

Collapse Has Begun. NOW Global Recession Is Unavoidable | Cdre. Steve Jermy

The global economy is about to tank really, really bad. The US surrender to Iran foreshadows a much larger pain yet to come, especially for the Collective West. Only the delayed nature of oil markets has prevented all-out pain in the first months, but that grace period is now over. Today I speak with retired Royal Navy Commodore Steve Jermy, who now writes the Mor Gallos Substack, about how oil, diesel, and shipping delays could hit the world economy hard. They also discuss the Strait of Hormuz, pressure on Israel, the Ukraine war, drone attacks, and why a bigger economic shock may force leaders to change course. Links: Steve Jermy Substack: <https://stevejermy.substack.com/> Neutrality Studies substack: <https://pascallottaz.substack.com> Merch: <https://neutralitystudies.com/shop> Donation: <https://neutralitystudies.com/donate> Timestamps: 00:00:00 Intro and Steve Jermy return 00:01:18 More Gallows and the war economy 00:12:46 MOU, Israel, and US pressure 00:22:22 Oil, diesel, and real shortages 00:27:34 Ukraine war and budget strain 00:31:52 How Russia may respond 00:42:51 Drone war and reciprocity 00:48:29 Economic crisis as the off-ramp 00:52:17 Closing remarks

#Pascal

Welcome back, everybody, to Neutrality Studies, today again with Commodore Steve Jermy. Steve, welcome back.

#Steve Jermy

Very nice to see you, Pascal, and also to have the chance to meet you in person in Tbilisi.

#Pascal

Yeah, that was great. We were together at the forum in Tbilisi just two weeks ago, and it was great chatting. And now it's great to have you back also online on the channel. And today we want to discuss actually something that also came up in the forum, of course, which is the geopolitics and geoeconomics, actually, of the current wars that we are seeing. But before that, let me just very quickly do a shout-out to your new Substack. Why don't you tell us about it, Steve? It's called "More Gallows," huh?

#Steve Jermy

Yeah, fantastic. Well, I live in a county in the southwest of Britain called Cornwall, and we have a Celtic language. So "Mor Gallos" is Celtic for sea power. And I'm very interested in the power of the

sea and how it sort of plays into all of the things that are going on in the world. Not the only thing, but I've reinvigorated it, so a bit more time to actually run it now.

#Pascal

Makes good sense, especially for you as a former Commodore and captain of the Royal Navy. So I'm looking forward to this news Substack of yours and reading all of your updates. But now let's go into the topic. The two wars that we are seeing, the Ukraine war and the Iran war, I mean, both of them are going through these ups and downs. And Iran currently seems to be in a... I think it's a pause. I don't think it's an end, but at least something happened with the MOU.

#Pascal

But you're also looking at the economics of it, right?

#Pascal

And the way in which the closure of the Strait of Hormuz impacted not only the war itself, but the long array of what we are looking at for the next year or two. What's your take?

#Steve Jermy

Yeah, my take is based on a theory that I'm developing, which I call macroenergetics, Pascal, which is the use of energy analysis to do macroeconomic forecasting. And having worked for the last 15 years in the energy sector, but also having studied macroeconomics at postgraduate level, I can sort of see how it all fits together. But the most fundamental and the most important thing, Pascal, is that there is an incredibly close mathematical relationship between the use of oil and GDP. And so as oil use goes up, so global GDP goes up, and vice versa. And this relationship is mathematically close to one. It's about 0.95.

So what the simple deduction from this is that actually, if you take 20% of the world's oil out, or even 13%, which is the 13 million barrels per day out of the Strait of Hormuz, then if that reduction continues over time, it will have an order of magnitude impact on the global economy, which is similar to 13%. So when you start to model that, and I've done this, then you start to look at a very, very significant consequence for the global economy. If the strait were to open tomorrow, then we might be able to reduce, might be less impact tomorrow. But I see no sign of that. So I'm looking at, baked in already because of the time that the Strait of Hormuz has been closed, a global recession in the order of 5%. That's a severe recession.

To be honest, I wouldn't be surprised at all if it stays open a little bit longer, or even for an extended period, that we'll be seeing something which looks more like 10%. Ten percent is a depression. The height of the global depression in 1929, I think, was in the States at about 15%. But it gives you a

sense of the economic consequences. I think as well, a lot of people say, well, actually, don't worry, the Strait of Hormuz has opened. The problem with maritime logistics is that everything's slow, and the lag is incredibly long. A tanker travels about the same speed as a bicycle, and oil in the pipelines travels at about, at the most, 10 kilometers per hour, eight miles an hour. So what you can see is that the system is very, very slow.

Furthermore, it's mediated by the market, so nobody's in charge. And for all of these reasons, then, it takes a long time with the straits opening before we actually see any recovery. When the Ever Given tanker went aground in the Suez Canal, remember that about five years ago, Pascal, for every one day the Suez Canal was closed, it was about six days for the whole of the maritime logistics system to recover. Right. So, you know, for three months, let's even assume that it's half of that, just three days to one. So if it's three months that the Strait of Hormuz is closed, we're looking at nine months' recovery on the other side.

So I would be surprised if we don't see significant consequences starting to play out in July, August, in terms of further increases in our energy costs and reductions in the supply of those energy costs. And I would also not be surprised if we don't see the consequences of those running on well through into next year. I'm quite friendly with a guy called Art Berman. Art's a brilliant oil geophysicist, but also an energy commentator. He takes the view, which I intuitively agree with, that we won't see a full recovery ever, so that the consequences will be so profound that actually we're looking at a significant notch down in global GDP, which is bound to have impacts in different ways in different locations.

