Sanctions over Ukraine
Impact on Russia

SUMMARY
In early 2014, Russia violated international law by annexing Crimea and allegedly fomenting separatist uprisings in the eastern Ukrainian region of Donbas. The European Union, the United States and several other Western countries responded with diplomatic measures in March 2014, followed by asset freezes and visa bans targeted at individuals and entities. In July 2014, sanctions targeting the Russian energy, defence and financial sectors were adopted.

These sanctions have not swayed Russian public opinion, which continues to staunchly back the Kremlin's actions in Ukraine. Despite Western efforts to isolate Russia, the country is playing an increasingly prominent role on the global stage. On the other hand, sectoral sanctions have proved painful, aggravating an economic downturn triggered by falling oil prices, from which the country has only just begun to recover.

Sanctions have affected the Russian economy in various ways. The main short-term impact comes from restrictions on Western lending and investment in Russia. Oil and gas production remains unaffected for the time being, but in the long term energy exports are likely to suffer. Meanwhile, Russian counter-sanctions are benefiting the country's agricultural sector, but consumers are losing out in terms of choice and price. Quantitative estimates of the impact are difficult, but most observers agree that sanctions are costing Russia billions of euros a year and holding back a return to higher rates of economic growth.

This is an updated edition of a briefing from March 2016.
### Sanctions timeline, 2014-2018

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<th>EVENTS IN UKRAINE</th>
<th>TIER I (DIPLOMATIC) SANCTIONS</th>
<th>TIER II (INDIVIDUALS/ENTITIES) SANCTIONS</th>
<th>TIER III (ECONOMIC) SANCTIONS</th>
<th>RUSSIAN COUNTER-SANCTIONS</th>
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<td>22 Feb: President Yanukovych flees Ukraine; 28 Feb: ‘little green men’ in Crimea</td>
<td>Mar: suspension of: EU-Russia partnership talks, etc.</td>
<td>6 Mar (US); 17 Mar (EU): asset freezes/travel bans</td>
<td>23 Jun: Crimea import ban</td>
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<td>7 Apr: fighting breaks out in Donbas</td>
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<td>12 Sep: EU and US strengthen sectoral sanctions</td>
<td>6 Aug: agrifood import ban</td>
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<td>11 May: Donbas independence referendums</td>
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<td>20 Mar: EU ties sanctions to implementation of Minsk accords</td>
<td>20 Dec: full ban</td>
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<td>July 220</td>
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<td>Jan-Dec 2016: 556 deaths</td>
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<td>Jan-Oct 2017: 284 deaths</td>
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<td>Despite a series of ceasefires sporadic fighting continues. However, the exchange of 320 prisoners in December 2017 may be a hopeful sign.</td>
<td></td>
<td>No expiry date set</td>
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<td>EU sanctions renewed every six months, in March and September; next expiring on 15 March 2018</td>
<td>EU sanctions renewed every six months, in July and January; next expiring on 31 July 2018</td>
<td>Sanctions renewed once a year, in June; next expiring on 23 June 2018</td>
<td>Import ban renewed once a year; next expiring on 31 Dec 2018</td>
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Data source: [Council of the EU, US Department of State](https://www.euractiv.com/section/ukraine/files/); unless otherwise stated, the timeline refers to EU sanctions; data on Ukrainian military casualties vary significantly from one source to another; although these figures from the [Ukrainian Military History Museum](https://www.militaryhistory.org/) could not be independently verified, they give some idea of the changing intensity of the conflict.

### Summary of sanctions

In 2014, as the situation in Ukraine deteriorated, Western countries gradually upgraded their response, progressing from Tier 1 (diplomatic) sanctions, to Tier 2 (individuals/entities) sanctions, before finally adopting Tier 3 (economic) sanctions – the most costly for both sides, and hence also the most controversial. Russia retaliated with its own counter-sanctions.
EU and other Western sanctions against Russia

Tier 1 – diplomatic sanctions (March-April 2014; indefinite)

EU and other Western countries have suspended talks with Russia on:

- (EU-Russia) visa facilitation and modernisation of the partnership agreement between the two sides; no bilateral summits held since 2013;
- a (US-Russia) bilateral investment treaty;
- (Switzerland/New Zealand-Eurasian Customs Union): free trade agreements.

