EU sanctions on Russia: Overview, impact, challenges

SUMMARY

Outraged by Russia’s illegal and unprovoked full-scale invasion of Ukraine in February 2022, European Union countries swiftly adopted unprecedentedly tough sanctions, in close cooperation with partners including the United States, the United Kingdom, Canada, Australia and Japan. The rapid succession of ten packages of EU sanctions adopted since then, in what has already been labelled a ‘sanctions revolution’, have resulted in an unparalleled set of measures targeting the key sectors of the Russian economy and the political elites. New sanctions have also been adopted against Belarus and Iran, in response to their involvement in Russia’s war of aggression.

The unprecedented nature of the sanctions imposed against Russia, in scale and scope, has created new implementation challenges, in particular for the EU. Member States and EU institutions have renewed efforts to make alignment truly global, and to close loopholes to prevent circumvention. In November 2022, the violation of ‘restrictive measures’ (sanctions) was added to the list of ‘EU crimes’ included in the Treaties.

Despite the challenges, analysts consider that sanctions have already met three important objectives: they have sent the Kremlin a strong signal of Western resolve and unity, they have permanently degraded Russia’s military capabilities, and they are asphyxiating its economy and energy sector, with long-term consequences. However, most experts warn that the impact of sanctions will not be severe enough to limit Russia’s ability to wage war against Ukraine in 2023. The non-alignment of a significant number of countries has also evidenced divergent global perceptions of the stakes and priorities ahead.

Since Russia’s illegal annexation of Crimea and Sevastopol in 2014, the European Parliament has been a vocal advocate of severe sanctions. Parliament has unequivocally condemned Russia’s unjustified aggression against Ukraine, and has since demanded broader and better-enforced sanctions, including a secondary sanctions mechanism, as well as the confiscation of Russian assets frozen by the EU to pay for Ukraine’s reconstruction. On 23 November 2022, Parliament adopted a resolution recognising Russia as a state sponsor of terrorism.
EU sanctions on Russia: State of play

Figure 1 – Timeline of EU sanctions

The first set of EU sanctions ('restrictive measures') against Russia were adopted in March 2014, following Russia’s illegal annexation of Crimea and Sevastopol, and its support for a separatist insurgency in eastern Ukraine. These signalled the start of a major review of EU policy towards Russia. Russia’s behaviour during the August 2008 Russia-Georgia war had previously been condemned in statements and resolutions, but did not trigger sanctions, despite Georgia’s request for smart sanctions. Initially, the 2014 EU sanctions against Russia included individual sanctions (asset freezes and visa bans), targeted at members of the Russian elite, Ukrainian separatists, and organisations associated with them, and diplomatic sanctions, entailing the formal suspension of EU-Russia summits and negotiations on the new EU-Russia cooperation agreement, as well as the suspension of Russia from the G8. Broader economic sanctions against Russia followed later, with the first restrictions on trade with Crimea, and sectoral sanctions concerning the arms trade, energy and financial cooperation with Russia. In addition to these Ukraine-related sanctions (classified as ‘geographical’ sanctions), the EU has adopted three global ('thematic') sanctions programmes since 2018: on chemical weapons (2018), cyber-attacks (2020) and human rights abuses (2020, partly modelled after the 2016 US Global Magnitsky Act. 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 inspired by Russian activities, and many of those on the lists are from Russia.

Russia’s illegal and unprovoked full-scale invasion of Ukraine was immediately met with a new set of EU sanctions, meant to be unprecedented in scale and nature, and coordinated with global partners (see below). In what is already labelled a ‘sanctions revolution’, EU Member States have adopted ten sanctions packages in swift succession, with the tenth package marking one year since the start of the war. Each package has incrementally amended and broadened the scope of sanctions regimes adopted from 2014 onwards, with the addition of a new regime banning imports of goods originating in the illegally annexed territories of Donetsk, Luhansk, Kherson and Zaporizhzhia to the EU (Table 1).

In addition to individual and economic sanctions, a number of subsequent diplomatic sanctions have been imposed, including the suspension of visa facilitation between the EU and Russia. Together with other World Trade Organization (WTO) members, the EU agreed to deny most-favoured-nation treatment for Russian products and services on EU markets. Beyond Russia, the EU has also adopted additional sanctions against Belarus, in response to its involvement in the invasion of Ukraine, and Iran, in relation to the use of Iranian drones in the Russian aggression against Ukraine.

