
Western sanctions and Russia

What are they?
Do they work?



IN-DEPTH ANALYSIS

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This paper summarises the main EU and US sanctions against Russia – principally those that respond to violations of Ukrainian territory but also to developments in other fields such as chemical weapons and human rights abuses. It also discusses the economic and political impact of existing sanctions on Russia and the EU, and outlines possible sanctions responses to further Russian aggression against Ukraine.

It expands and updates a January 2018 EPRS briefing, [Sanctions over Ukraine: Impact on Russia](#).

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Executive summary

Russia has become increasingly problematic for the EU. The 2008 war against Georgia only resulted in a temporary cooling of relations, but after Moscow's March 2014 annexation of Crimea, there was no return to business as usual. The EU adopted its first sanctions against Russia in response to violations of Ukrainian sovereignty, and these have stayed in place ever since. With fears of renewed aggression against Ukraine in 2022, the EU is considering additional measures. Russia's actions in other areas also challenge international norms – illegal use of chemical weapons, cyber-attacks aimed at undermining Western democracies, and human rights abuses: these too have met with EU sanctions.

For maximum effect, the EU coordinates its restrictive measures with the US and other countries such as Canada. EU and US sanctions focus on similar targets, but there are also significant differences in approach, which sometimes cause frictions between the trans-Atlantic partners.

While most Western sanctions target Russian individuals and organisations rather than the country as a whole, Ukraine-related sectoral sanctions have a much broader economic impact. These measures, adopted by both the EU and the US, are directed at three strategic sectors of the Russian economy: defence, energy, and finance.

Defence sector sanctions include an arms embargo, restrictions on exports of dual-use (civilian-military) goods, and (from the US side) secondary sanctions against third countries purchasing Russian weapons. Overall, sanctions have not stopped Russia from pursuing its military modernisation programme, but may have hampered production of certain types of weapons and helped to curb arms exports. With regard to energy, restrictions on cooperation led to the cancellation of some oil projects; in spite of this, Russia's oil and gas sector continues to flourish. In the financial sector, banks were initially hard-hit by the loss of access to Western financing, but are now more resilient than in 2014.

The overall impact on Russia's economy is hard to measure; estimates put the cost of sanctions at between 0.2 % and 2 % of GDP a year, but there is consensus that oil price volatility and deep-seated structural factors rather than sanctions are the main constraints on Russia's economic growth, which has averaged less than 1 % since 2014.

The political impact of sanctions is unclear. There is no evidence that they have persuaded Russia to modify its behaviour, nor have they created any visible pressure for change within Russia itself. Arguably, they have deterred further aggression in eastern Europe, although their effectiveness in this respect is now being put to the test by Russia's threatening military manoeuvres on the Ukrainian border.

Table of contents

1. Overview of EU sanctions against Russia	1
1.2. Ukraine-related sanctions	3
1.3. EU sanctions against Russia under global programmes	4
1.4. The US and other EU sanctions partners	5
1.5. Russia's counter-sanctions	9
1.6. Ukraine crisis in 2022: more sanctions?	9
2. Economic impact of Ukraine-related sanctions (2014-2021)	11
2.1. Defence sector	11
2.2. Energy sector	12
2.3. Finance sector	14
2.4. Agrifood sector	15
2.5. Crimea	15
2.6. Impact of sanctions on the broader economy	16
2.7. Impact of sanctions on the EU economy	20
3. Political impact of sanctions	21

Table of figures

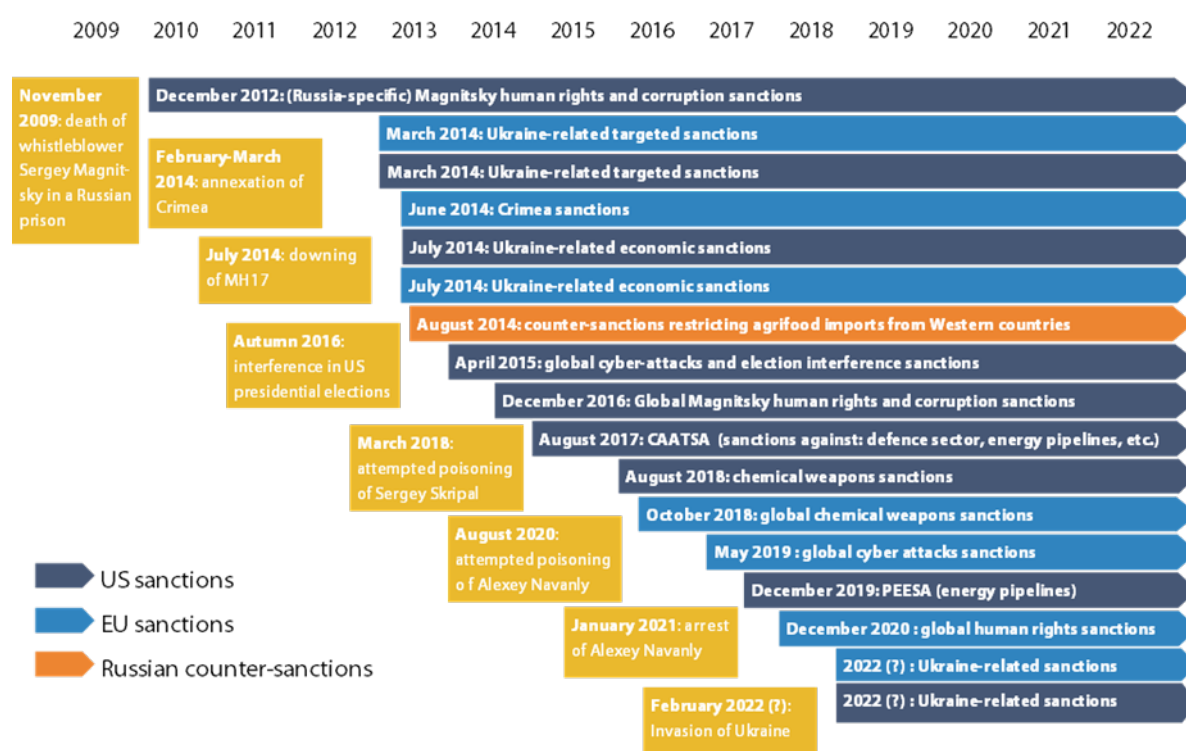
Figure 1 – Sanctions timeline	1
Figure 2 – Russian arms exports	12
Figure 3 – Russian oil, gas production, exports	13
Figure 4 – Russia, external corporate debt	14
Figure 5 – Russian GDP growth	16
Figure 6 – Foreign direct investment in Russia	18
Figure 7 – Sanctions and Russian public opinion, 2014-2021	21

Table of tables

Table 1: Overview of EU sanctions against Russia	2
Table 2: US sanctions against Russia (non-exhaustive summary)	5
Table 3 – Comparison of EU and US Ukraine-related economic sanctions adopted in 2014	7
Table 4: Top 10 Russian companies by turnover	17
Table 5: Quantitative estimates of impact of Western sanctions adopted in 2014 on Russian GDP	19
Table 6: Quantitative estimates of impact of sanctions on the EU economy, 2014-2016	20

1. Overview of EU sanctions against Russia

Figure 1 – Sanctions timeline



Source: EPRS.

1.1.1. Russia: from strategic partner to strategic challenge

In 1994, the EU and Russia signed a [partnership and cooperation agreement](#), which entered into force in 1997 and is still the legal framework for relations today. Among other things, the agreement envisaged bilateral EU-Russia summits twice a year. In June 2008, the two sides launched discussions on a new agreement, to form the basis of a strategic partnership. However, Russia's war with Georgia, which broke out just two months later, highlighted the growing differences between the two sides. These differences again came to the fore in 2013, with a confrontation over Ukraine's plans to sign an association agreement with the EU, followed by Russia's illegal annexation of Crimea and its support for a separatist insurgency in eastern Ukraine.

While the EU's response in 2008 went no further than [statements](#) expressing concern and a temporary [suspension](#) of negotiations on a new bilateral agreement, Russia's attacks on Ukrainian sovereignty forced a major review of EU policy towards Russia. The first EU sanctions followed the annexation of Crimea in March 2014. Initially, these were individual sanctions in the form of asset freezes and visa bans, targeted at members of the Russian elite, Ukrainian separatists, and organisations associated with them. Broader economic measures did not come until later: in June 2014, the EU adopted the first restrictions on trade with Crimea, and one month later – following outrage over nearly 300 deaths caused by separatists [shooting down](#) flight MH17 – sectoral sanctions concerning arms trade, energy and financial cooperation with Russia. These measures were substantially strengthened in September 2014.

