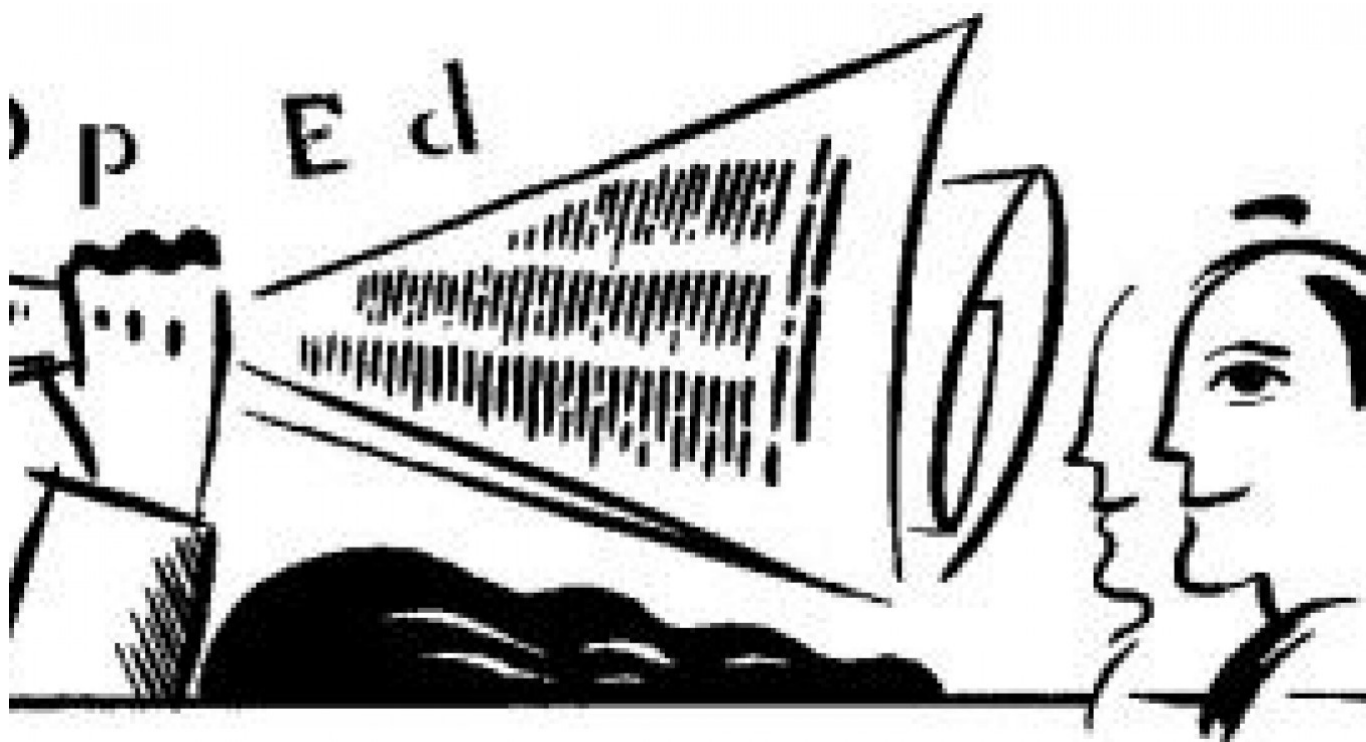


Russia Must Stand Up to EU Bullying on Cyprus

By [Dmitry Afanasiev](#)

March 21, 2013



German Social Democratic Party spokesman Carsten Schneider said on Dec. 1, "German taxpayers' money will not support illegal Russian deposits in Cyprus." That party holds a significant number of seats in parliament, and Chancellor Angela Merkel took note of the opposition's demands. On March 16, she declared, "Those who are responsible will have to pay, and not only European taxpayers."

What nobody bothers to explain is why Russia depositors are responsible for the looming default in Cyprus. Cypriot banks lost money in Greece because it joined the euro zone, and Brussels forced several of Greece's creditors, including Cypriot banks, to write off the Greek debt to protect European investment in Greece. Russian depositors had nothing to do with this problem. On the contrary, it was Russian investment that enabled Cyprus to become a fully developed country over the last 10 years and to join the euro zone — the structure that is causing so many problems now.

