

Alexei Khlebnikov,

Russia Direct. Source: <http://www.russia-direct.org/things-you-need-know-about-western-sanctions-against-russia#explanation-7>

October 21, 2014.

## Everything you need to know about Western sanctions against Russia

**Explainer:** In its first-ever Explainer feature, Russia Direct gives you an opportunity to learn what you need to know about Western sanctions against Russia via brief answers to a series of commonly asked questions. We've also included useful charts and graphics.



*Photo: Kommersant*

In spring 2014, a number of Western countries led by the U.S. imposed sanctions on Russia in an attempt to change the Kremlin's policy towards Ukraine. Initially, sanctions targeted individuals close to the Russian leadership, as well as key decision-makers, forbidding them to enter the U.S. and EU member states and freezing their assets in those countries.

This type of sanctions soon appeared to be ineffective, convincing Western states to change their strategy by imposing sectoral sanctions. With the crisis in Ukraine escalating, the scope of sanctions increased, ultimately targeting sectors of the Russian economy such as energy, banking and finance, defense and high tech.

Source: [Gazeta.ru](http://Gazeta.ru)

## What is the logic behind the Western sanctions against Russia?

The underlying reason for the sanctions is a tension between Russia and Transatlantic states, including some of their allies (Australia, Japan) over the future of Ukraine and the fate of Crimea. The West argues that Russia is “[deliberately destabilizing a neighboring country](#)” and sending arms and fighters to Ukraine – a situation that “cannot be accepted in 21<sup>st</sup> century Europe.”

Most EU leaders accused Russia of making threats to keep Ukraine in its sphere of influence. In the fall of 2013 EU Commission President Manuel Barroso alleged that “[Russia still seemed to consider Ukraine as a subservient neighbor](#).”

During the 69<sup>th</sup> session of the United Nations General Assembly (UNGA) which took place in late September 2014, President Obama in his address accused Russia of “[challenging the post-war order](#)” by annexing Crimea, pouring arms into Eastern Ukraine and deploying its troops on Ukrainian territory.

In response, [Russia accuses the U.S.](#) of promoting ‘color revolutions’ and regime change in ‘inconvenient states,’ thereby provoking chaos and instability. Moscow claims that Ukraine has become a victim of such a policy of the West.

In his address to the UNGA 2014 Russian Foreign Minister Sergey Lavrov blamed the U.S. and the EU for “[supporting a coup d’état in Ukraine](#)” which subsequently caused a conflict. This reflects Russia’s official view of the crisis and its origins.

There are several factors that contributed to the outburst of the crisis, especially [NATO enlargement and a Western desire to move Ukraine out of the Russian sphere of influence and integrate it into the West](#).



Source: *Council of Foreign Relations*

Russia's wish, instead, is to keep Ukraine out of NATO, to maintain Ukraine in its sphere of influence, and make it a member of the newly formed Eurasian Union.

The major goal of Western sanctions is to change Russia's policy towards Ukraine, namely to stop Russia from supporting and arming separatists in the country's southeast. The U.S. initiated the sanctions and, together with the EU, started to pressure Russia.