I mean, I don't know what it's like in the Far East where you're located, but in Europe, we are critically dependent on oil imports to the tune of 12 million barrels per day. And those impacts are being felt across the economy. But I'd be curious to hear what it's like in Japan, Pascal. I was talking to a colleague at a conference only the day before yesterday, from Singapore. He said that oil at the petrol pump has actually doubled in price. And I don't know what it's like in Japan. You will know better, Pascal.

#Pascal

It hasn't doubled yet to my knowledge, but since I don't drive a car, I don't keep the pump in my eyes all the time. But it went up significantly, and it is something that actually worries a lot of Japanese politicians very gravely. The Japanese, although at least publicly, have said that since they have the largest petroleum reserves in the world—250 days, that's the number that they're giving everybody—and they've released some of that. But you can clearly feel the nervousness in Japan, and also the fact that they went as far as to agree to ask Russia to buy oil.

First, at the price cap, when the Russians left them out of the room, they came back and said, like, okay, fine, we're going to buy at market value. And funnily enough, the Russians were willing to sell them oil. So I don't exactly know what the measures are that the government is taking at the

moment. But since Japan is so oil-dependent, just like Europe actually, and it is nowhere close to any kind of oil well, I wouldn't be surprised if they were trying to revive right now the Sakhalin project that they never exited completely, but that was kind of put on hold. But I have no firsthand information about that.

#Steve Jermy

Of the regions in the world and the key players in the world, the country that's by far the best insulated from this is Russia. So Russia is a major oil and gas exporter. It is an autarkic nation with big industrial capacity. So it's the one that will be most insulated. Also, economically, although people talk about its impending doom, which they've been talking about for the last four years, it has a very low debt-to-GDP ratio. Things aren't perfect in the Russian economy, but blimey, look at some of the economies in the West, actually. So Russia is the best insulated. I would say China is pretty well insulated as well—1.3 billion barrels of oil in a strategic petroleum reserve. So I would guess that in terms of their overall usage, they're pretty much the same as Japan, much less so here and also in the United States.

People assume that the United States is an oil exporter. It's an exporter of refined oil products and the lighter oils, but it's a net importer of about 6.5 million barrels per day of heavier oils, which it needs to blend with the lighter oils to actually produce the refined products. So that's why we're seeing—and of course, oil is very much a fungible product sold around the world—so as prices go up, they'll go up in the States as well. Because I think this is baked in, the recession. And I think the midterms are lost. I think that the consequences are still arriving. And as they get worse and the midterms are lost, that in turn will bear on how the Americans play the Iranian situation. I can see why they're desperate to get the Straits open, because I imagine that they're now seeing it coming down the track at them. But to be honest, I think even if the Straits are open tomorrow and reliably, then it's too late. The midterms are lost in America, with all the consequences that means.

#Pascal

Hey, just a very quick note: the best way to support this channel is by signing up for my free Substack. You can also help with a paid subscription there, or you can get some of our new merch on neutralitystudies.com—links below, see you there. So, is your interpretation of why the Americans were willing to sign this surrender document, for all intents and purposes, that it got very, very clear to the Americans just how devastating the closure of the Strait of Hormuz is? And the whole thing about, oh no, we managed to have 70 ships pass on the side of Oman and whatnot—I mean, that's a lot of nonsense, or at least nothing that would actually have the impact that you need it to have. So it's basically the recognition that if this continues, it's going to be devastating for everybody, right?

#Steve Jermy

Yeah, it's exactly that. I would imagine the Energy Secretary has talked to Trump and said, look, we're in deep trouble. The critical oil refinery place in the States is Cushing. And the sort of feedback is that they're down to about 20%. Of course, most of the inventories are gone as well because we've been drawing down on those. So the reason that we haven't seen the impact so acutely—and we have seen them—and if Singapore have been paying twice as much at the pump, then they're clearly there. But the reason we haven't seen them is that people have been using inventories. People have been using strategic petroleum reserves.

And last but by no means least, China has not been importing nearly as much. Difficult to say why that is, but one thing's for sure: China's not impervious to this—not so much because China hasn't got great reserves, but rather because China is an economic exporter. And of course, if its key markets in the Far East, which look to me to be very vulnerable, are starting to collapse because of a lack of energy, then so too will China's export opportunities in those places. So this is as much an interest for China to actually get solved as it is for the United States and for Europe, for different reasons.

#Pascal

Yeah, and to the Russians as well, actually. I mean, there's just no interest from anyone in a global depression at the moment. So there is a shared interest in getting out of it. But the question then, of course, is can you actually open it that quickly? I mean, the two things that are kind of still very, very much unknown are: A, now that the MOU has been signed—and we are talking today on June the 20th, the MOU was signed like two days ago—and in principle should open this trade immediately, but I don't know what that looks like as we speak today. And secondly, the other thing is, of course, the different measures that different countries are going to take in order to reduce the impact on themselves. I suppose when all of those come together, this might also change a bit the forecasting that you gave to us. But still, the overall picture stands, which is a dramatic impact on global GDP. Maybe you can speak to these two things.

#Steve Jermy

Yeah, no, I think the MOU—and I think I heard others describe it, sort of what seemed to me to be quite accurately—as more an agreement on how to negotiate, rather than a peace deal. So I think we've still got a long way to go on that. And of course, the problem the Americans have is the Israelis, who are rabidly keen to keep the war going. I think what the Israelis have done is made the same mistake as the Europeans and the Ukrainians, which is to assume that if America is on your side, then you're going to win. And I think what we now know is that that's no longer true, but that thought doesn't seem to have landed, or is not consciously understood, in either Europe, Britain, or Israel.

