’s 82 standing brigades with plans to expand to 131. Building European land capabilities to 131 brigades will take a decade or more, assuming Russia allows it to happen. Notably, 59 of those regular brigades are American, with another 27 in the U.S. Army National Guard. This means that Europe alone has only 33 regular combat brigades. Russia’s overwhelming land combat power in the case of “America First” and its corollary “Europe Alone” has caused

Insufficient rethinking in defense ministries. Similar attention and enhancements are necessary for European air forces, missile defenses, and so on.

## **Implications of Peace and Deterrence:**

There are also economic implications to a strong reliance on deterrence for national security, as well as that of deterrence into the future. However, it is unclear what the impact will be at this early stage in the process. It is difficult to determine the precise impact for two reasons. First, the number of variables related to achieving and maintaining peace is large, as addressed in this report. Second, and more confounding, is that these variables are not independent. They will interact with each other. Predicting this complex interaction will require more space than can fit in this paper.

The following analysis has two main variables: the type of peace; and NATO's response to its identified shortcomings. Depending on how the conflict ends, these factors may affect the deterrence of Russia.

Before exploring the possible "peace impacts" on deterrence of Russia, assumptions must be made. First, the Russia-Ukraine War is a stalemate, and neither side can militarily defeat the other. Neither nation has lost nor won the war. Second, is that both sides have long-standing (maximalist) war objectives. However, both have expressed interest in a negotiated peace but have not revealed if they have trade-offs in mind. Finally, the war will end with Ukraine as a sovereign and independent nation.

A cease fire or armistice does not end the conflict. It simply stops the fighting. Ideally, a cease fire or armistice will be one of the first steps in a process that leads to a peace treaty that ends the war or conflict. How a cease fire is achieved is important. A true multi-party negotiation facilitated by a neutral third party, where both sides freely make trades and neither gets everything or loses everything, is more likely to transition from a cease fire to a lasting or enduring peace treaty. An imposed agreement (like the Minsk Agreement in 2015), where one side is the clear loser and another the winner, is less likely to result in an enduring peace treaty. In this instance (again, like Minsk) the fighting is more likely to reignite. So, how might the "type of peace" impact deterrence in Europe?

It may seem counter intuitive, but a stalled (or failed) peace process will be a greater incentive for Europe to strengthen deterrence against Russia than will a successful peace process. Europe is very nearsighted. Shortly after a successful and enduring peace is attained, it will probably refocus its limited resources on domestic issues and the expensive and difficult task of deterring Russia will become less important.

While NATO is strengthened as highlighted above, along with three years where the U.S. and European nations have provided military support to Ukraine, NATO countries have more work to do for effective deterrence into the future. As these nations watched Ukraine wage war (with U.S. and European equipment), they identified shortcomings in their own readiness to fight a major land war with Russia. Below is a list of a few of the more notable examples:

- Several key munitions (such as 155mm artillery ammo) are incompatible across European armies.
- European roadways, pipelines, and railways are inadequate to support a large-scale land war in Eastern Europe.
- NATO defense expenditures equal to 2% of each nation's GDP is inadequate to build the military required by NATO to fight Russia.
- Ammunition stockage levels ("magazine depth") in Europe are grossly inadequate for the type of war currently being fought in Ukraine.
- Finally, the Defense Industrial Base in the U.S. and Europe is inadequate to support the rapid remediation of these deficiencies.

So how might NATO's remediation of its shortcomings intersect with Peace in Ukraine and effect deterrence in Europe?

The active combat in Ukraine strikes fear into the minds of NATO leaders, which has generated a sense of urgency to remedy these deficiencies. After the Cold War and when the threat of Soviet aggression subsided, the incentive to spend massive sums of money on problems like the ones mentioned above also subsided. Similarly, when active combat in Ukraine subsides, the incentive to spend massive sums of money on the problems above will be gone. Simply stated, the cessation of fighting in Ukraine will be a disincentive for the Europeans to remediate these problems.

## **Economic Effects of a Peace Agreement in Ukraine, Russia, and Europe:**

After the war in Ukraine ends, both Ukraine and Russia will seek to rebuild their economies and militaries. Russia's rebuild will be directly impacted by sanctions and sanctions relief. Sanctions are costly and impose costs of the sanctioned nation and the sanctioning nations. When active fighting ends in Ukraine, the international resolve to sanction Russia will erode, and the desire to trade with cash-strapped Russia, particularly for energy, will increase.

