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Q&A-West will look to target key commodities under product sanctions to hit Russia; World heading back into a Cold War: Jennifer Hillman, CFR



Western nations would likely look to go beyond financial sanctions to target commodities that Russia exports, including oil and gas, critical minerals such as palladium, platinum, cobalt and copper, along with agricultural products, wheat in particular, to make a significant economic and trade impact on the country, **Jennifer Hillman, senior fellow for international trade at the Council on Foreign Relations (CFR)**, told the Reuters Global Markets Forum on Thursday, February 24.

Hillman, who's a former ITC commissioner and World Trade Organisation judge, said the difficulty with economic sanctions was that they take time to have "any real bite."

"Even if the West does hold very firm with its series of sanctions against Russia, it is not going to be instant. It is not going to provide any immediate push on Russia or any immediate assistance to Ukraine," she said.

Hillman, currently a professor at the Georgetown University Law Center in Washington, D.C., believes the world may be headed back into a new era of Cold War. Russia's actions have pulled NATO (North Atlantic Treaty Organisation) closer together, she said.

"The NATO resolve and the pulling together of the European Union, the U.S. and NATO allies has actually backfired against (Russian President Vladimir) Putin because it has resulted in a more unified NATO and a more concerted response."

Following are edited excerpts from the conversation:

Q: What are your thoughts on the whole Russia-Ukraine crisis that's happening and where do you see that going into a prolonged stage and how the West is going to respond to this now?

A: I don't think any of us thought that we would see another war in Europe during our lifetime, not this kind of a war with just an aggressive invasion by one country of another. From an economic perspective, I think the West is clearly looking at what kind of economic and trade sanctions would have any significant impact on Russia. And what you're clearly seeing is that the difficulty with economic sanctions is even when they are very successful, they take time. They take time to have any real bite. And so even if the West does hold very firm with its series of sanctions against Russia, it is not going to be instant. It is not going to provide any immediate push on Russia or any immediate assistance to Ukraine.

Where are we headed over the long haul and it may be that we are headed back closer to an old Cold War sort of an era. During the height of the Cold War, we had huge economic sanctions, there were blocs of trading, and fundamentally, the United States and Europe did not trade with the Soviet Union and the Soviet bloc. And we had these CoCom (Coordinating Committee for Multilateral Export Controls) restrictions that worked at trying to figure out which products could or could not be exported with no national security risk on either side. It feels to me as though we are headed back towards that kind of a regime.

Q: What more could come on sanctions from the U.S. at this point?

A: Obviously, the start has been with financial sanctions, and the issue is how far and how much you ratchet up the financial sanctions and that really does mean bans on doing any business that is financed in any way - so, you are cutting off Russia and Russian banks from their ability to do any kind of trade, investment, etc. Other steps on the financial side can result in the seizure of assets, the freezing of accounts of Russian citizens, state owned enterprises, others elsewhere in the world.

The U.S. and others are looking at where you go beyond that in terms of cutting off product sanctions, which with Russia would tend towards sanctions that are affecting and oil and gas, but I would also say you look at what else Russia exports. It's heavy in terms of a lot of very critical minerals -- palladium, platinum, cobalt, copper -- significant numbers of very important minerals are being exported. And then Russia still serves as the source of a major amount of agricultural products, particularly wheat, that is going out into the rest of the world. And so, the question is whether you move in the direction of product sanctions (in terms of) barring of the purchasing of any of those materials.

The other one that is to some degree under consideration by at least the Biden administration is to try to put sanctions on technology, intellectual property and inputs into technology that might be going into Russia. On the U.S. side, we do that through the foreign direct product rule that in essence says even if the product itself is a semiconductor that is being made in Taiwan or made in China, if it is being made with U.S. technology or if it is using U.S. software, you can then control its onward export into Russia. And so again a big question about whether or not the U.S. would try to go down the road of using this foreign direct product rule to bar Russia's access to technologies that could ultimately be used to support its military operations.

Q: Would you be able to say why Putin has chosen now to take such a drastic action, even as many sections did not expect an all-out invasion?

A: I will say the U.S. intelligence agencies have been predicting exactly this kind of a war, this kind of an invasion. I mean, this is what the U.S. intelligence agencies have been saying for months now. So, in that sense, I would say this, this was not, at least from the U.S. intelligence perspective, unexpected. This is exactly what was predicted.

I share your questioning about what does Russia gain from this. Because it's obvious that they're not going to gain the support of the Ukrainian people that are very much pushing back and insisting on Ukraine's independence. There is not a lot economically to be gained. The two regions that Putin has already declared to be Russian are not particularly strategically or economically important regions. So, it is not clear what Russia thinks it is going to gain, and it may be in for a very long haul in terms of trying to figure out how it is going to be over the long haul, occupy a Ukraine that does not wish to be occupied.

Q: Is there a chance this could escalate into a bigger war, and especially if China in some way gets involved?

A: It's hard to say where this could go. What it has done is to pull NATO together. I think the NATO resolve and the pulling together of the European Union, the U.S. and NATO allies has actually backfired against Putin because it has resulted in a more unified NATO and a more concerted response. And I think even for China, this is very difficult. I don't think China is going to come out and say they are in support of a flat-out invasion, an aggressive unilateral war by one country against another, an invasion of another country's sovereign territory, is I don't think something that is that is going to be looked upon favourably by China or others in the world.

Q: So, would the West just rely on sanctions, or do you think they could be a military escalation from NATO at some point?

A: Again, I think it's too soon to tell. I think you know obviously the strong preference would be to use economic sanctions to make it very clear to Putin that he is isolated and alone, and that this is going to be extremely costly to Russia and to the Russian people if this goes on very long. Because economic sanctions, if they are strong sanctions, have the potential to really take down the Russian economy.

Q: China's response to Russia has been muted so far. Do you see them more openly either supporting or criticising Russia's actions? And where does this put them on Taiwan?

A: I think the situations are pretty different. I'm not sure, listening to the kind of rambling, the crazy rhetoric coming out of Putin, that that is a path that I can see China necessarily following.

Q: Do you see sanctions targetting the SWIFT global interbank payments system on Russia at all?

A: It's too early to know for sure, but it's certainly within the realm of the possible. As I said, the major thrust initially is going to be on the financial services sector, and that is one option among the financial sanctions that you could think about is to cut Russian financial institutions off from clearing via SWIFT. It's one of the things that could be done. We just have to wait and see.

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