



# Sanctioning Russia: the right questions

by Francesco Giumelli

Sanctions are often considered to be effective only if and when they force a change in the behaviour of their intended target. This approach is based on military logic, as sanctioning is considered a form of coercive diplomacy. This is, however, a simplistic way of approaching the matter. Whereas the results of direct military involvement are clearly identifiable and immediate, the impact of sanctions, which pursue mid- to long-term objectives, is trickier to assess. The restrictive measures imposed on Russia by the EU aim primarily to push Moscow to renounce its territorial claims on Crimea and suspend its support to the separatists in eastern Ukraine.

Considering that Moscow still refuses to budge on either issue, sanctions risk appearing ineffective at best, and harmful at worst, with European businesses also paying a price for the trade restrictions.

Yet this analysis is misleading in several ways. First, it reduces the EU's entire approach to the introduction of sanctions – and discounts all the other actions it has undertaken. Second, sanctions work in multiple ways, and judging them only on their coercive aspect does not do justice to the complexity of this foreign policy instrument. Third, even if sanctions may be deemed ineffective, this does not mean that it was wrong to introduce them in the first place.

## Are sanctions part of a broader approach?

While it is true that the EU's use of restrictive measures is indeed significant, they are but part of a much

broader approach that combines short- and long-term instruments. Since the onset of the crisis in Ukraine, the EU endeavoured to keep diplomatic channels with Moscow open: talks with Russia over the trade implications of the EU-Ukraine Association Agreement were launched, and the application of Agreement was postponed by over a year. The European Commission, meanwhile, allocated €12.7 billion over the next seven years to financially assist Ukraine, and created a 'Support Group' in order to maximise its cooperation with the authorities in Kiev. Finally, the EU launched an Advisory Mission for Civilian Security Sector Reform (EUAM Ukraine) in July 2014.

## Are sanctions coercing, constraining or signalling?

There are three distinct sanction regimes in force as a result of the crisis in Ukraine – defined, respectively, as coercing, constraining and signalling. First, there are sanctions imposed on Ukrainian officials from the Yanukovich era – a move designed to prevent former leaders from using misappropriated public funds. Second, there are sanctions imposed on Crimea-based targets which are intended to constrain the operational capacities of local individuals and entities (they are also meant to signal to other actors who may consider following in Crimea's footsteps that the EU will not tolerate any such decision). Third, there are sanctions imposed on individuals, companies and parts of the Russian state apparatus because of the assistance offered to the separatists in Ukraine's eastern provinces.



The aim is clear – to coerce the Russian authorities into suspending their support for the rebel groups by creating discomfort for key figures in public administration and the private sector. Here, the signalling factor is also central, since the stand-off between the West and Moscow is being monitored and assessed by actors across the globe.

## Are sanctions having an impact?

By nature and definition, targeted sanctions inflict minimal damage to a country's economy as a whole. In this regard, their precise impact is somewhat difficult to discern. What is certain is that sanctions have contributed to the negative perception of Russia in the world of international finance.

With sanctions beginning to bite, a number of major projects in the oil and gas sectors involving Western companies have been deferred, and a trickle-down effect has begun to exert upward pressure on the levels of inflation. Russia's statistical agency (Rosstat) announced that the inflation rate reached a six-year high in 2014, an increase of 11.6% compared to the previous year. It should be noted, however, that the effect of the EU's restrictive measures are being amplified by the drop in the price of oil and the depreciation of the rouble.

Currently, little is known about how the sanctions have affected the 160 targeted individuals and entities currently on the EU's list. Anecdotal evidence reported by the media indicates that non-state entities – such as the Vneshekonombank (VEB) – are finding it difficult to re-finance their debts and becoming increasingly reliant on funds provided by the central government in order to stay afloat. Elsewhere, certain targeted individuals have seen their foreign assets successfully frozen by EU member states, despite the fact that they often hide behind subsidiaries.

The sanctions are having two unintended side effects: first, Russia is strengthening its bilateral ties with other players (e.g. China, India and Iran); and, second, the Kremlin's grip on the country is tightening, with the government and Central Bank now the only sources of profit for many oligarchs.

Finally, the cost to the EU and its member states must also be taken into account. A macro evaluation shows that the impact on EU exports has been modest: the stagnation of the Russian economy (already predicted before the Ukraine crisis) would have led to a contraction in bilateral trade even without the sanctions. In other words, although some countries in the EU may have paid a higher price than others – Latvia and Lithuania depend most on exports, while

Germany, Italy and Poland have the largest export volumes – the overall internal cost of EU sanctions, while painful, has been limited.

## Were there viable alternatives?

What were, and are, the alternatives to imposing sanctions? Some have advocated harsher restrictions since the beginning of the crisis. The initial round was quite limited in scope, and it has since been argued that sanctions are more likely to work if imposed to the fullest extent and all at once. It can also be argued, however, that fully-fledged sanctions would have alienated Moscow altogether and given Russia a perfect excuse to blame the West for its internal difficulties.

Conversely, the EU could have decided not to impose any sanctions at all. Moscow might then have been tempted to move beyond Crimea and open up other fronts, such as in Transnistria. The EU would have been also slated by the US for its inability to deal with a major security challenge in its own neighbourhood, and the EU institutions would have been flooded with criticism from across the Union itself. In addition, it is not apparent that inaction would have been a better choice, considering the economic shockwaves that any potential larger-scale conflict in Europe would have generated.

## Did the sanctions influence the crisis?

The EU's restrictive measures have provided the Union with solid leverage when negotiating with Moscow over Ukraine. Targeted sanctions have allowed the EU to single out individuals (i.e. former government officials and rebel leaders) in specific regions instead of pursuing some form of collective punishment. The price paid by the EU has been relatively small compared to the pressure and the costs imposed on the Russian system, and sanctions – while harsh – are limited enough to ensure that the diplomatic channel with Moscow remains open.

Although sanctions have yet to convince Russia to drastically alter its stance on Ukraine, other measures would probably have fallen short of this objective anyway. They have, however, signalled to the EU's constituencies – as well as third parties – where the EU stands on the crisis, constrained decision-makers in Moscow, and probably prevented more aggressive actions in the Donbas.

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