Similarly, once the fighting ends in Ukraine it will begin to rebuild. It has the intellectual and innovative capacity to rebuild its economy and military to levels greater than those of pre-conflict, but it lacks the resources. There are two areas of risk associated with Ukraine's rebuild. First, traditionally, pre- and post-conflict pledges are more generous than actual donations. Second, Ukraine has deep-rooted corruption that previously inhibited the nation from reaching its economic and military potential.

If donor nations are generous and Ukraine makes effective use of these resources, it can rebuild to levels greater than it achieved before the war. This will strengthen its ability to deter Russia. However, if Ukraine does not rebuild adequately, then this failure will reduce the deterrence of Russia.

If nations strike an appropriate balance between sanctioning Russia and trade with Russia such that Russia can rebuild but does not become strong enough to threaten Ukraine and Europe, then deterrence of Russia will be enhanced. However, if nations prioritize trade with Russia over limiting Russia's economic and military growth to responsible levels, then deterrence with Russia will likewise be reduced.

## Ukraine:

Post conflict, Ukraine's economy and infrastructure must be rebuilt. Its agriculture sector will recover more rapidly than its natural resource sector. Much of the nation's mineral wealth and energy deposits are in the east and currently under Russian occupation. While some deposits are located farther west and securely under Ukrainian control, the heart of its industrial capabilities are now possessed by Russia. Therefore, the speed of Ukraine's recovery will depend in large part on where the lines are drawn between the two nations.

Agricultural exports are a major source of revenue for Ukraine. Russia would no longer attempt to blockade its seaports, both increasing the rate of exports and decreasing the costs of shipping. Ukraine is a leading producer for multiple grains such as sunflowers and sunflower oil (the largest producer in the world), barley (the second largest producer), and wheat (the eighth largest producer). Most of its exports go to countries in Africa or the Middle East. Important for Ukraine is the return of its export capacity for minerals and finished products derived from its vast ores. Prior to the war and inside the 2014 borders, Ukraine had the world's fourth most valuable mineral reserves. It had the second largest reserves of iron ore reserves and tenth largest of titanium, for example. Russian seizure of these ores and the lack of expansive development in the western part of Ukraine will cut into this impressive statistic.

## Russia:

Energy production will remain near peak levels, but time is not on Russia's side. Deteriorating oil field infrastructure due to the lack of investment and western sanctions are pushing efficiency down. Regardless, energy exports will increase after the war if there are sanctions relief on oil exports and technology. In particular, the global sanction of limiting Russian crude oil to \$70.00/bbl could push its take on exports higher toward global averages.

However, the Russian economic outlook is a no-win situation. Russia is on the horns of an economic dilemma as long as the war rages, but it will extend into peacetime. Inflation, fueled by profligate wartime spending and a mobilized economy, has led to full employment and higher wages. Paradoxically, Russia cannot afford to stop now without serious disruption to its wartime economy, which cannot change over to consumer goods that replace the loss of high-cost technology and materiel. Full employment has changed the spending habits of ordinary Russians who have adjusted their lifestyles based on high salaries and remittances from soldiers. It is notable that foreign direct investment has all but dried up in Russia, and they rely heavily on both its sovereign wealth fund and receipts from high interest rates (21%) to fund much of the government and social programs. Experts say that 60% of the government budget is spent on the war effort, which is about 7-9% of Russia's GDP.

Russia lost many of its industrial and military equipment export markets due to the war. Those markets will be slow to return after seeing Russia cancel orders for major systems and spare parts to equip its own forces instead, plus the poor performance of its chief military exports against Western weaponry.

Further, Russia has lost over 450 of the large and notable western companies that had previously sent up operations in Russia. Companies that pulled out include Deloitte, eBay, Netflix, Shell, Uber, Renault, Samsung, Apple, TikTok, Toyota, Visa, Adidas, and many others.

Additionally, there was a substantial “brain drain” with the departure of military-aged males who were levied for mobilization a year after the war began. Many entrepreneurs, business owners, and techies departed for the West in hopes of avoiding mobilization and Western sanctions.

Relying on the post-war relief of sanctions on the energy market will be highly conditional on many factors. First, it is probable that some sanctions will remain, but the manner and effects are uncertain. Specifically, the return to the Society for Worldwide Interbank Financial Telecommunication (SWIFT), dropping of secondary sanctions, allowing imports of foreign energy technology, and the return of Russian exports to world price levels will all determine the oil sector’s viability as an engine of recovery. Further, should the U.S. successfully return to energy independence, the global markets will be disrupted, and prices will be depressed, potentially, to below the break-even point for Russian producers.

