

Europe Plays Russian Roulette. The Destabilizing Economic Impacts of the Sanctions Regime

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Region: [Europe](#)

The sanctions game of the West versus Russia is taking another notch upwards. Europe is rumored to announce soon what few believed they would, they are placing sanctions on Russian energy firms Gazprom, Rosneft and Transneft. I am personally quite surprised Europe would go this far.

What surprises me is their lack of future view. Any “thinking” person would look into the future and say “OK, if we do this then what will Russia’s response be”? The response is beyond obvious because Europe is a captive energy customer. Russia can increase prices if they wish or simply cut back or cutoff the supply entirely. For the immediate future, Europe has no alternative whatsoever.

Were Russia to disrupt natural gas supply, Europe’s economy will feel it immediately. Europe is already in a contraction, either higher prices or a constrained supply will be enough to dislodge whatever confidence that’s left. Yes, winter is coming and some people will be cold or possibly freeze, this is known. The other side of the coin is Europe’s farmers will not be selling products to Russia so some Russians will go hungry, this is also known.

What is not known but in my opinion but “soon to be found out” is just how strong of a union the Eurozone actually is? Which country or countries will feel the pinch from these sanctions the worst? Who needs Russian natural gas more than other countries and which country relies on Russian food purchases more than others? In my mind, Europe is playing Russian roulette with these additional sanctions and their “unity” is what is at stake.

First, when push comes to shove, who will break from the union and import Russian gas even if done secretly? I don’t really understand the “sway” the U.S. has throughout Europe to get them to go this far. As I understand it, Germany was not in favor of the additional sanctions and this does make sense. They understand the ramifications to them personally and they also must be angry (if not publicly) about the status of nearly half of their gold. They deposited 1,500 tons of gold with the FRBNY and asked for 300 tons to be returned. They “accepted” a proposal to send this amount back over 7 years but only received 5 tons in the first year. (This is my opinion mind you but I do think they probably asked for ALL of it back, time will tell if this is true or not).

Think about this for a moment, would you personally go out of your way to do something injurious to yourself to help or abide a business associate who owes you money but isn’t paying you back? This, along with common sense may be why Germany does not fully support the further sanctions. I see many dangers in this last round of sanctions. At the least, European unity will be tested thoroughly.

As for Russia, the decision to cut, ration or even discontinue the flow of energy will be an easy one. Russia does have the ability to sell elsewhere and in particular to China. The Chinese connection is also important in the finance department as they can help fund Russia should she feel the pinch from the credit sanctions. Another area which no one seems to be mentioning is in regards to the food sanctions. Couldn't China just import extra grain or other foods and then turn around and send them to Russia? Would anyone try to slap China for their commerce with Russia (other of course than the U.S.)? So they go to the grocery store and buy some extra food which they then sell to Russia ...who would know about it and if they did ..."what are you going to do about it, they are our friend"?

It is very clear to me that we are willing to push Mr. Putin as hard as is needed to start a war. Sad to say, I believe this is our "strategy" almost in entirety. As I mentioned last week, "something needs to be pointed at" as the reason everything fell apart, a World War would certainly do it. I also believe a break up of the European union would also work. What will the markets look like were Europe to split into a version of "North and South"? Or what will happen if there is one or more individual countries who can't take the heat (or lack of) and decide to break away? What then happens to the euro currency? Or Eurobonds? And then of course the word "ripple effect" takes over.

Looking at this from the most macro view of all, the U.S. is actually pushing Europe to "take sides". I am afraid at what the actual outcome is going to be because when all is said and done, we really don't have anything to offer them. Actually let me refine this. Though we may be bribing Eurozone officials to back the sanctions, the average person can and will see this for what it is. There in my opinion will be a very angry European population hell bent on replacing the scoundrels who went along with these policies.

Just as a reminder, it is important for you to understand the Ukraine coup which occurred during the Olympics last year. First, Russia held the Olympics and if you remember in your history books, all "war" between competitors stops during the Olympics. This was so even 2000 years ago. Who backed the coup? Who's government was put in place after the coup? The answer of course is the U.S., WE broke a 2,000 year tradition if not treaty. I would also add I think it is fortunate Mr. Putin obviously does not want war otherwise it would have started long ago.

To wrap this up I think two things are totally clear, Russian ties with China will only be strengthened by these further sanctions. I also believe Europe's unity and thus relations with the U.S. are going to be tested to the limit.

The above was written late Sunday, we now have more information as the situation gets more complicated. First, Europe has been stockpiling natural gas, presumably in anticipation of a future problem with supply.

I do not believe full storage tanks will last through January if all new supply is cut off.

Second, it now seems Europe as a whole is having second thoughts on these new sanction because as I suspected, there would be a/some defector(s).

It turns out in this case to be Austria not going along with the sanctions. We now already know that some sort of split is occurring, but then again why wouldn't it? ...Austria is bidding to be a major natural gas hub of Russian gas. Hard to believe a country might actually do what's in their best interest isn't it? ...whether you know it or not, you are watching VERY

BIG history being made as the sides change and are rearranged.

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Bill Holter writes and is partnered with Jim Sinclair at the newly formed Holter/Sinclair collaboration. Prior, he wrote for Miles Franklin from 2012-15. Bill worked as a retail stockbroker for 23 years, including 12 as a branch manager at A.G. Edwards. He left Wall Street in late 2006 to avoid potential liabilities related to management of paper assets. In retirement he and his family moved to Costa Rica where he lived until 2011 when he moved back to the United States. Bill was a well-known contributor to the Gold Anti-Trust Action Committee (GATA) commentaries from 2007-present.

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