Or indeed, I think for the neocons, America is a big player, is a very strong military power, but actually it's no longer omnipotent. And in the current circumstances, it's very difficult to see how the Americans could do anything other than accept the surrender document. I think that, again, what they're faced with is an increasingly intense—and I suspect it will play out from July onwards—intensification of oil shortages. And that will lead, I suspect, to a much harder edge between the United States and Israel, because the United States has been happy to support Israel. And of course, you've got the Israel lobby and those who are keen for the United States' support to continue.

But at what cost? And if it's at the cost of the American economy and a severe shock to the American economy, I think that'll be a step too far. I don't think it'll be a step too far for Republicans and Democrats, and I think it will change the nature of the debate. So America has it within its gift to stop Israeli interference just by cutting off its weapons supply and leaving them solo. And I would have thought the threat of that to the Israelis would be enough to actually bring them into line. But that might not be, and we'll see that until July. But again, for every extra month, then, you know, we're talking about three or four additional months and the consequences playing through into next year.

#Pascal

Yeah, the problem, though, that Iran has on its side is, like, they insisted that Lebanon be included in the MOU, and Israel seems to be completely, utterly unwilling to go along with that. Of course, Israel is also accustomed to, like, what is it now, 75 years of utter impunity. I mean, we must keep in mind that's the country that managed to shoot down—not shoot down, but shoot at—even a U.S. military vessel and kill many U.S. sailors. And the U.S. was still willing to give them impunity and just, like, forget all about it and obfuscate the case and whatnot.

They're able to pull off a genocide right at the doorsteps of Europe, right? All of these things are possible for Israel, and all Israel usually needs to do is cry harder when it doesn't work. And it seems to me that they're doing this also now, that they're throwing a temper tantrum about the peace agreement and also about the criticism coming from Europe, saying that they don't want to talk to the European Union anymore since Kaja Kallas made a comparison of them with apartheid South Africa. But Israel is unwilling to go along. But it is part and parcel of the MOU, which Iran insisted on.

And Iran is holding the keys to the Strait of Hormuz, and that is clear now. However, Iran also—I mean, China and Russia both wouldn't want this to continue either. So there must also be pressure on Iran to kind of say, like, okay, fine, we will try not to tank the global economy completely. How important do you think the China and Russia factor is on Iran to kind of get this agreement right? Which I think is correct—it's an agreement on how to get there. But the agreement is kind of, we already opened the strait while demanding that you live up to some promises, and then we get to a final agreement.

#Steve Jermy

Yeah, I think it's a very good question because I've always thought that actually the key to getting the Gulf War closed down is getting much better involvement with the Russians and the Chinese. I don't think Europe's got much leverage, I'm afraid, but I think the Russians and the Chinese do. They're both allies to Iran, and it's in neither of their interests that we pitch the world into a global depression, although both are better insulated from that depression than the rest of us. I suspect what will happen is that if I'm right, and as the economic consequences become more acute and more severe and more visible, I think we're going to see a further shift in opinion in the United States.

I thought it was very interesting that Vance was the one who was put up to actually talk about Israel, explain that actually the Americans had done a lot for Israel. They'd paid for everything. They'd paid for two-thirds of the weapons and so on. That, to me, is a change. Now, the Israel, the AIPAC lobby may not like that, and some of the neocons may not like it. But actually, even the AIPAC lobby and the neocons, I think, will have limited leverage once a really severe recession takes place. And that's the scenario that I believe is baked in. So in those circumstances, I think the pressure in the United States on the White House in general, and the White House in particular, and across the political spectrum, will be to actually bring Israel to, you know, to heel.

From the sound of it as well, and again, I listen a lot to Alastair Crooke on this, who of course is cognizant of the Hebrew press. Yes, it's clear that the Israelis are shocked by the shift in politics and the fact that they've been called out by both Trump and Vance. So I suspect there's a lot of internal discussion going on. It doesn't mean to say that if Netanyahu goes, they will necessarily get somebody better in place. But nevertheless, I can imagine there's going to be a conversation, a political conversation within Israel. I mean, we've heard already from one of the Israeli chiefs of the general staff, I think it was, or chief of the defense staff, you know, that they need about six times the IDF to actually win the wars or to try and fight the wars that they're fighting, which is clearly impossible.

And again, I would think, I would hope that the more strategic in Israel are starting to say, we know now that we can't win this war. We can't win a war against Iran. But furthermore, we can't do anything really without the United States backing us. So we have to accept that if we're going to retain the United States' backing, we need to be cognizant of the United States' economic situation. If they're not, then I suspect that we could see a fairly messy relationship in the remaining months of this year, Pascal.

#Pascal

Right. Yeah, and if I understand you correctly, then you interpret the situation that we are seeing now not so much as a good cop, bad cop kind of thing, but as the outcome of a real economic hurt — the United States being forced against its will to do this kind of MOU, but having to do it;

otherwise, the consequences for the rest of the Trump administration are not only going to be bad, but catastrophic. And to avoid that, they are now putting proper, real pressure on Israel. So it's not, in your view, this is not make-believe.