The cumulative effect of successive waves of EU sanctions since February 2022, constituting an exponential escalation of the 2014 sanctions previously in place, is intended to weaken Russia’s economic base and curtail its ability to wage war. It also intends to hamper Russia’s access to military technologies and components, whilst targeting political and economic elites to undermine their support for the regime. Sanctions set by the EU to date include (non-exhaustive list):

✓ **Targeted sanctions**: asset freezing (€21.5 billion in the EU so far) and travel bans, targeting primarily Russian officials, elites and propagandists, including Russian President Vladimir Putin and commanders of the Wagner group, as well as associated entities;
✓ **Blocking access** to Russia’s Central bank reserve holdings (€300 billion);
✓ **Banning transactions** with certain Russian state-owned military-industrial enterprises;
✓ **Disconnecting** ten leading Russian financial institutions, including Sberbank, Russia’s largest bank, from the SWIFT international financial messaging system;
✓ **Prohibiting** export to Russia (including transit) of dual-use goods/technology, drone engines, arms, civilian firearms, ammunition, military vehicles, paramilitary equipment;
✓ **Banning** certain exports in the aviation, maritime, and technology sectors (e.g., semiconductors) and the export of luxury goods to Russia;
✓ **Closing EU airspace**, seaports, and roads to Russian aircraft, vessels, and transport operators, respectively;
✓ **Suspending** the broadcasting activities of several Russian state-owned media outlets;
✓ **Banning** imports from Russia of coal and of crude oil and petroleum products, phased and with limited exceptions;
✓ **Imposing a price cap** on Russian crude oil and petroleum products exported to third countries, banning the provision of maritime transport, insurance and other assistance services for the transport of products sold above the cap (G7 oil price cap);
✓ **Prohibiting** exports to Russia of goods and technologies in the oil-refining sector and prohibiting new investments in the Russian energy and mining sector;
✓ **Applying restrictions** on Russian nationals holding any position on the governing bodies of EU critical infrastructures and entities.

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**2022/2023 EU sanctions on Russia**

<table>
<thead>
<tr>
<th>Package</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>1st package</td>
<td>23 February 2022</td>
</tr>
<tr>
<td>2nd package</td>
<td>25 February 2022</td>
</tr>
<tr>
<td>3rd package</td>
<td>28 February 2022</td>
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<tr>
<td>4th package</td>
<td>15 March 2022</td>
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<td>5th package</td>
<td>8 April 2022</td>
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<tr>
<td>6th package</td>
<td>3 June 2022</td>
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<td>7th package</td>
<td>21-22 July 2022</td>
</tr>
<tr>
<td>8th package</td>
<td>6 October 2022</td>
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<tr>
<td>9th package</td>
<td>16 December 2022</td>
</tr>
<tr>
<td>10th package</td>
<td>25th February 2023</td>
</tr>
</tbody>
</table>

*Source: Council timeline*
Table 1 – Overview of EU sanctions against Russia

<table>
<thead>
<tr>
<th>Russian activity targeted by sanctions</th>
<th>Type of sanction*</th>
<th>Legal basis**</th>
<th>Date initially adopted</th>
<th>Renewal***</th>
<th>Scope</th>
</tr>
</thead>
<tbody>
<tr>
<td>Violations of Ukrainian sovereignty</td>
<td>Individual; geographical</td>
<td><strong>Council Decision</strong> 2014/145/CFSP; <strong>Council Regulation (EU) 269/2014</strong> as amended on 25.02.23</td>
<td>17.03.2014</td>
<td>Every six months (next due: 15.03.2023)</td>
<td>1 499 individuals 208 entities</td>
</tr>
<tr>
<td>Violations of Ukrainian sovereignty</td>
<td>Economic; geographical</td>
<td><strong>Council Decision</strong> 2014/512/CFSP; is <strong>Council Regulation (EU) 833/2014</strong></td>
<td>31.07.2014</td>
<td>Every six months (next due: 31.07.2023)</td>
<td>Finance, transport, defence, energy, technology, export-import restrictions</td>
</tr>
<tr>
<td>Violations of Ukrainian sovereignty (Crimea)</td>
<td>Economic; geographical</td>
<td><strong>Council Decision</strong> 2014/386/CFSP; <strong>Council Regulation (EU) 692/2014</strong></td>
<td>23.06.2014</td>
<td>Every 12 months (next due: 23.06.2023)</td>
<td>Trade and financial restrictions</td>
</tr>
<tr>
<td>Violations of Ukrainian sovereignty (Donetsk, Kherson, Luhansk and Zaporizhzhia)</td>
<td>Economic; geographical</td>
<td><strong>Council Decision</strong> 2022/266/CFSP <strong>Council Regulation (EU) 2022/263</strong></td>
<td>23.02.2022</td>
<td>Every 12 months: 24.02.2023</td>
<td>Trade and financial restrictions</td>
</tr>
<tr>
<td>Chemical weapons</td>
<td>Individual; thematic</td>
<td><strong>Council Decision (CFSP) 2018/1544; Council Regulation (EU) 2018/1542</strong></td>
<td>15.10.2018</td>
<td>Every 12 months (next due: October 2022)</td>
<td>Russia: 18 individuals, 1 entity; world: 7 individuals, 2 entities</td>
</tr>
<tr>
<td>Cyber attacks</td>
<td>Individual; thematic</td>
<td><strong>Council Decision (CFSP) 2019/797; Council Regulation (EU) 2019/796</strong></td>
<td>17.05.2019</td>
<td>Every 12 months (next due: May 2022)</td>
<td>Russia: 6 individuals, 2 entities; world: 8 individuals, 4 entities</td>
</tr>
<tr>
<td>Human rights abuses</td>
<td>Individual; thematic</td>
<td><strong>Council Decision (CFSP) 2020/1999; Council Regulation (EU) 2020/1998</strong></td>
<td>7.12.2020</td>
<td>Every 12 months December 2023</td>
<td>Russia: 18 individuals, 8 entities (Wagner group &amp; associated); world: 8 individuals, 4 entities</td>
</tr>
</tbody>
</table>

