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SANCTIONS AGAINST RUSSIA: BETWEEN SYMBOLIC AND EFFECTIVE FOREIGN POLICY

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In January 2020, the EU extended the entry ban imposed for the annexation of the Crimea and the Russian destabilisation of (Eastern) Ukraine to seven more persons. However, there is still no sign of an improvement in the situation. After almost six years, the question therefore arises as to how effective the sanctions imposed were or still are. Against this background, the conditions for maintaining the present sanctions regime are to be reviewed.

Aim and scope of sanctions

Sanctions represent a sharp reaction to a development in international relations that is considered negative. The threat in itself is therefore a clear warning. According to the UN Charter, sanctions are also the last non-military step of escalation to maintain world peace. However, states, groups of states and other international organisations also draw on a wide range of diplomatic, military, financial or trade policy measures. The possibilities can range from entry bans and restrictions on financial transactions to targeted or comprehensive embargoes. The European Union (EU) too applies sanctions as part of the integrated and comprehensive political approach of the Common Foreign and Security Policy (CFSP).

The logic behind sanctions is simple: increasing the political and economic costs is supposed to bring about a change in the behaviour of the sanctioned actor – both state and non-state. This also provides an opportunity to review the effectiveness and efficiency of the system. Effectiveness describes the impact, e.g. through economic data. Efficiency describes the degree to which objectives are achieved. Especially in cases where sanctions are applied to prevent a deterioration of the situation, a clear analysis becomes difficult. For such an evaluation, a counterfactual analysis is carried out, based on the question: What would have happened if no sanctions had been imposed?

Sanctions against Russia

The USA and the EU imposed, extended and renewed sanctions against Russia several times since March 2014. In addition to the mainly financial and economic restrictions, diplomatic measures were adopted (e.g. exclusion of Russia from the G8, temporary suspension of the NATO-Russia Council until 2016). Canada, Australia, Japan, Norway, Albania, Montenegro, Iceland and Liechtenstein, as well as Ukraine have

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joined these sanctions through respective national regulations. Although Switzerland did not impose any sanctions, it is preventing circumvention of European and US measures, particularly in the financial sector.

However, this coalition is at times inconsistent concerning its objectives and measures. While the EU justifies its sanctions with the events in Ukraine in 2014/15, the USA legitimises its sanctions in the Countering America's Adversaries Through Sanctions Act (CAATSA) also by Russian cyberattacks and interference in Europe and the USA. If one looks at the entry bans, the Russian Chief of General Staff Gerasimov, for example, is only to be found on the European list. Given such differences, this paper focuses only on European sanctions. They are evaluated and extended every six months, depending on their entry into force.

Phase 1: Sanctions against individuals and entities

On 17 March 2014, the EU decided to impose travel restrictions and an asset freeze (2014/145/CFSP). The measures are aimed at persons and related organisations and entities that "undermine or threaten the territorial integrity, sovereignty and independence of Ukraine". The list is regularly updated and extended. Currently, 177 persons and 44 institutions are targeted. The enlargement of January 2020 targets seven people organising regional elections in Crimea.

Phase 2: Restrictions on goods originating in Crimea or Sevastopol

On 23 June 2014, the Council declared that restrictive measures shall be imposed in response to "the illegal annexation of the Autonomous Republic of Crimea [...] and the city of Sevastopol [...] to the Russian Federation" (2014/386/CFSP). This prohibited imports from the peninsula, the export of certain goods and technologies and also the use of services (e.g. tourism).

Phase 3: Economic sanctions against sectors of the Russian economy

This last stage of sanctions against Russia was adopted by the Council of the European Union on 31 July 2014 (2014/512/CFSP) and extended in September 2014. The main focus is on the financial sector, as well as arms, other related or dual-use goods and technologies. The export of technologies for deep sea and Arctic oil production and exploration, as well as for shale oil projects was also restricted. This was designed to coerce Russia:

- to use its influence on the separatists to facilitate access to the crash site of MH17 and so to enable a full investigation;
- to stop the flow of arms and fighters from Russia to Eastern Ukraine;
- to effect the withdrawal of Russian troops from the border area.

The direct involvement of Russian troops in fighting in the summer of 2014 was followed by a tightening of the third phase on 8 September 2014 accompanied by threats of "further significant measures". In March 2015, the EU Council decided that the potential lifting of the third round of sanctions "should be clearly to the complete implementation of the Minsk agreements" (EUCO 11/15).

Kremlin counter-sanctions

In response to Western restrictions, Russian president Putin imposed an embargo on the import of certain groceries from the USA, the EU, Canada and Australia in 2014. In 2015 this ban was extended to Norway, Albania, Montenegro, Iceland and Liechtenstein. The same decree also provided for a restriction on imports from Ukraine. However, this part of the embargo did only come into force on 1 January 2016 – at the same time as the economic part of the association agreement between Ukraine and the EU, the so-called Deep and Comprehensive Free Trade Agreement (DCFTA). Thus, it can

be seen as a direct counter to Ukraine's economic rapprochement with the EU.

