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European Union Sanctions Against Russia

Objectives, Impacts and Next Steps

Sabine Fischer

The European Union responded to Russia's intervention in Ukraine in March 2014, imposing sanctions that have been successively tightened since. Germany was an active participant in the process. Sanctions have become a familiar instrument of EU foreign policy in recent years. But the measures applied against Russia are unprecedented in both target and scope. And they have tangible repercussions on economically stricken EU member states. Ultimately, it is by no means certain that sanctions can or will achieve their stated goal of changing Russia's policy vis-à-vis Ukraine.

On 6 March 2014, the heads of state and government of the European Union adopted a three-stage sanctions mechanism encompassing: (1) diplomatic sanctions; (2) "targeted measures" against individuals and legal entities, including travel bans and freezing of assets in the European Union; (3) sectoral economic sanctions. The diplomatic measures took effect immediately, with the European Union suspending bilateral talks on a new agreement (to replace the Partnership and Cooperation Agreement) and on visa arrangements.

Targeted sanctions were imposed on the first group of (Crimean) Ukrainian and Russian actors in March 2014, imports from Crimea and Sevastopol banned at the end of June. At the end of July the embargo was expanded to include investment in infrastructure and natural resources projects in Crimea and loans to Crimea and Sevastopol. A ban on firms based within the European Union acquiring property and financial or service companies there, or offering tourism services in Crimea, was added in December 2014. Imports from the energy, transport and telecommunications sectors were also prohibited. The result is complete economic isolation of Crimea and Sevastopol from the European Union.

These sanctions represent the European Union's response to Crimea's secession from Ukraine and its annexation by the Russian Federation, which was completed between late February and late March 2014. Since signing "accession agreements" with the two "new federal subjects" on 18 March 2014, Moscow has moved quickly to integrate them into the Russian state. The issuing of Russian passports to Crimean residents was accelerated, the Russian military presence massively reinforced. At the same time the political and human rights situation of non-Russian (or non-pro-Russian)

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population groups deteriorated, in particular that of the Crimean Tatars, who represent about 12 percent of the population.

In mid-April 2014 the European Union responded to worsening military clashes in eastern Ukraine by expanding the list of individuals subject to targeted sanctions to include Russians and Ukrainians held responsible for destabilisation there. Russian forces had been holding exercises close to the Ukrainian border since February.

In summer 2014 the European Union tightened its sanctions in two stages. In mid-July it began enforcing sanctions against institutions as well as persons. And targeted sanctions were expanded to include those aiding and abetting the actual decision-makers. The European Union adopted these measures after fighting escalated and all efforts to seek peace had failed. Contrary to claims expressed in the Russian discourse, the European Union made these decisions before the shooting down of Malaysian airliner MH17 on 17 July 2014. That event did, however, noticeably accelerate the spiral of sanctions. At the end of July high-ranking representatives of the Russian executive, including several members of the National Security Council, leading representatives of the intelligence services, Chechen President Ramzan Kadyrov and Krasnodar Governor Alexander Tkachyov, were placed on the list of targeted individuals.

Finally, at the end of July, the European Union also activated the third stage of the sanctions mechanism, imposing an arms embargo and restricting exports of "dual-use" goods and equipment required for oil exploration and production. It also limited access to European Union capital markets for a group of Russian banks and companies.

Citing increasing movements of arms, fighters and supplies into Ukraine to support the rebel offensive, the European Union again stepped up its sanctions on 12 September 2014. While Moscow heavily criticised that this move was made despite Russia's agreement to the Minsk cease-fire protocol of 5 September 2014, the European Union regarded the new sanctions as a response to the rebel offensive launched with Russian support in August.

There were no more new sanctions against Russia until the second half of January 2015, when another escalation in fighting war led the European Union to expand its sanctions list again. It also extended the sanctions imposed in March 2014 until September 2015. Two deputy defence ministers and the deputy chief of the Russian general staff were now also added to the group of targeted individuals.

Thus between March 2014 and February 2015 the European Union activated all three stages of the sanctions mechanism adopted in March 2014. The shooting down of MH17 – for which to this day no independent instance has unequivocally attributed responsibility – had a decisive influence on sceptical member states. The European Union's sanctions policy is closely coordinated with Washington. The United States targeted oligarchs close to Putin earlier and more comprehensively, and American financial sanctions have a greater international effect because Washington also punishes violations by non-American banks. Obama's sanctions policy operates under strong domestic pressure, because many Republicans and a number of Democrats in both houses of Congress demand a harder line, up to and including supplying arms to Ukraine.