International organisations have put cooperation with Russia on hold:

- OECD: Russian accession process suspended;
- NATO: all practical civilian and military cooperation with Russia suspended;
- G8: reverted to G7 format; Russian participation suspended;
- Council of Europe Parliamentary Assembly (PACE): voting and other rights of the Russian delegation to the Assembly suspended (10 April 2014). Since then, Russia has not participated in PACE, although in other respects it remains a full member of the Council of Europe and is not planning to leave.

Tier 2 – sanctions against individuals and organisations (adopted March 2014, amended several times since; renewed every six months, next due for renewal on 15 March 2018)

In March 2014, the US and the EU imposed visa bans and asset freezes on certain Russian and Ukrainian individuals and organisations. The EU's list has been gradually expanded to 149 persons and 38 organisations, including:

- Russian/Ukrainian politicians and officials publicly supporting violations of Ukrainian sovereignty: Deputy Prime Minister, Dmitry Rogozin, Chechen leader, Ramzan Kadyrov, Liberal Democratic Party of Russia leader, Vladimir Zhirinovsky;
- military leaders, such as Black Sea Fleet Commander, Aleksandr Vitko;
- Donbas separatists, such as former Donetsk People's Republic (DPR) head, 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 Sevastopol Commercial Seaport company, illegally transferred to Russian ownership.

Tier 3 – economic sanctions (adopted July/September 2014, renewed every six months, next due for renewal on 31 July 2018)

Two weeks after the US announced economic sanctions on 16 July 2014, the EU adopted similar restrictions targeting the Russian financial, defence and energy sectors. Both the EU and the US reinforced economic sanctions on 12 September 2014:

- restricted Russian access to EU capital markets: EU nationals and companies are no longer allowed to lend money for a period exceeding 90 days (since September 2014: 30 days) to five major Russian state-owned banks (since September: also three oil companies and three arms manufacturers);
- arms embargo: a ban on arms trade with Russia; a ban on exports of dual-use (civilian/military) items to military clients (since September 2014: also nine companies producing a mix of civilian and military goods);
restricted cooperation with the Russian energy sector: a ban on exports of innovative extractive technology (since September: also on 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.

In addition to these economic 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.

On 20 March 2015, the European Council decided to tie economic sanctions to the full implementation of the Minsk agreements by the end of the year, including restoring Ukraine's control over its eastern borders (US official statements follow a similar line).

In autumn 2014, the European Parliament and the United Kingdom's government, among others, suggested more drastic measures, such as blocking Russian banks from the SWIFT international financial transfer system, in reply to which Prime Minister Medvedev threatened an 'unrestricted response'; in the end, no such steps were taken.

Additional sanctions against Crimea (renewed yearly, next due 23 June 2018)
Crimea-related sanctions, first introduced in June 2014 and expanded since then, ban: all investment in the peninsula; all tourism services (for example, EU cruise ships may not call at Crimean ports); imports from Crimea; and exports of goods, technology and services for use by the Crimean transport, telecommunications and energy sectors.

Differences between EU and US sanctions
For the most part, the EU, the US and other countries have aligned their sanctions with one another, although there are some important differences:

- EU sanctions allow previously existing activities to continue, US ones do not;
- in view of the EU's dependence on Russian gas, its energy sanctions only apply to the oil sector, whereas the US ones apply to both oil and gas;
- EU and US lists of sanctioned persons and companies are not identical;
- EU sanctions against Russia are all Ukraine-related and all date from 2014 or later, whereas the US had already adopted sanctions against Russian officials involved in serious human rights abuses (the 'Magnitsky Act') in 2012; in December 2016, it adopted additional sanctions over alleged Russian meddling in the US presidential campaign;
- EU sanctions are adopted by a unanimous decision of the Council of the EU, whereas most US sanctions are adopted by presidential executive order.

Impact of the Countering America's Adversaries Through Sanctions Act
The Act, adopted by the US Congress in August 2017, requires the US president to ask Congress for approval before lifting sanctions against Russia, thus making it more difficult to end them. It also tightens and expands existing sanctions:

- the US now has the option of discretionary sanctions against companies involved in constructing Russian pipelines;
the maximum duration of loans to the Russian financial sector has been reduced from 30 to 14 days, and to the energy sector from 90 to 60 days;

sanctions are extended to [39 companies](#) supplying Russian intelligence agencies and armed forces;

whereas previous restrictions on cooperation on deep-water, Arctic and shale-oil projects only applied to Russian territory, the Act [extends](#) them to projects anywhere in the world, in which sanctioned entities have a 33 % or larger stake;

the US administration is to look at options by February 2018 for new sanctions, targeted at 'senior foreign political figures and oligarchs', especially those close to the regime, as well as state corporations; it will also consider banning purchases of Russian government bonds by US residents.