Because that's the other interpretation. It's like, oh no, they're just playing the markets. They just want a break in things, and then prices fall. And the Trump cronies and whatnot, they then all buy these stocks and whatever they can get. And then the next round of the war is going to start again, everything shoots up, and a lot of people make billions of dollars in profits. And the whole Israel affair is really just make-believe. That's the other interpretation. But in that case, you're not much on that one, right?

#Steve Jermy

No, that may have been the case over the sort of recent months. But I suspect that what's happened is because this has felt like a phony war and people have said, oh, the straits almost have closed, it's perhaps not as bad as we thought. The prices have gone up, and petrol and diesel prices, but the practical wasn't as bad as we thought. But now I think that as the consequences are becoming clearer and people begin to realize that there is this three-month lag, and it depends where you are. The lag is less in the Far East because it takes the vessels less time to get to the Far East.

But it can be as much as two months for vessels to get from the Straits of Hormuz to the United States and to Europe. So the lag is greater there. But even so, the fact that this lag is now—the consequences are now here because the lag has now sort of unfolded and we can see what's happening. And of course, it's not just going to be about the commercial situation, retail prices at the pump. It's about much, much more than that. And I keep repeating this to many of my renewables friends, but the critical fuel in all this is diesel. Diesel is critical for the whole of the world's agriculture.

#Pascal

Almost without exception.

#Steve Jermy

Diesel is critical for the whole of the world's fishing fleets, almost without exception. It's critical for logistics. All the major vessels run on diesel. And I was at a conference the day before yesterday, and of those vessels which are being bought for the future, 80% of them are being bought on the assumption they all run on diesel, not on alternative fuels. It's critical for construction. It's critical for almost all of the other energy sectors as well. So I've worked in the offshore wind sector. We're critically reliant on diesel. I haven't worked in the nuclear sector, but it's the same — construction of nuclear materials.

#Pascal

It has to be produced from heavy crude, right? Not from the light one?

#Steve Jermy

Yeah, it does. It does. So the American light oils, especially those which come from the shale fields, Pascal, fracking fuels, do not produce diesel. And the critical thing about diesel is it's got incredible power density. So it's incredible power density. And about all of the key things in all the capital equipment—where does a solar panel come from? A solar panel comes because somebody mines something in Australia using a diesel-powered JCB. They then run it across Australia to get to a port, probably using a diesel-powered railway. From the port, it goes to somewhere in China using a diesel-powered ship. In China, it's taken to the factory, probably using coal power. You can see where I'm going. You then take it all the way, and finally, it's installed in Japan.

#Pascal

Yeah, I mean, your point is, even a solar panel is ultimately a diesel-generated commodity. There you go with all renewables — you can't renewably get the things in place.

#Steve Jermy

I'm obviously a fan of renewable energy, but I think the problem is to actually think of these as alternatives that must compete against each other. What we've got to see is all these different energy sources as part of an overall energy system, and each has their part to play. But the critical factor at the moment, and I suspect it will be for at least the next 50 years, will be hydrocarbons to provide the oils to run the other sectors. If we were going really quickly, we might be able to actually make a major transition in 30 years.

#Pascal

Yeah, but you can't do it overnight, and you cannot do it within just a couple of years. So, I mean, the importance of diesel and oil is still just a fact of life.

#Steve Jermy

Yeah, it's a hard-edged fact.

#Pascal

What does this then do? If I follow what you're saying, then what it seems to me is that the last three months during the war, the price differences that we saw are more or less just the future

expectations of the markets today. But they react, right? Based upon expectations, but not based upon an actual real shortage on the ground, because all of these ships were still in the ocean, and the lag that we saw actually worked as a buffer, right? But that's going to change, right? And we're going to see real price changes, not based upon just expectation, but based upon availability of that stuff, right?

#Steve Jermy

Yeah, when you're seeing WTI, that's West Texas Intermediate, and Brent prices, those are futures prices almost all the time. And it's very interesting, the prices that are actually for fuels that are arriving, so oils that are arriving, are higher. So I think the figure I heard in Singapore was actually that they're paying as much as \$200 a barrel for some of the fuels. Again, I haven't been able to look at that in detail, but those are prices that are arriving. So, you know, the futures markets and the real markets are very, very different things — the same goes for gold, as it happens.

But the other thing, just as a final PS on oil prices, is that hydrocarbons are responsible not only for diesel and all the critical fuel, but they are fundamentally important in the production of fertilizers, concrete, plastics, and steel. And if you can explain to me how to run a modern society without any of those things, then I'll be all ears. But what you can deduce from that is that if oil prices go up, then so will the costs of all of those things as well. The one that will hit us quickest and hardest is fertilizer, I suspect. It depends on nitrogen. I think it's using the Haber-Bosch process, I think it is. So fertilizers again — I live in a farming county and a fishing county.

We've got two tractors in the county of Cornwall, which is a relatively small county, out of probably thousands that are actually running on an alternative fuel. Everything else runs on diesel. Same for all the fishing vessels. So our complete food system is critically relevant as well. So, you know, you can see when I talk like this why there is this close relationship between economic growth or economic GDP and hydrocarbons. It's as close as one-to-one. So, yeah, I think this is going to affect not only the United States' situation in Iran, but I suspect as well, Pascal, it will affect the Russia-Ukraine war as well. Interesting.

#Pascal

Do you think if there's an economic depression that's going to hit across the board, it will impact the ability of the warfighting — like, a direct impact or an indirect impact?

