Opinion **Inside Business**

Shutting out Russia from Swift system would not be a surgical strike

Ban from payments alliance over Ukraine might not isolate country financially

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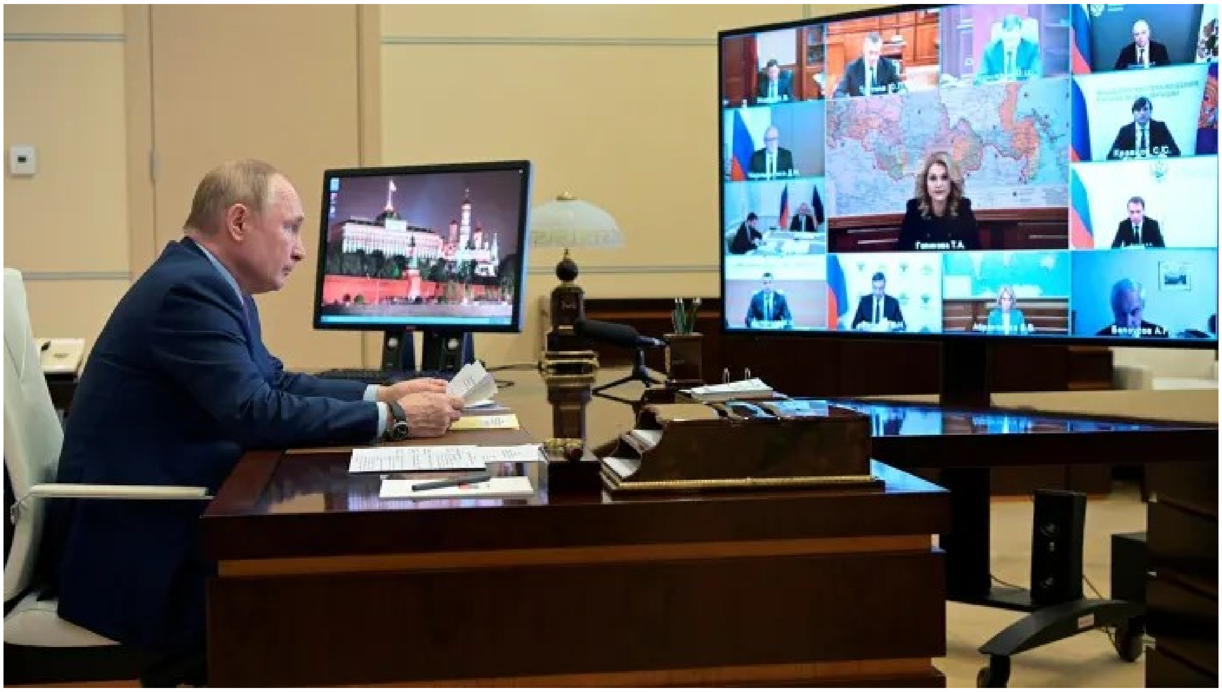

Vladimir Putin would suffer (though ordinary Russians would suffer more) if transactions with the dollar via institutions with US links were cut off © AP

Jonathan Guthrie 9 HOURS AGO

Atomic weaponry is the only genuine — but unthinkable — nuclear option in a war. Some politicians and pundits nevertheless regard expelling Russia from the Swift payments alliance for banks as one in the west's arsenal. It would fall short for more than definitional reasons.

Some 100,000 Russian troops are massed on the border with Ukraine. They may soon extend the creeping invasion Russia started in 2014 when it annexed Crimea. The US and EU have little stomach for opposing that militarily. Economic sanctions would be a safer punishment.

Kicking the bear out of Swift is a popular threat. Last week, Boris Johnson, the UK's beleaguered prime minister, commended that form of unfriending as "a potent weapon". The European Central Bank warned EU lenders to prepare a day later. US legislators have drafted a law aimed at making it happen.

Swift's full title is The Society for Worldwide Interbank Telecommunication. That highlights the satisfying ostracism involved in expelling Russia. But it also hints at flaws in the tactic. Firstly, Swift is not a full-blooded payments network. Nor is Swift, as sometimes claimed, a mere messaging system. True, its core utility resides in around 42m encrypted instructions that 11,500 users in 200 countries exchange daily to co-ordinate payments. But these messages embody something grander: mutual

The sanction would have “a chilling effect”, in the words of Harley Balzer, emeritus professor at Georgetown University in the US, discouraging some western banks from Russian dealings. Others would continue to send and receive payments with Russian counterparties.

Russia’s own payments messaging system remains largely domestic. Cross-border dealings would probably involve emails, or anachronistic telexes or faxes. Russian business people say this would be fiddly, slow and insecure, but would work much of the time.

The second issue underscored by Swift’s full name is that it is a co-operative based in Belgium, not a US bank or state entity. It is obedient to EU law and its own members, not to Joe Biden or Congress. The US would need to lever Russia out of Swift through pressure on the EU and Swift’s non-Russian members.

That, broadly, was how Iran was expelled in 2012. Other sanctions had already isolated the Middle Eastern state financially by then, making the move appear more damaging than it really was. Russia is far more connected.

European enthusiasm for expelling Russia from Swift would depend on how ambitious and bloody a further Russian invasion was. Germany has little interest in disrupting payments for the Russian gas it imports. Russian energy giant Gazprom pumped gas with an estimated worth of some €18bn to Europe in 2020.

If the US wanted to curb that trade, it could do so unilaterally and directly through sanctions on banks. Five large state-owned banks are already subject to “low intensity sanctions”, as Maria Shagina, visiting fellow at the Finnish Institute of International Affairs, describes them. These include Sberbank and VTB, which have aggregate assets of over $800bn. People and businesses with US links are prohibited from investments in the quintet that extend beyond 14-day lending.

The US could include privately owned banks in sanctions and widen their ambit. It could prohibit global banks from swapping dollars for other currencies, including roubles, with selected Russian institutions.

Though Russia has deliberately reduced its foreign exchange dealings in dollars, they still represented over half the total in 2020, Shagina says. Dollars are best traded in serious economic damage, despite Russia's gold and foreign exchange reserves of $630bn. Ordinary Russians would suffer more than Vladimir Putin. Unfortunately, there can be no surgical financial strike against him and his associates. In the sanctions war, the only financial bombs are dirty ones.

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