In the aggregate, the economic forecast for Russia after the war is not very good in the near term, but its economy will recover somewhat in the long term. Nevertheless, Russia suffers from long-term structural, demographic, and political ailments, which will discourage foreign investments and substantially impede domestic economic growth.

## Europe:

NATO must defend itself, which means rising defense budgets in the face of an expansionist Russian ethos. Five years ago, only three nations met the 2% of GDP defense expenditures benchmark. The results on whole-of-nation readiness have been disastrous. President Trump has called for a 5% benchmark, which seems unlikely to get traction inside of NATO and the EU. Currently, 25 of 32 nations meet the 2% expenditure level, but it took over three years to get to this level. Poland is the highest spender at 4.1%, followed by Estonia and the U.S. at 3.4%.

Taxes and spending are eternal economic issues inside the Euro zone. Taxation in Europe is already comparatively high – average tax revenue for European NATO allies in 2021 was 38 percent of GDP – 7 percent higher than for Organization for Economic Cooperation and Development (OECD) countries in Asia, and 15 percent higher than OECD peers in the Americas. Governments looking to increase defense budgets without raising taxes or running deficits would have to cut spending elsewhere. This would come at a time when European governments are also under pressure to modernize their economies, address climate change, and increase defense-related industrial capacity. All are costly endeavors.

European problems with weapons and ammunition production capacity indicate that the regional defense infrastructure is inadequate for a war with Russia. Investments will be required to modernize and increase capacities, thus creating demands on taxes and debt. Further, long-term programs for modern equipment, in quantity, are lacking. Critical systems such as air defense and counter-UAS systems are woefully inadequate in both number and capabilities to counter the potential threats from Russia.

In this environment, it is easy to discern that European defense industries will flourish. Orders will increase, but the industries themselves have a capacity and throughput challenge in that they cannot produce the weaponry quickly. Regardless, nations will want to build up their capabilities while re-investing in their own defense industries where possible.



## Overall Economic Takeaways:

- The potential peace process based on strategic deterrence to practically end the fighting between Ukraine and Russia remains uncertain and is dynamic with many complexities, but could reduce tension, destruction, and improve economic factors across the region.
- A durable negotiated peace with security guarantees for Ukraine is critical to ending the destruction and loss of life and begin rebuilding in Ukraine and Russia.
- The war has unified the NATO Alliance and its partners and identified the significant risk and need to increase investment in defense spending and adapt to a new type of warfighting with advanced technologies and consistent scaling of munitions.
- Russia has leverage in the war and even with global sanctions has been able to navigate economic constraints and offset losses through stronger ties with China, Iran, and North Korea. China certainly learned lessons from this to inform its potential future breeches of international order.
- Russia has maintained internal popular support through economic incentives to its soldiers and their families.
- A negotiated peace has benefits to all parties to end loss of life and to begin to rebuild infrastructure and commerce in Western markets.
- Trust will remain a significant issue when transacting with Russia, however, the end of fighting will likely provide Russia access to the global financial markets and energy sector for oil and natural gas exports even with certain sanctions remaining.
- Ukraine has potential foreign direct investment opportunities with an end to the war in its rebuilding and in the rare earth mineral markets.
- Europe under all scenarios will need to invest in defense, diversify its energy sources, and unify its political positions with NATO partners including the United States.
- Global Power Competition between China, Russia, and the U.S. along with its allies is at the center of the peace process related to Ukraine. How the process evolves will likely provide a precedent for future international conflict resolutions including Taiwan, South China Sea, etc.

*This information is being provided for information purposes only and should not be construed as an offer to sell or a solicitation of an offer to buy any securities. Nothing in the material should be interpreted as investment, tax, legal, accounting, regulatory or other advice or as creating a fiduciary relationship. Product names, company names and logos mentioned herein are trademarks or registered trademarks of their respective owners.*

*Unless otherwise specifically stated, any views or opinions expressed herein are solely those of the author and/or the specific area from which it originates and may differ from the views or opinions expressed by other areas or employees of Bancroft Capital, LLC. The information described herein is taken from sources which are believed to be reliable, but the accuracy and completeness of such information is not guaranteed by us.*

*Bancroft Capital, LLC is a member of FINRA and SIPC.*