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EU Agrees to Economic Sanctions on Russia Over Ukraine

By The Moscow Times

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BRUSSELS — The European Union reached agreement on Tuesday on the bloc's first broad economic sanctions on Russia over its role in Ukraine, diplomats said, marking a new phase in the biggest confrontation between Moscow and the West since the Cold War.

The measures will shut major state-owned Russian banks out of European capital markets and target the defense sector and sensitive technologies, including oil, but exclude the vital gas sector, on which Europe is heavily dependent.

In contrast to the United States, the 28-nation EU, with bigger economic interests at stake, hesitated for months to take decisive action against Moscow.

But the mood changed radically after the downing of a civilian flight in an area of Ukraine controlled by pro-Russian separatists earlier this month, killing all 298 people on board, including 194 Dutch citizens.

Washington believes flight MH17 was shot down in error by the separatists with a missile supplied by Russia. Moscow has denied any involvement and sought to deflect the blame to Kiev.

The president of the European Commission, Jose Manuel Barroso, and European Council President Herman Van Rompuy said the sanctions were means as a "strong warning" that Russia's actions in Crimea were not unacceptable and would bring "heavy costs" to its economy.

"The European Union will fulfill its obligations to protect and ensure the security of its citizens. And the European Union will stand by its neighbors and partners," the EU's top two officials said in statement.

Several European diplomats, speaking on condition of anonymity, said sanctions could be ratcheted up further if necessary.

EU ambassadors clinched their agreement as intense fighting between Ukrainian troops and pro-Russian rebels in eastern Ukraine killed dozens of civilians, soldiers and rebels.

It is expected to be finalized on Wednesday and the measures published in the bloc's Official Journal.

Dutch Foreign Minister Frans Timmermans, whose call for justice swayed EU peers last week, said the capital market restrictions "will have a far-reaching and immediate effect".

The sanctions will initially last a year but will be reviewed after three months on Oct. 31 to determine their impact on Moscow's behavior, diplomats said.

"We have to keep a consistent review of the political aspect and provide legal certainty," one senior EU diplomat said.

The deal, which does not require endorsement at a special EU summit, followed an agreement to widen sanctions on Moscow between U.S. President Barack Obama and the leaders of Britain, France, Germany and Italy in a telephone conference on Monday.

Previously, Washington and Brussels have imposed sanctions on specific individuals over Moscow's actions towards Ukraine, but the EU in particular had shied away from measures designed to hurt vital sectors of the Russian economy, not least because of the threat to EU economies.

The EU does more than 10 times as much trade with Russia as the United States does, relying in particular on Russian natural gas to fuel its industry and power its cities.

Balance

Some member states are nervous about the risk to their own economies, and EU leaders struggled to strike a balance between inflicting pain on Russia and preventing fragile EU nations from sliding back into recession.

In a letter to EU leaders last week, European Council President Herman Van Rompuy said the proposed sanctions package "should have a strong impact on Russia's economy while keeping a moderate effect on EU economies."

There was a consensus on only targeting future contracts, he said, which would leave France free to go ahead with the delivery of helicopter carrier warships is it building for Russia.

Another principle was that EU measures targeting energy technology could hit Russia's oil sector but not its natural gas. Russia is the world's biggest exporter of gas and second biggest exporter of oil; Europe depends on it far more for gas, which arrives mainly by pipeline and is harder to source from elsewhere than oil, which arrives mostly by ship.

Probably the most high-impact measure will ban Europeans from buying new bonds or shares issued by banks owned 50 percent or more by the Russian state, which analysts say will affect their ability to finance the economy.

Syndicated loans were not included "at this stage," one senior EU diplomat said, adding that European banks will not be able to purchase targeted debt anywhere in the world.

"It applies to primary markets and to secondary markets, bonds and shares of targeted, well-defined, state-owned Russian banks," he said.

Apart from agreeing on the economic measures, ambassadors also signed off on a new list of Putin's associates and companies that will face asset freezes and visa bans under previous measures, the criteria for which were toughened the day before the plane crash.

The list is expected to be made public on Wednesday, adding to the 87 people and 20 organizations already hit with asset freezes for playing a role in threatening Ukraine.

See also:

[EU Agrees Preliminary Deal to Expand Sanctions List Over Ukraine]

[Russian Stocks Drop in Volatile Trading Before EU Sanctions Decision]

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