The European Union accuses Russia of an aggressive policy aiming to destabilise Ukraine. It ties sanctions to demands for a political resolution based on the preservation and restoration of Ukraine's independence, sovereignty and territorial integrity.

This fundamental demand is laid out in detail in the sanction decisions: Russia should reverse the annexation of Crimea and Sevastopol, prevent supplies, arms and illegal fighters crossing the border to Ukraine, and use its influence to persuade the rebels in Donetsk and Lugansk to back down. Above all, the Kremlin should implement the Minsk agreements of September 2014 and February 2015.

From the European Union's perspective, as laid out in official documents, the purposes of sanctions include furthering the objectives of the Common Foreign and Security Policy (CFSP), such as establishing and preserving peace, and responding to violations of democratic governance, human rights and international law. Embedded in a broader political strategy, EU sanctions are not generally supposed to "punish" but to influence the policies and actions of the targeted country, organisation or individuals. Where possible, sanctions should be tailored to affect those responsible and avoid negative repercussions on the broader population. In the case of the sanctions imposed on Russia, it is hoped that pressure from outside (diplomatic and economic restrictions) and inside (through actors affected by sanctions) will change the cost-benefit calculations of the political leaders and force them to pursue a more constructive policy in Ukraine.

The ideas about the purpose of sanctions circulating in political debates within EU member states and the United States are more diffuse. The spectrum ranges from explicit change in conflict behaviour through to what would essentially mean the replacement of the Russian political leadership. There is also uncertainty as to how to move forward on sanctions. Initial discussion of this question was obscured at the beginning of 2015 by the renewed escalation in eastern Ukraine and the increasingly heated controversy over arms supplies.

The Impact of Sanctions

The sanctions are having diverse effects on the political, economic and social situation in Russia.

The Russian leadership's **official reading** corresponds to its dominant narrative about the West: The Ukraine crisis represents the (provisional) culmination of decades of Western striving for global hegemony, during which the United States and NATO, and increasingly also the European Union, had steadily encroached into the post-Soviet space. Regime change of the kind seen in Ukraine in February 2014 is regarded as an outcome of policies essentially directed against Russia. The sanctions, too, are interpreted as one instrument of a broad-based Western strategy seeking to weaken Russia. From that perspective, the events in Ukraine are nothing but an excuse used by the West to exert pressure and ultimately to bring about regime change in Moscow. In this interpretation the American and European sanctions originate from an aggressive, illegitimate and counterproductive policy where Russia finds itself in a purely defensive position.

Moscow also perceives the Western sanctions as a product of American unilateralism, where Washington had forced the other EU member states to pursue a policy that contradicted their interests. That yet again demonstrates, they say, the weakness of the European Union and the dominance of the United States in transatlantic relations. Most recently Germany has also been accused of exploiting sanctions and geopolitical tensions to advance its own economic agenda in the region without regard to Russia.

The **Russian economy** stands at the cusp of recession. In fact structural problems were boding ill the country's economic growth some time before the geopolitical crisis of 2014. And the collapse of the global oil price in the second half of 2014 hit Russia's economy hard. Sectoral economic sanctions further accelerated the crisis, above all the financial measures that deprive affected Russian banks and corporations of an important source of refinancing for their external debt. This in turn affects the Russian state, which has already begun tapping the reserve funds built up during the boom to come to the aid of individual banks and corporations. If the oil price remains low and sanctions are maintained (or tightened), a serious erosion of these reserves will ensue. This could potentially affect the Russian state's ability to meet its obligations in a wide range of areas from pensions and

social security to the military budget. The restrictions on technology transfer in the oil industry endanger the ability of Russian energy firms to open up new fields and increase production.

The indirect consequences of crisis and sanctions are also grave. Foreign investment – including German – fell noticeably in 2014, and trade with Western partners shrank tangibly. At the same time capital flight grew. Accelerated by sanctions, Russia's economic decline has massive impacts on neighbouring economies. While the collapse of the Russian rouble was only partly a product of sanctions, it reinforced the public impression of crisis, as did the sharp increase in food prices caused by Russian counter-sanctions.

Within Russia there is a range of views about the economic difficulties caused by sanctions. Government representatives tend to play down the effect of sanctions on the economy. Certain members of the political elite who were already calling for more protectionism and even economic autarchy feel vindicated. Security and power clearly come before considerations of economic rationality. While there are certainly numerous experts who do analyse the effects of sanctions in the context of structural weakness of the Russian economy and the collapse of the oil price, and sharply criticise the actions of the Russian government, they have little influence and stand outside the political decision-making processes.