Data source: [EU sanctions map](#) (as of 25 February 2023).

* Individual/economic/thematic/geographical. 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, as opposed to geographical sanctions.

** Restrictive measures (sanctions) are adopted within the EU’s common foreign and security policy: under Article 29 TEU, the Council takes decisions to adopt, renew or lift sanctions regimes by unanimity, on the basis of proposals from the High Representative of the Union for Foreign Affairs and Security Policy. The economic and financial aspects of such decisions (e.g. import/export restrictions and freezing of assets) are implemented by regulations adopted by the Council on the basis of Article 215 TFEU, by qualified majority, upon a joint proposal by the High Representative and the European Commission. The Council decision and Council regulation are therefore adopted simultaneously.

*** The renewal period for EU sanctions regimes ranges from six to twelve months. Since February 2022, a number of EU Member States and the European Parliament have demanded the renewal period for all sanctions regimes applicable to Russia to be extended to twelve months, to limit negotiation delays. Hungary has so far opposed the change.
How do the oil cap and oil embargo work?

Energy (i.e. oil, gas, coal and nuclear) is an important part of the Russian economy. Following the comprehensive sanctions and the departure of several western companies from Russia in 2022, the Russian economy's reliance on its energy sector exports has increased even further.

Oil provides almost half of Russia's budget revenues. At the same time, the price of Urals oil has fluctuated significantly in recent years: between September 2020 and November 2021, oil prices hovered around US$40-545/barrel (bbl), rising steadily afterwards, to exceed US$90/bbl by mid-February 2022. The Russian invasion of Ukraine and considerations of an oil embargo contributed to a brief spike above US$120/bbl by the end of March 2022, before falling back to US$90/bbl. In April to August 2022, the average export oil price was US$79/bbl. As a result, Russian oil export earnings reached US$218 billion in 2022, according to Russian government estimates.

In December 2021, before Russia invaded Ukraine, it was exporting 7.8 million barrels per day of all petroleum types, of which 5 million barrels were crude oil and the rest refined products – volumes similar to those before the COVID-19 pandemic. Of those, approximately one-third (around 2.4 million barrels/day) were sold to Europe, the largest buyer of Russian oil.

In June 2022, in the sixth package of sanctions, the EU introduced a phased ban on the purchase, import or transfer of crude oil (effective from 5 December 2022) and other refined petroleum products (effective as of 5 February 2023), with limited exceptions.

This resulted in a reduction in EU imports of about 1 million barrels/day, (with remaining imports equalling around 1.2 million barrels of seaborne crude and 0.8 million of pipeline crude, mainly due to embargo exceptions afforded certain EU Member States), meaning around 10% of total EU oil demand. However, while the embargo reduces purchases from an important buyer of Russian oil, customer, Russia can find other buyers (e.g. China, India) and continue selling (and profiting from) as much oil as before.

Russian oil supply is also an important part of the global oil market, which is, and is projected to remain, tight. This is due both to the Organization of the Petroleum Exporting Countries (OPEC+) deciding to reduce output targets by 2 million bbls (MMbbls) per day from November 2022 until the end of 2023, and to the fact that most of the OPEC+ members are producing below their production targets. As a result, attempting to cut off Russian oil supplies altogether, could have restricted supplies, increasing global oil prices, which in an international economy context characterised by inflation and the threat of a global recession, would affect negatively the EU and other countries.

