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“Unity remains our greatest strength”

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The Western world has a long history of using economic sanctions to respond to foreign policy challenges. Democracies do not have much choice beyond economic sanctions since the use of direct military action will always remain our very last option.

The nature of the sanctions is to work as deterrent. When escalation of the conflict is probable, and even if the full choice of possible sanctions might be on the table, it is rational to deploy them gradually.

In the case of Russian illegal and insane war, sanctions became an absolutely essential tool to be implemented in a gradual manner. The West kept all options open and close to their chest. In parallel political dialogue was an element of complementary efforts. Very quickly, it became obvious that the West would be united in rejecting the Russian aggression as never before and the isolation of Russia became a reality. China, initially against sanctions and in favor of a dialogue to find a solution, seems not to have taken its political decision yet on which side their interest lies.

The EU along with the US and other allies have acted in a highly coordinated and unified way. Last Wednesday, the UN General Assembly overwhelmingly voted (141 of the 193) to condemn Russia’s invasion of Ukraine and called for the immediate withdrawal of its forces. It is one of those geopolitical moments when unity remains the greatest strength.

In principle, sanctions are used to bring about a change of the policy by the target of the sanctions. Specific Russian political system, where there is no mechanism to replace the president, justified a broad range of sanctions, embracing not only Putin

himself, but also his collaborators, companies, supportive individuals, all sectors of the economy and finance.

While Russians could have anticipated the measures, the speed of action and the unprecedented scope came as surprise.

After two decades of appeasement, transactional relations, welcoming Russia to the multilateral rule based system of global governance, the EU along with the US and other allies threw out the playbook they used as a framework for relations with the Kremlin which led to deep dependency on Russian resources and isolated Russia with unparalleled sanctions and penalties.

We adopted three waves of heavy sanctions against Russia's financial system, energy sector, trade, transport, media industry, its high-tech industries and its corrupt elite at the speed of light. The past 15 days upended long-held assumptions and wiped out billions of dollars of investment in Russia.

There are growing numbers of western companies pulling out from Russia, which reminds us that the market is not that big compared to the territory. Russian economy is the size of Spain. There is also growing awareness of impact of war and sanctions on prices of energy and food, and then of course on growth and geopolitics. Full effect might be seen closer to summer.

The war by Russia upended some big European taboos, they are gone and we are at the dawn of a new era. In a major U-turn, Chancellor Scholz undid last week decades of German foreign and defense policy by proposing massive investments in Germany's defense and security and froze Nord Stream 2. We see that Denmark, Sweden, and Finland are changing their approach to security considering either joining NATO or joining EU defense policy schemes.

When situation justifies that sanctions can be narrower and targeted those who impose try to minimize the adverse consequences for those not responsible for policies and actions that triggered sanctions. That proved to be impossible and, I

would even say, undesirable in the context of policy of lies used in Russia by Putin and his acolytes to justify the aggression.

There is always this question accompanying the use of sanctions to what extent they are and can be efficient. Here, we have a situation when all the keys to the termination of the war seem to be in the hands of Putin. Unfortunately the web of lies which are main characteristics of daily propaganda slow down the mounting of public awareness of how much this war destroys Russia and its citizens' life.

While the major sanctions' effect is likely to be seen on the medium-term, some impacts came very quickly. The ruble's value crashed to historical lows against the dollar, major international companies – including payment systems like Visa, Mastercard, and AMEX – have stopped their operations in Russia, and with its assets frozen and such a rebuttal from the world, it will be hard to find a bank on earth willing to deal with the Russian Central Bank.

We see that alternatives to SWIFT will not be effective. China's "Cross-Border Interbank Payment System" (CIPS) does not have enough participants to be a viable alternative to SWIFT used by more than 11,000 companies and organizations around the world. CIPS direct participants are mostly overseas subsidiaries or branches of Chinese banks.

We also see that Gazprom and Rosneft face foreign debt repayments that they will not be able to honor. And Morgan Stanley said yesterday that Russia is set for Venezuela-style possible default on its foreign debt payments as soon as 15 April. If the sanctions' goal were to cripple Russia's economy, I would say that they are gradually fulfilling its goal. However many loopholes remain.

The SWIFT ban is not applied on all Russian banks, this requires amendment. There is a need to close loopholes allowing for using cryptocurrency as a way to circumvent sanctions. Christine Lagarde has been calling to push the Markets in Crypto Assets (MiCA) proposal through as quickly as possible so that Europe has a regulatory framework within which crypto assets can actually be caught.

