

European sanctions complement military aggression against Russia

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Sanctions that are currently being drawn up by the European Union against Russia are a compliment to the aggressive military action announced by the US and Europe at this week's NATO summit in Wales.

The sanctions, which are set to be formally announced today, include prohibitions on arms exports and financial services as well as additional sanctions for the energy sector. They are aimed at bringing the Russian economy to its knees, exacerbating social tensions and rallying oligarchs in Russia against President Vladimir Putin.

The EU and US imposed initial sanctions against Russia at the end of July. At that time they utilized the still unexplained crash of the aircraft MH17 over eastern Ukraine as a pretext. Those affected included high-ranking government officials and entrepreneurs who are close to Putin and control large portions of the Russian economy, as well as leading Russian banks.

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Before 2014, a significant portion of Russian energy companies' business transactions were conducted in US dollars. Many companies are dependent on western loans. According to a leading banker from Moscow, transactions in US dollars have been virtually impossible since the spring. Since late July the EU has also refused any loans to Russia.

As a result of credit restrictions, many companies will have to delay or stop larger projects. Those on the verge of bankruptcy for the last few years could now be put out of business. This is particularly true for heavy industry. The prospect of mass layoffs, including in the industrial sector, is being openly discussed in the Russian media.

Russian companies are also having difficulties paying back their foreign debt, which totals some \$650 billion, \$161 billion of which is due by the summer of 2015. Last

month the state-owned company Rosneft, which produces the majority of Russia's oil, asked the government for a state subsidy of 1.5 trillion rubles (\$42 billion) in order to cover its foreign debt. That is more than Russia's total welfare expenditure in 2014. Although Rosneft's manager Igor Sechin is a close confidant of Putin, the government rejected the company's request due to a lack of financial resources.

In addition, the transition to ruble payments has enormously intensified the existing liquidity crisis in the banking sector.

The export ban on Western technology for oil and gas drilling is a targeted attack on the Russian energy sector. Although Russian oil and gas companies possess almost all licenses for the fields in the resource-rich country, they will produce less and less without support from Western companies. The majority of oil and gas fields have been in use for decades, and the easily accessible supplies are drying up. In June, one analyst told *Bloomberg* that Russia had "zero chance" of maintaining production levels without Western technologies.

The crisis in the energy sector has far-reaching consequences for Russia's economic and political stability and the population's standard of living. About half of the state budget is dependent on revenues from the oil and gas industry. Therefore the sector is responsible for a large portion of social and military spending. All other economic sectors are also economically dependent on the energy sector. Thus the economic sanctions will inevitably lead to an increase of social tensions in Russia.

Already economic growth in the country is zero or contracting. The EU Commission expects a 1.5 percent decrease for the Russian economy this year. However, the recession could be even more severe, following the drop in oil prices to less than \$100 a barrel in August.

The numerous refugees of the civil war in the Ukraine will also be affected by the crisis. Officially, a quarter of a

million people have already fled to Russia, but this number is expected to grow substantially. Not even the 33,000 Ukrainian refugees who have formally applied for Russian citizenship have jobs. Due to the surge in war refugees, the social crisis has intensified in many regions, especially in southern Russia and the Ural mountains.

The sanctions and the weakening of the ruble since the beginning of the Ukraine crisis have already led to a sharp deterioration in living standards. Russia imports most of its food from abroad. In cities such as St. Petersburg, 100 percent of some food products are imported from abroad. According to a report in *Die Zeit*, the price of pork in St. Petersburg has increased by 23.5 percent since the beginning of the year, the price of chicken by 25.8 percent and sugar by 16.5 percent. The price increase for potatoes was even higher, at 72.7 percent. Nationwide many stores are offering less, and some shelves are completely empty.

In its analysis, *Die Zeit* tried to present these price increases simply as a result of the import ban, which was announced by the Kremlin for Western food products at the beginning of August, and thereby ascribe responsibility for the consequences solely to Putin. However, the chronological sequence of price increases shows that they are primarily a result of economic sanctions by the West and the geopolitical tensions in Ukraine, which have led to a significant devaluation of the ruble.

The ban on food product imports, which was imposed by the Kremlin in early August, is a defensive but nevertheless reactionary backlash against the economic war measures by the West. Besides energy exports, Russia is significant for the world economy due to its large sales market. According to calculations by the Dutch financial company ING, the ban will cost the EU approximately 6.7 billion euros. The measures could lead to a loss of 130,000 jobs across Europe, according to a report in *Gazeta.ru*, and 12,000 jobs in the US.

The Kremlin has countered the economic war waged by the imperialist powers with actions that will further exacerbate the economic crisis and the situation facing the working class. The Russian government has preached a policy of increased national self-sufficiency since the beginning of the economic war. It is claimed that Russian production plus imports from Brazil and India can ensure the country's food supply.

This policy, however, encounters substantial difficulties. The Russian agricultural sector, which still produces less than before the dissolution of the Soviet Union, is going to need an estimated 664 billion rubles between 2015 to

2020. Given the crisis in the energy sector and falling oil prices, the government will hardly be able to finance these expenditures.

Although the Kremlin announced that it would replace imports from the West with foodstuffs from Brazil, experts believe that Brazil is not able to cover Russian import demands. For the impoverished working class, which has already had minimal access to food products such as meat or milk, this will result in serious food shortages and even hunger.

In order to reduce the dependence on the West in the automobile sector, Prime Minister Dmitry Medvedev announced the creation of a new special economic zone in Vladivostok, where workers are exploited for low wages, challenging the rates paid to Asian and Chinese auto workers.

Given growing tensions within the ruling elite, the import ban is also aimed at winning support for Putin from layers of the bourgeoisie that produce mainly for the Russian market and are not competitive internationally.

The sanctions war will only serve to further fuel the social crisis. European and also American companies are likely to suffer considerable losses because of the sanctions. In Germany alone some 350,000 jobs are dependent on trade with Russia. Russian energy supplies are responsible for 21.5 percent of Germany's total energy consumption. Possible disruptions in energy supplies from Russia and the consequences of economic warfare threaten to push Europe into recession.

These consequences have been allowed for and consciously accepted by politicians in Brussels and Washington. While the sanctions destabilize Russia politically and socially, they are aimed at creating a mood of crisis in Europe and fueling resentment against Russia in order to justify war.



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