Russia's war on Ukraine: US sanctions

SUMMARY
The United States (US) has been imposing sanctions on Russia since its illegal annexation of Crimea in 2014. Since the outbreak of Russia’s war on Ukraine in February 2022, these sanctions have become increasingly severe and far-reaching. The US, together with the European Union and other close allies, has targeted Russian assets, international trade and the economic sectors involved in the war, as well as specific individuals and entities engaged in sanctioned activities.

The sanctions seek to weaken Russia’s ability to wage war by dampening its financial capacity and economy, and by blocking its various sectors, such as industry, defence and energy, from accessing technology and inputs. They are also meant as punishment for Russian elites and their cronies involved in many aspects of the war, from financing to disinformation.

To apply the abovementioned sanctions, the US cooperates with the EU through various fora such as the Trade and Technology Council, focused on export controls. A similar forum is the G7, which is pivotal in the flagship actions against the invaders; examples include blocking Russian banks’ access to the SWIFT payments system and introducing an oil price cap. While often identical or similar, the US and the EU sanction regimes differ in terms of the activities covered and persons and entities targeted.

While all these sanctions have had a tangible negative impact on Russia's economy and long-term competitiveness, they cannot materialise with the same speed as a military attack. Moreover, Russia is making continuous and active efforts to dodge these sanctions, not without help from its allies and trading partners, albeit with varying degrees of success.

The European Parliament has been a staunch supporter of introducing and maintaining sweeping and regularly revised sanctions against Russia. It has also voiced its support for strong transatlantic cooperation on sanctions and has urged the Council of the EU to substantially widen their coverage.

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Context

On 24 February 2022, Russia unleashed an undeclared war against Ukraine, a country it had invaded and partially occupied in 2014. The United States (US), the European Union (EU) and many of their allies and other countries globally strongly condemned this unprovoked and unlawful military aggression – the first of its kind since World War II. Since February 2022, US and EU actions include sweeping and increasingly harsh sanctions targeting Russian assets, international trade, economic sectors involved in the war, as well as specific individuals and entities. They seek to reduce Russia’s ability to wage war by weakening its financial capacity and economy, and cutting off the access of various Russian industrial or energy sectors to technology and inputs. While sanctions are an important tool for responding to Russia’s war on Ukraine, the US has also substantially increased its security, humanitarian, and economic aid to Ukraine.

US sanctions policy

Essentially, sanctions are coercive measures applied against states, non-state entities or individuals to modify their behaviour, force change in policies, reduce room for manoeuvre, or – if these are not achieved – to demonstrate the sanctioning countries’ stand as regards the targeted state’s policies. Sanctions serve as an alternative to the use of arms and as a tool to condemn publicly those who threaten international peace and security. The US has used sanctions for a variety of reasons, such as to deter weapons proliferation, international terrorism, narcotics trafficking, human rights breaches, regional instability, cyberattacks, corruption and money laundering.

The US mainly deploys ‘primary’ sanctions, such as banning transactions with designated entities and individuals or freezing their assets. They can also cover whole jurisdictions (countries or regions) – in the context of the current war on Ukraine, these are the Russian-controlled parts of the country in Crimea, Luhansk, Donetsk, Kherson and Zaporizhzhya.

US ‘secondary’ sanctions target third parties that are not directly engaged in objectionable activities (these being subject to primary sanctions), but are nonetheless engaged with the individuals or entities involved in those activities. Secondary sanctions seek to prevent, on a global basis, third parties from transacting with those subjected to sanctions. In September 2022, the US administration expressed its readiness to use secondary sanctions for those engaging with Russia and immediately targeted two third-country entities – Sinno Electronics Co., Limited (a Chinese entity), and Taco LLC (an Armenian entity) – on the grounds that they were providing supplies to the sanctioned Russian defence procurement firm Radioavtomatika. Many other secondary sanctions followed. Primary and secondary sanctions co-exist in the context of Russia’s war on Ukraine.

