

Ralf Dahrendorf Taskforce on the Future of the European Union

Working group IV “Financial and economic crisis – liberal solutions for a Europe that works”

EU-Russia Sanctions

By Tanja Porčnik, Visio institute



Friedrich Naumann
STIFTUNG **FÜR DIE FREIHEIT**

EU-Russia Sanctions

After Russia's annexation of Crimea in March 2014, the European Union (EU) introduced a set of political and economic sanctions against Russia, which have grown in scope throughout the year and increased even more with the escalation of the crisis in Ukraine.

The EU sanctions against Russia over the situation in Ukraine have imposed a long-term cost on Russia for violating key international norms, such as territorial integrity and the sovereignty of states, which Russia is gravely violating.

Applying economic pressure - in addition to a diplomatic one - on Russia to reconsider its involvement in the Ukrainian crisis, the sanctions do not only impose economic costs to the EU itself - with EU member states hit in different ways and magnitudes - but also entail global ramifications. Further, imposing sanctions against Russia contributed to the economic costs caused by Russian counter-measures. After all, economic sanctions often inflict greater costs on the country imposing them than on the country at which they are aimed.

Sanctions are often invoked to address public opinion's call for actions in response to foreign developments. Even though the statesmen rarely have confidence in the sanctions to change the policies of the target countries, the sanctions may well satisfy the public outrage.

Lastly, EU foreign policy has struggled to maintain unity among its member states in supporting the application of sanctions against Russia and also in presenting a clear vision about its goals in the region, which has raised old concerns over the effectiveness and necessity of the EU foreign policy. Further, the EU sanctions against Russia highlighted a lack of leadership in EU foreign policy as well as the dominant role of the biggest member states, like Germany.

Introduction

An extraordinary meeting of the Council of the EU on March 3, 2014 condemned "the illegal annexation of Crimea and deliberate destabilisation of a neighbouring sovereign country" as well as the authorisation given by the Federation Council of Russia on March 1, 2014 for the use of the armed forces on the territory of Ukraine. The EU called on Russia to immediately withdraw its armed forces to the areas of their permanent stationing. In the meantime, the EU imposed restrictive measures against the Russian Federation.

Faced with the security crisis in Ukraine, the EU and its member states have responded with a double-track approach combining diplomacy and sanctions. While the option of using military force was excluded, economic sanctions were the hardest form of power that the EU could apply, alongside softer diplomatic measures. As such, the EU was exerting its economic weight against a major regional and global player and important trading partner.

As EU diplomacy failed to persuade Russia to retract on its actions in Ukraine, namely its illegal annexation of territory and the deliberate destabilization of a sovereign state, the EU gradually extended its sanctions in the period of March to September 2014. The confrontation was exacerbated by Ukraine's aspirations towards the Western model of democracy and the rule of law, as opposed to Russia's authoritarian system. The EU has found itself in a geopolitical confrontation with a major regional power, which is nevertheless its largest neighbour and an important trading partner.

EU sanctions

Since 1993, sanctions have been an instrument of the Common Foreign and Security Policy (CFSP) to promote peace, democracy, the respect for the rule of law, human rights and international law. Apart from the CFSP measures, the EU also uses suspension of assistance, trade preferences and trade and cooperation agreements. In fact, the EU has been moving away from general trade embargos towards the employment of targeted political and economic sanctions. The EU currently has restrictive measures in place against 36 countries, groups or entities.¹ The EU sanctions have been mostly imposed to address human rights violations (e.g. Belarus since 1998, Burma/Myanmar 1991–2013, Uzbekistan 2005–2009) or to promote post-conflict institutional consolidation (e.g. Egypt in 2011 and Ukraine in 2014). Prior to the sanctions against Russia, conflict management has been the motivation for EU sanctions in some other cases (e.g. Afghanistan 1996–99, Libya since 2011, Syria since 2011).²

With rare exceptions, the EU has previously avoided imposing sanctions on major powers. In rare cases, the scope of the sanctions has been limited.³ With sanctions against Russia in 2014, for the first time the EU imposed significant sanctions on a major power.⁴

EU sanctions against Russia

Opposed to previous cases, the EU was addressing an exceptionally grave international crisis as a leading actor of the international coalition. The crisis in Ukraine was not local, rather it undermined the post-Cold War security order in Europe and tested the EU's readiness to stand up in defence of key international norms such as territorial integrity and the sovereignty of states, which Russia was violating.