Table 1: Overview of EU sanctions against Russia

Russian activity targeted by sanctions	Type of sanction: individual / economic; thematic / geographical*	Legal basis**	Date initially adopted	Renewal	Number of designations
Violations of Ukrainian sovereignty	Individual; geographical	<u>Council Decision</u> 2014/145/CFSP; <u>Council Regulation</u> (EU) 269/2014	17 March 2014	Every six months (next due: March 2022)	177 individuals, 48 entities
Violations of Ukrainian sovereignty	Economic***; geographical	<u>Council Decision</u> 2014/512/CFSP; <u>Council Regulation</u> (EU) 833/2014	31 July 2014	Every six months (next due: July 2022)	20 entities (banks, oil companies, arms manufacturers)
Violations of Ukrainian sovereignty (Crimea)	Economic; geographical	<u>Council Decision</u> 2014/386/CFSP; <u>Council Regulation</u> (EU) 692/2014	23 June 2014	Every 12 months (next due: June 2022)	Not applicable
Chemical weapons	Individual; thematic	<u>Council Decision</u> (CFSP) 2018/1544; <u>Council Regulation</u> (EU) 2018/1542	15 October 2018	Every 12 months (next due: October 2022)	Russia: 10 individuals, 1 entity; world: 15 individuals, 2 entities
Cyber-attacks	Individual; thematic	<u>Council Decision</u> (CFSP) 2019/797; <u>Council Regulation</u> (EU) 2019/796	17 May 2019	Every 12 months (next due: May 2022)	Russia: 6 individuals, 2 entities; world: 8 individuals, 4 entities
Human rights abuses	Individual; thematic	<u>Council Decision</u> (CFSP) 2020/1999; <u>Council Regulation</u> (EU) 2020/1998	7 December 2020	In December 2023	Russia: 6 individuals, 0 entities; world: 15 individuals, 4 entities

Data source: [EU sanctions map](#) (as of 15 September 2021).

*Individual sanctions (sometimes referred to as 'targeted' sanctions) concern individual persons and entities, and take the form of visa bans, asset freezes and financial restrictions, whereas economic sanctions concern entire sectors or the economy as a whole. Thematic (global) sanctions concern particular types of behaviour, regardless of location, whereas geographical sanctions only concern individuals associated with a particular country or countries – in this case, Russia and Ukraine.

** In line with [Article 215](#) of the Treaty on the Functioning of the European Union, EU sanctions are based on a Council decision and a simultaneously adopted but separate regulation.

***Although these measures only apply to a limited number of entities, they are described here as 'economic', given that the targeted companies account for most significant relevant economic interaction with the EU in their sectors.

With the situation in eastern Ukraine [deadlocked](#) since the two [Minsk agreements](#) signed in September 2014 and February 2015, EU sanctions settled into a routine of regular (annual or, biannual) renewal. No new economic restrictions have been added since September 2014, although if there is renewed aggression as feared in early 2022, additional sanctions are highly likely.

Apart from Ukraine, Russia's actions in several other areas violate international norms and raise concerns for the EU. In a drive to [compromise](#) European democratic processes, Kremlin trolls spread disinformation on social media, and cyber-attacks target political parties and institutions such as the [German Bundestag](#). In March 2018, Russian military intelligence agents attempted to assassinate its former spy Sergey Skripal on British territory using a banned chemical weapon; in August 2020 came a second attempted poisoning, this time on opposition activist [Alexey Navalny](#). The human rights situation in Russia continues to deteriorate.

The EU has responded to these activities with three new sanctions programmes – on chemical weapons (2018), cyber-attacks (2019), and serious human rights abuses (2020). Although Russian nationals feature prominently on all three lists, unlike the Ukraine-related sanctions these three programmes, which envisage visa bans and asset freezes, are not geographically restricted to Russia and territories under its control.

1.2. Ukraine-related sanctions

1.2.1. Individual sanctions

Since March 2014, EU sanctions target individuals responsible for actions threatening or undermining Ukrainian sovereignty, as well as entities associated with them. Sanctioned persons are banned from entering the EU, their assets in EU countries are frozen, and EU individuals and companies are prohibited from financial dealings with them. The list has been gradually expanded to [177 persons and 48 organisations](#)¹ (as of 15 September 2021), including:

- Russian/Ukrainian politicians and officials publicly supporting violations of Ukrainian sovereignty: former Deputy Prime Minister, Dmitry Rogozin, Chechen leader, Ramzan Kadyrov, Liberal Democratic Party of Russia leader, Vladimir Zhirinovsky;
- military leaders, such as former Black Sea Fleet Commander, Aleksandr Vitko;
- Donbas separatists, such as Donetsk People's Republic (DPR) co-founder, Andriy Purgin, and Roman Lyagin, organiser of the DPR independence referendum;
- Oligarchs, such as Putin ally, Arkady Rotenberg, whose company was awarded a contract to build a bridge connecting Crimea to the Russian mainland;
- the so-called Donetsk and Lugansk 'people's republics'; political parties participating in illegal Donbas local elections; pro-Russia militia fighting there;
- formerly Ukrainian-owned companies, such as the Crimea-based Sevastopol Commercial Seaport company, illegally transferred to Russian ownership.

1.2.2. Economic sanctions

Adopted in July 2014 and [strengthened](#) in September 2018, EU economic sanctions target the Russian financial, defence and energy sectors:

- restricted Russian access to EU capital markets: EU nationals and companies are no longer allowed to lend money for a period exceeding 30 days to five major Russian state-owned banks, three oil companies and three arms manufacturers (see list in Table 3 below);
- arms embargo: a ban on arms trade with Russia; a ban on exports of dual-use (civilian/military) items to military clients and nine companies producing a mix of civilian and military goods;

¹ Altogether 160 individuals and 41 entities were designated, but several have been delisted.

- restricted cooperation with the Russian energy sector: a ban on exports of innovative extractive technology and services, such as drilling and testing used by Russian companies to develop deep-water, Arctic and shale oil reserves; all other energy-related exports require special approval.

1.2.3. Economic sanctions (Crimea)

Sanctions adopted in June, July and December 2014 banned EU imports from Crimea; all investment in the peninsula; all tourism services (for example, EU cruise ships were forbidden from calling at Crimean ports); and exports of goods, technology and services for use by the Crimean transport, telecommunications and energy sectors.

1.2.4. Other EU responses to Russian aggression in Ukraine

In March 2014, the EU suspended negotiations on a new agreement with Russia. Furthermore, no EU-Russia summits have been held since then. In June 2021, French President Emmanuel Macron and then German Chancellor Angela Merkel [proposed](#) a summit with Vladimir Putin, but other EU leaders did not agree.

Simultaneously with sectoral sanctions, in July 2014 the EU stopped issuing low-interest loans for projects in Russia (in 2013, new loans from the European Bank for Reconstruction and Development and the European Investment Bank were worth [€1.7 billion](#) and [€1 billion](#) respectively); it also cut off grants to Russia, except those for research, Russian civil society, [cross-border cooperation](#) projects and [universities](#).

1.3. EU sanctions against Russia under global programmes

On top of the Ukraine-related sanctions, since 2018 the EU has adopted three global ('thematic') sanctions programmes, on chemical weapons, cyber-attacks and human rights abuses (Table 1). These impose visa bans, asset freezes and financial restrictions on individuals and entities from all over the world. Although global in scope, all three were largely inspired by Russian activities, and many of the names on the lists are from Russia.

1.3.1. Chemical weapons

On 15 October 2018, the EU [adopted](#) sanctions against individuals and organisations involved in manufacturing and using chemical weapons, as defined by the Chemical Weapons Convention. Ten out of the 15 individuals on the list are Russians (the remainder are Syrians). The two agents who carried out the attempted assassination in 2018 of Sergey Skripal and two of their superiors from Russian military intelligence were among the first to be added to the list, in January 2019. A further six senior officials – from the presidential administration, government and Federal Security Service – were added in October 2020, following a second attack on Alexey Navalny in August 2020. After the Skripal incident, 18 EU Member States expelled [35 Russian diplomats](#).

1.3.2. Cyber-attack sanctions

[Adopted](#) on 17 May 2020, these concern individuals and organisations involved in cyber-attacks representing a significant threat to the EU and its Member States. All of the six Russian individuals on the list (the remaining two designees are from China) are from the GRU (Main Intelligence Directorate) military intelligence service. Four agents were listed for an attempted hack of the Organisation for the Prohibition of Chemical Weapons in April 2018, while a further two were involved in an April 2015 cyber-attack on the German Bundestag.

1.3.3. Human rights sanctions

For many years, the EU raised concerns about human rights abuses in Russia, but had no legal instrument to adopt sanctions against those responsible. Finally, in December 2020, the EU adopted a global human rights [sanctions regime](#), partly modelled on the US Global Magnitsky Act of 2016. Again, Russians feature prominently on the list (six out of 15 names); four of them, from law enforcement, security and prisons services, are sanctioned for their role in the arrest, sentencing and imprisonment of opposition activist Alexey Navalny, as well as in repression of the resulting protests (January-February 2021); the remaining two are senior Chechen figures implicated in persecution of LGBT persons since 2017 (Chechen leader Ramzan Kadyrov was already designated in 2014 by Ukraine-related sanctions).

1.4. The US and other EU sanctions partners

1.4.1. Overview of US sanctions

Table 2: US sanctions against Russia (non-exhaustive summary)

Russian activity targeted by sanctions	Type of sanction: individual / economic; thematic / geographical	Legal bases	Date initially adopted*	Number of designations, as of September 2021**
Violation of Ukrainian sovereignty	Individual, geographical; economic, geographical	EO 13660, 13661, 13662, 13685, CAATSA	6 March 2014 (EO 13660) First designations on: 17 March 2014 (individual); 16 July 2014 (economic)	(Russia + Ukraine) 253 individuals, 480 entities, 8 vessels, 1 aircraft
Cyber-attacks, election interference, other 'harmful foreign activities'	Individual, thematic; individual, geographical	EO 13694, 13757, 13848, 14024, CAATSA	1 April 2015 (EO 13694)	77 individuals, 57 entities
Chemical weapons	Individual, thematic; economic, thematic	CBW Act	August 2018 (Skrripal, first round); August 2019 (Skrripal, second round); March 2021 (Navalny)	15 individuals, 16 entities
Coercive use of energy exports	Individual, geographical	PEESA, EO 14039	20 December 2019 (PEESA)	2 entities, 16 vessels
Corruption and human rights abuses	Individual, geographical; individual, thematic	Sergei Magnitsky Act; Global Magnitsky Act	14 December 2012 (Sergei Magnitsky Act); 23 December 2016 (Global Magnitsky Act)	60 individuals, 12 entities

Data source: [Congressional Research Service](#); [Office of Foreign Assets Control](#).