On 6 October 2022, in the eighth package of sanctions, the Council adopted a decision prohibiting the maritime transport of Russian crude oil (as of 5 December 2022) and petroleum products (as of 5 February 2023) to third countries and the related provision of technical assistance, brokering services or financing or financial assistance. In applying the decision adopted in the eighth package of sanctions, on 3 December 2022, the Council decided to set an oil price cap for crude oil and petroleum oils and oils obtained from bituminous minerals, which originate in or are exported from Russia, at US$60/bbl. The level of the cap was established in close cooperation with the G7 'Price Cap Coalition' (the EU, the US, the UK, Canada, Japan, and Australia), and applies from 5 December 2022. The mechanism’s functioning will be reviewed every two months, to respond to developments in the market, and will be set at least 5% below the average market price for Russian oil and petroleum products. The decision introduced a 45-day transition period and allowed for further 90-day transition periods after every change in the price cap. The objectives of the price cap

Oil extracted worldwide is not uniform in quality and, consequently, in price. The Brent crude oil type is the standard used for pricing oils with a similar composition to that extracted from the North Sea. Urals brand oil is a mixture of oil extracted in the Khanty-Mansiisk Autonomous Area and Tatarstan. Urals oil is considered to be of poorer quality than Brent and is sold at a discount.
are: 1) to reduce Russia's oil revenue (see above), even when it sells to other buyers (e.g. China) and 2) to avoid a widespread increase in global oil prices.

To implement the price cap, the parties attempt to use their dominance in particular services, i.e. US financial services, British shipping insurance, or Greek shipping services, which play a globally important role in oil deliveries. The implementation therefore takes place by establishing a buyers' or service providers' cartel and conditioning the purchase of Russian oil at below US$60/bbl.

On 4 February 2023, the Council decided to set two additional price caps, this time for petroleum products. Those products fall in two categories. The first includes products trading at a discount to crude oil (e.g. fuel oil). The cap for those products is set at US$45/bbl. The second category includes petroleum products traded at a premium to crude, such as gasoline, jet fuel and diesel. The cap for those products is set at US$100/bbl. The comments below also hold for these two, new, caps.

At the same time, Russia did not remain idle. Given that the cap and ban were in negotiation since April 2022, but only applied later in the year, Russia had time to take action to overcome these obstacles. It has acquired about 100 old tankers, destined to be scrapped, to ship its oil without going through EU intermediaries, and the Russian government has engaged in providing sovereign insurance, to bypass UK shipping insurance companies. At the same time, this tanker build-up has been slow and the Russian government insuring shipments while the country's economy suffers from the impact of international sanctions is not without risk. Another unknown is the size of oil smuggling by 'ghost ships'. The next months will provide an acid test of whether the cap is working.

For the policy to be judged a success, it will need to cut Russia's oil revenue significantly. There are already two indications that this is happening. Brent prices dropped below US$80/bbl in early December 2022 and remained just below that level in January 2023. In December 2022, the average price of Urals oil (which had already been trading at a significant discount to Brent since the invasion of Ukraine), was US$50.47/bbl, while in early January 2023, it was trading below US$40/bbl at the Baltic port of Primorsk. Freight costs have also increased more than fivefold for Russian companies since the beginning of 2022, diminishing profit margins for Russian companies. Early data indicate that the EU ban on crude oil imports and the oil price cap are costing Russia around €160 million per day (expected to rise to €280 million per day under the additional measures). If the measures remain efficient and are not circumvented, this will be a major indication that the policy is working.

To the contrary, the policy would fail if the cap causes an increase in global oil prices, something that could happen if traders, insurers, or shipping firms refuse to deal with Russian oil, even if it is sold for a price below US$60/bbl. The result could be a major fall in Russian oil available on the global market, which could increase prices for everyone. The policy will also fail if Russia's revenues from oil sales remain elevated. This could happen in several ways. The first is straightforward and involves under-compliance by countries and/or companies abiding with the ban in principle. Another would involve the reconfiguration of supply chains for the sale of Russian oil to third countries that does not involve the use of services provided by the cap coalition (i.e. trading, commodities brokering, financing, shipping, insurance, flagging, and customs brokering).

A further possibility for failure involves third countries with significant refining production and large domestic demand (i.e. Türkiye, India, or China), purchasing Russian oil products for their domestic markets, then exporting domestically-refined products based on Russian imports to the EU or the

![Figure 2 – US$60 price cap and effect](source: Neste worldwide, 2022.

Source: Neste worldwide, 2022.)
US (something that has already started happening – although it remains to be seen whether it will continue, with the February 2023 cap on refined products). Lastly, the policy could fail if Russia fights the price cap by lowering its volume of exports. Russian officials have repeatedly said they will not accept a price cap, and have threatened to stop working with anyone abiding by the cap, even if that means reducing oil production, thereby taking an economic hit. Following through on their threat, Russia announced, in early February 2023, a cut in oil production of 500,000/bbl per day (around 5% of output) from March 202. The aim behind this 'nuclear option' is to increase prices. It remains to be seen how this policy will play out, however, especially if third countries, such as India or China (which have profited from the low prices despite Western sanctions), do not agree.

