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Sanctions threatening war

By Phil Butler
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'In the win and lose of economies, the ruble's decline has hurt all those countries that export to Russia most of all'

In the wake of the latest US-Russia frictions, the EU grows ever more divided over current and future sanctions. With a bi-polar tone from most European capitals today, evaluating the effects of sanctions few understand becomes an acute necessity as darker storm clouds form over the east of Europe.

The new echoing of sabers rattling in between Washington and Moscow spells not only a possible military escalation of the Ukraine crisis, but a worsening of the overall EU economic situation. A tenuous ceasefire in east Ukraine is threatened once more, only this time by a Washington legislation intended to send not only financial aid to Kiev, but "lethal" weapons as well. What was "off the table" a few weeks ago, may now be the "straw" that breaks the peace for good.

At least this is the Moscow view, which at this point and this location may be the only view that counts, as the political ball is in the Russian court. Even Forbes contributors now question US legislation to give arms to Kiev, and to enact further sanctions on Russia.

Doug Bandow, a Senior Fellow at the Cato Institute, says they're certain to have a negative counter-effect from Moscow. He points out, too, how none of what's happened in Ukraine from the Moscow side, should have surprised anyone. What seems most acute today though, is how the various EU nations react to these new developments.

In the win and lose of economies, the ruble's decline has hurt all those countries that export to Russia most of all. For instance, Germany, Italy, and France, along with Poland and Czech Republic trade with Russia more than most other EU nations. These nations have lost billions of euros over the geo-political sanctions. However, anyone who's an expert can tell you, east-west friction is not so easily quantified, nor is the sanction regime intended to force Russia's hand. Clearly the most noticeable feature of this "sanction war" are the Russian rubles decline versus other currencies, and reduced capital flow to Russia from the EU.

Not everyone is aware that Russia has depended more on European Union investment than on any other financial market. This is one reason we see Russia's keen interest in doing more business with the BRICS nations of late. This is strategy, intended to replace one market with another.

Here in the EU, the sanctions already imposed have not even fully taken effect yet, and most experts agree it will be mid 2015 before they do. Add to this the complexity of the markets affected, and it's nearly impossible to image anyone knew what the ultimate costs would be. The issue of legality, as well as who in Brussels is qualified to know the effects of such far reaching sanctions, this has been the topic of discussion at Istituto Affari Internazionali (IAI) in Italy, and at other think tanks worldwide. While some EU countries and businesses have actually benefited from Russia's newfound loss of liquidity, other nations and select businesses are already paying a heavy price.

The ruble's decline over the past few months is largely because of the drastic reduction of oil prices with Saudi Arabia's increase in production. Maintaining over-production obviously shows Russian energy companies as targets, while the energy businesses in the EU who benefit do not necessarily transfer all savings to customers. Early on in the sanctions war experts warned the EU's part could lead to permanent recession.

This *Washington Times* report spells out pretty well what we are seeing taking place this week. The so-called west seems intent to force Russia's hand, one way or another. Outside a military escalation, European nations may feel the piercing economic chill if Russian's natural gas hand is forced. Gazprom could be forced via new sanctions, into strategic survival mode, a mode which would ensure interruption of energy to the EU.

If we look at the current situation from purely an economic angle, it's fairly easy to gauge international responses to the current west versus Russia problem. Of course American interests are served, as are Saudi Arabia's, when Russian energy business is curtailed. In the short term, Germany, the Unites States, Canada, Netherlands and some other nations benefit from a relative oil boom.

Capital inflows which once were diverted to Russia can be vested to patch other problems. Meanwhile, the nations which are most vehement about rolling back this economic war, Italian businesses, the Czech government, and regional businesses within Germany, they fear more negatives as the effects are felt after the New Year.

The most serious real danger with this sanction regime is framed in something European Parliament President Martin Schulz told the *Hannover Allgemeine Zeitung*. In discussing a new round of sanctions Schulz expressed no reservations about imposing a new round, but insisted the EU must not;"tear the thread of conversation with Russia in times of crisis."

The US Congress's passed a bill titled Ukraine Freedom Support Act of 2014, which President Barack Obama said he has decided to sign. it threatens to push Moscow to the next step, a step many agree could be a point of no return in east-west détente.

Russia's President Vladimir Putin held a meeting on Friday with the permanent members of the Russian Security Council to discuss concerns over what he feels is the deteriorating humanitarian situation in Luhansk and Donetsk. Russia's deputy foreign minister, Sergei Ryabkov, has already warned new sanctions would mean a response.

Mikhail Yemelyanov of the Fair Russia party told reporters on Friday, that if the US sends weapons to Ukraine, Russia should preemptively deploy troops before any new threat is posed. Russia Today quoted him: "It is quite possible that we should return to the decision by our Upper House and give the Russian president an opportunity to use military force on Ukrainian territory pre-emptively. We should not wait until Ukraine is armed and becomes really dangerous."

The situation in Europe today seems fairly gloomy however one looks at the elements. Whoever is ultimately to blame for the crisis in Ukraine, the idioms and pressures key nations face externally and internally play out, no matter what.

In Washington, Moscow, Berlin, or Prague, economic warfare in a recession, or tank warfare in the middle of Europe, not one scenario has or will play out positively for people's of those nations in gridlock. As for the moderate EU nations, those pushed into this conflict, clearly teetering economies like Spain's and Bulgaria's are cause for cries to rethink what the EU is about.

Already billions of desperately needed capital has been displaced. EU and Russian businesses are reeling from loss, and the borderlands around Ukraine fear justifiably, the same old fears Europe has felt for centuries. If ever there were a place for a "reset button" maybe Brussels is the best place for it?