

Economic Warfare against Russia: Moscow Condemns New “Draconian” Sanctions, Weighs Banning Rocket Engines to US

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A furious Russia condemned a new round of U.S. sanctions as “draconian” on Thursday and threatened to retaliate as news of the measures sent the ruble tumbling to two-year lows and sparked a wider asset sell-off over fears that Moscow was locked in a spiral of never-ending sanctions.

“Such measures are absolutely unfriendly and can hardly be associated with the constructive – difficult but constructive – atmosphere at the last meeting of the two presidents,” Kremlin spokesman Dmitry Peskov said on a conference call.

As [reported yesterday](#), in the latest diplomatic attack launched by Trump, the U.S. State Department said on Wednesday it would impose fresh sanctions by the month’s end after determining that Moscow had used a nerve agent against a former Russian double agent, Sergei Skripal, and his daughter, Yulia, in Britain, something Moscow denies. The latest sanction announcement came just days after a bipartisan group of senators proposed a law mandating “*crushing sanctions*” – including on purchase of new sovereign debt and on big state banks – to punish Russia for election interference.

As NBC first reported, the new sanctions would come in two tranches:

- The first, which targets U.S. exports of sensitive national-security related goods, comes with deep exemptions and many of the items it covers have already been banned by previous restrictions.
- The second and more serious tranche, activated after 90 days if Moscow fails to provide “reliable assurances” it will no longer use chemical weapons and allow on-site inspections by the United Nations or other international observer groups, could include downgrading diplomatic relations, suspending the state airline Aeroflot’s ability to fly to the United States and cutting off nearly all exports and imports.

The added sanctions could include a downgrading in diplomatic relations, blanket bans on the import of Russian oil and exports of “all other goods and technology” aside from agricultural products, as well as limits on loans from U.S. banks. The U.S. also would have to suspend aviation agreements and oppose any multilateral development bank assistance.

Russia's embassy in the United States responded to the diplomatic escalation, calling the new U.S. sanctions "draconian" and said the reason for the new restrictions, allegations it had poisoned the Skripals in Britain, was fabricated and far-fetched, and said Washington's "findings" against it in the Skripal case were not backed by evidence.

"On August 8, 2018 our Deputy Chief of Mission was informed in the State Department of new 'draconian' sanctions against Russia for far-fetched accusations of using the 'Novichok' nerve agent against a UK citizen," the embassy said in a statement.

"We have grown accustomed to not hearing any facts or evidence."

Russia's defiant response stopped short of specific measures pending more details on the U.S. plans, although officials said Russia may also respond by imposing restrictions on trade with the U.S. under a law passed earlier this year in response to an earlier wave of penalties. RIA Novosti reported the Russia may respond to new U.S. sanctions by banning supplies of RD-180 rocket engines. As a reminder, RD-180 engines, produced by Russia's NPO Energomash, are used in Atlas V rockets of space contractor United Launch Alliance LLC, a partnership between Boeing Co. and Lockheed Martin Corp.

"The law allows the government to take retaliatory measures that are appropriate to the sanctions pressure," said Dmitry Mezentsev, chairman of the economic policy committee in the upper house of parliament. "The Russian economy is big and stable enough that we aren't scared by steps like this."

Konstantin Kosachyov, chairman of the international affairs committee in the upper house of parliament, said imposition of the new limits would amount to "the behavior of a police state."

The news which came shortly after more details were revealed about an earlier set of proposed U.S. sanctions, sent Russian assets reeling and the ruble as low as 66.712 against the dollar, a fresh two-year low, and a 3-day drop of nearly 4%, and pushed stocks like Aeroflot and VTB, which could be targeted by some of the new restrictions, down as much as 6%.

The move also triggered a sell-off in Russian government bonds and the dollar-denominated RTS index fell to its lowest since April 11.

"It is clear that major sanctions actions are looming against Russia now either by the Administration, by Congress or both," Tim Ash, a senior emerging-market strategist at Bluebay Asset Management LLC in London, said. "All bets are off."

Dmitri Trenin, director of the Carnegie Moscow Center and a former colonel in the Russian army, said the State Department's move looked like the latest salvo in what he called a hybrid war.

"Sanctions are the U.S. weapon of choice," Trenin wrote on Twitter. "They are not an instrument, but the policy itself. Russia will have to brace for more to

come over next several years, prepare for the worst and push back where it can."

There is still a possibility to avoid a full blown diplomatic war: the additional sanctions also could be averted if Trump declared that waiving them would be in the U.S. national interest, however that would be a politically risky move in light of criticism that he's been too soft on Russia on issues including interference in the 2016 presidential campaign.

"I don't see a face-saving solution here," said Vladimir Frolov, a foreign-policy analyst in Moscow and a former Russian diplomat.

Which, considering Trump's growing concerns about the upcoming conclusion of the Mueller probe of Russian collusion/interference, may be precisely the reason why the US president is so eager to appear as a stern enemy of Putin. And in the context of this escalating diplomatic feud, one wonders just what Trump really told Putin in that letter that [Rand Paul delivered to the Russian president](#) a few days ago.

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