#Steve Jermy

I think it'll be indirect, but it'll be based around the question, how are we going to afford this? So, of course, if you start to see GDP reductions, then, of course, you're also starting to see contraction. Then what you're also starting to see is a reduction in tax take. So the government's abilities to do things are reducing. This will probably show up as well with another complication, which is that as

prices rise, and they're rising not due to changes in the monetary supply but changes in input costs, and as prices rise, then, of course, that'll put pressure on, or that'll probably put pressure on, central banks who classically try to control inflation using monetary policy. And so as they rise, as they decide—the hawks decide—to actually raise interest rates.

And so, of course, that will raise inflation — the cost of government money in the bond market. So you've got a double whammy of reducing tax takes at the same time that you're paying more, and this is in the Western economies — you're paying more for debt. It doesn't matter so much for Russia because you've only got 70 percent of your debt to GDP, but for countries in the West, you know, and I think with the exception of Germany, although they're heading the wrong way as well, we're all over 100 percent GDP. So you don't need much of a change in the bond market to suddenly see significant consequences. A very good person to listen to on this is a guy called Luke Gromen. He runs a podcast called Forest for the Trees.

But actually, he says that when you get to the stage where your government tax takes are below the increasing cost of interest finance for your debt, then you're essentially in a sort of quasi-Ponzi scheme, because actually you're just going to have to start to print money. And you then get into the situation: do you print money, or do you protect your currency? So now we're in deep trouble, I suspect. And I suspect that the reason this is going to play into the Russia-Ukraine war is that the West, Europe, which critically depends on oil and gas, will find itself entering a recession at a time when it's being asked to pay more for defense and more to support Ukraine. And I suspect that will cause a lot of angst in European populations who have been sort of—I think they've been propagandized, I'm afraid to say—in a certain way.

#Pascal

Yeah, quite heavily propagandized. But the worries that I have now, especially after also having been to another conference after ours in Russia, is that it seems to me that the Europeans are extremely confident that we are winning. You know, Ukraine is winning. You know, again, like for the last four years, the Russians have stalled. The advance has stalled. And now Ukraine is carrying the war to Russia. Every time something in Moscow blows up, the Europeans, you know, stand up and applaud. And then they seem not to understand that Russia is now actively thinking about whether it should strike Europe, yes or no. I mean, we are at a completely different phase of this conflagration. And it might get much bigger. And the Russians are getting very, very, very angry.

Because at some point, the one thing that they agreed on for the last four years was that we keep the war inside Ukraine, right? And whenever it seemed like spilling over into Europe, the Europeans immediately shut it down. Especially like, you know, that Ukrainian missile that killed two farmers. The Europeans immediately shut that down. But they've been salami-slicing themselves into carrying the war into Russia. And they seem to be very proud that the salami-slicing worked. And the Russians are now at the point where they're saying, like, well, there's no more point for us to leave the Europeans out. So they're actively thinking of shooting. I don't know. This takes us a little bit

away from the economic aspect, but maybe there's a way of tying these two together. What do you make out of this?

#Steve Jermy

Yeah, no, I think you're right. I mean, I often think that the political narrative is "Ukraine is winning." I said a couple of years ago, in my very first podcast with Danny Davis, that the West is being driven by a political narrative and the Russians are being driven by a military strategy. And the problem is, the political narrative doesn't seem to be based on any facts. If Ukraine's winning, it's difficult to understand why, according to the Institute for the Study of War, which is pro-Ukraine, they've been losing ground for at least 36 months and are continuing to lose ground. I've often compared the situation to the Second World War, where it's a bit like saying Germany's winning because it's firing the V1 and V2 rockets into Britain.

Because they were not pleasant things to have fired into Britain, but it didn't make the slightest bit of difference to the war. The difference, though, as you say, is that I think there is a real risk that the Russians will respond. And if they do respond, the point I made, and people don't seem to be cognizant of, is that they can respond in a non-nuclear way but still do devastating damage to Europe — the European energy infrastructure, for example — using missiles against which we have no defense. We have no defense whatsoever against the hypersonic missiles and very limited defense against the ballistic missiles. And I suspect that the way this will go will be really interesting to see Putin's take on this.

I mean, you know, people sort of—I'm astonished by how people see him as this sort of devil incarnate, you know, this Hitlerian figure. They just don't seem to bother to try to understand him. I've listened to Oliver Stone's four interviews with him and read Philip Short's book about him. You get a much more nuanced understanding of the man. The thing that came out of that for me is, whatever you think of him, he deserves a lot of respect—huge amounts of respect—because he's exceptionally strategic, in my view. I think the balance that he's got is, on the one hand, how does he respond to the political pressure and indeed to the risk that if he doesn't do something, the Europeans will do even more.

And on the other hand, does he actually see the economic consequences coming that I see coming? In which case, you know, he can afford to be a little bit more cautious in responding, because actually, sooner or later, the Europeans are going to, or have already, damaged their economy using the sanctions that are supposed to damage his economy. And they're now about to have the impacts really, really coming, coming much more rapidly, much more acutely, as the economies of Europe struggle. I mean, Germany is already struggling, thanks in no small part to the sanctions that we've put on Russia. You can't make this up.

Russia is the major exporter of gas to Germany, but also Russia is producing 40% of Europe's diesel, and I think about 40% of the world's fertilizer. So sanctioning them is like a boomerang sanction. It

was bound to do more damage to us. I think there's an open question. I'd be curious about your view about whether you think the Russians will respond. If I were Putin, the way that I would, if I had decided to respond, I'd be interested in how I responded and where. And I'd be tempted to, however I respond, pick up the phone to Trump and say that if there's any more of this going on, we will be responding with attacks on the countries that we think are providing most of the weapons.