*As most US sanctions programmes have more than one legal base, this is the earliest date on which Russia-specific sanctions were adopted, not including pre-existing general-purpose legal frameworks such as the CBW Act.

**From Russia, unless otherwise stated. The actual numbers of individuals and entities are lower, given that they can be designated more than once.

Congressional acts listed in Table 2: CAATSA: [Countering America's Adversaries Through Sanctions Act](#) (2017); CBW Act: Chemical and Biological Weapons Control and Warfare Elimination Act (1991); Sergei Magnitsky Act: [Sergei Magnitsky Rule of Law Accountability Act](#) (2012); Global Magnitsky Act: [Global Magnitsky Human Rights Accountability Act](#) (2016); PEESA: [Protecting Europe's Energy Security Act](#) (2019).

Sanctions are more effective when adopted by a larger group of countries, and to this end, the EU cooperates closely with allies, the United States in particular. The US has been even more pro-active than the EU in sanctioning Russia – its first sanctions date back to 2012, two years ahead of the EU's, and target activities (such as corruption, and energy pipelines) that the EU's measures do not cover.

The list of sanctions in Table 2 is not exhaustive. For example, there are US sanctions against Russian individuals and companies for transactions banned by the UN and/or US sanctions against North Korea, Iran, Syria and Venezuela, and further sanctions for actors from third countries (such as [Turkey](#)) that purchase Russian weapons.

Moreover, for the sake of simplicity, the table does not include a complete list of legal bases. US sanctions programmes are not always developed on a single base. Often, they combine pre-existing, general-purpose sanctions frameworks that are not specifically targeted at Russia, such as the International Emergency Economic Powers Act (1977), the National Emergencies Act (1976), and the CBW Act; Russia-directed congressional acts and presidential executive orders; and the accompanying directives and State Department guidelines. For Ukraine-related sanctions, the Support for the Sovereignty, Integrity, Democracy, and Economic Stability of Ukraine Act and the Ukraine Freedom Support Act, both adopted in 2014, are also relevant.

1.4.2. Close EU-US cooperation on Ukraine-related sanctions

In 2014, the EU and US synchronised their responses, with targeted sanctions in March (the EU's adopted one week after those of the US), sectoral sanctions in July, reinforced by further restrictions in September, as well as bans on Crimean trade and investment. EU and US sanctions lists under targeted measures include a similar mix of Russian government officials and military officers, Donbas separatists in eastern Ukraine, and associated entities, although with the difference that there are considerably more designations on the US side (as of 15 September 2021, [744](#) under US Ukraine-related sanctions, compared to 225 on the EU's lists).

Sectoral sanctions in both jurisdictions focus on the Russian arms, energy and financial sectors, but with some differences in terms of the designated companies and the nature of restrictions. The main differences are that EU restrictions on loans and investment apply exclusively to oil producers, whereas the US also includes Novatek, a privately owned gas producer, and that the EU exempts pre-existing contracts for oil projects, arms trade and dual-use exports, unlike the US. Despite this exemption, France decided to [cancel](#) its 2011 contract for the sale of two Mistral helicopter carriers under pressure from NATO allies.

The EU and US have also adopted similar measures against other types of Russian activity, such as chemical weapons use and cyber-attacks. Compared to the US, the EU was slow to sanction Russian human rights violators (EU global human rights sanctions were not adopted until 2020, and the first

Role of the US Congress in Russia sanctions

US sanctions can be imposed by congressional acts or presidential executive orders. Often, Congress is the driving force behind Russia sanctions; this was the case for the 2012 Magnitsky Act, initially [opposed](#) by the Obama administration, which was keen to pursue a reset of relations with Moscow. In 2017, Donald Trump only [reluctantly](#) signed CAATSA into law, and several of its provisions (e.g. on pipelines) were left unimplemented by his administration. In 2021, the Biden administration was at [loggerheads](#) with Republican senators demanding Nord Stream 2 sanctions.

By contrast, in the EU the European Parliament has no formal role in adopting sanctions, and can at best use its political influence to push for tougher measures – as in the case of EU global human rights sanctions, which the Parliament advocated in several of its [resolutions](#) before they were eventually adopted by the Council in 2020.

designations did not come until 2021, eight years after the US Sergey Magnitsky Act); moreover, corruption is excluded from the scope of EU sanctions, in contrast to US Magnitsky legislation.

Table 3 – Comparison of EU and US Ukraine-related economic sanctions adopted in 2014

Restrictive measure	EU	US
No loans exceeding 30 days to Russian financial, defence and energy companies	Financial sector: Gazprombank, Rossselkhozbank, Sberbank, VEB, VTB Bank Defence sector: Oboronoprom, Uralvagonzavod (Rostec subsidiaries); United Aircraft Corporation Energy sector (oil): Gazpromneft, Rosneft, Transneft	Financial sector: Gazprombank, Rossselkhozbank, Sberbank, VEB, VTB Bank Defence sector: Rostec and subsidiaries Energy sector (oil): Gazpromneft, Rosneft, Transneft Energy sector (gas): Novatek
Ban on participation in Arctic, deepwater and shale oil projects	contracts concluded before 1 August 2014 exempt	no exemption for pre-existing contracts
Ban on arms trade	contracts concluded before 1 August 2014 exempt	no exemption for pre-existing contracts
Ban on exports of dual-use items to Russia's armed forces and arms manufacturers	contracts concluded before 12 September 2014 exempt	no exemption for pre-existing contracts

Data source: [Congressional Research Service](#).

1.4.3. Escalating US sanctions since 2017

Whereas the Ukraine-sanctions adopted by the US and the EU in 2014 were closely coordinated, many of the subsequent US measures were taken unilaterally. In August 2017, President Donald Trump signed the [Countering America's Adversaries Through Sanctions Act](#) (CAATSA) into law. The act authorised the US president to impose sanctions on persons who invest in or provide services for Russian energy export pipelines – a provision targeting the then unbuilt TurkStream and [Nord Stream 2](#) gas pipelines. Further sanctions against Nord Stream 2 came in December 2019, when the US adopted the [Protecting Europe's Energy Security Act](#) (PEESA) targeting companies that provide pipe-laying and certain other services.

Unlike the EU's chemical weapons sanctions, which are only targeted at individuals and entities, the Chemical and Biological Weapons (CBW) Act of the US also envisages [sweeping economic measures](#), giving the US president a wide range of options to choose from; these include barring or restricting arms sales, exports of goods and technology sensitive for national security, loans to the Russian government, imports of Russian goods, flights by Russian airlines to and from US airports, and downgrading or suspending diplomatic relations.

So far, the US has adopted chemical weapons sanctions against Russia in three rounds: in [August 2018](#) and [August 2019](#) in response to the attempted poisoning of Sergey Skripal, and again in [March 2021](#) after the Navalny poisoning incident. Their effect is more limited than it might have been: more radical measures such as a ban on Russian airlines were not adopted, exports of weapons and related items were already banned or restricted under previous measures, and there are waivers allowing continued exports of sensitive items for purposes such as space cooperation and civil aviation.

The most significant change is that US banks may no longer lend non-rouble funds to the Russian government or purchase non-rouble Russian government bonds on the primary market – i.e. they

may not purchase non-rouble bonds directly from the Russian government, although they can still purchase them from other investors on the secondary market. In April 2021, President Joe Biden [extended](#) this ban to rouble-denominated bonds.

1.4.4. EU and US: differing approaches to sanctions

In contrast to escalating US measures, the EU has not added any new economic sanctions since 2014; all of its more recent restrictive measures against Russia have been limited in scope to individuals and entities, without a broader economic impact.

Several factors explain the EU's reluctance to intensify sanctions. In 2020, the EU and Russia traded [€174 billion](#) in goods, nearly 10 times higher than the [figure](#) for US-Russia bilateral trade. In the same year, Russia delivered [43 %](#) of the EU's gas imports – supplies that cannot easily be replaced from other sources. EU sanctions can only be adopted and renewed by consensus between Member States supportive of harder measures and those that openly question the value of sanctions (see boxed text: EU sanctions hawks and doves).

EU sanctions hawks and doves

Leaders of several EU countries – for example, [Italy](#), [Spain](#), [Cyprus](#), [Slovakia](#) and [Hungary](#) – have at times voiced scepticism about the effectiveness of sanctions against Russia, whereas Poland and the Baltic states have consistently supported them. Given these differences of opinion, it may seem [surprising](#) that EU consensus on sanctions has held for so long. Nevertheless, initial resistance to sanctions seems to have died down, and periodic Council decisions extending the sanctions now pass with [little public attention](#).