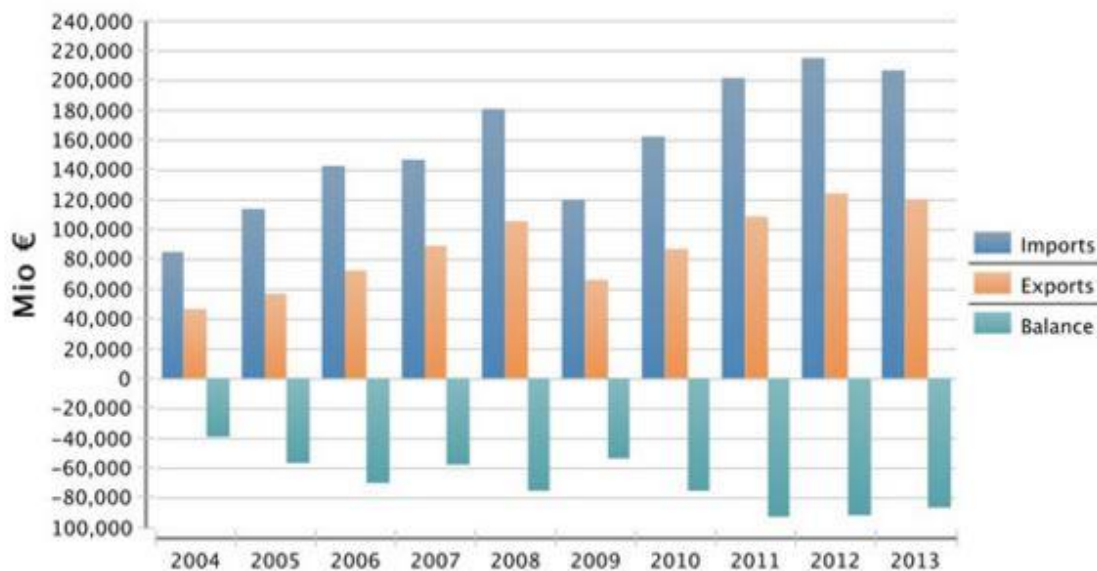
However, EU members have much closer trade and economic cooperation with Russia than the U.S., which makes any support of economic sanctions troublesome for some European states. Moreover, Europe is heavily dependent on Russian hydrocarbons, which is seen as significant leverage that Russia has over Europe.



## European Union, Trade with Russia

Total goods: EU Trade flows and balance, annual data 2004 - 2013

Source Eurostat Comext  
Statistical regime 4



Source: [European Commission](#)

### What did the first round of sanctions involve?

The 1<sup>st</sup> round of sanctions started in early March 2014, with the U.S. and EU freezing cooperation projects with Russia (e.g. suspension of negotiations on EU-Russia visa matters and preparations for the G8 Summit in Sochi).

On March 6 and March 16, 2014, President Obama issued Executive Orders [13660](#) and [13661](#) with respect to Ukraine that authorized sanctions on individuals and entities responsible for violating the sovereignty and territorial integrity of Ukraine.

On [March 20](#), 2014, the U.S. President issued a new [Executive Order](#), “[Blocking Property of Additional Persons Contributing to the Situation in Ukraine](#)” expanding the scope of Executive Orders 13660 and 13661, finding that Russian actions and policies, including its purported annexation of Crimea and its use of force in Ukraine, continue to undermine democracy in Ukraine; threaten its peace, security, stability, sovereignty, and territorial integrity; and contribute to the misappropriation of its assets, and thereby constitute an unusual and extraordinary threat to the national security and foreign policy of the United States.

The first sanctions list included 23 senior governmental officials and 4 individuals designated as the inner circle that supports them.

### *1<sup>ST</sup> ROUND OF SANCTIONS*

<b>US sanctions</b>	<b>EU sanctions</b>
March 6, 16, 20, 2014: <ul style="list-style-type: none"><li>• 23 senior government officials</li><li>• 4 members of Putin's inner circle</li><li>• Bank Rossiya</li></ul>	March 17, 21, 2014: <ul style="list-style-type: none"><li>• 25 Russian government officials</li><li>• 8 Ukrainian officials</li></ul>

In addition, it included Bank Rossiya, which was also being designated for providing material support to Russian government officials and for being owned by an inner circle member, Yuri Kovalchuk. Among senior governmental officials who have been sanctioned were Deputy Prime Minister of Russia Dmitry Rogozin, Presidential Aide to the Russian President Vladislav Surkov, Federation Council Speaker Valentina Matviyenko, and the Chief of Staff of the Presidential Executive Office Sergei Ivanov.

Members of the inner circle included Vladimir Putin's close colleagues: Gennady Timchenko, one of the founders of global commodity trading company Gunvor; Arkady Rotenberg and Boris Rotenberg, Russian oligarchs and owners of SGM group; and Yuri Kovalchuk, the largest single shareholder of Bank Rossiya. Those lists include [three of the eight founding members of the Ozero \(Lake\) housing cooperative](#), which binds Russian President's closest friends.

[Having first suspended bilateral talks](#) with Russia on visa matters and discussions on the New (EU-Russia) Agreement as well as preparations for the G8 Summit in Sochi, the EU also designed further measures in case of Russia not taking de-escalatory steps and the further destabilization of the situation in Ukraine.