And I think the three that spring to mind are the E3. It's Britain, Germany, and France. And again, none of those countries have the capacity to defend against a hypersonic missile coming into, for example, Southampton, with the great oil storage in Southampton. And the damage that could be done to the West's energy infrastructure would be profound. It would take us right back to the Stone Age, but it would have a profound effect on the way that an economy in the West ran. So, you know, open question. I think I'd probably start with the Americans and say, this is it – we've had enough of this. We will be responding.

The thing that also needs to be made much more clear to the Europeans is that even if NATO comes in with Article 5, we can't win a war against Russia. I wrote an article in Responsible Statecraft, which is on my Substack, about a year and a half ago, and said NATO could not win a war with Russia. I'm absolutely clear about this. So the problem is that everybody thinks that with NATO on your side, you can win a war with Russia. The reverse is the case. I can take you through that argument if you'd like, but I'd be curious to see what you think about how the Russians might respond.

#Pascal

The problem the Russians have is that even if Europe cannot win a war with Russia, the question to them is, can we win a war with the Europeans? And there are, of course, people like Mr. Karaganov who will say absolutely. But then there are others who will tell you, like, what does winning mean, right? I mean, are we looking at a Second World War scenario where you have to have the Russians march all the way to Berlin, and in this case also to Paris and London? It's like, I mean, if that's what winning means, then that sort of winning is also off the table for the Russians. So the best-case scenario would be both sides would probably not lose.

But that then makes the structural conflict even worse. And the one thing the Russians actually tried to get for the last 15, 20 years is the opposite, right? It's a structural solution to the security problem and actually have Gorbachev's common European home. And this type of approach that we are discussing now would get us into the exact opposite direction. I think overall, the people who are in charge at the moment still have a strategic interest to keep the war in Europe—sorry, keep the war inside Ukraine. But the Europeans are sabotaging that strategy, right, and carrying it into Russia.

So the question is how to coerce them into stopping that or into going again, saying like, okay, we fight it out and... For the Russians, then, you know, as soon as you have the Donbass and the strategic places secured—Odessa, maybe yes, maybe no, we don't know—but as soon as you have

that, you can stop the onslaught and then you can live with a de facto kind of wall and division. And that, I think, was the idea of Russia after being done with the war of attrition, so basically having defanged Ukraine and defanged NATO in large parts. But now the drone warfare is kind of putting that into jeopardy, and there seems to be no effective remedy against these goddamn drones from the Ukrainian side.

So the Ukrainians and NATO have found something that cannot win the war, but it can significantly damage Russia. And they're happy with that, right? And that's the sick part of this game, that again, they're delighted at the hurt it causes in Russia. And some of these people might believe that that will incentivize the Russians to give up. But again, all it does is it gives more power to the people who say we need to carry the war into Europe and, okay, screw the next 50 years with the Europeans. Again, we can fight it out. And so I see it as a huge escalation spiral that we are in at the moment. And the one thing that stands in between is probably the veto from Vladimir Putin to say, like, no, we're not burning all those long-term bridges just yet.

#Steve Jermy

Yeah, I think that's probably right. My guess is that that would be the approach you would take. Although, having said that, I also guessed that Trump wouldn't attack Iran, so you can't always get it right. I think that if this were to be escalated, the war that the Russians would be fighting would not be an offensive war. It would be a defensive war because, in their view, what they're trying to do is actually maintain this, to obtain the minimum levels of security they need. And, of course, it's always been a defensive war. It was against NATO and NATO expansion.

So I think that I have thought for some time that the way the Russian strategy would be is that they started off, and I see their strategy in five phases, Pascal. The first was essentially military support to what was a diplomatic initiative, yeah, rather than any attempt to take Ukraine. And they were prepared to sign. They had open negotiations with Ukraine on day two of the invasion and were prepared to sign within a month, had it not been for Boris Johnson and Biden. But then they realized that after that month, the Europeans and NATO were prepared to actually come in on the side of Ukraine, so they would have to fight.

So we then saw phase two, which was what we would call in the military a retreating contact. So essentially, retreat to a defensible line, which was the Surovikin line. Phase three was what I would call attritional defense, where they defended that line while building up the capacity they needed to actually fight a proper war, which they did. Phase four was attritional offense, and they started to move into the Donbass and into the four regions. And I think that they're now probably close enough to actually securing the four regions to actually make a decision of either stopping there or continuing on to include Odessa, which I probably would, although that's not easy, or perhaps including Novorossiia in total.

So that's the other four regions to the west of the minimalist region. So somewhere in there is a minimum security place. But then what we were getting is ballistic exchanges, because how would NATO respond if the Russians continued that way and responded against NATO weapons factories, for example, that were being used to develop weapons? I mean, it's difficult to know what Europe would do because we haven't got the offensive capacity to invade Russia. Quite the reverse is true. Our forces would be slaughtered even if we could mobilize them, which we can't. So it essentially becomes a little bit like a tennis match—we're throwing missiles at each other.

#Pascal

Yeah, so, you know, this is the one thing that Mr. Karaganov says, right? And Karaganov goes very extreme. He says we need to use a tactical nuclear missile in order to bring the realization to the Europeans that this is real and this is not a game. But I don't think, I mean, listening to what Mr. Lavrov and Vladimir Putin said, that they want to go that route, because they're very much aware of just how incredibly dangerous that is. And once you start it, you might not be able to end the escalation, right? So... The question I have in my mind is whether the Iran war is actually going to give us the answer. Because what Iran did on a strategic level is it reestablished reciprocity.