1.4.5. Impact of sanctions on the trans-Atlantic relationship

Unilateral US sanctions can create trans-Atlantic tensions. Unlike EU restrictive measures, US sanctions have extra-territorial effect, which means that they also apply to European companies; for example, in 2015 a US court sentenced France's BNP Paribas to a nearly [US\\$9 billion](#) fine for violating US sanctions against Cuba, Iran and Sudan. The threat of such sanctions was a major concern for European companies involved in Nord Stream 2. While Member States such as [Poland](#) and institutions such as the [European Parliament](#) were in favour of stopping the pipeline, not everyone in the EU welcomed the US measures. For instance, then German Foreign Minister Heiko Maas [accused](#) Washington of meddling in European energy policy, while European Commission President Ursula von der Leyen raised [concerns](#) about the risks for European companies carrying out legitimate business.

In the end, CAATSA and PEESA sanctions were only applied partially and too late to stop Nord Stream 2 being built (see Section 2.2.2 below). As President Biden [explained](#) in May 2021, concerns about trans-Atlantic relations were part of the reason for the US decision not to take more forceful action. In their July 2021 [joint statement](#) on Ukraine, the US and Germany settled their differences, with Washington effectively agreeing to let the pipeline go ahead, and Berlin committing to sanctions in the event of Moscow using energy as a weapon.

The situation changed again in late 2021 with the threat of a Russian aggression against Ukraine. Biden's [position](#) is that a Russian invasion would mean an end to Nord Stream 2. Germany is more ambiguous; the Green Party, which is part of the ruling coalition, has always [opposed](#) the pipeline, but the government has [declined](#) to state whether it will endorse sanctions.

US sanctions under another CAATSA provision also proved controversial. The act requires the administration to draw up a list of oligarchs based on their wealth and closeness to the Kremlin, with a view to potential sanctions. Russian anti-corruption campaigner Alexey Navalny and his associates have repeatedly [demanded](#) such measures. However, Washington's decision to sanction Putin

associate Oleg Deripaska was not welcomed by European manufacturers; the latter warned that sanctions on Deripaska's Rusal company, a major aluminium producer, would cause disruption due to the difficulty of finding alternative suppliers. After a French-led [diplomatic campaign](#) and Deripaska's decision to relinquish control of Rusal, the US delisted the company.

1.4.6. Other EU sanctions partners

Like the EU and US, several other Western-aligned countries adopted Ukraine-related sanctions against Russia in 2014, including Albania, Australia, Canada, Georgia, Iceland, Japan, Kosovo, Lichtenstein, Moldova, Montenegro, New Zealand, Norway, Switzerland, and Ukraine. Bosnia and Herzegovina, North Macedonia, Turkey and Serbia did not follow suit, despite being EU candidate or potential candidate countries and therefore expected to [align](#) with EU foreign policy decisions. After it left the EU in 2020, the UK [kept](#) the Ukraine-related sanctions that it had signed up to as an EU Member State essentially unchanged.

1.5. Russia's counter-sanctions

In August 2014, Russia countered Western Ukraine-related sanctions with an embargo (initially for one year; recently [extended](#) until December 2022) on imports of fruit, vegetables, meat, fish, seafood and dairy products. On the other hand, cereals, oils, sugar, wine, spirits and products used to manufacture babyfood are still allowed.

In 2014, the Kremlin decided to retaliate against Western travel bans, but without ever publishing its blacklist. In May 2015, the Russian government finally agreed to share the names of the persons concerned with the EU delegation in Moscow. Despite a Russian request for the [list](#) to remain confidential, it was [published](#) soon afterwards by a Finnish broadcaster, with names of 89 EU politicians and military leaders. In January 2022, Russia [announced](#) another blacklist, again without disclosing the names of the persons concerned, who are apparently representatives of EU Member States and institutions. Vladimir Putin [warns](#) that further sanctions would mean a complete breakdown in relations with the US, but has not specified what exactly this would mean.

Russia [restricts](#) trade with Ukraine, Georgia and Moldova. Although most of these restrictions are adopted on the pretext of non-compliance with Russian technical standards, their [real purpose](#) is more probably to punish those three countries for signing association agreements with the EU.

1.6. Ukraine crisis in 2022: more sanctions?

1.6.1. The West considers its response

Since autumn 2021, Moscow's threatening military manoeuvres and its demands for security guarantees, including a NATO commitment not to expand further, have sparked [fears](#) of imminent aggression – perhaps in the form of further incursions into eastern Ukraine, or even a full-blown invasion and regime change. NATO is [not currently planning](#) to send combat troops to Ukraine, and instead is hoping to avert conflict through diplomacy and deterrence. In parallel with intense [negotiations](#) in various formats between Western leaders, Russia and Ukraine, the US has upped the military aid it provides Ukraine to a record [US\\$650 million](#) since January 2021; this includes lethal weapons such as Javelin anti-tank missiles. The Baltic states are also sending weapons to Ukraine. Washington has deployed [additional US troops](#) to Poland and Romania, and France plans to [follow suit](#). However, the main deterrent will be sanctions.

In January 2022, European foreign ministers [warned](#) Russia of 'massive consequences and severe costs'. To allay doubts about the EU's commitment to tough measures, Ukraine has [called](#) on Brussels to reveal what measures it plans to take in the event of an attack. However, there is some uncertainty about how far EU countries are willing to go in punishing Russia, given the likely damage to their own economies. Whereas Germany spearheaded the European sanctions effort in 2014, it now appears more [hesitant](#). Chancellor Olaf Scholz has called for a '[prudent](#)' approach that takes into account the economic consequences for sanctioning countries.

Despite similarly tough talk from [Biden](#) about sanctions 'like none he's [Putin] ever seen', the nature of likely US sanctions is also unknown. Biden's comments initially created some [confusion](#) by appearing to hint that a 'minor incursion' might fall below the threshold for a full-blown response. Subsequent comments by White House officials clarified that any movement of Russian military forces across the Ukrainian border, even on a smaller scale, would be considered as an invasion. Aggression short of military action such as cyber-attacks and operations by mercenaries acting on behalf of the Kremlin would also be met with a 'decisive', presumably lower-key response, although the nature of that response remains unspecified.

The situation should become clearer once the US Congress adopts sanctions legislation. Democrats and Republican senators are reportedly now close to [agreement](#), but there are still several sticking points. Tricky issues include the timing of sanctions: some senators are in favour of demonstrating resolve by imposing sanctions even before a Russian attack, an approach also [supported](#) by Ukrainian President Volodymyr Zelenskyy; others concur with the [Biden administration](#) that they should be kept in reserve as a deterrent.

1.6.2. Options for tougher sanctions

As already mentioned, Biden has already confirmed that US sanctions will target Nord Stream 2 if there is an invasion. Several other options for US and EU sanctions are on the table. These include targeted sanctions against a much wider range of figures from the [Russian elite](#) and their families, including politicians, senior managers or members of the boards of directors of state-owned companies – perhaps even [Vladimir Putin](#) himself. The existing ban on purchases of Russian government bonds on the primary market could be extended to the secondary market. Further restrictions on US [hi-tech exports](#) could affect not only Russia's defence sector but also manufacturers of consumer goods such as telephones.

Russian state-owned banks such as Sberbank and VEB are a probable target. Since 2014, they are barred from borrowing money on Western markets, but potential new measures could have a much more devastating impact by making it more difficult for them to process foreign payments. Iran lost [one-third](#) of its export revenue after it lost access to the Belgium-based SWIFT messaging scheme used by most international financial transfers, and exclusion could have a similarly disruptive effect on Russia's foreign trade, at least in the short term. However, in the longer term it could backfire by encouraging Russia and partners such as China to develop alternative messaging systems that are more independent of Western control. Indeed, Russia already has such a [system](#); due to limited coverage, it is not yet a viable alternative to SWIFT for most transactions, but that could change. Biden is also [threatening](#) to block Russian banks from access to US dollars. Moscow has made some efforts to switch to other currencies such as the euro and the Chinese yuan, but about half of its foreign trade is still dollar-denominated.

While banking restrictions could undoubtedly be painful for Russia, there would also be [consequences](#) for sanctioning countries. The latter include disruption to the Russian energy exports that countries such as Germany depend on, and loss of access to billions of euros worth of Western-

owned assets in Russia. The US and its EU partners are therefore likely to apply such measures with caution; according to some [sources](#), they are no longer considering exclusion from SWIFT, although this has not been confirmed.

2. Economic impact of Ukraine-related sanctions (2014-2021)

2.1. Defence sector

2.1.1. Dual-use restrictions: A serious blow to Russian arms manufacturers

In 2013, EU countries earned a relatively modest US\$583 million (€500 million) from arms exports to Russia, according to one [estimate](#). Advance payments on the subsequently cancelled sale of Mistral helicopter carriers, and purchases of Italian [armoured vehicles](#), accounted for much of this sum. Russia's own exports to the EU were considerably less – a total US\$152 million for the 2009- 2013 period according to [figures](#) from the Stockholm International Peace Research Institute, with sales to Cyprus, Poland, Slovakia and Slovenia. Given that EU countries and Russia never purchased many weapons from each other, the arms embargo imposed in 2014 had only a limited effect.

A far more significant impact came from restrictions on dual-use goods. In 2013, EU exports of these to Russia were worth [€20 billion](#), with items such as lasers, electronic circuits, optical machinery and precision machine tools playing a vital role in Russia's weapons production. For its part, Ukraine used to supply helicopter engines and gas turbines for battleships.