Even though the first set of restrictive measures against Russia was symbolic,⁵ the EU signaled its readiness to impose tougher sanctions. As such, the European Council stated that »any further steps by the Russian Federation to destabilize the situation in Ukraine would lead to additional and far-reaching consequences for relations in a broad range of economic areas between the European Union and its Member States, on the one hand, and the Russian Federation, on the other.«⁶

In the absence of de-escalatory steps by Russia, in spite of the first set of EU restrictive measures and continuing efforts to advance a diplomatic solution, further measures have been added since March 2014, targeting senior Russian officials as well as the country's oil industry, defence firms and banks. The EU

¹ European Commission, *Restrictive measures in force (Article 215 TFEU)*, 2 September 2014, http://eeas.europa.eu/cfsp/sanctions/docs/measures_en.pdf.

² F. Giumelli, *How EU sanctions work: A new narrative*, Chaillot Paper 129, EUISS, Paris, 2013, p. 12 provides an overview up to 2013.

³ Arms embargo on China since 1989 and trade sanctions on the Soviet Union in 1982, in J. Kreutz, *Hard Measures by a Soft Power?* BICC, Bonn, 2005, http://www.pcr.uu.se/digitalAssets/67/67097_1paper45.pdf.

⁴ A mild set of sanctions against Russia was adopted in 2000 due to the conflict in Chechnya. H. Haukkala, *Multi-Causal Social Mechanisms and the Study of International Institutionalisation: The Case of EU-Russia Strategic Partnership*, University of Turku, Turku, 2008, pp. 185–186.

⁵ Instead of the G8 summit in Sochi, a G7 meeting was held in Brussels on 4-5 June. EU countries also supported the suspension of negotiations over Russia's joining the OECD and the International Energy Agency. Further, the EU-Russia summit was cancelled and EU member states decided not to hold regular bilateral summits. Bilateral talks with Russia on visa matters as well as on the New Agreement between the EU and Russia were suspended.

⁶ European Council, *Conclusions*, 20/21 March 2014, http://www.consilium.europa.eu/uedocs/cms_Data/docs/pressdata/en/ec/141749.pdf.

decided for more concrete economic sanctions, following the downing of MH17 on July 17, 2014, a plane incident in which 298 people were killed, including 210 EU citizens. Another critical juncture for the EU in imposing restrictive measures against Russia was the greater incursion of Russian fighters into Ukraine in August 2014.⁷

The EU sanctions against Russia are kept under constant review and will be enforced for a set period of time, unless the EU decides to change or lift them sooner. Any change in the EU sanctions package against Russia requires an unanimous decision by the EU member states, which are well aware of the negative impact of the sanctions on their respective economies, above all on certain member states and business sectors.⁸

The EU is prepared »to reverse its decisions and reengage with Russia when it starts contributing actively and without ambiguities to finding a solution to the Ukrainian crisis.«⁹

TABLE 1: EU Sanctions against Russia, 2014

03.03.2014	Suspension of preparations for the G8 Summit in Sochi, Russia
06.03.2014	Suspension of EU-Russia talks on visa matters and on the New Agreement
17.03.2014	Travel bans and asset freezes (21 individuals put on the list)
21.03.2014	Travel bans and asset freezes (12 individuals added)
29.04.2014	Travel bans and asset freezes (15 individuals added)
12.05.2014	Travel bans and asset freezes (13 individuals and 2 entities added)
25.06.2014	Ban on import of goods from Crimea and Sevastopol
12.07.2014	Travel bans and asset freezes (11 individuals added)
25.07.2014	Travel bans and asset freezes (15 individuals and 18 entities added)
30.07.2014	Travel bans and asset freezes (8 individuals and 3 entities added)
30.07.2014	Amendments to the ban import of goods originating in Crimea and Sevastopol
01.08.2014	Economic sanctions: capital markets, defence, arms, dual-use goods, oil industry
12.09.2014	Economic sanctions are widened

⁷ Office of the United Nations High Commissioner for Human Rights, *Report on the human rights situation in Ukraine*, 16 September 2014, http://www.ohchr.org/Documents/Countries/UA/OHCHR_sixth_report_on_Ukraine.pdf.

⁸ Felbermayr et al., *Economic Aspects of the Russia Conflict: Causes, Costs, Options*, ifo Schnelldienst 67 (14), pp. 35–43; Finnish Ministry of Finance, *The economic effects of the EU's Russia sanctions and Russia's countersanctions*, September 2014.

