Russia Suspended From G-8 as Leaders Warn of Sanctions

By James G. Neuger, Patrick Donahue and Julianna Goldman Mar 25, 2014 8:59 AM GMT+0100

European Council president Herman Van Rompuy, Canadian Prime Minister Stephen Harper,...

The world’s top industrial powers threatened further sanctions to deter Russian President Vladimir Putin from taking over other parts of Ukraine and suspended Russia from participating in the Group of Eight.

Meeting for the first time since last week’s annexation of Crimea by Russia, Group of Seven leaders said last night they won’t attend a planned G-8 meeting which was to have been held in Sochi, site of the Winter Olympics, and will instead hold their own summit in June in Brussels.

“We remain ready to intensify actions including coordinated sectoral sanctions that will have an increasingly significant impact on the Russian economy, if Russia continues to escalate this situation,” the G-7 said in a statement e-mailed after a meeting in The Hague yesterday.

Both sides in Ukraine’s crisis spent the day calculating what to do next, with Russia consolidating its control over Crimea and maintaining forces along the border with Ukraine in the most serious confrontation between Moscow and the U.S. and its allies since the demise of the Soviet Union.

U.S. and European officials said sanctions are already biting. Russia’s Micex stock index has plunged 13.6 percent this year, worse than the almost 5 percent decline in the MSCI Emerging Markets Index. The ruble has dropped 8.3 percent, making it the second-worst performer against the dollar among 24 developing-market currencies tracked by Bloomberg.

United Front

Investors pulled $5.5 billion from Russian equities and bonds this year through March 20, already approaching the total outflow of $6.1 billion for all of 2013, according to data compiled by EPFR Global, a Cambridge, Massachusetts-based company that tracks fund flows.
“We’re united in imposing a cost on Russia for its actions so far,” U.S. President Barack Obama told reporters in Amsterdam yesterday at the start of a six-day trip that includes a nuclear-security summit in The Hague and a meeting with the heads of European Union institutions in Brussels.

With yesterday’s move, the G-7 -- the U.S., Germany, the U.K., France, Italy, Canada and Japan -- reverted to its Cold War-era format, suspending what became the G-8 in 1998 when Russia was welcomed in. The group was all smiles around a Putin-less conference table in a photo posted on Twitter by European Commission President Jose Barroso, who attended along with EU President Herman Van Rompuy.

‘Change Course’

“It’s Russia that needs to change course,” U.K. Prime Minister David Cameron told reporters.

U.S. and European warnings focused on potential military moves by the Kremlin into Russian-speaking areas of eastern and southern Ukraine, leaving open whether the two hope to dislodge Putin’s forces from Crimea, a Black Sea peninsula dominated by Russia since the 18th century.

The U.S. has imposed asset freezes and visa bans on 31 Russians and Crimeans, including political and business figures close to Putin. The 28-nation EU has put 51 people on its blacklist, including some on the U.S. roster, while stopping short of punishing busineespeople.

“The current sanctions are still too little to matter, but that’s not by accident -- it’s by design,” said Fredrik Erixon, director of the European Centre for International Political Economy in Brussels. “The EU and U.S. are sitting on weapons of mass destruction when it comes to Russia’s economy. The U.S. and EU are laying out possible step-by-step economic sanctions that will start rolling into place if Putin doesn’t behave.”

‘Flagrantly Violating’

Net capital outflow from Russia is forecast at $65 billion to $75 billion in the first quarter of the year, Deputy Economy Minister Andrey Klepach said yesterday. That would be more than the $63 billion recorded for the whole of last year.

Gross domestic product rose 0.3 percent in February after gaining 0.1 percent in January. The government still doesn’t expect the economy to slide into recession, he said.

A Russian incursion into other parts of Ukraine would be the most likely trigger for wider sanctions that could cover Russia’s energy, banking and finance industries, as well as weapons procurement, an Obama administration official told reporters on condition of anonymity.

European governments are debating the costs of snubbing Russia. Banking curbs would hurt Britain, an arms embargo would bar France from selling Mistral-class helicopter carriers to the Kremlin, and cutbacks in purchases of Russian gas would harm a swathe of EU countries, starting with Germany.

Ukrainian Constitution

Russia wants Ukraine to adopt a federal constitution that guarantees political and military neutrality, grants powers to Ukrainian regions and makes Russian a second official language. In a nod to those concerns, the G-7 urged Ukraine to undertake “broad-based constitutional reform, free and fair presidential elections in May, promotion of human rights and respect of national minorities.”

Putin didn’t show his hand yesterday, instead using a public appearance in Moscow to tout Russia’s sporting prowess and announce that the Sochi Olympics came in under budget.

Putin sent Foreign Minister Sergei Lavrov to The Hague for a 53-nation summit on the security of the world’s stockpiles of nuclear fuel. Lavrov told reporters that Russia isn’t “clinging” to the G-8 format, viewing the wider G-20 as the best forum for discussing global issues.
Russia is interested in continuing contacts with G-8 members, Dmitry Peskov, Putin’s spokesman, said today, the Interfax news service reported.

German Chancellor Angela Merkel said there’s no “political environment” for a G-8 meeting. G-7 foreign ministers will also skip a Moscow meeting in April, the G-7 said in the statement. A G-7 energy ministers meeting will explore ways to diversify Europe’s energy supply in order to blunt the cost of imposing sanctions, the U.S. official said.

“This group came together because of shared beliefs and shared responsibilities,” the G-7 said. “Russia’s actions in recent weeks are not consistent with them.”

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