Sanction effectiveness: Alignment and enforcement

A series of reports have evidenced the porosity and enforcement inconsistency of EU sanctions, prompting calls to tighten them, close loopholes and avoid circumvention. Sanction effectiveness – assuming they are correctly designed – is determined by two concomitant factors: the degree of multilateral alignment around them, and the efficacy of their enforcement.

Alignment

After Russia’s full-scale invasion of Ukraine in February 2022, a number of like-minded countries, including the EU, the US, the UK, Canada, Japan (G7 countries), Australia, Singapore, South Korea, Taiwan, Norway and Switzerland, decided to impose some degree of sanctions against Russia. Russia is now the world’s most sanctioned country, surpassing even North Korea. However, while the ‘sanctions coalition’ countries represent over half the world’s economy, two-thirds of the world’s population live in neutral or Russia-leaning countries regarding the war in Ukraine. Key trading partners, such as remaining BRICS countries (Brazil, India, China, South Africa) or Türkiye, do not currently impose sanctions, nor do Russia’s neighbours such as Armenia or Central Asian countries.

EU candidate or potential candidate countries are automatically invited and expected to align with EU common foreign and security policy (CFSP), including on sanctions, but are not legally obliged to do so before accession. The EU can exercise political pressure, but cannot apply economic conditionality, since accession financial instruments (such as the Instrument for Pre-accession Assistance – IPA) are conditional on fundamental values (democracy, human rights and rule of law) and are not directly linked to a country’s foreign policy positions. The degree of alignment amongst these countries ranges from the full alignment observed by Albania, North Macedonia and Montenegro, a complex and contradictory policy followed by Serbia, to the pursuit of an autonomous foreign policy by Türkiye, which has neither aligned with EU restrictive measures against Russia since 2014, nor with any of the EU sanctions adopted in 2022.

As of today, sanctions against Russia are multilateral, but not global, which leaves ample room of manoeuvre to circumvent them via third country imports, direct or indirect re-export, or false transit. Significantly, Russia’s exports to Brazil, China, India, and Türkiye increased by at least 50% since the 2022 war began, relative to the previous year, while Turkish exports to Russia grew 46% in the six months after the imposition of sanctions. In parallel, the United Arab Emirates has so far remained a safe haven for Russian businessmen or officials otherwise sanctioned by the West. On the other hand, Kazakhstan, the biggest country in Central Asia and so far considered a Russian ally in the region, has recently adopted two potentially significant decisions: tightening visa requirements for Russian citizens and closing its trade mission in Russia.

The EU has stepped up its 'sanctions diplomacy' with the nomination of David O’Sullivan as the first International Special Envoy for the Implementation of EU Sanctions, in charge of reaching out to third countries to address sanction circumvention and broaden the coalition, and to organise a Sanctions Coordinators Forum to strengthen international enforcement.
EU enforcement

Within the EU, implementation and enforcement of EU sanctions is primarily a Member State responsibility. The competent authorities in the Member States have to assess whether there has been a breach of the legislation and take adequate steps. The European Commission is responsible for ensuring, through monitoring, that the regulations imposing restrictive measures adopted under Article 215 TFEU are implemented and enforced by the Member States, and for coordinating Member States’ action. It also supports individuals, businesses, humanitarian operators and Member States in their efforts to apply sanctions, by publishing guidance notes and best practices, and by answering questions of interpretation raised by national competent authorities. The Commission has also established an EU sanctions whistle-blower tool, to collect information about violations of EU sanctions from all possible sources, safeguarding their anonymity when requested. To fulfil its coordination role, the Commission set up the ‘Freeze and Seize’ Task Force, to ensure the efficient implementation of the EU sanctions against listed Russian and Belarusian oligarchs across the EU. The Task Force is composed of the Commission, national contact points from each Member State, Europol, and as well as other EU agencies and bodies as necessary. It acts under four subgroups: 1) asset freezes and reporting; 2) exchange of best practices on criminal investigations and confiscation; 3) possible establishment of a Common Fund for the benefit of Ukraine; and 4) tax enforcement. The task force works alongside the newly established ‘Russian Elites, Proxies, and Oligarchs (REPO)’ Task Force, under which the EU cooperates with G7 countries and Australia.