On [March 17](#), 2014, the EU imposed the first travel bans and asset freezes against Russian and Ukrainian officials after Russia's annexation of Crimea, which was followed by the second on [March 21](#), 2014.

Since then, the list of individuals and entities under sanctions has been expanded throughout the spring and summer of 2014. At this stage, the EU imposed sanctions on 8 Ukrainian officials and 25 Russian governmental officials and military. Among those sanctioned are a member of the Council of the State Duma Sergey Mironov, the Head of the Russian Federal State News Agency 'Rossiya Segodnya' Dmitry Kiselyov, Prime Minister of Crimea Sergey Aksyonov, Deputy Prime Minister of Russia Dmitry Rogozin and Federation Council Speaker Valentina Matviyenko.

Thus, senior governmental officials of Russia were listed by both U.S. and EU; however, the main difference between the U.S. and the EU lists is that Brussels did not sanction any businessmen or Russian President's close colleagues at this stage.

### **What led to the second round of Western sanctions?**

The 2<sup>nd</sup> round of sanctions started on April 28, 2014 when the situation in southeast Ukraine significantly escalated and evolved into a full-scale civil war. Regular Ukrainian army and loyal mercenaries funded and supported politically by the U.S. and EU on one side opposed separatists and militias from Donetsk and Luhansk regions supported by Russia on the other side. [This round of sanctions targeted](#) particular individuals from the Russian leadership and state-owned companies.

[This round of U.S. sanctions included](#) 5 high-ranking Russian officials – Deputy Prime Minister Dmitry Kozak; the first deputy head of the presidential administration, Vyacheslav Volodin; the Russian presidential envoy to Crimea Oleg Belavencev; the head of the Federal Security Service Yevgeny Murov and the Chairman of the State Duma Committee on International Affairs Aleksei Pushkov; 2 leaders of large state-owned companies – president of Rosneft oil company Igor Sechin and CEO of Russian state corporation for high technologies 'Rostec' Sergey Chemezov; and 17 legal entities linked to the Russian President's inner circle, such as Sroytransgaz Group, a Russian construction group; JSB Sobinbank; and SGM Group, a gas pipeline construction company.

## 2<sup>ND</sup> ROUND OF SANCTIONS

US sanctions	EU sanctions
<p>April 28, 2014:</p> <ul style="list-style-type: none"><li>• 5 high ranking officials</li><li>• 2 leaders of state-owned companies</li><li>• 17 legal entities linked to Putin's inner circle</li></ul>	<p>April 28, May 12, 2014:</p> <ul style="list-style-type: none"><li>• 28 individuals, including government officials</li><li>• 2 legal entities</li></ul>

The main difference from the 1<sup>st</sup> round of sanction is that a number of private companies were blacklisted and Putin's two closest and influential colleagues landed on the list. In addition, the U.S. Department of Commerce imposed additional restrictions on any high-technology export to Russia that could contribute to its military capabilities.

On April 28 and May 12, 2014 the EU also expanded its list including 15 and 13 new individuals, respectively, including some Russian senior government officials listed by the U.S. as well; Russian parliamentarians; and military leaders of the Ukrainian militias and newly formed entities in the southeast of Ukraine.

Unlike the U.S. lists, the EU lists have yet to include the names of managers or companies. Brussels traditionally acts more cautiously, considering the close economic ties of a number of EU states with Moscow.

### What caused the West to impose sectoral sanctions on Russia?

The 3<sup>rd</sup> round of sanctions was caused by the [downing of Malaysian Boeing flight MH17](#), over southeast Ukraine in July 2014. Western countries started to accuse Russia of supplying rebels with ammunition that allegedly could shoot down the plane.

[Sanctions were declared at the end of July](#), even before the results of a full investigation into the tragedy were released.

On July 16, 2014 the U.S. Department of the Treasury released a new list which sanctioned 4 Russian government officials; 8 firms operating in the arms or related materiel sector – such as Almaz-Antei, a Russian state-owned company which manufactures anti-aircraft weaponry, and Kalashnikov Concern; 2 Russian energy firms – Rosneft and OAO Novatek; 2 banks –

Gazprombank and Vnesheconombank (Bank for Development and Foreign Economic Affairs) and several Crimean entities.