Iran never threatened the actual survival of Israel or the United States. But it said, like, for everything you throw at us, we know you can throw it at us. You can blow up all things. You know what? We will do exactly the same to you. And we will prove to you that we have the conventional second-strike capability to do so. So the one thing that the Europeans now did is they used, of course, Ukraine in order to pretend that, you know, they're not involved, although they clearly are. They even produce these drones. So if Russia actually started and said, like, okay, what, you're droning our factories and our cities, we're going to drone yours until you get the point that unless you stop your drones, we will continue ours.

And so what we might be looking at is then a conventional drone war in which both sides are vulnerable to the other, with the goal of forcing both sides—I mean, forcing the other side—to stop so that you stop yours. But that, again, is a gamble which would rest upon the assumption that the Europeans are rational. And one thing at the moment I think that the Europeans have proven is that they are reasoning in utterly irrational ways. And I don't think it's a madman strategy. I think they're just clinically ill at this point—I mean, some of the leadership within NATO. So I don't know whether they will go this way or not. But the one thing Iran did is it reestablished reciprocity. It hammered it back into the heads of a club of countries that is used to doing whatever they want and suffering no consequences.

#Steve Jermy

Yeah, yeah. I think that's a very, very good point and very well made. I think that what struck me about the Iranian strategy, it was pretty much as I expected. It had three elements: you know, take

out the American bases, close the Straits of Hormuz, and actually reciprocal attacks on Israel. And we know from the 12 Days War that they actually did a lot of damage in Israel. So I was mildly surprised that people at the AIPAC, well, we didn't pick that up. But I think the great danger of using nuclear weapons is that you do have two nations, you know, Britain and France, who are both nuclear-armed. So, you know, there's that danger.

#Pascal

Which actually makes the situation most dangerous for Germany. I don't think Russia would strike either of the two nuclear places, but it might strike the Germans and then go like, really, Paris? Are you going to put Paris at risk for Berlin? Are you going to do that, London? And we all know the answer to that question: no, they won't.

#Steve Jermy

No, I think that's the reason that I think it's extremely unlikely that the Russians would use nuclear weapons. Again, that sort of level of escalation, essentially, even if the British and the French responded, well, that's the end of Europe. Who knows where that would go in a world war. I suspect the Americans would absolutely want to keep clear of it. So I would imagine there would be huge pressure from the Americans on the Europeans to make clear that any sense of a nuclear response would have no support in the United States whatsoever.

#Steve Jermy

So I think then you come to, is it reciprocity just with drones, or is it reciprocity with conventional missiles, which are ballistic in nature and hypersonic in nature? Because there the Russians have a significant advantage over us. I think the other part of reciprocity, of course, is that the Russians also have extremely sophisticated air defense systems, whereas the Europeans do not. So that reciprocity means that actually the Europeans will suffer in the same way that Israel and the United States air bases have suffered. So this is a war which we would struggle to come out with anything other than a loss, I think.

#Pascal

That is true. But the problem we have, or the problem that, you know, by "we" I mean everybody—I mean the Russians and the Europeans, everybody together—is that drone warfare is notoriously, by now, difficult to defend against. Enough drones can overwhelm any kind of defense. And we've seen that in the Iran war. We see it now with Ukraine. And these drones are cheap to produce, easy to manufacture. You can decentralize manufacturing them, right? They're not all in one factory.

So it's almost impossible to take out. Drones have given the ability to continuously strike the other one, and the other one can't really block it properly, which means that, you know, and this needs to

stop for the Russians, right? But how to do that in a moment when the other side is still convinced that they're winning, and that, again, especially the Europeans, that they can do this with impunity and that they can produce these drones, just ship them to Ukraine, and as long as they're launched from inside Ukraine, everything's going to be fine. So that's the calculus that I think the Russians need to change somehow.

#Steve Jermy

Yeah. Well, again, I think if they were to take the action, I suspect it would probably be the action that you've described, which is actually to reciprocate with drones. And I suspect there would be a reciprocation, a very focused way of going after drone factories across Europe. That's the way I'd be thinking about it. But I do think, though, that the get-out-of-jail-free card for the world will be that it's a get-out-of-jail-free card in terms of getting out of war. It is getting into a severe economic recession or worse. And as that plays into the political debate in Europe, people are really going to say, do we really want to double spending on defense when we're halving spending on health or social security?

You know, you will start to see really, really significant political strife in Europe. And it's interesting already that we're seeing strife elsewhere. I think it's Peru where there have been riots, I think in Peru again, due to, surprise surprise, high fuel, high energy prices. So as that plays into the European debate, I would like to think that this is a place where some cooler heads might actually prevail, although there has been a debate already in Europe where one of the European officials has started to talk about talking to Russia, and I can't remember who it was, but he or she has been shot down a bit by Merz. But sooner or later, people are going to say, you know, we are in deep trouble here. So should we not be talking to Russia about fuel? Yeah.

#Pascal

Yeah, of course. The other way of playing this, and I do hope the Russians have the cool-headedness for this, is to wait it out. Because of the economic crisis—do not disturb your enemy when they're making mistakes. So do not disturb them in putting sanctions on you, because again, they hurt the Europeans more. And just play the long game for the regime change over there in Europe. There might be, and I wonder whether we will see that. I mean, for the longest time within Ukraine, the Russians left Zelensky alone because he actually, you know, makes so many mistakes that it helps them more.

