

A Key Day in the Ukrainian Conflict? Will Russia Respond to US-NATO Threats?

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This may turn out to be a critical day in the evolution of the Ukrainian conflict.

1. The Russian Security Council met today. We do not (obviously) have a full account but Putin's website has provided some details.

Strikingly, Putin referred to the junta as "official Kiev" and not "the Ukrainian government" or "the Ukrainian side". He also referred to the two east Ukrainian republics as "the Donetsk People's Republic" and "the Lugansk People's Republic".

This is the closest Putin has yet come to since Poroshenko's election in implying that the junta is not the legitimate authority in the Donbass and that the two NAF republics are.

2. Putin also pointedly referred to "criminal orders" coming from "official Kiev".

<http://eng.kremlin.ru/news/23512>

3. Putin has also had a telephone conversation with Lukashenko, who is a key partner in relation to the Ukrainian conflict. Again we have scarcely any information about what was discussed but Putin will have wanted to ensure that Lukashenko remains on board. I expect a phone call to Nazarbayev shortly.

4. We now know from comments made by Shuvalov at Davos that Beijing is being consulted all the time. The key point about what happened at Davos is that Shuvalov made it absolutely clear that Russia will not submit to sanctions and Kostin of VTB gave a very clear warning against any attempts to exclude Russian banks from the SWIFT payments system. The Financial Times has a good summary of the comments Shuvalov and Kostin made and I attach it below.

5. The Russian Justice Ministry meanwhile has formally banned a number of Ukrainian organisations including Right Sector. Some of us are surprised that they had not been banned already.

<http://itar-tass.com/en/russia/773105>

6. Zakharchenko has said that the Minsk Memorandum no longer applies. This is not the same document as the Minsk Protocol, which was the original ceasefire agreement that was agreed on 5th September 2014. Rather, it is the technical follow-up document that purported to set out the ceasefire line and which provided for the withdrawal of heavy weapons, which was agreed on 19th September 2014. Neither the Minsk Protocol nor the

Minsk Memorandum have ever been implemented. By saying the Minsk Memorandum no longer applies Zakharchenko has freed the NAF to pursue offensive operations, which is currently what it is doing.

7. Lastly, Zakharchenko has also again been saying that the DPR's/LPR's decision to secede from the Ukraine is final.

Now it may be that all these discussions and conversations and comments are uncoordinated and do not in total amount to anything. Perhaps there has been no change in Russian policy. However they do look like a hardening of position and perhaps give clues that the Russians have at least for the moment given up hope of the diplomatic approach. They also suggest a preparation for a battening down of the hatches in case another round of sanctions is on the way.

According to the Financial Times:

One of Russia's top bankers on Friday warned that excluding the country from the Swift banking payment system would be tantamount to "war".

The suggestion that Russia could be shut out of Swift triggered widespread alarm in Moscow's financial community when it was floated by western politicians last summer. Russia's banks rely heavily on the Belgium-based payments system for both domestic and international payments. However, the move was at the time considered too punitive a sanction, being described by one adviser as "the nuclear option".

Speaking at a panel in Davos on Friday Andrei Kostin, chief executive of VTB, Russia's second-largest bank, said: "If there is no Swift, there is no banking . . . relationship, it means that the countries are on the verge of war, or they are definitely in a cold war."

"The next day, the Russian and American ambassadors would have to leave the capitals," he added.

Mr Kostin's comments highlight how the west's sanctions regime is creating a sense of anger and defiance among the Russian political and business elite.

"The more you press Russia, I do not think the situation will change," he said, pointing out that the country was moving to reduce its reliance on western payment systems such as Swift.

"We have already created a domestic alternative to the Swift system . . . and we need to create alternatives internationally."

He drew attention to efforts under way between Russia and China to create a separate platform of their own, outside western control.

Igor Shuvalov, Russia's deputy prime minister, echoed this theme. "We are developing our eastern vector," Mr Shuvalov declared, pointing out that although efforts to build links with China had been under way before the crisis, they had dramatically intensified since sanctions started, as Russia looked for alternatives to the west.

Mr Shuvalov said that the so-called Bric countries (Brazil, Russia, India and China) were ready to help each other in a financial crisis too. "Large Chinese investors are coming to us," he said.

The “pivot to Asia” has become a key part of Vladimir Putin’s foreign policy since the breakdown in relations with the west over Ukraine. While several flagship deals have been signed, such as the \$400bn contract to supply Russian gas to China for 30 years last May, few Russian policy makers or businesspeople believe China can save the Russian economy from a painful recession.

“The present situation looks like it is softer than [the 2008-09 financial crisis] but we are going into a long crisis situation and it may be protracted,” Mr Shuvalov said.

But he added that foreign pressure would not succeed in changing the political leadership of the country.

“We will survive any hardship in the country — eat less food, use less electricity,” he said.

Alexei Kudrin, the respected former finance minister, predicted Russia could see capital outflows of \$90bn this year after a record \$151bn in 2014. “We should clearly understand the price we are paying for sanctions,” he said.

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