Sanctions forced the Russian arms industry to look for alternative supplies – either from domestic sources, supported by an [import substitution programme](#), or Asian countries such as China and Taiwan. While these efforts have partially succeeded, they have come at a cost. For example, the need to develop domestic production of the gas turbines formerly imported from Ukraine delayed the warship construction programme by [18 months](#), according to Vladimir Putin. Russian and Asian substitutes are sometimes of [inferior quality](#), and have been blamed for causing incidents such as a submarine fire. Certain types of weapon have been [worse affected](#) than others; whereas air defence systems (Russia's main military export) and missile export traditionally relied on domestically made electronics, the aviation and space sectors have found it much harder to adapt – supply issues have added to the problems facing Russia's fifth-generation [SU-57](#) fighter plane and the [GLONASS](#) satellite navigation system.

Dual-use export restrictions also affect Russia's Roscosmos space programme – since late 2020, when the US extended them to two subsidiaries of Roscosmos due to their links with the defence sector. In June 2021, programme head Dmitry Rogozin [acknowledged](#) that sanctions-related microchip supply problems had delayed several satellite launches. He also threatened to pull Russia out of the International Space Station – one of the few projects on which Russia and the US still cooperate – in 2025, unless sanctions were lifted.

With US sanctions barring loans to Russian arms manufacturers, in 2018 Moscow nationalised the bankrupt [Promsvyazbank](#), and tasked it with financing the defence sector, thus allowing other banks to stay out of activities that would expose them to heavy financial penalties.

2.1.2. US sanctions attempt to block Russian arms sales

Among numerous other measures, the US Countering America's Adversaries Through Sanctions Act (CAATSA) of 2017 imposes penalties on third countries that buy Russian weapons. To date, these have been applied to [China](#) and [Turkey](#); having been refused a waiver, [India](#) is also potentially liable

for CAATSA sanctions. Insofar as such measures reduce Russian exports, they have a significant economic impact: arms manufacturing employs [3%](#) of the country's workforce and generates a similar share of export revenue. Furthermore, given that Moscow uses weapons sales as a [foreign policy tool](#) – in Africa, for example – curbing those sales also limits Russia's international influence.

The actual impact of sanctions on Russian arms exports is not entirely clear. While it is true that they declined (Figure 2 opposite), other factors are also significant; for example, India started [scaling back](#) its imports from Russia in 2014, long before CAATSA sanctions, in order to diversify external suppliers and boost the domestic defence industry; as India is by far Russia's main customer (nearly one-third of Russian arms exports in the 2011-2020 period), this change alone explained much of the fall in Moscow's arms sales. Since CAATSA, India, China, and Turkey have bought Russian airplanes and air defence systems. On the other hand, US pressure may have discouraged countries such as [Indonesia](#) and [Morocco](#) from similar purchases.

2.1.3. Sanctions and Russian military modernisation

As part of broader [efforts](#) to revamp the armed forces, in 2009 then Defence Minister Anatoly Serdyukov set a target of raising the share of modern weapons in Russian arsenals from 10 % to 70 %, in line with the levels in NATO forces. To meet this goal, between 2011 and 2020, the Russian armed forces spent [US\\$300 billion](#) on new weapons, nearly all from domestic manufacturers. Sanctions have affected the modernisation drive in some areas, for example, due to the above-mentioned delays in delivering battleship engines. Nevertheless, in December 2020 Vladimir Putin [announced](#) that the 70 % target had been reached for the military as a whole.

Russia's armed forces are still less well equipped than their NATO counterparts in many areas. For example, there are fewer large battleships or stealth fighter planes. However, budgetary constraints rather than sanctions are the main obstacle to further modernisation: federal budget revenue has declined (partly due to lower oil prices), and at the same time, there has been a re-orientation of resources from defence to [other areas](#), such as stimulating economic growth and tackling the impact of the pandemic. As a result, military expenditure has declined since its 2015 peak.

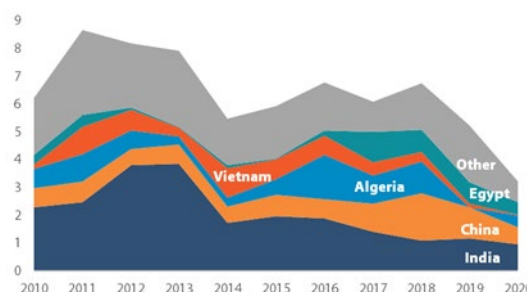
2.2. Energy sector

2.2.1. Russian oil and gas production expanding despite sanctions

Oil and gas production play a central role in the Russian economy, generating over half of exports and (in 2020) around [one-third](#) of federal budget revenue. Given the EU's dependence on imports

Figure 2 – Russian arms exports

Estimated value: US\$ billion



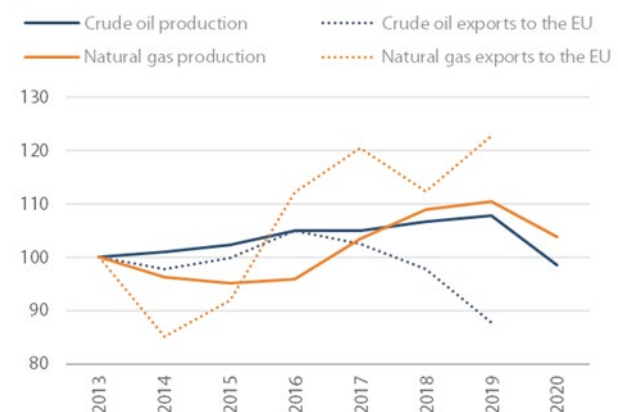
The value of Russian arms exports has declined, largely because of reduced sales to India, which are only partly due to sanctions.

Data source: [SIPRI](#).

from Russia, sanctions do not target energy trade, but aim to limit Russia's capacity to maintain current levels of production, by making it harder to develop new reserves as current fields run out.

Specifically, sanctions restrict cooperation on Arctic, deepwater and shale oil fields. Traditionally, Western companies play a key role in developing these promising but hard-to-access reserves, given that Russia does not always have the requisite capital and innovative technology. In 2014, ExxonMobil [ended](#) cooperation with Russian oil producer Rosneft on a recently discovered huge oil field in the Kara Sea. Sanctions also bar loans and investment in Russian energy majors such as Rosneft. Hit by low oil prices and unable to re-finance its debts on Western markets, in 2014 the heavily indebted company was forced to seek a government [bailout](#).

Figure 3 – Russian oil, gas production, exports
In tonnes (oil)/cubic metres (gas); 2013 = 100



Despite sanctions, Russia's oil and gas production, and its gas exports, are still increasing.

Data source: BP ([oil and gas production](#)); Eurostat ([oil](#) and [gas](#) exports).

Since then, however, the Russian energy sector has not only survived but even prospered. Financing costs may have [risen](#), with Asian lenders such as Chinese banks demanding higher interest rates, but on the other hand, profits have risen with recovering oil prices and [lower operating costs](#) due to the devaluation of the rouble. From 2014 to 2019, prior to a pandemic-related drop in 2020, oil and gas output [rose](#) to record-high levels, increasing by 7 % and 15 % respectively; natural gas [exports](#) to the EU, which are not restricted by sanctions, have also grown (Figure 3).

Meanwhile, new developments look set to enable continued high output for many years to come. Sanctions still allow Western companies to participate in non-Arctic, non-offshore projects, such as the Taas-Yuryakh oil field in Siberia ([BP](#)) or the offshore Sakhalin-1 ([ExxonMobil](#)) and Sakhalin-2 ([Shell](#)). As already mentioned, unlike their US counterparts, European companies are permitted to continue with projects that pre-date sanctions, such as Eni's oil exploration [partnerships](#) with Rosneft in the Black and Barents Seas. Some of the projects scrapped in 2014 – such as the Kara Sea joint venture – might have been cancelled anyway, as low oil prices would have made them [unviable](#). After a pause of six years, in 2020 Rosneft [resumed](#) drilling there – this time, without Western partners.

Unlike oil, sanctions do not prohibit gas projects, and [Total](#) participates in a vast project to produce liquefied natural gas (LNG) on the Yamal peninsula, led by private gas company Novatek. US sanctions bar Western loans to Novatek, but the company was able to obtain financing from [China](#); in March 2021 production, which started in 2017, reached 50 million tonnes, a step forward in Russia's drive to develop its exports.

2.2.2. Sanctions have delayed but not halted new gas pipelines

Since CAATSA sanctions on energy export pipelines adopted in 2017, Russia has built three new gas pipelines: Nord Stream 2 to Germany, TurkStream to Turkey and, in the Far East, Power of Siberia to China. US State Department implementation [guidelines](#) on CAATSA limited the scope of the new legislation to projects for which a contract was signed on or after August 2017, thereby excluding

all three pipelines. TurkStream and Power of Siberia were both completed without disruption from sanctions and are now fully operational.

By December 2019, Nord Stream 2 was also mostly finished, but then came PEESA, which forced Swiss pipe-laying company [Allseas](#) out of the project and brought construction work to a halt for over a year. Furthermore, in July 2020 State Department CAATSA guidelines were updated to include Nord Stream 2 and the 'second line of TurkStream', an extension that will eventually run all the way from Turkey to Hungary. Despite this, work on the TurkStream extension continued unaffected, while in February 2021 Gazprom brought in two Russian-registered ships, which by September 2021 had laid the entire Nord Stream 2 pipeline. In May 2021, acknowledging that it was too late to halt the project, Joe Biden [declined](#) to impose sanctions on pipeline owner Nord Stream 2 AG and its German CEO Matthias Warnig.

