

Putin will not budge to the West's demands

✘ It should come as no surprise to anyone that Russia has formally entered a recession for the first time after 2009; this time, though, the prospects of recovery are bleaker. Russian President Vladimir Putin appears to be worried, while the average Russian is feeling anguished by Deputy Economy Minister Alexei Vedev's unpleasant announcement that GDP growth for 2015 might be -0.8%, worse still than 2014, which is predicted to close at 0.5%.

Sanctions, the collapse of oil and the depreciation of the ruble have combined to give Russia and Putin the biggest blow since the start of the Ukrainian pro-Western European, 'Euromaidan' revolt in December 2013. Putin has retaliated, declaring the closure of the South Stream gas pipeline, which had a major European partner in Saipem with his back to the wall. The gas pipeline, could be re-directed to run via Turkey rather than Bulgaria and Poland and it stands as a symbol of the growing diplomatic distance between Moscow and the European Union (EU): the 23.5 billion dollar worth 'Pipeline of Discord'. A few months ago, the oil giant Rosneft had to give up prospecting in the Arctic with its Texas-based partner Exxon, and now it is Gazprom's turn to 'feel the heat'.

The Government's admission of recession has come at a very difficult time, when the collapse of the ruble seems unstoppable and consumer prices are growing by the day. The causes of the disaster are obviously attributable mainly to the Western sanctions and Russia's predictable annexation of the Crimea region. The drop in oil prices, last week, has merely served to highlight Russia's worsening international relations. For years, Putin had urged experts and oligarchs to diversify the economy; manufacturing and agriculture in particular. The latter was negated and even regressed compared

to the Soviet era, forcing Russia to become dependent on imported goods, which now cost much more as Russia relies. Until last summer, a Euro was worth 40 Rubles; yesterday, the currency price shifted to 67 Rubles, a new record low. The government needs to take some control over worsening the situation even as the spiral of the crisis seems to have just begun.

Yesterday morning Putin had signed a decree suspending pay increases for all public officials. All Russians have to prepare for tough times. The associations of travel agents, to cite one example, have indicated that the number of Russian tourists abroad next year will be less than half. Meanwhile, the closure of the South Stream pipeline may serve as a way to further alienate the EU. If Putin wants to close the South Stream pipeline, Europe has a lesson to learn, said the Vice-President of the European Commission pointing out that the EU imports account for more than 30% of its gas needs from Russia. The South Stream project was supposed to bring Russian gas to Europe through a pipeline under the Black Sea that would arrive in Bulgaria and then in the Balkans, bypassing Ukraine. Yet, Putin's government shows no signs of gasping, nor has it indicated any halting of its ongoing involvement in neighboring Ukraine, largely because such policies have proven wildly popular with the Russian public. Until that changes, the Russian government will likely maintain its course despite growing economic pressures. Nevertheless, the rhetoric of not bowing to foreign pressure contrasts with requests for negotiations to end the conflict, which means that at some level Putin is worried.

Putin remains popular with Russians, receiving approval ratings of 85% last week (it was 88% last September). Russia has appealed to the Western powers to abandon the sanctions policy in the interests of the world economy – requests that have resonated with many European citizens and officials, who worry that more sanctions would only add to their economic

woes. That said, Putin will not budge because to abide by the Western demands is implausible in Putin's personal leadership 'vocabulary'. The 80% plus approval ratings are a reflection of his 'defiance' against those who have 'ganged up' against Russia. Only if he were he to give up the nationalist principles that have guided his actions vis-à-vis Ukraine, would he then incur the people's wrath. To ensure popularity remains high, Putin will likely continue to shore up support for Ukrainian rebels rather than abandon his ambitions.

While Russia is vulnerable, Putin will encourage Russian businesses to diversify, resume industrialization while continuing to develop its resource sector even as it invests in replacing imports from the West with local goods. Shifting the import focus away from Europe to China; in doing so, however, Russia must avoid the temptation to base that relationship on the familiar pattern of 'oil and gas in exchange for finished products' that has been a signature of the recent past. Moreover, Putin will challenge the rentier capitalists that have dubiously earned billions of dollars in the past two decades. The so-called, 'oligarchs', will be targeted such that their assets, privatized at ridiculously low prices in the roaring 1990's of the Boris Yeltsin era, will be re-nationalized. This will include banks, the foreign trade and strategic industries. In the anti-Russia rhetoric that has characterized the coverage of the former 'superpower', the media and western leaders have often failed to recognized that after the humiliation of the immediate post-Soviet era, Putin has raised Russia from the abyss and has instilled in Russians dignity and self-worth, which is why he is so popular and why the 'oligarchs' seen as pariahs.

President Putin has the support of the vast majority of the Russian people; has allies in China and among the BRICS (Brazil, Russia, India, China, South Africa) and has the will and the power to "do the right thing. It remains to be seen if he can fulfill this historic challenge. Of course, in its campaign to consider their responsibilities towards the

country, the Kremlin will have aroused the oligarchs' anger, generating what is, for the time being, an unspoken fear of a coup sponsored by the new wealthy elites.