Sanctions, disinformation and divergent global perceptions

One of the ways the Kremlin has fought international sanctions has been to mobilise its disinformation ecosystem, including in diplomatic fora, seeking to convince global audiences that international sanctions imposed on Russia are to blame for the surge in food and fuel prices, besides being unfair. Such messages have been circulated in multiple languages, in Europe, its neighbourhood and beyond, and have been echoed by African and Chinese media, boosting their global reach. Kremlin disinformation has also been spread in relation to the negotiations on the Black Sea Grain Initiative, with false allegations (such as that Ukraine is transporting grain to the EU, to pay the West for weapons supplies), a claim debunked by Ukrainian fact-checkers. The EU and its allies have activated diplomatic and information channels to clarify that international sanctions imposed on Russia target the Kremlin’s ability to finance its military aggression, which remains the main cause of the looming food crisis, and do not affect agricultural products. A number of experts, however, point out that the secondary effect of massive sanctions on global supply chains is still negatively affecting food security in vulnerable countries, and EU-Africa relations are being impacted by the spillover effects of Russia’s invasion of Ukraine. After over one year, and despite the resounding condemnation of Russia’s aggression in several United Nations resolutions, the war has reshaped global geopolitics, with a growing rift between the Global South and developed economies; albeit fuelled by targeted disinformation, the rift is also grounded in genuinely divergent perceptions of the stakes and priorities ahead.

In November 2022, the Council adopted a decision to add the violation of restrictive measures (sanctions) to the list of areas of particularly serious crime (‘EU crimes’) under Article 83.1 TFEU. Shortly after, the Commission presented its proposal for a directive ‘on the definition of criminal offences and penalties for the violation of Union restrictive measures’, establishing harmonised minimum rules across the EU – a necessary step for implementing the above decision. The directive, currently in the adoption procedure, is seen by experts as a ‘major milestone in the harmonization of EU sanctions enforcement, as well as in the development of European criminal law more generally’. The tenth package of sanctions (25 February 2023) introduced new reporting obligations to ensure the effectiveness of the asset freeze prohibitions. A group of Member States, led by the Netherlands, has proposed to establish a centralised EU sanctions watchdog to tackle sanctions enforcement and circumvention, echoing previous statements put forward by EU Commissioner for Financial Services and Stability, Mairead McGuinness.
Economic impact of sanctions

Gross domestic product

In the updated economic outlook published in January 2022, a few weeks before the beginning of the Russian invasion of Ukraine, the International Monetary Fund (IMF) projected GDP growth for Russia in 2022 at +2.8 %, and +2.1 % in 2023. Slightly more pessimistically, the World Bank's January 2022 report had estimated GDP growth for Russia to be +2.4 % in 2022 and +1.8 % in 2023.

Following the invasion and the many measures taken by western governments in solidarity with Ukraine, this picture changed abruptly. The Russian Ministries of Economy and Finance expected that, following the sanctions announced by the West in March 2022, growth in Russia would fall by 10 % in 2022. The World Bank and the European Bank for Reconstruction and Development (EBRD) published similar estimates (10-12 %). The initial impact indeed pointed in that direction: the IMF estimates that, in the quarter following the invasion of Ukraine, the Russian Federation economy contracted by 21.8 % at a quarterly annualised rate. The World Bank attributed this fall to a variety of factors, including shocks to transaction systems and supply chains, leading to a collapse in domestic demand and export volumes, a sharp depreciation of the rouble, increased inflation, declining private consumption and reduced investment.

While economic actions taken by the West were impressive, experts maintain that they did not surprise Russia. Indeed, since the invasion of Ukraine in 2014, the Russian government has actively planned, and implemented several policies to soften the economic blow from potential additional sanctions. These included controlling expenditure and balancing the budget with an oil price of US$45/bbl. Another consisted in diversifying the economy away from oil and gas and reducing dependence on western technology and trade. State companies and major banks also carried out stress tests, including scenarios in which the West stopped supplying certain technologies, or in which Russia was disconnected from SWIFT and correspondent accounts were blocked.

Russia's National Wealth Fund (NWF) was originally intended to support its pension system. Since the beginning of the invasion of Ukraine, it has become one of the main sources of financing for the budget deficit, as well as a tool to sustain struggling state companies. As of January 2023, the NWF stood at US$148.4 billion, equivalent to 7.8 % of GDP, down from US$174.9 billion (10.2 %) a year before. This decline will impact Russia's development and long-term investment in new projects.

In February-March 2022, in addition to these long-term preparations, the Russian authorities adopted several fiscal measures to mitigate the impact of this initial shock. These measures (increasing social benefits, providing subsidised loans and tax breaks, as well as raising minimum wages), amounted to 3 % of GDP and were financed by oil and gas revenues, by the Russian sovereign wealth fund (see box), and by reducing the federal budget surplus. With a financial crisis averted (see exchange rate below), and with surging military-related production (included in GDP), the projected shortfall for 2022 was gradually reduced to -4.5 %, by the World Bank, -3.9 % by the Organisation for Economic Co-operation and Development (OECD), and by -3.4 % by the IMF (which revised this number upwards to -2.2 % in January 2023).

