Russia's war on Ukraine: New EU sanctions

Outraged by Moscow's aggressive invasion of Ukraine, EU countries have adopted unprecedentedly tough sanctions in cooperation with close partners such as the US, Canada and the UK. Although Russia will partially adapt, these measures are expected to cause major disruption and isolate the country from the global economy.

Recent developments on sanctions following the Russian invasion of Ukraine

On 24 February 2022, Moscow launched an unprovoked attack on Ukraine. Now, over a month later, the war has resulted in civilian deaths, large-scale displacement of people, and destruction of infrastructure, including residential areas, medical facilities and educational institutions. The indiscriminate and disproportionate use of force constitutes a violation of international norms – as enshrined in human rights law, humanitarian law and the law of armed conflict. According to the United Nations (UN) Human Rights Office, as of 25 March 2022, over 1 000 civilians had been killed and close to 1 700 injured. The UN Refugee Agency reports that 4 215 047 refugees fled Ukraine between 24 February and 3 April 2022.

In response to Russia's military aggression, the EU has adopted measures that are unprecedented in scale and nature. The sanctions adopted in response to the invasion include asset freezes and visa bans against 877 individuals (i.e. Russian politicians, military officers, oligarchs and propagandists) and 62 entities (e.g. in the military and defence sectors) implicated in the invasion of Ukraine. Financial and trade sanctions imply restrictions on loans to certain Russian banks and companies, including in crypto-assets, as well as bans on exports (of arms, dual-use goods and technology) and imports (of iron and steel).

Sanctions packages in response to Russia's invasion of Ukraine

The first round of EU sanctions was introduced on 23 February 2022, following Russian President Vladimir Putin's decision to recognise the two 'People's Republics' of Donetsk and Luhansk as independent states. This was followed by new packages of harsher measures adopted on 25 February, 28 February and 15 March 2022, and extended on 2 and 9 March 2022.

Specific restrictions include:

- targeted **individual sanctions** against Vladimir Putin, senior government ministers, members of the National Security Council and Russian Federation Council. Measures also target oligarchs – e.g. Roman Abramovich and German Khan – in the finance, energy, digital and metallurgical sectors, and propagandists such as Margarita Simonyan, head of the RT news channel, and Konstantin Ernst, chief executive officer of Channel One Russia.
- bans on **financial transactions** with all state-controlled banks and certain state-owned enterprises; financial deposits from Russia in EU banks exceeding €100 000; accounts belonging to Russian clients in EU banks; provision of credit rating services to Russian individuals and entities; the sale of euro-denominated securities to Russian clients; participation in Russian Direct Investment Fund projects;
- exclusion of seven **banks** from the SWIFT financial messaging system.
- **energy** sector: a ban on exports of services and technology used by Russian oil refineries and on new investments in the energy sector;
- **aviation** sector: a ban on the sale of all aircraft, spare parts and equipment to Russian airlines.
- restrictions on **exports** of high-tech goods with potential military applications, such as electronics, computers, information security, telecoms, sensors and lasers, avionics equipment, maritime navigation and radio communication technology to all Russian purchasers;
- a ban on **broadcasts** by Kremlin propaganda channels RT and Sputnik; and
- a ban on the export of luxury goods – certain wines, spirits, precious stones and luggage items worth over €300, and cars, boats and aeroplanes worth more than €50 000.

On 5 April, the Commission proposed a fifth package of sanctions, including an import ban on Russian coal.

This paper updates a previous 'at a glance' note of 3 March 2022, by Martin Russell.

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Sanctions coordination

As with the sanction packages adopted against Russia in 2014 in response to the Russian annexation of Crimea, the EU measures are coordinated with the US, the UK, Canada, Australia and Japan. Presenting a united front, the sanctions coalition has introduced travel bans and asset freezes against key political and business figures, frozen more than half of Russia's central bank reserves and restricted exports of technologies to hinder Russia's long-term technological advancement. Sanctions targets include the Russian government, financial entities and individuals. Together, these measures have blocked over 70 % of Russia's banking assets. The EU Member States remain united in their determination to respond to Russia's assault. Nevertheless, some of them, e.g. Poland and the Baltic countries, are advocating yet stricter measures, such as a total trade ban. Other EU states – most notably Germany – have been sceptical about introducing more comprehensive sanctions, especially restrictions on energy imports.

Consequences of the most recent sanctions

The fourth round of sanctions, adopted on 15 March 2022, imposed a ban on exports of dual-use goods and technology employed in the defence sector that specifically weaken Moscow's military capacities. While Chinese imports could offer an alternative, Chinese substitutes are often of inferior quality and can take years to develop. Another option for Russia is to use Chinese companies as intermediaries and purchase equipment from the US. Such an act would fall under US sanctions however and could have consequences for the Chinese go-betweens. Moreover, the exhaustive Western sanctions against Russia, and US warnings of the consequences for sanctions non-compliance, could prevent China from taking risks.

Consequences for the Russian economy

Contrary to the sanctions imposed in 2014, which were directed toward a limited number of entities and sectors, the current package aims to exert maximum pressure on the Russian economy. The bans on financial transactions and imports of goods, along with limits on visa applications and access to the SWIFT system, affect not only high-ranking politicians but also businesses and ordinary Russians. In some instances, the EU has tried to cushion the impact on the general public, by setting financial ceilings for certain goods subject to sanctions. Consumers' purchasing power has decreased significantly with the depreciation of the rouble, which lost 30 % of its value against the euro at the initial stage of sanctions implementation but returned to close to pre-invasion levels at the beginning of April. Furthermore, the latest rounds of sanctions are expected to result in product shortages, inflation at an average of 15 % for the coming year, and a 7 % decline in gross domestic product. Although the Russian population has already been affected by rising prices and shortages of essential products and medicines, Russia's membership of the Eurasian Economic Union means it can import such goods from other countries, such as Armenia.

Prospect of energy sanctions

Oil and gas revenues are a major funding source for Russia's war on Ukraine. In the short term, EU countries will find it difficult to stop buying gas from Russia, since the country supplies over 40 % of EU gas imports. Nonetheless, in retaliation against the West for imposing harsh sanctions on Russia, on 23 March 2022, Putin announced that Russia would demand payment in roubles for gas sold to 'unfriendly countries'. This requirement is effective as of 1 April 2022. The G7 nations' rejection of this demand may yet prompt Russia to cut off gas supplies. With oil and gas prices soaring and the immense dependency on Russian energy, some EU countries, such as Spain, are calling for a unified EU response to the situation. Member States are also seeking to diversify. For instance, after suspending certification of the Nord Stream 2 Russian gas pipeline, Germany negotiated a long-term supply of liquefied natural gas from Qatar. Belgium has meanwhile decided to continue using its two nuclear reactors until 2035, reversing plans to close the facilities in 2025. The European Commission is working to reduce the EU's energy dependency by proposing obligatory gas storage targets, measures reducing gas consumption and an increase in the percentage share of renewable energy. It has also released a joint statement with the US on European energy security, securing over 15 billion m^3 of LNG supply from the US for 2022.

On 29 March 2022, Mairead McGuinness, EU Financial Services Commissioner, Adewale Adeyemo, Deputy Secretary of the US Treasury, and Stefano Sannino, EEAS Secretary-General, introduced a new sanctions dialogue aimed at effective sanctions implementation across jurisdictions.