These changes have not been followed by the EU.

**Russian counter-sanctions**

*Western leaders denied entry to Russia*

In March 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 banned persons 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. Among the 89 banned EU politicians and military leaders were a disproportionate number of MEPs (13 current and six former), with a particular emphasis on nationals from countries strongly in favour of sanctions, such as Poland, the Baltic States, the UK and Sweden. The current status of the list is unclear, but at least three Lithuanian MEPs were [added](#) in March 2017.

*Other countries applying sanctions*

Albania, Australia, Canada, Iceland, Japan, Liechtenstein, Montenegro, New Zealand, Norway, Switzerland and Ukraine have adopted [similar measures](#) to those of the EU and the US.

*A ban on Western agrifood products (renewed yearly, next due 31 December 2018)*

In August 2014, Russia adopted a one-year [embargo](#) on fruit, vegetables, meat, fish, seafood and dairy products (representing 43 % of EU agrifood exports to Russia in 2013) from the EU, US, Canada, Australia and Norway. On the other hand, cereals, oils, sugar, wine, spirits and products used to manufacture baby food are still allowed.

**EU maintains unity over sanctions despite criticisms**

Poland and the Baltic States, historically wary of potential Russian aggression, have consistently supported sanctions. On the other hand, Slovakian Prime Minister, Robert Fico, Czech President, Miloš Zeman, and Czech Prime Minister, Andrej Babis, Greek Prime Minister, Alexis Tsipras, and Cypriot President, Nicos Anastasiades, are among the EU leaders who argue that sanctions are costly and have failed to improve the situation in Ukraine. Italy also dragged its feet over extending sanctions in [December 2015](#) and again in [October 2016](#).

Nevertheless, periodic Council of the EU votes on extending sanctions have all passed unanimously, most recently in [December 2017](#).
Political impact of sanctions on Russia

Sanctions have not influenced Russian public opinion

Surveys by independent pollster, the Levada Centre, suggest that Russian opinion still solidly backs the country's actions in Ukraine, despite sanctions. Support for Vladimir Putin and the annexation of Crimea has remained constant at over 80% since March 2014, while approval ratings for the EU and US have sunk to 38% and 30% respectively. The percentage of respondents who claimed to have been affected by Western sanctions declined from a peak of 35% in January 2015, to just 19% in April 2017. In June 2017, over two thirds felt that Russia should continue its current policies, with only 19% in favour of making concessions in order to get sanctions lifted.

Only a limited impact on persons subject to sanctions

Individuals targeted by EU and US travel bans and asset freezes are directly affected by sanctions. For example, Putin ally and judo sparring partner Arkady Rotenberg lost access to an estimated €30 million of assets in Italy, as well as (jointly with brother Boris) US$65 million in the US. Gennady Timchenko, another Putin associate, was forced to sell a 43% stake in oil-trading company Gunvor as a result of US sanctions. However, both oligarchs have since been amply compensated through lucrative government contracts. For many, Western sanctions are a badge of pride; for example, presidential aide, Vladimir Surkov, considers his place on the list as the equivalent of an Oscar.

International impact: sanctions have failed to diplomatically isolate Russia

In response to Western sanctions, Russia has looked to the East to break out of diplomatic isolation. China is an increasingly important partner; in 2014, the two countries signed a major gas-supply deal. Furthermore, Moscow participates in China’s Belt and Road Initiative. It remains a major arms supplier to Beijing, and the two countries have carried out several joint military drills. Russia is a key partner to countries as diverse as Japan, India and the Philippines, and is an increasingly prominent player in the Middle East.

Impact in Ukraine: fighting continues, but Russia may be willing to make concessions

Sanctions have not persuaded Russia to give back Crimea; on the contrary, Moscow is building a new road and rail bridge connecting Crimea to the Russian mainland, and has stepped up its military presence in the peninsula to as many as 28 000 troops.

In eastern Ukraine, the intensity of fighting has subsided since 2015, but continues sporadically despite over 30 successive ceasefires, the latest of which was broken in January 2018. Rebel-held areas in eastern Ukraine remain outside Kyiv's control and no progress has been made towards a political settlement that would integrate them with the rest of the country. Sanctions have not therefore succeeded in persuading Moscow to cut off military support to the rebels or to use its influence over them to end fighting.