Unlike in the EU, where the specific foreign policy related to sanctions and the national security concerns that merit a response involving sanctions are determined by the Council of the EU and the European Commission, in the US political system, it is Congress that decides on these matters with the president. It can enact legislation to authorise, and in some cases require, the president to deploy sanctions. This congressional legislation can define the sanctions and the conditions for lifting them, but it is the US president who sets specific targets. Apart from acting on legislation...
from Congress, the president has the powers, under the International Emergency Economic Powers Act (IEEPA), to be the sole decision-maker in initiating and imposing sanctions. The president does so by determining the occurrence of 'unusual and extraordinary threat, which has its source in whole or substantial part outside the United States, to the national security, foreign policy, or economy of the United States'. Afterwards, as envisaged in the National Emergencies Act (NEA), the president issues a declaration on the existence of a national emergency, submits it to Congress, and the declaration is made public. The president may then invoke the authorities granted to his office in the IEEPA, which allow him, for instance, to 'investigate, regulate, or prohibit transactions in foreign exchange, use US banking instruments, the import or export of currency or securities, and transactions involving property under US jurisdiction'. Since Russia's 2014 invasion of Ukraine, all three US presidents have invoked NEA and IEEPA-related authorities.

Once determined, sanctions are implemented by several executive agencies. The Department of the Treasury designates actions related to entities and individuals concerned; such actions include blocking US-based assets, placing restrictions or bans on investments or transactions, and limiting access to US markets (including financial services). The Department of State restricts visas and foreign aid, and downgrades or suspends diplomatic relations, while the Department of Commerce implements restrictions on licenses for commercial exports, end users, and destinations. Finally, the Department of Defense restrains arms sales and other forms of military cooperation, and the Department of Justice investigates and prosecutes violations of sanctions and export laws.

Overview of US war-related sanctions

In the context of Russia's 2022 war on Ukraine, the US has deployed unprecedented sanctions covering multiple players and sectors. The most frequently applied are the 'classic' sanctions, such as placing export controls on dual-use technologies, blocking the US-based assets of foreign individuals and entities, and prohibiting US individuals and entities from engaging in transactions with them. There are also sanctions targeting third parties that are cooperating with Russia, for example, by assisting it to evade sanctions. Finally, the US deploys sectoral sanctions targeting Russia's financial, energy, and defence sectors. The sanctions in the context of the war on Ukraine also cover Belarus (for its involvement in the war) and Iran (for assisting Russia with warfare technology, for instance, through the delivery of military drones), on top of the previous sanctions on both of these countries. The sanctions kicked in when Russia recognised the so-called independence of Donetsk and Luhansk, on 21 February 2022, and were stepped up when it invaded Ukraine three days later. They include:

- **financial sanctions** on businesses linked to major industries, such as defence, energy, diamond mining, telecommunications and transport, as well as on banks and financial institutions (asset freezes and account closures), and a ban on transactions with the Russian Direct Investment Fund, the country's key sovereign wealth fund. They also cover transactions with the Central Bank of Russia, affecting its ability to draw on dollar-denominated foreign reserves (asset freeze), as well as transactions with Russia's Ministry of Finance and National Wealth Fund. Sanctions also prohibit secondary-market transactions by US financial institutions in Russian sovereign debt.

Russian countersanctions

In March 2022, Russia imposed sanctions on the US President, Joe Biden, and on 12 other US officials and persons. The list includes Secretary of State, Antony Blinken, Defense Secretary, Lloyd Austin, (then) Press Secretary Jen Psaki but also former Secretary of State Hillary Clinton and President Biden's son Hunter. The measures block their entry into Russia and freeze any assets held in the country. In order to mirror US sanctions, Russia blacklisted 398 members of Congress in the same month, barring them from entering the country. Furthermore, in June 2022, Russia imposed sanctions on 61 US individuals, including Treasury Secretary, Janet Yellen, Trade Representative, Katherine Tai and Energy Secretary, Jennifer Granholm as well as the heads of leading defence, airlines and media companies. The sanctions ban those named from entering Russia.
export controls on technologies such as semiconductors, computers, telecommunications, lasers, and sensors and equipment for oil and gas industries, for both US exports and exports from third countries that use US inputs, such as software and equipment. These trade prohibitions target Russia's defence, aerospace, energy and maritime sectors, and other commercial and industrial operations;