Going forward, the OECD outlook expects Russian GDP to fall by -5.6 % in 2023 and -0.2 % in 2024. In its January 2023 update, the World Bank expects the recession will continue in 2023 (-3.3 % of GDP), as the economy continues to contract due to the impact of sanctions, but that it should return to modest growth in 2024 (1.6 %). To the contrary, in its January update, the IMF projects a 0.3 % GDP increase already in 2023 (versus a -2.3 % drop in its October 2022 version), and somewhat higher growth in 2024 (2.1 %).
Unemployment

In its world economic outlook, the IMF estimated that, for 2022, unemployment in Russia would fall from 4.9% to 4.6%. According to official Russian sources, unemployment currently stands at a record low of 3.7%. Experts note, however, that this percentage is deceiving, because it omits several important elements. It does not count a significant amount of people who are on unpaid leave. There is also the effect of the military mobilisation, and of the exodus of Russians fleeing mobilisation. Experts therefore are of the view that the true number of unemployed at the end of 2022 is at least double the official data, if not closer to 10%, which can be compared to the second half of the 1990s, a turbulent and negative period, where 10-13% of Russians were unemployed.

Inflation

In its world economic outlook, published in October 2021, the IMF estimated that Russian consumer prices would increase by 4.8% in 2022. Decisions adopted by the West led to an initial spike in inflation, which increased to 16.7% in March 2022. Following measures introduced by the Central Bank of Russia (CBR), however (see ‘exchange rate’), inflation stabilised, and has fallen since. In December 2022, it stood at 11.9%, well above the CBR target of 4%. Inflation is forecast to fall to a range between 5% in 2023 and 4% in 2024 (IMF) and 5.9% in 2023 and 4.5% in 2024 (World Bank). This could impact the cost of living for Russian consumers, continuing the downward trend in consumption and worsening the quality of life for ordinary citizens.

Exchange rate

Some EU and US sanctions adopted after the invasion prevented western banks from dealing with key Russian counterparts and cut several Russian banks from SWIFT, the world interbank payment system. The sanctions also froze the CBR’s accounts denominated in dollars, euros and pounds sterling – effectively rendering half the CBR’s foreign exchange reserves unusable. The CBR responded with measures including increasing the key interest rate to 20%, forcibly converting 80% of export income into roubles, and limiting non-resident investors’ ability to withdraw capital and Russians’ ability to move cash across the border. This policy has prevented a capital flight and runs on Russian banks. By the end of April 2022, the rouble had regained its pre-invasion value and the CBR reversed some of its measures (e.g. the interest rate was progressively decreased to 7.5%).

Trade

Given Russia’s exclusion from SWIFT since March 2022, it faces issues paying for imports and receiving payment for exports. Various initiatives have been announced. Progress for some, such as the use of the Indian rupee for trade settlement, has been slow. Solutions implemented during 2022 included imposing roubles for gas payments, switching to national currencies, barter deals, or cash payments. More recently, cryptocurrencies are used and payments made in Chinese yuan.

From October 2021 to October 2022, EU exports to Russia fell by 52% (US$4.6 billion), US exports fell by 85% (US$0.4 billion), UK exports fell 89% (US$0.4 billion), and those of Japan by 41% (US$0.3 billion). Given the fall in imports from the West and Japan, including crucial inputs, parts, and technology for its industries, Russia currently faces supply shortages within its domestic economy (e.g. cars or specialised military equipment). Considering Russian industry dependence on high-tech goods imports, predominantly from the West, the crucial question in the short-to-medium term is whether Russia will be able to find a substitute. As many of the largest economies in the world (by GDP) subscribe to the sanctions, a further question is whether rising imports from China, India or some Gulf countries, which do not apply the sanctions, can provide replacements.

Russia’s main sources of income are commodity exports, i.e. especially in the energy sector, as well as grains and fertilisers, which account for more than 60% of Russian state revenues. Food and fertiliser exports from Russia are exempt from western sanctions, to support food security, especially for poorer countries. Given the increase in price for such commodities, Russia’s fertiliser export
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Revenue increased by 70%. Other commodities, (aluminium, nickel, palladium, gold and silver) are also exempt. Lastly, Russia’s nuclear monopoly, Rosatom, still operates in several countries, including Belarus, China, Egypt, Hungary, and Türkiye. As mentioned, oil and gas export revenues did not fall in 2022, for several reasons. First, some measures were implemented towards the end of the year. Second, measures were discussed at length, and implementation took time, allowing Russia to find new customers. Lastly, especially for gas, developments in 2022 contributed to significant price increases. Going forward, oil revenues are expected to fall, provided the price cap policy is a success. For example, following introduction of the oil price cap, Russia’s Finance Ministry more than doubled its forecast budget deficit for 2022, from 0.9% to 2% of GDP.