### *3<sup>RD</sup> ROUND OF SANCTIONS*

<b>US sanctions</b>	<b>EU sanctions</b>
<p>July 16, 2014:</p> <ul style="list-style-type: none"><li>• 4 government officials</li><li>• 2 energy firms</li><li>• 2 banks</li><li>• 8 defense industry companies</li></ul>	<p>July 25, 30, 31, 2014:</p> <ul style="list-style-type: none"><li>• 23 individuals</li><li>• 3 Russian state-owned companies</li><li>• 4 banks</li><li>• 18 entities</li></ul>

This time, the sanctions were mainly aimed against the sectors of the Russian economy – energy, finance, high-tech – with the purpose of slowing down Russian economic growth and worsening the country’s investment climate.

The EU also followed this example and introduced new sanctions in July 2014. On [July 25](#), new regulations included 15 new individuals, including Russian government officials and military leaders; 9 [entities that ‘undermine’ Ukrainian sovereignty](#) (e.g. Luhansk People’s Republic, Donetsk People’s Republic); and 9 entities whose ownership has been transferred contrary to Ukrainian law.

Further, on [July 30](#), 2014 another list was released with 8 more individuals, including Putin’s colleagues Yuri Kovalchuk, Arkady Rotenberg and Nicholay Shamalov; 3 Russian entities – state-owned concern Almaz-Antei, Dobrolet (a subsidiary of Aeroflot, a Russian state-owned airline) and Russian National Commercial Bank.

And, finally, on [July 31](#), 2014 the EU adopted Regulation 833/2014, which sanctioned 4 big Russian banks – Sberbank, VTB bank, Gazprombank, Vnesheconombank, and Rosselkhozbank, affecting them by barring them from obtaining loans with a maturity longer than one month. Also, these sanctions banned technologies of dual-use and arms exports.

Thus, the difference between the U.S. and EU sanctions lists is obvious. The EU again followed a careful approach of not sanctioning the energy sector of the Russian economy, considering the heavy dependency of the EU on Russian hydrocarbons.



The 4<sup>th</sup> round of sanctions was declared on September 12, already after the ceasefire in the southeast of Ukraine was reached. New sanctions targeted biggest Russian banks, oil and defense companies, although the oil industry is likely to be hurt the most.

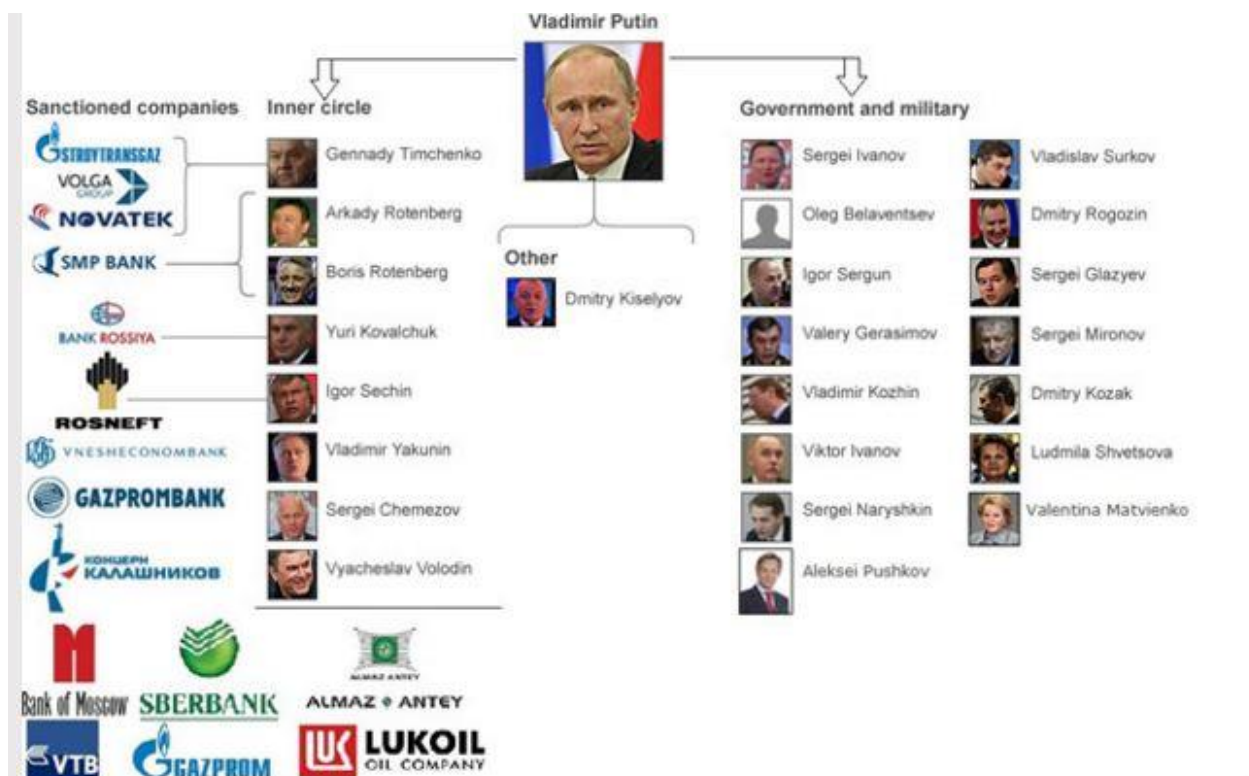
The U.S. imposed further sectoral sanctions on [September 12, 2014](#) targeting 4 new banks – Sberbank, the biggest Russian bank, Bank of Moscow, VTB and Russian Agricultural Bank; 5 new energy companies (Gazprom, Transneft, Lukoil, Gazpromneft and Surgutneftegas); one new state corporation for high technologies (Rostec); and 4 new high-tech companies.