an export ban on US luxury goods and dollar-denominated banknotes;

an import ban on Russian oil, liquefied natural gas (LNG) and coal and other energy products, and suspension of normal trade relations with Russia. The import of Russian gold, diamonds, seafood, and alcoholic beverages has also been banned;

a ban on the provision of services in areas such as accounting, trust and corporate formation, management consulting, and quantum computing;

prohibition of all new US investment in Russia and of making trade or investments in Russia-occupied regions of eastern Ukraine;

ban on Russian aircraft and airlines from entering US airspace (private and commercial);

ban on Russian vessels from entering US ports;

similar sanctions on Belarus, covering export controls, banks, individuals and entities with links to Russia, the military sector, and its inputs and products, and trade tariffs.

The Biden administration has also targeted scores of Russian individuals and entities with measures such restrictions on transactions and access to US-based property. These measures include:

individual sanctions on President Vladimir Putin, Prime Minister Mikhail Mishustin, Foreign Affairs Minister Sergey Lavrov, National Security Council members, and various figures from the administration such as ministers of defence and finance, the head of the armed forces and the head of the central bank, as well as regional governors. The sanctions also include Russia's legislative bodies (the State Duma and the Federation Council) and their members and the Central Election Commission and its members, as well as the officials involved in the occupation of Ukraine. Furthermore, the US sanctioned scores of Russian oligarchs, their family members and business executives. The Biden administration also banned thousands of Russian officials and military personnel from entering the United States;

sanctions on entities: These cover seven of Russia's largest banks, including the biggest two (Sberbank and VTB Bank), which together account for 80% of all bank deposits, as well as the State Development Bank VEB and the Russian Direct Investment Fund. Other significant companies include defence, industrial, and technology conglomerate Rostec, the world's largest diamond-mining company Alrosa, steel producers Severstal and MMK, the technology development park Skolkovo and Nord Stream 2 AG. The sanctions also cover firms active in the aerospace and defence sectors, organisations involved in disinformation and propaganda operations and other entities and persons evading sanctions.

restrictions on new equity investment and financing for important companies such as state-owned energy company Gazprom and Russia's largest maritime and freight shipping firm, Sovcomflot, as well as the Russian Railways.

EU support: Pivotal for US sanctions

Already in 2014, as the invasion of Ukraine unfolded, the Obama administration considered EU support for sanctions to be pivotal, due to the bloc's more extensive trade and investment ties with
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Russia. From the start of the armed conflict in 2022, US sanctions have been coordinated with those of the European Union on the basis of the rules established in the EU-US Trade and Technology Council (TTC). Coordination under the TTC is also useful in controlling any mutual damage that may arise from the sanctions imposed. The majority of observers share the view that the war in Ukraine has strengthened and revitalised transatlantic relations, bringing more unity in the face of the common threat and making the ongoing cooperation on sanctions a tangible expression of EU-US solidarity.

Indeed, many of the EU sanctions are either identical or similar to US sanctions. However, while the sanctions launched by the partners have come in coordinated waves, there are some differences. To start with, the context for both sides is different, as the EU is more fully exposed to Russia in terms of trade, energy supply and investment. For example, the US placed an outright ban on all new investment in Russia, whereas the EU ban in this respect only covers the mining, quarrying and energy sectors. The US has also prohibited all coal, LNG, and oil imports, while the EU still imports Russian gas and LNG, although in progressively diminishing volumes. While the export controls and sectoral sanctions overlap significantly, targeting technologies and key companies in the financial, defence, and energy sectors, the EU and the US lists of designated individuals and entities are not identical. Notably, the EU sanctions many more entities that are relevant to the war (see Figure 1).