On what grounds are all Russian bank accounts in Cyprus labeled illegal? The real answer is

obvious: As President Vladimir Putin explained at a news conference several years ago, the weak get bullied by the strong. In this case, the European Union, with Germany at the lead, is beating up on the Russians, who have no voice in Europe, and on Cyprus because it has friendly relations with Russia. It seems Germany wants to shut Russia's economic window to Europe — that is, Cyprus — and all this is happening because of domestic German politics that is influenced by an old, Cold War mentality.

The EU wants to confiscate money from Russian depositors, and it effectively justifies its illegal actions by claiming that all Russian money in Cyprus comes from speculators and swindlers.

Germany's finance minister, with active support from the finance ministers of the Netherlands and Finland, imposed an ultimatum on the Cypriot government: It must confiscate part of its bank deposits, and especially the large ones that are most likely owned by Russians, or Cyprus will not receive the bailout it needs to save its economy from collapse, in which case Cypriot banks will fail and depositors will lose all of their money anyway. In the EU's view, since most of the depositors are from Russia, their legal rights do not matter. The EU will provide 10 billion euros (\$13 billion), the levy on deposits will produce another 6 billion euros (\$7.8 billion), and everybody, except the Russian depositors, will be happy.

Cyprus is torn between its old friend, Russia, which has so far remained silent, and Cyprus' new partners in the EU, who are not that friendly at the moment but are willing to give money if Cyprus is willing to stab Russia in the back.

At the same time, the EU has pledged Cypriot banks as much money as it needs to maintain liquidity once they re-open for business and if Cyprus accepts the EU deal. That total would probably exceed by several times the additional 6 billion euros that Berlin wants Cypriot banks to seize from its mostly Russian depositors. This only proves that the main issue is not financial but political in nature, one that is clearly aimed at Russia.

Several conclusions can be drawn from the EU move against Cyprus and Russia:

First, Putin was right when he said that the weak get bullied. Russia must wake up and act to defend itself against German bullying.

Second, Russia should take strong, decisive measures to protect the interests of its citizens who have deposits in Cyprus, and in any other country for that matter, where the authorities attempt to seize property owned by Russians.

Third, Russia has only one friend left in the EU, Cyprus, and that friend could be lost. When friends are in trouble, they need help. While Russia needs friends in Europe, Cyprus needs 16 billion euros to avoid a collapse in its banking sector. While the EU is prepared to provide the bulk of the funds needed, the Russian government should step up and provide the balance.

Cyprus can pay down its debt with its recently discovered offshore gas deposits, along with revenues from electric utilities, real estate development rights, land and the nationalized shares of its failing banks. All of those assets are strategically important for Russia. Moscow could instruct Vneshekonombank to securitize these assets so that the investment could be repaid with profit by issuing derivative securities and placing them on public markets for the

rest of the world to come in and invest in Cyprus.

Asset-backed financing is not an unusual method to solve these types of problems that cannot be solved with more traditional financing. In this case, asset-backed financing would achieve several positive objectives. First, it would help save Cyprus' economy. Second, it would make Russia whole once the securities are placed and Vneshekonombank gets its original investment back plus profit. Third, Cyprus' key assets will end up in the hands of the global investors who will drive the economic development of Cyprus and ensure the world's interest in this small country. Fourth, the world's economic interest in Cyprus would help protect Cyprus from its volatile neighbors in the region. Fifth, the private-interest-driven economic development of Cyprus would enable the country to repay its debt to the EU, which should make German taxpayers happy.

In the end, the Russian government and depositors must defend their rights in court if EU bureaucrats do not reconsider their decision their decision to expropriate private property. The confiscation of bank assets is illegal, and the perpetrators must be held responsible regardless of their current high positions. All Russian losses should be duly compensated, including, if necessary, by suing Germany for inducing expropriation, a breach of the European Convention on Human Rights to which Germany is a party

Russian depositors should unite to present a stronger front in negotiations. The Germans are betting that Russian business and the Russian state will remain divided. The Russian government must show Russian businesses and depositors that the state is standing up for their interests. Public statements made by President Vladimir Putin and Prime Minister Dmitry Medvedev in recent days to this end are helpful in instilling investor confidence that the Russian state is run by sensible people.

It is crucial to seize the moment. Depositors must unite as a group, appoint a leader and immediately engage in talks with the EU and the governments of Cyprus and Russia to protect their legal rights and property. If their concerns are not taken into account, they should seek redress through international litigation.

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