On the other hand, Russia is not encouraging separatist areas to make further territorial gains, nor has it recognised them as independent states. Recently, Vladimir Putin has made several conciliatory gestures in a possible bid to get sanctions lifted, for example his September 2017 proposal to deploy United Nations peacekeepers to Ukraine. That
Sanctions over Ukraine: Impact on Russia

Proposal is now being discussed by US and Russia envoys; their latest meeting was held on 13 November 2017. Among the many sticking points, the US wants peacekeepers to monitor the entire conflict area, and not just the frontline as suggested by Russia. In December 2017 Putin mediated the largest exchange prisoners since the start of the conflict, and in January 2017 he called for a settlement of the conflict.

Impact of sanctions on the Russian economy

Russia's economy went into sharp decline in mid-2014, at around the same time as economic sanctions were introduced (see Figure 2). The ensuing recession cannot be entirely blamed on sanctions – growth had already been on a downward trajectory since 2010, and then in summer 2014 came the additional shock of a meltdown on global oil markets, for reasons entirely unrelated to the Ukraine crisis. Russia's economic performance has always correlated closely with crude oil prices, due to reliance on fossil fuels, which generate 70% of its export earnings. Since early 2016, a modest recovery in oil prices has helped Russia return to positive growth.

Nevertheless, sanctions have had a significant impact, particularly (but not only) in the sectors directly targeted.

Arms sanctions have forced Russia's defence sector to adapt

Sanctions have cut off important supplies of weapons and equipment to Russia

Although Russia's armed forces and defence industry are mostly self-sufficient, there were some imports prior to 2014. Ukraine was the main foreign supplier (helicopter engines and gas turbines for battleships), while Western countries exported weapons (Italian armoured vehicles; a French contract signed in 2011 for two Mistral helicopter carriers), components (mostly optical and electronic equipment), and precision machine tools used on production lines.

Sanctions ended nearly all Western exports of weapons and components to Russia. The contracts with France and Italy predated sanctions and were therefore exempt; in the end, Italy helped Russia manufacture 358 armoured vehicles, fewer than the 1775 initially envisaged, while France cancelled the Mistral deal under pressure from its NATO allies. Ukraine also ended its exports; the lack of an alternative to Ukrainian-manufactured gas turbine engines has delayed Russia's naval modernisation programme (by around 18 months, according to Vladimir Putin).

Russia's defence industry is adapting through an import-substitution programme

Russia's defence industry has therefore been forced to develop an import-substitution programme. Originally, the aim was to replace all Ukrainian imports by 2016-2017 and 80% of Western imports by 2018. Progress has been made towards this goal, though not as quickly as originally envisaged; tests on Russian-made gas turbines began in April 2017, while production of helicopter engines will be up to full speed in by 2019.

Apart from delays in the shipbuilding programme, the impact has been limited. Sanctions do not appear to have affected growing Russian military prowess showcased in Syria, or arms exports, which increased by 26% between 2014 and 2016.
Restricted energy cooperation – effects will be felt in the medium- to long term

The Russian energy sector relies on Western technology, capital and markets

Most of Russia’s energy exports (in 2016, 65% of crude oil exports and 81% of natural gas exports) go to European markets. Western companies are major investors in the Russian energy sector; for example, BP holds a nearly 20% stake in Rosneft, Russia’s largest state oil producer. Many of the new oil and gas fields that Russia is developing are hard to access and require innovative technology that the country lacks; up until 2014, Western oil service companies such as Schlumberger, Baker Hughes and Halliburton supplied over half the technology used for such projects in Russia.

Sanctions affect Russia’s ability to develop new oil and gas fields

Sanctions have ended cooperation on Arctic, deep-water and shale-oil projects, which account for a large part of Russia’s untapped oil reserves. Western companies, such as Shell, Total, Exxon and Statoil, have pulled out of joint ventures with the Russian oil sector. In October 2017, a Black Sea-oil project became the latest casualty.