Sanctions imposed against **individuals** seek to shield the mass of the population of the targeted country while hoping that the affected members of the political and economic elite will exercise pressure on the top political leadership to bring about a lifting of the sanctions and thus relieve their position. However, political processes in Russia are so opaque that it is extremely difficult to find evidence for such causalities. The public response of the affected Russian actors certainly does not point in the desired direction: They declare their appearance on Westerns sanctions lists as patriotic solidarity with the fatherland and its political leadership, emphasising that they do not own assets in any EU country anyway and are therefore not seriously affected. Given that the Kremlin has long been calling for the repatriation of foreign assets, sanctions offered those targeted an opportunity to prove their loyalty. One good example is the Russian oligarch Arkady Rotenberg, who was placed on the sanctions list in July 2014 after one of his companies was hired to build a bridge between Crimea and the Russian mainland. As the newspaper *RBK* reported in February 2015, Rotenberg is the only Russian businessman known to have suffered actual losses, through the freezing of his assets in Italy. At the same time, he publicly declared that he had consciously accepted the sanctions to make "his contribution to national development" (kommersant.ru, 30 January 2015). In the Russian power vertical the sanctions appear – to date at least – not to visibly weaken the principle of rents for loyalty.

The **perception within society** reflects the official narrative. In December 2014 67 percent of respondents in a survey by the independent Levada Centre said that the main motivation behind the West's policy on Crimea and eastern Ukraine was hostility and a wish to seize the moment to exert pressure on Russia. Only 12 percent associated the West's actions with the idea that Russia had annexed foreign territory and violated international law.

The Russian leadership continues to enjoy the support of an overwhelming majority of the population. In January 69 percent said that Russia should maintain its policies regardless of sanctions, while 30 to 35 percent agreed with the respective Russian options of imposing counter-sanctions, intensifying relations with China, India and the Middle East, or ignoring the West's actions and sticking to its present domestic and foreign policy course. Only 10 percent wanted more compromise over foreign policy. The proportion who said they already noticed significant effects of

sanctions was not particularly high in January 2015 (34 percent) but had risen considerably since September 2014 (16 percent). The proportion who expected further personal repercussions in the future also rose from 26 percent in September 2014 to 47 percent in January 2015. Perceptions of the European Union's motives changed strongly in the second half of 2014. In May 2014 63 percent still believed that the sanctions were directed against a small circle of actors responsible for Russian policy in Ukraine, and only 24 percent said that they targeted the broader Russian population. By December 2014 the figures had reversed (29 percent and 62 percent respectively).

These figures demonstrate how strongly public perceptions are influenced by official interpretations. The European Union has thus far failed to plausibly explain the motives behind its sanctions to Russian society. Official propaganda can consequently reinforce the population's belief that Western sanctions are aiming to weaken and destroy Russia. This in turn promotes a siege mentality that is reflected in President Putin's still buoyant approval ratings. The fact that a clear majority of the population plainly no longer regards the sanctions as "targeted" contravenes a fundamental principle of the European Union's policy and will further hamper communication on the matter.

A Mixed Balance

Before taking further decisions it is important to investigate the effect of the sanctions, distinguishing between intended and unintended effects.

The balance for intended effects is thin. There is no sign of Moscow giving up Crimea and Sevastopol, Kiev does not control the Russian-Ukrainian border, and fighters and supplies continue to cross it. Instead of contributing to an implementation of the Minsk cease-fire agreement of 5 September 2014, the Kremlin permitted (or fuelled) another escalation in January 2015. Realisation of the Minsk package of measures of 12 February 2012 hangs by a thread. While the chronology might suggest that international pressure in August/September 2014 and January/February 2015 prevented expansion of the war zone and encouraged the respective Minsk agreements, this is difficult to prove empirically.

There has to date been no recognisable shift in views on the conflict or change in the cost-benefit calculation within the Russian leadership, nor in the rest of the population. On the contrary, the events in Ukraine and their treatment in Russian propaganda have strengthened support for the regime on the basis of loyalty and nationalist conservative and anti-Western attitudes. This unintended effect was, incidentally, predictable.

In Russia's power vertical, which is extremely concentrated on the person of the president, three factors undermine the intended effect of the Western sanctions:

(1) The progressive disconnection of state and society over a period of years has fostered social passivity. Communication between the two functions only in one direction: The state imposes its interpretations of events at home and abroad on society, while society has no channels left to convey criticism or wish for change to the state.