President Putin has urged his government to adopt new legislation to prevent the use of offshore tax havens making Russian citizens subject to taxes at home no matter where they come from their income. The measures are targeted towards the very wealthy Russians, who systematically try to move their goods and families abroad, fueling capital flight, one of the problems that Putin is no longer willing to tolerate especially when, for both factors cyclical and structural, the Russian economy started to slow down for the first time since he became president 14 years ago. Estimates suggest that capital flight from Russia reached over USD\$ 100 billion pounds. It is indeed a measure that meets the favor of the most popular classes, as well as the middle class Russians whose welfare unlike the oligarchs is the fruit of labor and the economic growth of the past few years.

The EU is not about to tax Private Bank Accounts: Cyprus is the result of Geopolitical Chess

❌ The suggestion that Cypriot bank deposits be taxed to help the country, as proposed last Saturday by the EU has dragged European stock markets down. However, while EU leaders have attracted much, deserved, criticism for the decision, which represents the first time citizens are called in

directly to help bail out banks, 'Cyprusgate', as it shall hereby be known, is highly imbued with the scent of a new Cold War. The suggestion is part of a complex geopolitical game involving the EU, Russia, Gazprom and Syria.

Cyprus, before the recently installed government, has been governed for the past five years by a left-leaning party that has oddly transformed the island into a paradise for financiers and turbo-capitalists, wanting to park their money. Some has suggested that "it is easier to open a bank than a bank account" in Cyprus. Companies pay almost no taxes and Limassol has spread its reputation for registering ships at low cost to registering companies thanks to minimal fiscal interference. One of the effects is that Russian oligarchs along with its main oil & gas company, Gazprom, have become among the biggest investors in Cyprus, where profits are somehow 'washed' before reappearing in Russia as foreign investment. The result is that Cyprus has become the third largest foreign direct investor in Russia. This is highly unorthodox, considering that Cyprus has limited industrial capacity and exports very little. Yet, thanks to its attractive fiscal regime, the billions invested in its banks have helped fuel construction as the wealthy demand apartments, open luxury boutiques and paved roads forests. Cyprus's GDP is some USD 17 billion and this is estimated to be a mere fraction (a tenth?) of the amount of capital invested in its banks. The level of injustice, should the EU legislation pass is more than intolerable for average citizens. However, there is much more going on behind the ATM machines...

Russia has used Cyprus as a conduit for weapons intended for Syria, even though Cyprus, as a member of the EU, is bound to observe the arms embargo imposed against Damascus. Moreover, Gazprom and Europe have been playing a cat and mouse game for years, one in which Ukraine – not an EU member but a major transfer point for Russian gas – has been the biggest pawn.

Ukraine relies on Russian produced energy for survival. Russia cuts gas supply or threatens to do so when Ukraine's gas accounts are delinquent, also affecting supplies and prices in energy dependent Europe. Gazprom, moreover, lost a major pipeline project (Iran-Iraq-Syria) to ship additional gas from the states of the Caspian Sea region because of the civil war in Syria, in which the West is backing the opposition against President Asad, at least in part, to help thwart Russian ambitions in the Mediterranean. The EU measure, therefore, is aimed at putting pressure on the new Cypriot government to start cutting its reliance on Russia, even though such a proposition is very difficult to achieve, considering so much of the economy runs on Russian petro-rubles. To offset this loss, about two weeks ago, a Gazprom subsidiary signed a deal with Levant LNG of Israel to develop a gas resource in the Mediterranean, essentially threatening the EU with more Russian energy dominance. Gazprom, in other words, is doing everything possible to maintain its role as Western and Eastern Europe's main energy supplier.

Russia needs the status-quo in Syria as well in order to ensure that Damascus' sphere of influence – and related pipeline plans – does not shift in favor of Western gas companies, which are already active extracting and importing gas in the North African Mediterranean shore. The new shale oil techniques developed thanks to evolving oil-sands technologies have made it possible to extract more gas in the United States and Canada, which has put Gazprom under more pressure to keep the EU dependent. The move may also have been partly intended to bring Moscow closer in line to the Western stance vis-à-vis Syria, just as the Syrian opposition was voting to elect an interim prime minister to help anchor its stance. Last week, Russia's foreign affairs minister Sergei Lavrov warned the EU not to follow up on any suggestions to send weapons to the Syrian rebels – a ban has remained, though the UK has been putting pressure to lift the restriction. At the time of writing, the EU's strategic goals appear to be

materializing. Russia and Gazprom have both suggested they would intervene with their own bailout plan to avoid any EU policy to tax Cypriot bank accounts. If there is any good news here, it is that Cyprus is full of 'exceptional' circumstances, placing it at the heart of a geopolitical chess match. The EU is still far from suggesting that citizens' private bank accounts be used to help bail out their financial institutions banks and the Euro, which was the main fear expressed by investors through the market.