Russian and foreign companies

The war and sanctions have also had a significant impact on Russian companies. Between February 2022 and February 2023, the main index of the Moscow Exchange fell by more than one third, from 3,564 to 1,991 points, before recovering to 2,280 points. In this context, another important development in 2022 was the decision taken by several (although not all) western companies to ‘self-sanction’, withdrawing voluntarily from the Russian market as a result of their own risk calculations and, importantly, due to the pressure of public opinion. These companies employed Russian local staff totalling one million individuals. During that same period, many Russians – with a high level of education and valuable skills – also left the country. Even if other domestic (or third country companies) step into the gap in the future, the withdrawal and ‘brain drain’ of 2022 are expected to impact Russia’s productivity.

Conclusions

Experts agree that the ‘sanctions revolution’ has met three important objectives: they sent a strong signal of Western resolve and unity to the Kremlin, they degraded Russia’s military capabilities, and they are asphyxiating its economy and energy sector, with permanent consequences.

Experts warn the impact of the inevitable fall in revenue for Russia, especially on the oil and gas sectors, will not be severe enough to limit Russia’s ability to wage its war against Ukraine. Russia’s Ministry of Finance projects its 2023 oil and gas revenues will reach RUB8.9 trillion (US$127 billion), a 25% fall against 2022. However, it is calculated based on an average Urals oil price of US$70/bbl, which has not been seen since the December 2022 price cap. While Russia’s decision to reduce its output could force the price up, experts believe the projected target is optimistic. Even if Russia’s commodity revenues decline drastically, NWF reserves could finance Russia’s military effort for another year. In October 2022, Russian authorities obtained extra revenue (US$2.1 billion) via a windfall tax on state gas company Gazprom. They also could resort to one-off taxes, such as the recently proposed ‘voluntary’ windfall tax on big business (expected to bring the state US$2.8-3.5 billion), to compensate for falling oil revenue. The decline is expected to impact Russia’s social programmes and investment gap, a cost the Kremlin seems willing to bear. Meanwhile, a majority of the Russian population declares sanctions have not yet seriously affected them.

An important consequence of sanctions is the Russian economy’s growing dependence on China. The bigger the share of payments and reserves in yuan (see ‘trade’) the greater the risk that Russia’s trade, economy and by extension, policy, is influenced by China. Should relations between the two countries deteriorate in the future, Russia may face further reserve losses and payment disruption.

Position of the European Parliament

Parliament has been a vocal advocate of sanctioning Russia since the country’s illegal annexation of Crimea and Sevastopol in 2014. Since Russia’s full-scale invasion of Ukraine in February 2022, unequivocally condemned by the Parliament in its 1 March 2022 resolution, Parliament has demanded broader, strategic and better-enforced sanctions in numerous resolutions. Parliament’s demands include:
intensification of EU ‘outreach to countries that have not yet joined the EU in introducing sanctions against the Russian Federation, using the EU’s leverage and the full range of their available tools to that end, and providing assistance if necessary’. Parliament also criticised certain EU candidate countries’ non-alignment with EU sanctions, and called for a clear plan of action vis-à-vis non-EU countries that facilitate Russian sanctions evasion (resolution of 7 April 2022);

- active prevention, investigation and prosecution by Member States of ‘any circumvention of the sanctions’, and swift work by the Commission and co-legislators ‘to complete the legal regime for the confiscation of assets frozen by the sanctions’ (resolution of 6 October 2022);

- development of an EU legal framework for the designation of states as sponsors of terrorism and states which use means of terrorism’ (resolution of 23 November 2022);

- a Commission legislative proposal ‘to amend the current EU Global Human Rights Sanctions Regime (EU Magnitsky Act) by extending its scope to include acts of corruption, to swiftly adopt targeted sanctions against individuals responsible for high-level corruption in Russia and Belarus, as well as their EU-based enablers and beneficiaries’ (resolution of 23 November 2022);

- action to hold the Russian and Belarusian political and military leadership accountable for the crime of aggression against Ukraine (resolution of 19 January 2023);

- strict enforcement of all sanctions; and for an impact assessment on the sanctions' effects on Russia’s war effort and on the circumvention of sanctions. Members urged the EU to sanction anyone associated with the ‘Wagner group’ and other Russian-funded armed groups, militias and proxies, and expressed ‘deep concern about reports that several third countries are collaborating with Russia to help it circumvent sanctions, and that Chinese state-owned defence companies are shipping dual-use equipment’. Parliament called again for the EU, Member States and allies ‘to work on a secondary sanctions mechanism that would close any loopholes’, and ‘to complete the legal regime allowing for the confiscation of Russian assets frozen by the EU’, and for their use to address reconstruction and compensation for the victims of Russia’s aggression (resolution of 15 February 2023).

**MAIN REFERENCES**

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