But that might change now. And, you know, the West has already shown that going after heads of state is fine, right? And the Russians might now think of the, you know, regime change by assassination kind of option that they have. Yeah. I do think that they must be pondering that because a completely new set of leadership within Ukraine might actually make a much bigger difference to Ukraine than it did for Iran. Because Iran's strategy was all about keeping the strategy going, even if the heads are taken out. I don't think the Europeans and the Ukrainians work like that.

#Steve Jermy

Yeah, I think that's right. I think I've thought in a similar way. I thought that actually not only might they think about decapitation—it hasn't been very successful in the West, but we're talking about a different circumstance—but I've often thought as well, or more recently thought, that it's not impossible that they would open up a second front to the north, in which they would be driving towards a second military front. And they've got the military capacity to do this, Pascal, in which they would be driving back down towards Kiev. Because I think actually the loss of Kiev would make a lot of people think, you know, if you can imagine European ambassadors having to leave and people moving, no doubt they'd sort of head west to Lviv.

But I think that will have a significant impact on the war. Quite risky in some ways, but the Russians do have significant overmatch. And they have, you know, about a third of their forces employed on the front line. And we know how desperate the Ukrainian manpower, womanpower is. You know, the fact that they're actually, not only are they press-ganging men now, they're actually also press-ganging women into the army. So it shows you how desperately short they are. And I don't think you can cover all of this by robotics, you know, not understanding how much support they get.

#Pascal

No, but we must, I think in my view, we must take this apart now and be aware that on the one hand, we have the battlefield situation, and our shortage is the battlefield war. And then we have the drone war. And these two, in a very weird sense, they're disconnected, right? One can run without the other and vice versa, because they don't impact the same playing field. The drones, in a sense, are much more political than they are military, whereas the shortage of men and so on is all about the military capability of keeping the line wherever it is. And it's really bizarre now that these two are actually quite disconnected.

#Steve Jermy

Yeah, yeah, yeah. I mean, the drone—if we were to get into a drone war between Russia and Europe, I'm sure we'd lose. I'm sure of it, because again, we're less well-prepared. We don't have any of our sites well-protected. The Russians do. I'm not saying that we couldn't damage Russia; I'm sure we could. But actually, the level of damage they could do to us, knowing as well that they're producing drones at a huge rate—so I suspect we'd lose. I do like to think, though, that Putin will be very cautious on this. And I do like to think that actually, if he were to embark on such an escalation, he would do so first by engaging directly with the White House and saying that this is what he was planning to do.

And secondly, that depending on the White House's response, he would then engage with the E3, talking to all three leaders and saying, if you continue to support the Ukrainians in this, we will

respond. Because again, the question then is, what do the Europeans do? Especially if Trump has said, we will not be supporting the Europeans. Essentially, it's three Bambis deciding what they're going to do about, as John Mearsheimer says, not King Kong, but the other great Godzilla. That's the Russian capacity. But again, I'm worried, very worried about the economic situation. I do see the economic situation might actually lead to the end of these two wars.

#Pascal

True, true. And in a sense, I think what we talked about in the beginning is very relevant—that Russia and China also have an interest in not having this global economic crisis. But, but I do fear that, especially with Russia, the Europeans might be doing things that could change their calculus. If Russia and China ever come to the insight or to the conviction that a global economic crisis will hurt the Euro-Atlantic alliance much more than them and would force an end to stuff, then they might actually be willing to say, like, okay, look, Iran, let's do this all together now.

Let's block everything and plunge everybody into economic chaos, and we will stick it out longer. I don't know if that is realistic. And I know that especially China, with its trading routes and trading vulnerabilities, will be highly allergic to anything like that. If the calculus ever changes—because Iran now showed that if you're able to absorb kinetic strikes and economic strikes, you can come out on top if you just have the longer, if you can take the hurt longer. And again, China, I don't think they might be willing to do that. But the Russians, at some point, might seriously think about it.

#Steve Jermy

They've already done a little bit, because the Europeans were planning to cut off access to all Russian oil and gas in about a year's time, and the Russians have helped them out by cutting off access now.

#Pascal

They actually got mad at that? They're using energy as a weapon?

#Steve Jermy

Anyhow, I mean... Yeah, yeah. Yeah, we are very unlucky at the moment because we are not... We seem to be in a situation where we've got the most extraordinarily weak Southwestern leaders that I can ever remember in my life.

#Pascal

I think it would have to go back quite a couple of generations or centuries in order to get to a similarly sad crowd of idiots on the continent. Yeah. But anyhow, I mean, on this jolly note, on a

very happy note, Pascal, on this happy note, let's remind everybody again that they can find your new Substack, right? Which is the one here called War Gallos. Jeremy, where else should people go to find you?

#Steve Jermy

Yeah, I'm sort of routinely invited on others. So Glenn, who we met, and Danny Davis, who we met. So there'll be others as well that I'm invited on. But I hope to launch a YouTube channel at the end of next month, not this one. There's too much this month. But yeah, that'd be great. But look, keep up the good work, Pascal. As I say, it was a great pleasure to meet you. Let's hope we have the opportunity to do that in person in the future as well.

#Pascal

Likewise, Steve. It was a great pleasure. And everybody at home, please subscribe to Steve's Substack. Substack is really the best way to support people, not just with money, but by giving Steve your email address so that he can reach out even if we get banned on any of the platforms. Same for us here. And Steve, we're looking forward to your YouTube channel. Thank you so much.

#Steve Jermy

Yeah, thanks very much, Pascal. Keep up the good work.

#Pascal

You too.