Sanctions do not target energy trade directly; in terms of volume, Russia’s oil and gas exports remain close to record levels, even if their dollar value has declined since 2014 due to lower prices. Much cooperation continues on projects not targeted by sanctions; for example, in 2015 BP acquired a 20% stake in the east Siberian Taas-Yuriakh field, and it has launched a series of joint ventures with Rosneft. In July 2017, Schlumberger announced plans to buy a controlling stake in Russia’s largest oil- and gas-drilling company. Nevertheless, Russia’s capacity to develop new fields is constrained by sanctions; in the longer term, as existing fields run out, the country may find it hard to maintain current levels of production.

Russian energy companies look to Asia to replace Western investors

Since 2014, Russia’s energy sector has increasingly looked to China – not only as an alternative export market, thanks to gas and oil supply deals signed with China in 2013 and 2014, but also as a source of investment and even technology. The main success so far is Russian gas company Novatek’s project to export liquefied natural gas (LNG) from the Yamal Peninsula. Located above the Arctic Circle, the project is subject to US (but not EU) sanctions limiting energy cooperation. In 2015, the project was still struggling to secure financing, but in the end China’s National Petroleum Corporation and Silk Road Fund acquired a combined stake of nearly 30%, while Chinese banks provided US$12 billion in loans. Another Chinese company provided gas liquefaction equipment. LNG deliveries began in December 2017, a major boost to Russia’s LNG exports. Meanwhile, a Chinese rig has begun drilling for oil in the Kara Sea, the same region where sanctions ended an ExxonMobil-Rosneft joint venture in 2014.

Reliance on China has its limitations. Talks between Rosneft and China on more extensive Arctic oil cooperation have been dragging on since at least 2013 without much progress, possibly due to a lack of strong Chinese interest. Besides, Chinese energy companies do not have the same Arctic expertise as their Western counterparts.

Impact of new US sanctions on the planned Nord Stream 2 pipeline

As mentioned above, new US sanctions target Western companies involved in building new Russian gas-export pipelines. In particular, this could affect Russian gas producer Gazprom’s planned Nord Stream 2 pipeline connecting Russia to Germany. German Chancellor, Angela Merkel, and some of the European companies involved have criticised the sanctions. For its part, Gazprom insists the pipeline will go ahead, but acknowledges that if applied, sanctions could delay the project or push up costs.
Restricted access to finance – an immediate and serious impact

The Russian banking sector narrowly escapes a major crisis

Former Russian Finance Minister, Aleksey Kudrin, claims that of all the sanctions, it is the financial restrictions that have hurt most. Since mid-2014, Russia’s five largest banks – together accounting for nearly 60% of the Russian banking sector – have been barred from Western capital markets. Unable to get foreign loans extended, Russian banks were forced to pay back US$60 billion during the 12 months following June 2014.

Repayment of foreign-currency debt was particularly onerous, given that the rouble had lost half its value. Coming on top of long-standing structural problems in the banking sector and the economic downturn, sanctions helped to bring Russian banks to the brink of crisis in December 2014, when customers withdrew 1.3 trillion roubles (US$22 billion) of deposits from Sberbank, Russia’s largest bank, in just one week. In response, the government announced a 1 trillion rouble (US$17 billion) bailout scheme for major banks in January 2015; this succeeded in averting a full-blown financial crisis, but at the cost of digging deep into the country’s foreign currency reserves.

Adaptation to sanctions as the economic outlook improves

The Russian banking sector remains fragile. In 2017, three major banks had to be bailed out by the Russian state. Among other things, excessive expansion has been identified as a cause of Russian banking failures, but sanctions have also exacerbated the sector’s problems. A December 2017 Standard and Poors report claims that restricted access to Western financing means that Russian businesses have to borrow more from domestic banks; as a result, the ratio of loans to the 20 largest borrowers versus banks’ own capital has increased dangerously since sanctions from 170% to 226%, substantially increasing credit risks.

Sanctions against illegally annexed Crimea weigh heavily on the peninsula’s economy

Crimea has been hard hit by sanctions cutting off trade with the EU (pre-2014, around one fifth of exports) and tourism. Even Russian companies are shunning the peninsula in order to avoid harsher sanctions – Sberbank and VTB banks, which formerly had Ukrainian subsidiaries in Crimea, have withdrawn. Dobrolyot, an Aeroflot subsidiary set up to provide low-cost flights from Moscow, stopped operating in August 2014, after Western technical and maintenance companies withdrew cooperation due to the airline being added to the EU’s sanctions list. According to Russian statistics, in 2016 Crimea came 9th from bottom out of the country’s 85 regions in terms of per-capita income, and a 2017 Ukrainian report suggests that the economy is in deep trouble following the collapse of key economic sectors such as agriculture.

