

# **EU imposes its first sanctions against the Russian economy**

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The European Union imposed its first sanctions against the Russian economy on Tuesday. Previous sanctions were directed at certain individuals and organizations, who faced entry bans and bank account freezes. Now Russian banks' access to European capital markets will be restricted. The export of defence and dual-use items that can be used for both military and civilian purposes will be limited, along with high technology products for the energy sector and raw material extraction.

The EU is following the example of the US, which closed its financial markets for many Russian companies—including energy giants Rosneft, Gazprom and Novatek—only one day before the crash of Malaysian flight MH17 over Ukraine.

Since then, the Obama administration has exerted intense pressure on the EU to follow suit. On Monday, Obama pushed for tough sanctions in a telephone conference with German Chancellor Angela Merkel, French President François Hollande, British Prime Minister David Cameron and Italian Prime Minister Matteo Renzi.

According to experts, the EU's sanctions against the financial sector will hit Russia particularly hard.

The foreign debt of Russian companies and individuals amounts to \$650 billion, with an estimated \$161 billion due in the next twelve months. The sanctions will significantly complicate the refinancing of this debt, or at least make it more expensive. Lending to small and medium-sized Russian companies, which collapsed by 20 percent in the first half of this year, will dry up.

The situation is further exacerbated by the massive capital flight from Russia, which could exceed \$100 billion this year.

According to calculations by the European

Commission, the sanctions will push Russia into a deep recession. The already fragile Russian economy will shrink this year by 1.5 percent and by 4.8 percent next year if the planned penalties are fully implemented, the Commission estimates.

The sanctions, however, are also risky for the EU. The EU's trade volume with Russia is about ten times as high as Russia's trade volume with the US. Moreover, a wave of bankruptcies in Russia would have serious consequences for European banks. Russian borrowers owe European banks about \$155 billion, \$47 billion of which is owed to French banks and \$17 billion to German institutions.

Many European countries are highly dependent on Russian gas and oil supplies. It would trigger a serious crisis if these supplies stop due to the sanctions.

Officially, the sanctions are being justified by citing Russia's supposed support for the separatists in eastern Ukraine and the downing of Flight MH17. The Western powers are making the separatists and indirectly Russia responsible for the disaster, without being able to provide a single piece of evidence. The sanctions are supposed to make President Putin isolate the separatists, cooperate with the regime in Kiev and accept Western dominance over Ukraine.

The extent and orientation of the sanctions, however, show they are aimed at achieving a much more ambitious goal. They are meant to force Russia to its knees economically, destabilize it politically and ultimately bring about a regime change in Moscow.

European governments and media have taken a much more aggressive course against Russia since the crash of flight MH17. This is especially true for Germany. For a long time, the federal government had shown some restraint in imposing sanctions because it feared the impact on the German and European economies.

Now it is fully committed to tough measures.

Leading German media have switched to anti-Russia mode, with a battle cry that is equal to the worst days of the Cold War. Leader of the pack has been taken over by news weekly *Der Spiegel*. On Monday, it appeared with the cover headline “Stop Putin now!” and images of dozens of victims of flight MH17 on the front page.

The editorial is titled “End the cowardice.” *Der Spiegel* welcomes the fact that the EU has finally “agreed on tough sanctions against Russia”, and wants to “throw down the gauntlet on the big stage” to Putin. In an allusion to the terrorist attacks of 9/11, the crash site of the Malaysian plane is called “Europe’s Ground Zero”.

Without any inhibitions, *Der Spiegel* is committed to exploiting the images of the disaster in order to manipulate public opinion: “It’s part of the occasionally cynical business of political experts to refer to a tragedy of this magnitude, and to the endlessly repeated TV images of the suffering of innocent people, as a ‘game changer’. It’s the moment that divides the course of a crisis into ‘before’ and ‘after’—a time when the public and politicians hold their breaths and take a new look at the situation.”

In his regular column for *Spiegel Online*, economic journalist Wolfgang Münchau outlines a plan to push Russia into bankruptcy. Under the headline “Payment Systems—the atomic bombs of the financial war,” he declares, “One should turn off the money tap, not the gas tap,” and argues for a long-term policy of sanctions.

To the objection that Russia has the most staying power, primarily because it has foreign exchange reserves of nearly \$500 billion, he replies that the government holds these reserves in securities and could not make them available to the Russian economy, “without part of these transactions running through the American or European payment systems. Although the euros and dollars belong to the Russians, the payment flows are subject to European and US law.”

“In the extreme case, we could freeze the assets of the Russian central bank and cut off the rest of the Russian economy completely from the capital market,” Münchau continues. “In this case, the Russian economy would collapse within a few weeks. This is the strategic value of world currencies such as the dollar and in part the euro. Anyone can use our currency. But only we

possess the payment systems. Payment systems are the nuclear bombs of the financial war.”

Republican Senator Lindsey Graham in the US spoke in a similar vein, telling a reporter, “Sanctions against the Russia economy; we could grind it into the ground. It’s no larger than the size of the Italian economy. I want the Russian people to feel pain in response to the pain they’ve caused.” The way to get to Putin was “to basically make the Russian people pay a price for supporting this guy.”

One wonders whether Münchau, Graham and the many other journalists and politicians who advocate tough measures, sanctions and economic warfare against Russia have thought through the consequences of their policies.

Do they want a society that owns the second-largest arsenal of nuclear weapons in the world to be destabilized just as they have done with Iraq, Libya or Syria? Do they want to provoke a coup against Putin? Do they want to provoke right-wing forces in the security apparatus to make military responses so as to have a pretext for war?

In any case, they speak for a ruling class that, under pressure from the global crisis of capitalism, growing contradictions between the great powers and sharp social tensions, is losing its head, and whose irresponsibility is matched only by its ruthlessness.



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