Effects on Russia

The Russian economy plunged into a deep crisis in 2014. In addition to a sharp drop in GDP and huge capital outflows, the Russian rouble experienced a massive devaluation of more than 50% against the US Dollar in 2015. In addition, the Russian economy recorded a sharp rise in inflation, especially in the food sector, which hit the population hard. Declining revenues also weighed on the state budget and caused the reserves of the State Reserve Fund to shrink sharply.

One reason for these developments was the fallen price of oil, while mutual sanctions also had a negative impact on the economy. A direct consequence of the EU sanctions is, for example, the absence of foreign investors in Russia. Before the crisis, almost 75% of FDI came from EU member states; and the volume of FDI was also halved from 2014-2016. The lack of capital led to a significant increase in interest rates, which ultimately delayed or even rendered impossible a large number of investment projects.

The Russian retaliatory sanctions in the food sector initially led to delivery difficulties and shortages in the affected product groups. Prior to the introduction of the embargo, 10% of EU exports in the food sector went to Russia. In 2015 this figure was only slightly over 4%. The Russian government has therefore made massive efforts to improve self-sufficiency in the food sector. Even before the introduction of the embargo, the Russian food industry was able to almost completely cover the national demand for certain products, such as grain or potatoes. Since 2014 the Russia-wide production of milk and dairy products as well as meat and meat products has been massively increased. New sources of supply for sanctioned product groups have also been opened up. The former partners from Europe have been replaced by new suppliers from Asia and Central Asia, who can provide their products on the Russian market at highly competitive prices. For example, in 2016 only the Netherlands (instead of five EU memberstates before 2014) appeared in the top 10 food exporters to Russia, with China becoming the largest source of Russian food imports, followed by Kazakhstan.

Effects on Ukraine

Whilst exports to Russia still represented 24% of total Ukrainian exports in 2013 this indicator decreased to just 8% in 2018, exports from Ukraine to the EU increased from 27% to 42% over the same period. This development is related on the one hand to the implementation of the DCFTA and on the other hand to the Russian sanctions policy towards Kiev. The growth in exports to the EU was largely at the expense of Russia.

Effects on Austria and the EU

Pan-European trade with Russia contracted by around 15% per year in 2014–2016. According to calculations by the Austrian Institute of Economic Research (WIFO), almost 40% of the total decline in exports during this period (EUR 30 billion) is to be attributed to mutual sanctions. Austria's economy lost about EUR 1 billion in export revenues because of the sanctions. However, the weak rouble and the Russian economy's recession from 2014 onwards weighed much more heavily on Austria's industry. Since 2017 Russian-Austrian trade has been growing slowly again, but at around EUR 5.4 billion for 2018 it remains far below the all-time high of EUR 7.3 billion in 2012. Although the sanctions caused a significant decline in European-Russian trade, the EU remains Russia's most important trading partner with around 43% of foreign trade (2018). The consolidation of the Russian economy, especially the food industry, makes a return to the level of trade before the sanctions unlikely, but also opens up new

opportunities, e.g. for producers of food production machinery.

Important symbol with limited effectiveness

The overall assessment of effectiveness remains mixed. The economic sanctions of the third stage in particular have helped to prevent a further escalation of the war in the Donbas. Following the extension of the sanctions and threats of even tougher measures, such as the possible exclusion from SWIFT, the front stabilised in September 2014 along the line of contact agreed in Minsk.

However, Russia's measures to adapt to existing – and possible new – sanctions are making their effectiveness diminish. The Russian state, for example, stepped in to cover the shortfalls in financing due to restrictions on the international capital market. Fiscal policy also became much more conservative. As a result, it managed to achieve a surplus of 2.9% of GDP in 2019, a new peak since 2008. Currency and gold reserves in 2018 were even slightly below the 2010 level again at around EUR 430 billion. Furthermore, Russia sold almost 80% of its USD bonds already in 2018 and is working together with Iran and Turkey on an alternative to the SWIFT system. Likewise, it will be a while before the sanctions on oil and gas production technologies yield effects.

The frozen assets of Russian oligarchs and Putin's close confidants did not lead to the expected effect either. The Kremlin was able to contain discontent over lost revenues by awarding lucrative government contracts, such as the Crimean bridge to Arkady Rotenberg. However, in one important point the sanctions were effective: they underpinned the will of the Western community not to accept the annexation of the Crimea and the Russian violations of international law in Ukraine. This effect should not be underestimated, especially against the background of the often discussed gradual lifting of the sanctions.

Conclusions

- A departure from the condition of full implementation of Minsk to lift economic sanctions would politically weaken the EU's position vis-à-vis Russia and would also significantly damage its reputation as a norm-based actor.
- Although the conditions for lifting the first two levels of sanctions are less clear, a normalization of Russian-Ukrainian relations and a solution to the Crimean question are essential preconditions
- In the future, no tightening of sanctions by the EU can be expected, assuming the situation remains more or less the same. Only an adjustment of measures that have become ineffective would be conceivable, but remains unlikely due to the necessary approval of all 27 EU members.

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