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INTERVIEW / MIT / SIMON JOHNSON: ONLY COMPLETE OIL BOYCOTT OF RUSSIA WILL AFFECT PUTIN GOVERNMENT

By: Ricardo Leopoldo

São Paulo, 03/09/2022 - US President Joe Biden has made an excellent decision to ban US imports of oil and derivatives from Russia as a way of heightening retaliation against the escalation of the Ukrainian war promoted by the Kremlin commented in an exclusive interview to **Broadcast** Simon Johnson, professor at MIT and former chief economist of the International Monetary Fund (IMF). “It's time for Europe to step up sanctions against Russia. The future of that continent is at stake. Stop Vladimir Putin now or live with the terrible consequences forever. ”

In Johnson's view, sanctions against Russia should be tightened globally to the point that it no longer allows Russia to make profits from selling oil in the world, which helps finance the military invasion of Ukraine. He admits that such measures would cause world inflation to rise, but the alternative to it is much worse. “Obviously this makes life difficult, but the cost to Ukrainians is completely different. There are children being killed in corridors to leave busy cities while there should be a ceasefire during this process. This is an irreversible cost that occurs every day. ”

For the academic, the US government should also take steps to curb Russians from using crypto to escape the financial constraints imposed by advanced economies. He advocates adopting a robust regulatory framework in that country for these digital assets, which should be supervised at the same time by the SEC, CFTC and the Federal Reserve. Follow the main excerpts from the interview:

Broadcast: What is your opinion about the US decision to ban oil imports from Russia to the US market and the position of the major European countries that did not take the same measure?

Simon Johnson: This is an excellent decision and shows great leadership. It is time for Europe to step up sanctions against Russia. The future of that continent is at stake. Stop Vladimir Putin now or live with the terrible consequences forever. Any significant advance in oil prices increases inflation,

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which would tend to drive the Federal Reserve to act against it. At the same time, some contractionary effects may occur on the global economy. All the people I spoke to at the Fed point out that it is too early to assess the definitive impacts of the crisis. The conflict between Russia and Ukraine will last a long time. There are negative consequences for Europe and its economy. The effects on the US are not yet so clear.

Broadcast: You see that there are three scenarios for sanctions on Russian-exported oil to reduce the impact of the war. What are they?

Johnson: In the first, the US prohibits the purchase of oil from Russia and starts to buy the product from other suppliers around the world. But these measures would not have much effect, as the war would continue, the international price of oil would remain at a very high level, which favors Russia. In the second outlook, the US prohibits purchases of Russia's commodity and takes additional measures to prohibit financial institutions from enabling trading involving Russia's oil, which would lead Vladimir Putin's government to sell it at deep discounts. There may be a rebalancing in the oil market. I think the conversation with OPEC member countries should be whether they want to help in this effort. The third outlook, which I recommend, is a complete boycott of all energy products sold by Russia, which are oil and gas. Winter in Europe is almost over and the problem of supply to the continent will have smaller impacts in the short term.

In this case, we will have some inflationary pressure, especially in Western countries, which we do not want. Obviously this makes life difficult, but the cost to Ukrainians is completely different. There are children being killed in corridors to leave busy cities while there should be a ceasefire during this process. This is an irreversible cost that occurs every day. If inflation prevents the US and other countries from adopting the right sanctions against Russia, then we have lost much more than with rising prices.

Broadcast: Do you think the price of oil will remain very high throughout this year?

Johnson: If Russia has decided to behave beyond any conceivable limits with irresponsible stocks, everything will be possible on this front and the price of oil will rise sharply. Let's be clear: the basic outlook points out that the price

of oil will rise and rise higher than before the war. We do not know what will happen to the Russian supply to the market. But what we can predict is that there are ways to reduce the profits Russia receives from sales of this commodity. What will really affect that country is zero profit. No matter what the price of oil will be under this circumstance. Zero times a number is zero. And the goal here is to remove this Revenue from the commodity. It's amazing, but Western nations spend more than a billion dollars a day on Russian oil, which finances their war machine.

Broadcast: How do you think many people in Russia have adopted the crypto market as a refuge to avoid financial sanctions?

Johnson: This will be a big test for the crypto community, which also involves self-regulation by companies in the industry. There is no neutral position in a war. Either it prevents money laundering of Putin supporters or allows it to occur. We'll see in a week or two what attitude you will take.

Broadcast: Do you consider that the war in Ukraine and the financial sanctions on Russia would raise or lower the prices of the main crypto stocks?

Johnson: I believe crypto will continue in an environment marked by a lot of volatility. There are many variables influencing this market. I think the US government should be tough on companies that allow financial transactions with the Russians, including cryptoactive ones. We need to assess what the next avenues they will try to use to evade sanctions. However, it is enough to deny globally all the operations performed by them. And it will be necessary to implement protections to curb them. There is also public reaction against those who do trading with Russia today. Shell is facing boycott orders because it bought oil from that country at a discount last week.

Broadcast: On crypto regulation, do you think the US and Europe will soon adopt a set of rules on these assets to curb their exponential growth, which may pose risks to global financial stability?

Johnson : Before the war in Ukraine there was already a concern about it. More in the US than in Europe, including stablecoins. I believe it is on the agenda of regulatory authorities. In my opinion, stablecoins should be treated

to the same standards as banks. But these new standards may face political restrictions in the US. A robust regulatory framework is needed to avoid systemic market risks, which would allow federal authorities to have very strict safeguards, including on the liquidity of active crypto. The reserves that stablecoins have in addition to the dollar may also be comprised of short-term government bonds. Otherwise, we will be allowing serious problems to arise. We need to combat the use of these money laundering assets by taking measures like Know Your Customer (KYC). On the other hand, I believe there are some people in the crypto industry who want to act sensibly.

Broadcast: How do you rate comments from leaders of the largest crypto exchange in the world who advocate only one US regulator on this market and that stablecoins publish the composition of their reserves on a daily basis, especially in dollars?

Johnson: Transparency is important. But if they advocate only one regulator in the country, good luck. In the US it doesn't work that way. There is a division of supervisory activities by various federal agencies. The SEC and CFTC are great institutions and they can work together for even better results. I believe the Federal Reserve should also act in this area, as it has systemic responsibility. A combination of regulatory stocks of this triad would be positive.

Broadcast: How do you rate the prospect for major CBDCs to be adopted in a few years, especially since China has experimentally adopted the digital yuan, as was the case with the public who closely followed the winter Olympic Games in that month? past?

Johnson: What happens in China is very interesting, but other countries are moving slowly in this area. I believe other nations are waiting to see what will happen to the digital yuan, which I find quite appropriate.

Broadcast: You believe that crypto investors will soon start abandoning those that are obtained by working proof consensus, such as Bitcoin, mainly due to the high environmental impacts caused by high energy consumption, to invest in assets obtained by proof of participation?

Johnson: When I first started studying crypto in 2015, I heard from a friend

that the proof of work consensus was already problematic for several reasons. But he told me not to worry, as the proof of participation would be adopted soon. Several years have passed and such a change has not yet happened. To encourage this migration from proof-of-work to proof of participation, it would be wise to adopt some kind of carbon tax.

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