#### ***4<sup>TH</sup> ROUND OF SANCTIONS***

<b>US sanctions</b>	<b>EU sanctions</b>
<p>Sept.12, 2014:</p> <ul style="list-style-type: none"> <li>• A state corporation 'Rostec'</li> <li>• 5 energy firms</li> <li>• 4 banks</li> <li>• 4 high-tech companies</li> </ul>	<p>Sept.12, 2014:</p> <ul style="list-style-type: none"> <li>• 24 individuals, including Russian politicians and Ukrainian separatists</li> <li>• 3 energy giants</li> <li>• 12 military enterprises</li> </ul>

EU also released new sanctions on [September 12, 2014](#). The new round expanded the sanctioned individuals list by 24 new individuals, including Russian politicians and Ukrainian separatists. This time, the EU decided to expand sanctions on 3 Russian energy giants – Rosneft, Transneft and Gazpromneft, as well as 12 military producing enterprises, such as United Aircraft Corporation, Kalashnikov Concern, and OAO Bazalt (<http://www.bbc.com/news/world-europe-26672800>).

It can be noticed that the EU did not sanction any gas-related entities, which reflects Europe's reluctance to put into question Russian gas supplies.



The West views the sanctions as a tool to change Russia's 'destabilizing' actions in eastern Ukraine, caused by the increasing inflows of fighters and weapons, which allegedly come from the territory of the Russian Federation into Eastern Ukraine.

### How did sanctions affect the Russian economy?

[Russian experts remain divided](#) about the impact of newly imposed sanctions. One view is that the relationship between Russia and the EU is so comprehensive (Russia is the third-largest trading partner of the EU and the EU is the leading trading partner of Russia) that a reduction in contact would hurt both. Moreover, such a large country as Russia is difficult to isolate.