Russian counter-sanctions boosting domestic food production, but fuelling inflation

Russia’s agrifood sector has benefited from reduced competition, partly as a result of the country’s ban on many food products from the EU and partly as a result of rouble devaluation, which pushed up the price of food imports. Between 2014 and 2016, the sector was one of the few bright spots in the country’s economy, growing at an average 3.2%. Growth is forecast to continue, though at a lower pace, over the next few years.

The downside of the import ban has been higher food prices (+17% in 2014, compared to average inflation of 11%) for Russian consumers. Pork and fruit were among the worst-affected categories, with price rises of around 25%. However, food inflation has since slowed down and is now below the average. As well as having to pay more for food, Russians are also having to do without favourites such as Parmesan cheese – although the country’s dairy farmers are working hard to develop domestic substitutes.
Some banned EU products able to get round counter-sanctions

Some banned EU products may still be getting into Russia as re-exports from neighbouring countries. In the final quarter of 2014, EU dairy exports to Belarus increased tenfold year-on-year, while fruit and fish doubled; it seems unlikely that this increase was entirely driven by internal demand from Belarus, as general EU agrifood exports to the country remained flat. The importance of this phenomenon should not be exaggerated – the €30 million surge in EU dairy exports to Belarus in the final quarter of 2014 (which has since subsided) was less than one-tenth the €356 million fall in EU dairy exports to Russia during the same period. Still, the episode exacerbated trade tensions between Belarus and Russia, and was one of the reasons why customs controls between the two countries, lifted in 2011, were partially reinstated in December 2014.

Economic impact goes beyond the sectors targeted by sanctions

Sanctions create uncertainty and deter foreign businesses from operating in Russia

Western sanctions over Ukraine are targeted at strategic sectors and individuals, and are not intended to push Russia 'over the economic cliff'. Nevertheless, they have indirect effects on the broader economy. For example, 69 % of US businesses operating in Russia and responding to a May 2017 survey felt that sanctions had a negative impact on their business (for 13 % of them, a 'very negative impact').

One of the main indirect effects is the risk of sanctions violations. For example, in July 2017 German company Siemens ended some of its Russia operations after discovering that four gas turbines supplied to a power station in southern Russia had turned up in Crimea, in breach of EU sanctions. In 2017, US oil company ExxonMobil was fined US$2 million for deals signed with Rosneft chief executive, Igor Sechin; although sanctions do not prohibit all transactions with Rosneft as a company, they do exclude those with Sechin as a sanctioned individual. The risk of such fines is deterring Western companies from doing business in Russia. Sanctions also discouraged Western banks from purchasing Russian government bonds in a May 2016 Eurobond issue; although the Russian state is not directly targeted by sanctions, investors were worried that the money could end up being used by sanctioned state-owned banks.

Between mid-2016 and mid-2017, there were signs of Western investors becoming less averse to sanctions-associated risks. The Russian government's September 2016 and June 2017 Eurobond issues were far more successful than its May 2016 offering. In December 2016, Rosneft (sanctioned by the EU and US) managed to sell off US$11 billion in shares via Swiss company Glencore, and three months later Gazprom (sanctioned by the US) raised nearly €1 billion in Eurobonds.

However, in the second half of 2017 investors became more nervous again, following new sanctions legislation adopted by the US Congress in August 2017; according to Bank of America Merrill Lynch, the end of the year saw an exodus of foreign investment from Russia. The bank also believes that a potential US ban on purchasing Russian government bonds envisaged by the legislation could severely depress the rouble, although it feels that such a ban is unlikely.

In a 2017 report, the IMF identified the 'lingering effect of sanctions' on investment as one of the main barriers to faster economic growth in Russia.

A 'pivot to Asia' has not compensated for restricted access to Western investment

As mentioned above, there has been significant Chinese investment in the Russian energy sector. However, overall foreign direct investment (FDI) from Asia has stagnated,
except in the final quarter of 2016, when it was boosted by the above-mentioned one-off sale of a US$11 billion stake in Rosneft, which eventually ended up in Chinese hands.

In the first quarter of 2017, FDI inflow from non-sanctioning countries, mostly Asian, to Russia was US$5.4 billion – a US$1.2 billion increase compared to the corresponding period of 2014. This was not nearly enough to compensate for a US$8 billion drop in FDI inflow from sanctioning countries during the same period (see Figure 3).