Russia's war chest is mainly built on the sale of oil and gas to the EU. The EU must stop buying Russian oil and gas immediately. It is well known that 62 billion euro paid in 2020 by the EU to Russia for the import of gas and oil equals the entire annual military budget of Russia.

European dependency on Russian gas, wrongly ignored for decades, is currently being addressed by actions proposed in a plan adopted yesterday by the Commission and to be further endorsed by the European Council in Versailles in two days. Its implementation will reduce EU demand for Russian gas by two thirds before the end of this year. The plan contains a long list of emergency measures on energy prices and gas storage. This short-term plan is accompanied by more strategic measures accelerating the reduction of usage of fossil fuels across all segments of our economy, boosting energy efficiency, increasing renewables and eliminating infrastructure bottlenecks. This should have been done years ago. Fortunately, there are financial reserves in the Recovery and Resilience Facility as only 7 member states have reached out to available cheap loans.

As EU imports 90% of its gas consumption, 45% of which comes from Russia, the scope and scale of challenge we face if embargo becomes a reality is obvious but planned solutions are both necessary and viable.

If the policy goal is to apply so much pressure on the Russian economy that it pushes for a regime change in Moscow, only time will tell whether it will be possible. Commitment and solidarity across Europe is fundamental. At the end of the day, however, it is the power of Russians themselves that can generate a Putin-less Russia.
There are no comparable cases in the world that could help us in seeing the possible evolution and future. We are attempting to terminate a war where kids, women, elderly and sick of the population of 44 million are targeted.

We see today that some of Russia's elite and high-profile people of culture are speaking out on social media against the war. However, Putin has turned Russia into a totalitarian state. He clamped down on independent news reporting, slowed down social media traffic and is jailing Russians that demonstrate against the war. There

are countless stories of Ukrainians finding that their relatives in Russia do not believe it's a war due to the disinformation emanating from the Kremlin. It is difficult to counter this propaganda. We should continue to ramp up sanctions. We should prepare our populations because these sanctions will have an impact on all of us, especially when we impose an embargo on Russian oil and gas.

One more point deserves a special attention. Ukraine's President has raised the issue of Ukrainians accession to the Union. Nobody has doubts that in this war Ukrainians are fighting for our European democratic values. Opening our door to EU membership is the least we can do.

Since 1994, through Partnership and Cooperation Agreement, European Neighborhood and Eastern Partnership Policies and since 2016 Association Agreement and the Deep and Comprehensive Free Trade Agreement, Ukraine has been preparing for accession. In my view, the main factor slowing down the process was of geopolitical nature. Fear of Putin's reaction. Some member states continue to be unable to get out of this trap. This is bad.

Ukraine has invested a lot to reform its political system and its administration. Since 2014 it has been successful in maintaining growth and jobs in spite of the loss of fundamental resources rich territories of Crimea and Donbas.

Nobody can say today that Ukraine is not part of the European family. The European Commission has been already asked to prepare its opinion on preparedness of Ukraine to launch accession negotiations. Treaty tells us how to proceed with accession. Some member states use what I mentioned above which is the traditional geopolitical warning to avoid provoking Russia. It is indeed hard to imagine what other more hostile actions else can Russia undertake.

So I do not find justification to avoiding political references to Article 49. Imperial ambitions of Putin led already in 2014 to efforts of blocking the Association Agreement. When it failed, it led to war.

When we talk about a fast track for accession, it is a political narrative. Ukraine needs hope. It matters now, during the war. Those who do not understand that are wrong. But in the post war reality there will be no short cuts, Ukraine has to meet all criteria and conclude negotiations. It is for Ukraine important to be well prepared to benefit from membership. And not to weaken the Union. In the meantime, there will be a lot of time to see how in certain areas Ukraine can benefit from functional integration even if formally, institutionally the process will not be finalized.

It will be, as every accession, a bespoke process. Ukraine will join the Union on its own merits. Let us not forget that they will not start from scratch. The main challenge will be bringing Ukraine, destroyed by the aggressors, into being as economy, as administration, as societal infrastructure.

From many conversations I have I see many people, institutions, organizations ready to help Ukrainians to make their country fit for negotiations and reforms. A lot has been already done through the Association process. They will need smart governance, commitment and assistance. I hope that in Versailles the European leaders will be bold enough to say that Ukraine can be a member of the European Union. This accession should be a no-brainer.