Biden's concession met with vehement opposition from Republican Senator Ted Cruz, who led a rearguard campaign against the pipeline by [delaying](#) Biden administration nominees for ambassadorial and other key posts. Nevertheless, Washington's acquiescence to the project was further confirmed by the above-mentioned (Section 1.4.5) July 2021 German-US agreement. By late 2021, the pipeline was technically complete, with approval by the German regulator [expected](#) in mid-2022.

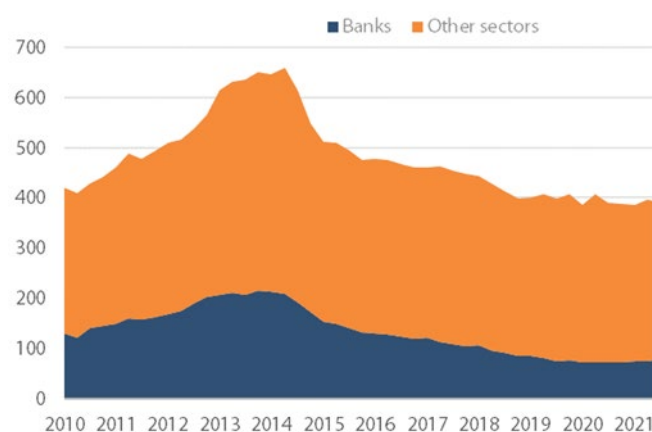
The threat of a Russian invasion of Ukraine means that the pipeline could still be derailed. A Senate bill tabled by Ted Cruz would have required sanctions whether or not an attack actually took place, but it was [voted down](#) in January 2022. An alternative bill tabled by Democrat Bob Menendez, currently under discussion, would only trigger sanctions in the event of an invasion. For its part, the German government has not committed to dropping Nord Stream 2.

2.3. Finance sector

2.3.1. The Russian banking sector narrowly escapes a major crisis in 2014

Russian banks, and through them Russian companies in general, traditionally relied on Western capital markets for financing, having accumulated a total [US\\$659 billion](#) in foreign debt by June 2014 (Figure 4). EU and US sanctions heavily restricted this practice, with a ban on Western loans to five state-owned banks representing [over half](#) of total assets held by the Russian banking sector. Unable to get foreign loans extended, banks and their corporate clients were forced to pay back [US\\$150 billion](#) during the 12 months following June 2014, at a time when they could least afford to do so (Figure 4). Combined with the economic downturn, the devaluation of the rouble, and a financial situation that had been precarious even before 2014, sanctions pushed Russia's banking sector to the brink of

Figure 4 – Russia, external corporate debt US\$ billion



Since Western sanctions restricted access to finance, Russian banks and other companies have been borrowing much less money from international lenders

Data source: [Central Bank of Russia](#).

[collapse](#). In January 2015, the government was forced to intervene, digging deep into its international reserves with a 1 trillion rouble (€12 billion) bail out.

Seven years on, Russian banks are looking much [healthier](#). Profits have risen, and share prices are close to or above historical highs. With greatly reduced foreign debt, the sector has become less vulnerable to sanctions, and record high international reserves (largely amassed from federal taxes on hydrocarbon exports, [US\\$623 billion](#) in November 2021, 42 % of GDP) mean that plenty of state funding would be available in the unlikely event of another mass bail-out. However, this would not protect banks from potential new Ukraine-related sanctions barring them from processing foreign payments.

2.4. Agrifood sector

Economic effects also stem from Russia's own sanctions restricting agrifood imports; initially, these hurt not only EU farmers, but also Russian consumers, forced to turn to more expensive and in some cases inferior alternatives. As a result, retail food prices rose [17%](#) in 2014, compared to an average inflation of 11 %; pork and fruit were among the worst affected categories, with price rises of around 25 %. In the final quarter of 2014, EU dairy exports to Belarus increased [tenfold](#) year-on-year, while fruit and fish doubled; given that overall Belarusian demand for EU agrifood products remained flat, this huge increase suggests that at least some EU products were getting into Russia as re-exports from Belarus.

Since then, the situation has stabilised. In 2015, Russian customs authorities cracked down on illegal imports, destroying [thousands](#) of tonnes of food; for their part, domestic producers have developed acceptable [alternatives](#) to banned items such as Italian Parmesan. Protected from Western competition, the country's agrifood sector is flourishing: food production increased by [31%](#) between 2014 and 2019, while imports shrank.

2.5. Crimea

Crimea was hard hit by the loss of its economic ties with Ukraine and the EU; in the aftermath of sanctions, the peninsula's foreign trade fell by [90%](#). Given that around [two-thirds](#) of visitors used to be Ukrainians, the tourism sector suffered. Severing transport links with the Ukrainian mainland, together with water and electricity supplies, caused disruption to the wider economy. Even Russian companies were forced out, due to the risk of Western sanctions – Sberbank and VTB banks, which formerly had Ukrainian subsidiaries in Crimea, [withdrew](#), while low-cost carrier Dobrolyot, an Aeroflot subsidiary, [stopped operating](#) in August 2014.

Since the initial shock, Crimea has partially adapted to the new situation. The completion of the Kerch Bridge in 2018 restored road and rail links to the mainland. Aeroflot has resumed flights, and the number of Russian tourists has risen steadily, reaching a post-Soviet record of 7.43 million in 2019, according to official [statistics](#). However, Ukrainian [sources](#) suggest that the actual number of visitors is much lower than this. Despite new power stations and reservoirs, [power cuts](#) and [water shortages](#) continue. Financial support for Crimea including budget transfers and pensions payments have cost Moscow an estimated [US\\$35 billion](#) since 2014, yet the two regions comprising Crimea are still poorer than most parts of Russia, with per capita GDP (for the two regions combined) of just over [€3 000](#), less than half the national average of €7 550.

2.6. Impact of sanctions on the broader economy

2.6.1. Russian economic performance since 2014 has been mediocre

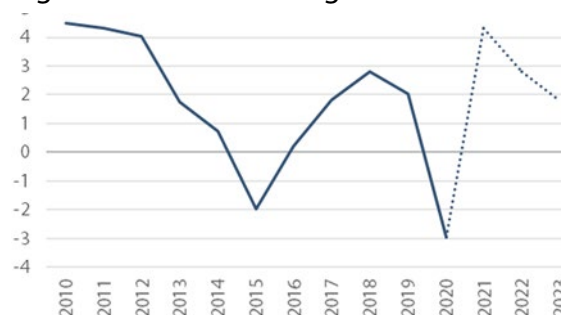
Several months after sanctions entered into force, in 2015 the [Russian economy](#) slipped into a recession that lasted nearly two years, the longest economic downturn since the 1990s. Since then, Russia's economy has performed better – the 2017 to 2019 period saw a return to economic growth and positive indicators in several areas: a strong federal budget surplus, low levels of debt, low unemployment and falling inflation. In 2020, while the human cost of the pandemic was very high, in [economic terms](#), Russia weathered the storm better than many other countries. After a rebound of 4.3 % in 2021, growth of 2.8 % is [forecast](#) for 2022, dropping to 1.8 % in 2023 (Figure 5).

US sanctions already restrict Western purchases of Russian government bonds, and further restrictions are likely if Moscow decides to attack Kyiv. Such measures tend to result in lower credit ratings for the country's sovereign debt and therefore push up financing costs. However, the macroeconomic impact is [limited](#) given that Russia has sound public finances and does not need to borrow much money.

Although the Russian economy looks healthier now than it did in 2014, in many important respects its performance remains disappointing. Despite economic recovery, growth in 2017-2019 (average: 2.2 %) never came back to the high levels seen during the first decade of the 2000s (2000-2008 average: 7 %). The World Bank [forecasts](#) that in the longer term, growth will return to pre-pandemic levels of around 2 % a year – low in comparison to the figure of [4.5 %](#) averaged during the 2014-2019 period by the group of upper middle income countries, which includes Russia.

Russia's 2014-2016 recession and its subdued economic performance since then are not solely the result of sanctions. According to Finance Minister [Anton Siluanov](#), the collapse in the price of oil, Russia's main export, is a much more significant factor. Long-term structural problems such as excessive state control of the economy, a lack of innovation, corruption and an inadequate justice system (a significant [deterrent](#) to foreign investment) all weigh heavily on economic growth.

Figure 5 – Russian GDP growth



Sanctions were one of the factors that pushed the Russian economy into recession in 2015. Even after recovery, growth is still well below pre-2014 levels.

Data source: World Bank (data for [2010-2020](#); forecasts for [2021-2023](#)).

2.6.2. Sanctions have a significant indirect impact on Russia's economy

Table 4: Top 10 Russian companies by turnover

Name of company	Turnover, €billion (2020)*	Sector	Type of sanctions
Gazprom	70	Oil and gas	Restrictions on oil projects
Rosneft	60	Oil and gas	Restrictions on oil projects and lending
Lukoil	58	Oil and gas	Restrictions on oil projects
Sberbank	38	Banking	Restrictions on lending
Russian Railways	25	Transport	None
X5 Retail Group	22	Retail	None
Rostec	21	Defence	Restrictions on lending, exports of dual-use items, (US) arms sales to third countries
Magnit	17	Retail	None
VTB	15	Banking	Restrictions on lending
Rosatom	14	Nuclear	None

Data source: [RBK](#).