A notable example of EU-US joint action involves the blocking of 10 leading Russian financial institutions’ access to the global system of standardised payment instructions and messaging services (SWIFT). Furthermore, the allies have cooperated regularly within the framework of G7, announcing the deployment of new waves of sanctions at least nine times:

![Timeline of EU, US and G7 sanctions against Russia since February 2022](image)

Transatlantic cooperation was indeed fundamental in reaching the agreement on the G7 price cap on Russian oil exports. Another important joint development was the launch – by the EU, the US, G7 countries and Australia – of the Russian Elites, Proxies, and Oligarchs (REPO) task force, established in February 2022 to find, freeze and/or confiscate the assets of sanctioned individuals. In its June 2022 statement, the REPO task force announced that, in its first 100 days of existence, it deployed extensive multilateral coordination to block or freeze more than US$30 billion worth of sanctioned Russians’ assets, freeze or seize sanctioned individuals’ high-value goods, and heavily limit sanctioned Russians’ access to the international financial system.

Effectiveness of Western sanctions

The debate on whether the US (and more broadly, Western) sanctions and restrictions work is far from over. Even though Russia has not expanded its military aggression to most of Ukraine or to other states, the war rages on and there is no clear end in sight.

Having said that, sanctions have a real impact on the Russian economy. Together with coordinated export controls, which have deprived Russia of access to advanced technologies, sanctions have had a significant and long-lasting effect on its defence and industrial base. The EU and the US (with allies) have frozen around US$300 billion worth of Central Bank of Russia assets, curtailing the bank’s ability to contribute to the war effort and mitigate sanctions impacts. On top of that, Russia’s financial sector faces losses worth hundreds of billions of dollars, and the financial flows to the country have largely dried up. Russia’s production structure remains, as it has for decades, dependent on mining and low-tech resource-intensive industries. Given Russia’s blocked access to technology and finance, this picture will not change, and the country’s long-term growth potential will likely erode.

However, some time will pass before the Russian economy – the world’s ninth largest – collapses, and there are signs that the country has weathered the sanctions better than many expected at the outset of the war. While inflation is high and exports have slumped, the economy is shrinking, but not by more than during the major economic crisis of 2008, according to most estimates. (see Figure 3). The difference between then and now is that during the earlier crises (such as the invasion of Crimea and the pandemic), Russia’s economy recovered rather swiftly, while its current outlook is rather gloomy. The verdict is still out as to what happens next: a prolonged, painful recession or some sort of recovery, as predicted by the International Monetary Fund.

Importantly, the December 2022 oil sanctions are expected to further reduce Russian government revenues, export income and oil production. The most recent official data from the Russian Finance Ministry show that plummeting energy revenues and soaring expenditures increased the budget to US$24.78 billion in January 2023. Western sanctions have forced Moscow to sell oil and gas at a discount, and Moscow’s sales revenues were down 46.4% year on year, while spending was 58.7% higher. To put this in perspective, in 2021 Russia’s energy exports accounted for almost half of its total exports, which amounts to 14% of GDP. Finally, there are recent reports of the country drawing down its foreign currency reserves to help close this budget deficit.

The effectiveness of sanctions also depends on their strong enforcement and on the placement of obstacles to their evasion. Russia is working hard on evading Western sanctions, including through...
cooperation with other countries targeted by international sanctions, such as Cuba, Iran, North Korea, Syria and Venezuela. Examples of Russian evasion attempts abound, including with the help of countries from all over the world: in February 2023, the US administration targeted a global sanction evasion network supporting state-owned Russian defence firms under sanctions.

There are also ongoing efforts to prevent Russia’s attempts to evade sanctions by making payments with the help of cryptocurrencies. Considering the traditionally close military ties between Russia and China, the role of the latter is as important as ever: press reports have pointed to Chinese involvement in the supply of goods needed by the Russian military. There is also data showing surges in trade between Russia and some of its neighbours and allies, suggesting that countries like Turkey, China, Belarus, Kazakhstan and Kyrgyzstan are stepping in to provide Russia with many of the products banned by the West. Turkey is a particularly prominent example, and its businesses and banks have reportedly been warned by the US not to conduct business with entities subject to sanctions.