(2) Systematic marginalisation and repression means that opposition can be expressed only far from the political mainstream. This applies both to parties and to experts with deviating views. Critical debates, for example on the causes and objectives of sanctions, do occur, but they reach neither society nor the political elite.

(3) The narrow concentration of the political decision-making process isolates its centre from the weak societal and expert discourses and reduces the number of options that can be taken into consideration. Filtered through such authoritarian structures, the effect of the sanctions is in some respects counterintuitive. They in fact amplify the already enormous impact of the crisis on the domestic political situation in Russia, in aspects ranging from the drastic heightening of authoritarian tendencies in the political system to the emergence of

such a fractious atmosphere in society that violence against dissenters is at least enabled if not in fact encouraged. The murder of opposition politician Boris Nemtsov at the end of February 2015 could turn out to be the beginning of a series rather than the tragic culmination of this development.

One more or less unforeseeable unintended effect is the broad socio-economic impact of sanctions in combination with structural economic crisis and the collapse of the oil price. In the interpretation of the political leadership and the perception of the population, the Western measures have long been directed not against individuals but against the country as a whole. This creates a dilemma for the European Union. The specifics of the Russian political system mean that the danger of social and political destabilisation is great if the economy does indeed collapse under the triple pressure of structural crisis, falling oil price and continuing sanctions. In view of the predominant political attitudes among the population and the political elites, this could have further absolutely negative domestic political consequences. Although the European Union does not see itself pursuing a policy of regime change, it is increasingly perceived as doing exactly that by the Russian population.

Even if there is little sign of the intended effects of sanctions outweighing their negative unintended consequences, Moscow's massive violation of international law left the European Union with no option but to act. As the situation escalated and diplomatic efforts repeatedly failed, there was no valid political alternative to sanctions.

Alongside seeking to change Russian behaviour in the Ukraine crisis, the sanctions also possess an important communicative function. They signalise that the European Union is able to deploy far-reaching non-military instruments in consensus and to stand up for its values and principles. That is an important message to the Russian political elite, but also to Ukraine, other states in the European Union's neighbourhood and – not to be forgotten – the EU member states themselves.

Where Now with Sanctions?

Four recommendations can be made for moving forward:

1. The European Union's position on sanctions must be both strong and transparent. It must make clear that it is not pursuing regime change, and that sanctions are directed solely towards a resolution of the Ukraine conflict. That also includes clear communication about the conditions under which sanctions will be relaxed or tightened.

2. Deeds must follow. Moscow is not going to reverse the annexation of Crimea and Sevastopol in the foreseeable future. So measures tied to that question must be maintained. But if Russia contributes tangibly to de-escalation in the Donbas, the European Union should respond by relaxing sanctions imposed in that connection. Given that Republican majorities in both houses of Congress will leave the Obama Administration little leeway for flexibility in the time it has left, there needs to be open and critical discussion between Washington, Brussels and Berlin on their sanctions policies, in order to avoid endangering transatlantic cooperation. This would also be especially important if the war were to escalate.

3. In that event the European Union and the United States would have to expand their sanctions. The greatest potential is offered by enlarging the targeted restrictive measures against individuals and entities. If the aforementioned broad impact on the Russian population is to be avoided the possibilities for sectoral measures are already restricted, as are measures directed against economic infrastructure, such as excluding Russia from the international payments system (SWIFT). In the event of further escalation, targeted measures would have to be applied determinedly against a wider group of decisive political and economic actors in Russia. The action would need to be con-

ducted incrementally in order to leave room for a continuing response to and further escalation.

4. Despite the difficult conditions, the European Union must improve its communication with Russian society in order – to the extent that this is possible, – to counteract the perception that its policies are anti-Russian and aggressive. Various possibilities are available here, from intensifying media work to unilateral steps to improve mobility. With its diverse societal relations with Russia, Germany could take a lead.

In the medium to long term sanctions are likely to remain an element of relations between the European Union and Russia. But the sanctions policy can only have a positive influence on the situation in Ukraine and the region as a whole if it is embedded into a broader political strategy towards Eastern Europe. Wherever possible, this must include diplomatic initiatives addressed to Russia. It must be hoped that the situation in Donbas will have stabilised properly by the end of 2015. Then Germany could use its position as chair of the Organisation for Security and Cooperation in Europe (OSCE) in 2016 to revive the discussion with Russia over pan-European security. But there is also an equally strong need for intense political, economic and also security engagement in Ukraine and the other eastern partners in order to stabilise them and the entire region from within.

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