* based on exchange rate €1 = 90 roubles

Although the number of directly targeted companies is relatively small, financial restrictions on them affect the economy as a whole, due to the size and strategic importance of such companies (six out of Russia's [10 largest](#) companies by turnover are on sanctions lists, Table 4). Sanctions also have a broader impact on the Russian economy, beyond directly targeted companies and sectors, for various reasons.

Deterring foreign businesses: following several years of solid growth in inward foreign direct investment (FDI), 2014 saw the beginning of a slump from which the country has not yet fully recovered. Restrictions affect investors not only from Western countries imposing sanctions, which account for around three-quarters of Russia's FDI, but also the rest of the world, in view of US extra-territorial sanctions. Efforts to attract Asian investors (from China, for example) to compensate for the loss of Western capital, have only made [limited headway](#) (see Figure 6). Combined with the forced repayment of foreign loans mentioned previously (see Figure 4 in Subsection 2.3.1.), this slump has cut Russian companies off from international finance.

Sanctions costs for individual companies

Initially at least, Russian companies directly targeted by sanctions performed less well than other Russian companies in similar sectors did. One [study](#) found that, over the 2014 to 2016 period, sanctioned companies lost one-quarter of their turnover, one-half of their total assets, and one-third of their staff compared to non-sanctioned peers. More recent [figures](#) show that since then, many of them have adapted and even prospered. For example, between 2016 and 2019 Sberbank managed to nearly quadruple its profits, VTB bank went from barely breaking even to earning 81 billion rouble (€1.2 billion), while defence and technology conglomerate Rostec saw its profits rise by 29 %.

Not only do sanctions directly bar certain types of trade and investment, they also deter Western companies from economic activity that is not directly concerned by sanctions. As an example of the risks that can arise for foreign companies engaged in legal activities, in July 2017 German company Siemens discovered that four gas turbines supplied to a power station in southern Russia had turned up in Crimea, exposing it to EU sanctions; to avert these, Siemens [ended](#) some of its Russia operations. In a 2021 [survey](#) of German companies, respondents mentioned additional red tape, difficulties in obtaining trade finance, and reputational risks due to negative sentiment towards Moscow as some of the other ways in which sanctions made it harder to do business in Russia.

World Bank [data](#) show that in 2013, foreign-owned companies in Russia had considerably higher productivity than their Russia-owned counterparts; moreover, while productivity in the latter stagnated or declined during the 2005-2013 period, foreign companies increased theirs significantly.² Such data suggest that Western businesses not only bring capital to Russia but also help to [drive innovation](#); their declining presence is therefore a serious blow to the country's economic modernisation drive.

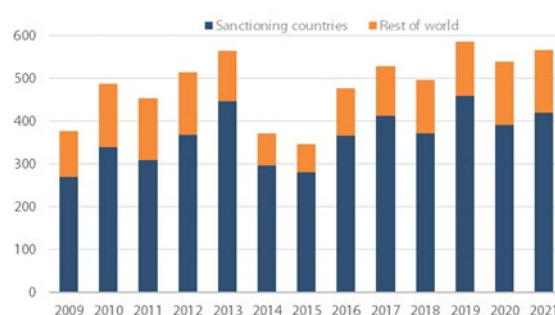
Protectionism: protectionist tendencies in Russia date back many years (for example, a ban on [Polish meat](#) between 2005 and 2007 over alleged food safety concerns), but intensified after 2014. In response to economic sanctions, the Russian government launched an [import substitution](#) drive, aimed at replacing mostly Western imports with domestic products. Such measures apply not only to goods restricted by Western sanctions and Russian counter-measures, such as dual-use goods for the defence industry or European dairy products, but also to many other items. For example, [government purchases](#) of a wide range of industrial goods, including clothes, telecommunication equipment and helicopters, must give preference to products made in Russia or Eurasian Economic Union countries such as Belarus. Government departments must also use Russian software, and as of April 2021, devices such as smartphones and computers come with Russian software [pre-installed](#).

In November 2019, Vladimir Putin [claimed](#) that sanctions had made Russia more self-reliant. In addition, import substitution benefits Russian manufacturers by shielding them from foreign competition. However, according to former European trade commissioner and WTO head [Pascal Lamy](#), Russia's protectionist measures risk driving up consumer prices and reducing the efficiency of the economy. So far, the results have been mixed; while agrifood producers have benefited, other sectors still [struggle](#) to produce goods of adequate quality that can compete on domestic or international markets. Inflation is relatively high ([8 %](#) in 2021, up from 3.4 % the previous year) but this has more to do with [factors](#) such as rouble devaluation and rising global prices.

Since 2014, increased protectionism and restricted access to Western finance, both of which result

Figure 6 – Foreign direct investment in Russia

(FDI stocks, US\$ million)



Foreign direct investment in Russia, which mostly comes from Western countries, slumped after 2014. It has since recovered, but is still barely above 2013 levels.

Data source: [Central Bank of Russia](#).

² See Figure 2.8, TFP by Sector and Ownership, [Russian Federation Systematic Diagnostic: Pathways to Inclusive Growth](#), World Bank, 2016.

from sanctions, have partially reversed the previous trend towards integration into the global economy. While greater self-sufficiency may boost resilience to external threats such as sanctions, it also makes it harder for Russia to benefit from positive global trends. Cumulative [GDP growth](#) for the global economy during the six years period from 2014 to 2019 was nearly 20 %, whereas Russia's economy only expanded by 6 % during the same period.

2.6.3. Quantitative estimates of the impact of sanctions vary widely

Table 5: Quantitative estimates of impact of Western sanctions adopted in 2014 on Russian GDP

Source of estimate	Date of estimate*	Cost of sanctions for Russia
IMF	August 2015	Initial cost: 1-1.5 % of GDP, rising to 9 % cumulative loss of GDP in the medium term
IMF	August 2019	GDP growth reduced by 0.2 % a year
European Commission	2014	0.6 % GDP in 2014, rising to 1.1 % GDP in 2015
Anton Siluanov (finance minister)	December 2014	US\$40 billion (2 % GDP) initial cost
Alexei Likhachyov (then deputy economic development minister)	January 2016	€25 billion (2.4 % of GDP) in 2015, less in subsequent years
Alexey Kudrin (former finance minister)	July 2017	1 % GDP in 2015, subsequently 0.5% GDP a year
A. Shirov et al , Russian Institute of Economic Forecasting of the Russian Academy of Sciences	February 2015	Cumulative loss of up to 8-10 % GDP in medium to long term
Economic Expert Group (Russian consulting firm)	2018	0.6 % GDP in 2014, declining to 0.3 % in 2017; cumulative cost by end of 2017: 1.8 % GDP
Evsey Gurvich/Ilya Prilepskiy (Russian economists)	November 2015	2.4 % GDP cumulative cost by 2017
A. Knobel et al (Russian economists)	2019	1 % GDP a year
Bloomberg Economics	November 2018	6 % GDP cumulative cost 2014-2018

Calculating the cost of sanctions in GDP terms is hard, given that, as mentioned above, sanctions coincided with the oil price collapse, making it difficult to disentangle the effects of these two external shocks from one another. Russia's economy also suffers from long-term [structural challenges](#), such as an excessive state footprint and under-investment, all of which makes it difficult to estimate the extent to which low growth can be attributed to sanctions. In Russian government circles, opinions are divided; [Vladimir Putin](#) has often downplayed the impact, arguing that the economy has successfully adapted, yet former and current finance ministers [Alexey Kudrin](#) and [Anton Siluanov](#) are among those who acknowledge that sanctions are a persistent dragon on growth.

Estimates of the quantitative impact on Russia vary widely, in the range of 0.2 % to 2 % of GDP a year. There is consensus that the cost of sanctions is significant but not crippling for Russia, and smaller than the impact of lower oil prices. Most observers also believe that the impact of sanctions

lessens with time as the Russian economy adapts to them. Of course, new sanctions imposed in response to an invasion of Ukraine would significantly raise the economic costs, depending on their severity.

2.7. Impact of sanctions on the EU economy

Table 6: Quantitative estimates of impact of sanctions on the EU economy, 2014-2016

Source of estimate	Date of estimate*	Cost of sanctions for the EU economy
European Commission	2014	€40 billion (0.3 % GDP) in 2014, €50 billion (0.4 %) GDP in 2015
Institute of Economic Forecasting of the Russian Academy of Sciences	February 2015	0.5 % GDP
P. Havlik , Vienna Institute for International Economic Studies	November 2014	€11 billion in lost exports (0.1 % GDP)
WIFO (Austrian Institute of Economic Research)	Autumn 2016	Less than 0.2 % GDP for 2015, up to 400 000 jobs

Sanctions have also come at an economic cost to the countries that impose them – mainly to EU Member States rather than the US, given that the latter's trade and general interdependence with Russia is much smaller. For EU countries, one of the main impacts comes from Russian counter-sanctions banning various agrifood products. In 2013, EU exports of goods covered by the ban were worth [€5.1 billion](#) – 43 % of the EU's agrifood exports to Russia in that year and 4 % of its agrifood exports to the world. The effects of the ban were particularly severe in the three Baltic states, which until then had sent over half their agrifood exports to Russia. To some extent, these effects have since been mitigated: EU measures including compensation payments and market support have helped to tide farmers over the immediate crisis, and exporters have found alternative markets, for example in Asia.