⁹ European Council, *Statement by the President of the European Council Herman Van Rompuy and the President of the European Commission in the name of the European Union on the agreed additional restrictive measures against Russia*, 29 July 2014, http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/144158.pdf.

12.09.2014

Travel bans and asset freezes (renewed for 6 months and 24 individuals added¹⁰)

Russia counter-sanctions

On August 6, 2014, Russia announced a ban on imports of most food and agricultural products from the EU as well as from Australia, Canada, Norway and the United States for the duration of one year. The extent of the ban as well as its effects on exporters and Russian consumers are to be determined. On the other hand, Russia's import ban has unquestionably created economic cost and inconvenience for producers and exporters in the targeted countries.

The Russian sanctions have cut off some \$15 billion in Russian imports from the EU. Russia has been Europe's second largest export market for foodstuffs, accounting for 10 percent of the EU's total foreign sales. Noteworthy, Russia's food and agricultural economy has changed immensely over the past four decades, as Russia has gone from being one of the world's largest wheat importers to one of the top five exporters.¹¹ During the same period, Russian consumers have become accustomed to having a selection of a wide variety of meat, fruit, vegetables, dairy products and processed food imported from abroad. Russia imported over \$43 billion of food and raw agricultural materials in 2013¹², amounting to more than 40 percent of the country's total food supplies.¹³ Over 60 percent of food products sold in Moscow and other major cities are presumed to have been imported.¹⁴ The import ban will not go unnoticed by many Russian consumers.

As a result of the import ban, some food items are now imported from other countries. Finding new suppliers is not just time consuming, but also imposing additional costs to the import. As such, an increase in food inflation seems probable. As seen with other trade sanctions, the country imposing them is hurt far more than the countries against which they are aimed.

Conclusion

The sanctions against Russia have primarily been aimed at changing Russia's behaviour in the Ukrainian crisis. Judging by the continuing deterioration of the situation on the ground, it could be concluded that the sanctions have failed to produce the desired results. In fact, the sanctions had little impact on developments in Ukraine, but they have imposed a high cost on Russia as well as on the EU. In the long term especially Russia will find it difficult to cope with the economic effects of sanctions and will be consequently faced with a decision to change its strategy.

¹⁰ European Union, *List of persons and entities subject to sanctions*, 12 September 2014, http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/EN/foraff/145571.pdf.

¹¹ Russia's wheat export for 2013/14 is forecasted to be 18.5 MMT, which amounts to about 11 percent of the global total.

¹² Olga Tanas and Volodymyr Verbyany, *Putin Ban Hits Cold War Foes as Developing Nations Gain*, Bloomberg, 7 Aug 2014, <http://www.bloomberg.com/news/print/2014-08-07/russia-bans-array-of-u-s-eu-food-in-retaliation-move.html>.

¹³ Kathrin Hille and Stefan Wagstyl, *US and EU food exports at risk after Putin threatens ban*, Financial Times, 6 August 2014, <http://www.ft.com/intl/cms/s/0/43cc34d6-1d5f-11e4-b927-00144feabdc0.html?siteedition=intl#axzz39e1TH3HY>.

¹⁴ BBC News, *Russia hits West with food import ban in sanctions row*, 7 August 2014, <http://www.bbc.com/news/world-europe-28687172>.

On the positive side, the sanctions have achieved the goal of signaling EU's opposition to the violation of key international norms, such as territorial integrity and the sovereignty of states, which Russia is violating. Though we should keep in mind that autocracies are much more resistant to sanctions than democracies.

The EU finds itself in a situation, where its interests (security, economics and politics) and normative goals are intertwined and even competing. The EU aims to strike the right balance between defending the norms of territorial integrity and national self-determination, defending democratic values, ensuring peace and stability and safeguarding economic and political interests. To achieve this, the EU needs a strategic vision and a prudent combination of a variety of policy tools, with sanctions being just one of them, maybe even the least effective one.

Published by the European Liberal Forum asbl with the support of the Friedrich Naumann Foundation for Freedom. Co-funded by the European Parliament. Neither the European Parliament nor the European Liberal Forum asbl are responsible for the content of this publication, or for any use that may be made of it. The views expressed herein are those of the author(s) alone. These views do not necessarily reflect those of the European Parliament and/or the European Liberal Forum asbl.