The lack of strong interest by Asian investors reflects the fact that compared to other markets, Russia’s economic prospects are not particularly attractive. In addition, even companies from non-sanctioning countries are potentially affected by sanctions; for those with significant interests in the US or EU, transactions with sanctioned Russian entities could expose them to heavy fines.

Impact of sanctions on economic policy-making
Protectionist tendencies were already apparent in Russia before 2014 (for example, a ban on Polish meat between 2005 and 2007 over alleged food safety concerns). Such tendencies are now being consolidated by the country’s response to sanctions. For example, in 2014 the government launched an import substitution drive to develop domestic production not only in defence and agriculture, the sectors directly affected by sanctions, but also in others, such as engineering, electronics and pharmaceuticals. Import substitution measures include subsidies for domestic production and legal requirements for government purchases to give preference to domestic products (such as software). However, with the exception of the agrifood sector those measures have only delivered limited benefits, as Russian industry struggles to produce quality alternatives to imports at competitive prices.

The Russian government is also looking to reduce the country’s vulnerability to sanctions in other ways – for example, by developing its own ‘Mir’ credit cards to end dependence on US-owned Visa and Mastercard; it is even considering developing a ‘crypto-rouble’ potentially enabling Russian payments to go undetected.

A shift to more inward-looking, protectionist policies may boost Russian economic resilience in the short term, but is ultimately likely to hinder integration with the global economy, thus depriving the country of the foreign trade, investment and technology that it needs to modernise its economy.

Quantitative estimates of the economic impact of sanctions on Russia
Economic sanctions coincided with lower oil prices, making it difficult to disentangle the effects of one from the other. Nevertheless, several attempts have been made to quantify the economic impact of sanctions:

- according to an IMF report from 2015, the initial impact on Russia was probably 1-1.5 % of GDP. In the medium term, the cumulative impact could reach 9 % of GDP, due, among other things, to slower productivity growth. However, the IMF admits these estimates are ‘subject to significant uncertainty’.
- according to the Wall Street Journal, an unpublished European Commission study seen by its reporters in October 2014 estimated that sanctions would cost...
Sanctions over Ukraine: Impact on Russia

Russia 0.6 % of its GDP in 2014 and 1.1 % in 2015. The same report put the impact on the EU economy at 0.2 % and 0.3 % respectively.

While figures from Russian sources on the impact of Western sanctions should be viewed with caution, they broadly concur with Western estimates:

- in November 2014, Russian Finance Minister, Anton Siluanov, estimated the annual cost of sanctions to the Russian economy at US$40 billion (2 % of GDP), compared to US$90-100 billion (4-5 % of GDP) lost due to lower oil prices;
- in January 2016, Deputy Economic Development Minister, Alexei Likhachev, put Russia's losses in 2015 from EU sanctions and Russian counter-sanctions at €25 billion – again, around 2 % of GDP;
- in July 2017, former Finance Minister, Alexei Kudrin, estimated that since their introduction, the cost of sanctions had declined from 1 % of Russian GDP per year to 0.5 % – but also warned that, unless Russia reformed its economy, sanctions could hold back growth for decades.

All these sources are in broad agreement that the economic impact of sanctions on Russia is serious (in the range of 0.5-2 % of GDP per year), but also that lower oil prices were the main cause of the country's 2015-2016 economic recession.

What the European Parliament is doing

The European Parliament does not have a role in decisions on EU sanctions, which are adopted by the Council of the EU. Nevertheless, it has consistently supported them, calling in its resolutions on EU Member States 'to remain firm and united in their commitment to ... sanctions' against Russia, and urging 'deep and systematic verification of implementation'. The EP's strong stance on the situation in Ukraine, voiced in its resolution of 15 January 2015, prompted Russia to ban some MEPs from making official visits to its territory.

One of the main channels for dialogue between MEPs and Russian parliamentarians is the EU-Russia Parliamentary Cooperation Committee (PCC), chaired on the EP side by Othmar Karas (EPP, Austria). This body, in which the European Parliament officially suspended its participation in June 2015, has not met since January 2014. However, informal contacts between the two sides continue; for example, in November 2017 a group of MEPs met with Russian counterparts on the sidelines of the Northern Dimension Parliamentary Forum in Brussels.

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eprs@ep.europa.eu
http://www.eprs.ep.parl.union.eu (intranet)
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