Most other sectors of the EU economy are not directly concerned. Neither EU nor Russian sanctions apply to the main categories of European [exports](#) to Russia (machinery, cars and trucks, electrical and electronic equipment, pharmaceuticals) or Russian exports to Europe (hydrocarbons, metals). Overall, total EU exports to Russia declined from €99 billion in 2014 to €70 billion in 2015, recovering only partially to €88 billion in 2019. This decline partly reflects the general deterioration in the environment for foreign trade and investment in Russia mentioned above (Subsection 2.6.2), but probably has at least as much to do with exchange rates. The latter tend to [correlate](#) with oil prices. In the six months from July 2014, the rouble devalued by [40 %](#) against the euro, making EU goods almost twice as expensive for Russian consumers.

Combining trade and other effects, there have been several attempts to evaluate the cost of sanctions for the EU economy (see Table 6 above). Again, there is considerable variation. In absolute terms, EU and Russian losses are within the same order of magnitude, although relative to GDP they are much smaller for the EU, given that the EU's economy is about 10 times larger.

3. Political impact of sanctions

3.1.1. Impact of sanctions on Russian public opinion

Few dispute that sanctions have caused at least some economic pain to Russia. Of course, economic effects are only a means to an end, i.e. to persuade Russia to change its behaviour. According to some [theories](#), sanctions indirectly pressure governments by causing economic pain to the general population, encouraging people to demand change. In practice, however, this rarely happens, as public opinion in sanctioned countries tends to '[rally around the flag](#)' in defiance of international pressure. Surveys suggest that this also happened in Russia. In the initial aftermath of sanctions, Vladimir Putin's approval ratings soared, and an overwhelming majority ([over 70 %](#)) opposed making concessions in order to get sanctions lifted. Several years later, approval of Putin has [faded](#), but so has the perceived impact of sanctions (Figure 7). Most Russians [blame](#) the latter on the West, rather than their own leaders.

3.1.2. Sanctions have not visibly changed Russian behaviour

The EU has made it [clear](#) that lifting its Ukraine-related economic sanctions is conditional on Russia implementing its commitments under the Minsk II Agreement. Measured by this standard, Western sanctions have not had a visible effect. Sporadic fighting continues in the Donbas, there is no progress towards resolving the status of the separatist territories, and tensions are escalating with the huge recent Russian [military build-up](#) on the borders of Ukraine.

Other Western sanctions have so far not brought change. Chemical weapons sanctions in 2019 did not deter Russian security forces from carrying out a second attempted poisoning (of Alexey Navalny) with Novichok, and the Russian authorities have not eased up on opposition activists since the EU's human rights sanctions in March 2021 over the repression of Navalny's movement.

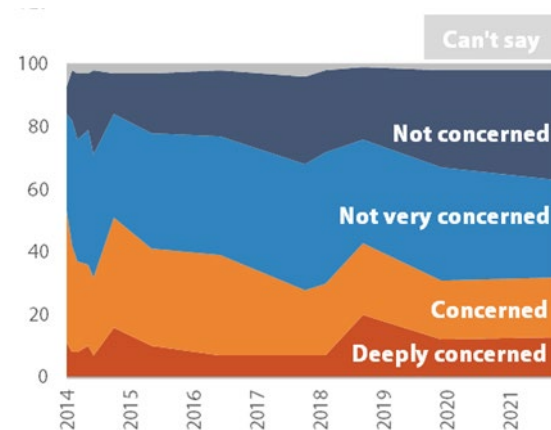
3.1.3. Russia's elite has suffered little from sanctions

The [European Parliament](#) and opposition activist [Alexey Navalny](#) are among the many voices calling for action to hit Russia where it hurts, by targeting the financial assets of influential oligarchs who are close to the regime. US CAATSA sanctions already provide for this option, while the EU at present can only designate such individuals if they are involved in violations of Ukrainian territorial integrity, human rights abuses, chemical weapons use or cyber-attacks. In any case, only a handful of oligarchs have ended up on EU or US lists. While restrictive measures have [inconvenienced](#) the persons concerned (Oleg Deripaska was forced to sell his controlling stake in Rusal, while Arkady Rotenberg lost access to an [estimated](#) €30 million of assets in Italy), Rotenberg at least has been amply

Figure 7 – Sanctions and Russian public opinion, 2014-2021

Are you worried about Western sanctions against Russia?

(% of respondents)



Most Russians are not very worried by Western sanctions.

Data source: [Levada Centre](#).

compensated through [lucrative government contracts](#). As the Rusal affair illustrates (see Subsection 1.4.4 above), sanctions against Russian billionaires can backfire on Western economies.

Alexey Navalny, who [describes](#) Western sanctions as a 'terrible disappointment', points to financial lobbies as one of the reasons why Western governments are reluctant to sanction more oligarchs. According to him, most names on EU and US sanctions lists are Russian government officials and security force personnel with little influence over decision-makers, who in any case tend not to have many assets in the West and are therefore not much affected. Indeed, some may even consider Western sanctions as a badge of pride; for example, former presidential aide Vladimir Surkov considers his place on the list as the [equivalent of an Oscar](#).

While most of Russia's elite has escaped the worst effects of sanctions so far, an attack on Ukraine could change this. In January 2022, UK Foreign Secretary Liz Truss [warned](#) that pro-Putin oligarchs could soon face hard-hitting restrictions; similar measures are being considered in Washington and [Brussels](#).

3.1.4. Sanctions against Russia serve more than one purpose

[Research](#) shows that, as a rule, sanctions only rarely achieve tangible effects in persuading targeted countries to reverse their actions. However, coercion is not the only [function](#) of sanctions. For example, sanctions send a strong message about the EU's attachment to certain values in its foreign policy, such as defending human rights. Even if Russian security officials involved in serious human rights abuses against Alexey Navalny are unlikely to modify their behaviour, failing to designate them could undermine the EU's credibility as a normative power.

Sanctions are also an important deterrent. Impunity for Russia after its 2008 war with Georgia may simply have [emboldened](#) it to attack Ukraine. The West's tougher response in 2014 has not persuaded Moscow to restore Ukrainian territorial integrity, but may at least have [discouraged](#) further land grabs. Fears that Moscow might seize the strategically important Ukrainian port of Mariupol or much needed [water catchment areas](#) for Crimea have not yet been realised.

Whether or not sanctions act as a sufficient deterrent in the current context of threatening Russian [troop movements](#) close to the Ukrainian border is debatable. Arguably, the fact that the West has already made painful restrictions stick for over six years helps its threat to impose further sanctions such as exclusion from SWIFT or blocking Nord Stream 2 look more credible. On the other hand, now that a NATO military response is [unlikely](#), Russia could [decide](#) that, having learned to live with existing sanctions, economic pain is a price worth paying for securing its strategic objective of keeping NATO out of Ukraine.

European Parliament position: in its September 2021 [recommendation](#) on the direction of EU-Russia political relations, the Parliament stresses that sanctions must remain in place until the territorial integrity of Georgia, Moldova and Ukraine is restored within their internationally recognised borders. The scope of EU sanctions should be expanded to include 'passportisation' (i.e. offers of Russian citizenship to residents of occupied territories), the organisation of illegal elections in Crimea, as well as systemic repression of democratic forces, minorities, religious and LGBT+ groups in Russia. Furthermore, the EU should adopt an anti-corruption sanctions regime to complement its existing EU Global Human Rights Sanctions Regime. Sanctions should be applied to representatives of 'the Russian authorities, Russian oligarchs, President Putin's acolytes and members of their families'.

In the event of further Russian aggression, the EU should be ready to call for the exclusion of Russia from the SWIFT payment system and to phase out its imports of Russian oil and gas.

The Parliament recommends extending economic sanctions by one year at a time, instead of six months, as is currently the case. Council decisions on sanctions should be adopted by qualified majority voting instead of unanimity. To make EU measures more effective, they should be coordinated with partners such as the US, the UK, Canada, and Japan. The EU should take more determined action to close loopholes and deter Russia from circumventing restrictions.

In its December 2021 [resolution](#) on the situation on the Ukrainian border, the Parliament calls for severe economic and financial sanctions in close coordination with the United States and other partners. These should include: targeted sanctions against military officers involved in any attack as well as associates of Vladimir Putin; exclusion of Russia from the SWIFT payment system; a ban on purchases of Russian government bonds; economic restrictions on key sectors; and a block on Nord Stream 2.

MEPs from the Parliament's Foreign Affairs and Security and Defence Committees visited Ukraine in January 2022. The delegation [emphasised](#) the Parliament's unwavering support for Ukraine's sovereignty and territorial integrity, and called for 'the strongest possible response should Russia take military steps against Ukraine'.

In 2014, the EU and the US adopted sanctions against Russia after it annexed Crimea. Since then, they have added various other restrictive measures, responding to Russia's use of illegal chemical weapons, cyber-attacks and human rights abuses. With concerns that Moscow is planning another attack against Ukraine, Western countries are now considering tough new measures.

Ukraine-related economic sanctions in particular have had a significant impact on not only the companies and sectors directly targeted but also the Russian economy as a whole. Sanctions have not persuaded Russia to change its behaviour, but they may have had a deterrent effect.

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