Many nations and companies are finding it difficult to cut ties with Russia. For instance, India and China have thrown Russia a lifeline, reportedly having imported discounted Russian oil. Moreover, less than 9% of Western firms have divested from Russia despite the punishing business environment. The more countries that join in the sanctions, the stronger their impact will be.

Nonetheless, experts agree that sanctions meet three important objectives: sending a strong signal of resolve and unity to the Kremlin, degrading Russia’s ability to wage war and stifling its economy and energy sector. On the other hand, experts argue, these sanctions are not severe enough to force Russia to cease the invasion. The fact that Russia has not changed its course so far is not because the sanctions are insignificant, but because Russian policymakers are willing to bear their cost to further Russia’s foreign policy goals come what may.

**European Parliament**

Following Russia’s invasion of Ukraine in February 2022, the co-chairs of the Transatlantic Legislators’ Dialogue (TLD), Radosław Sikorski, MEP (EPP, Poland) and Representative Jim Costa (Democrat, California) called for enacting immediate and severe sanctions on Russia and for close coordination of EU-US efforts to assist Ukraine. In May 2022, the TLD stressed that the unprecedented parallel sanctions by the EU and the US against Russia should be maintained and that new sanctions need to be envisaged.

In December 2022, the TLD asked for coordinated EU and US sanctions to remain in place until Russia retreats from all occupied territories in Ukraine. It furthermore insisted that the EU and the US work towards sanctions enforcement, closing any loopholes that allow Russia to evade sanctions, and that they streamline the export controls enforcement. In the European Parliament’s January 2023 resolution on the preparation of the EU-Ukraine summit, MEPs called on the Council to enlarge the list of persons subject to sanctions to include individuals from the list proposed by Alexey Navalny’s Anti-Corruption Foundation. The list includes 6,828 persons classified as ‘bribe-takers and warmongers’ responsible for strengthening Putin’s regime and the invasion of Ukraine.
MAIN REFERENCES


ENDNOTES

1 While the US has a well-established secondary sanctions system, legal experts consider that in a novel way, the recently adopted Council Regulation (EU) 2022/1905 has enabled the EU to also impose asset freezes on any person/entity who ‘facilitates infringements of the prohibition against circumvention’ – thereby broadly widening the scope of covered individuals/entities in a secondary sanctions manner.

2 The US extraterritorial secondary sanctions on trade and investments have been a subject of concern for the EU in the past and have been the main reason for the adoption of the Blocking Statute (on EU strategic autonomy) and its upcoming amendment.

3 In the EU legal framework, a proposal for sanctions is made by the High Representative of the Union for Foreign Affairs and Security Policy, who is also a vice-president of the European Commission. The proposed measures are then examined and discussed by the relevant Council preparatory bodies, and the Council adopts the final decision by unanimity.

4 In the context of the war in Ukraine, there is another US Congress legal basis listed in a Treasury Department factsheet: Protecting Europe’s Energy Security Act of 2019 (PEESA).

5 Obama in the context of Russia’s aggression on Crimea, Trump in relation to Russian cyber-enabled malicious activities and election interference, and Biden to address Russia’s war on Ukraine.

6 The two never had significant economic ties. Russia (and the USSR prior to 1992) has accounted for less than 3% of annual US exports and imports since World War II. Recently, this figure has decreased even further: in 2021, only 0.4% of total US exports went to Russia, while 1% of total US imports came from Russia.

7 A Skadden law firm analysis also points out some specific differences in the definitions of entities covered, scope of sanctioned investments and the exemptions in bans on provision of services. In 2021, 0.4% of total US exports were shipped to Russia, while 1.0% of total US imports were delivered from Russia.

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