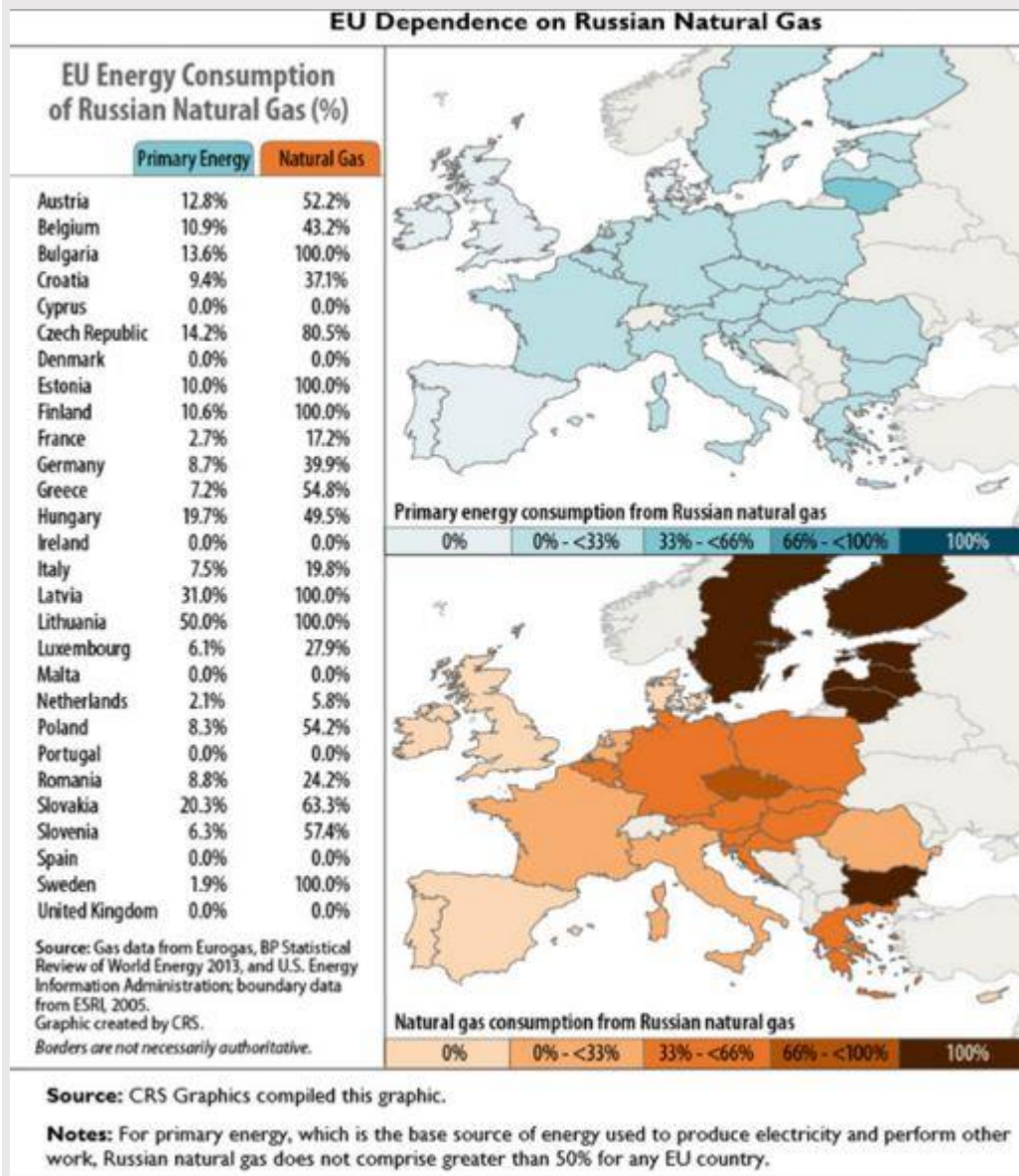
Some of those even say that the [sanctions could have a positive effect](#) by pushing the Russian economy to modernize itself by reducing its reliance on oil and gas resources. The medium-term effect of [Western sanctions does not pose a serious threat to the Russian economy](#), however, in the long-run, prolonging the 'sanctions war' will threaten the Russian economy.

An opposing view argues that sanctions will hit the Russian economy hard by having an inflationary impact on prices and leading to ruble depreciation. This view also argues that

Western sanctions have tipped the Russian economy into recession. Combined with rising prices, Russia could experience a period of prolonged stagnation.

As a matter of fact, Western sanctions have had a mixed impact on Russian economy, hitting the financial and energy sectors the hardest.

Energy sector: The sanctions ban technologies transfer to Russian oil and gas companies, which will have consequences for the Russian energy sector in the medium-term, especially given the increasing race for the resources in the Arctic shale. However, given European dependence on Russian energy resources, the ban doesn't restrict supply of Russian oil and gas to Europe.



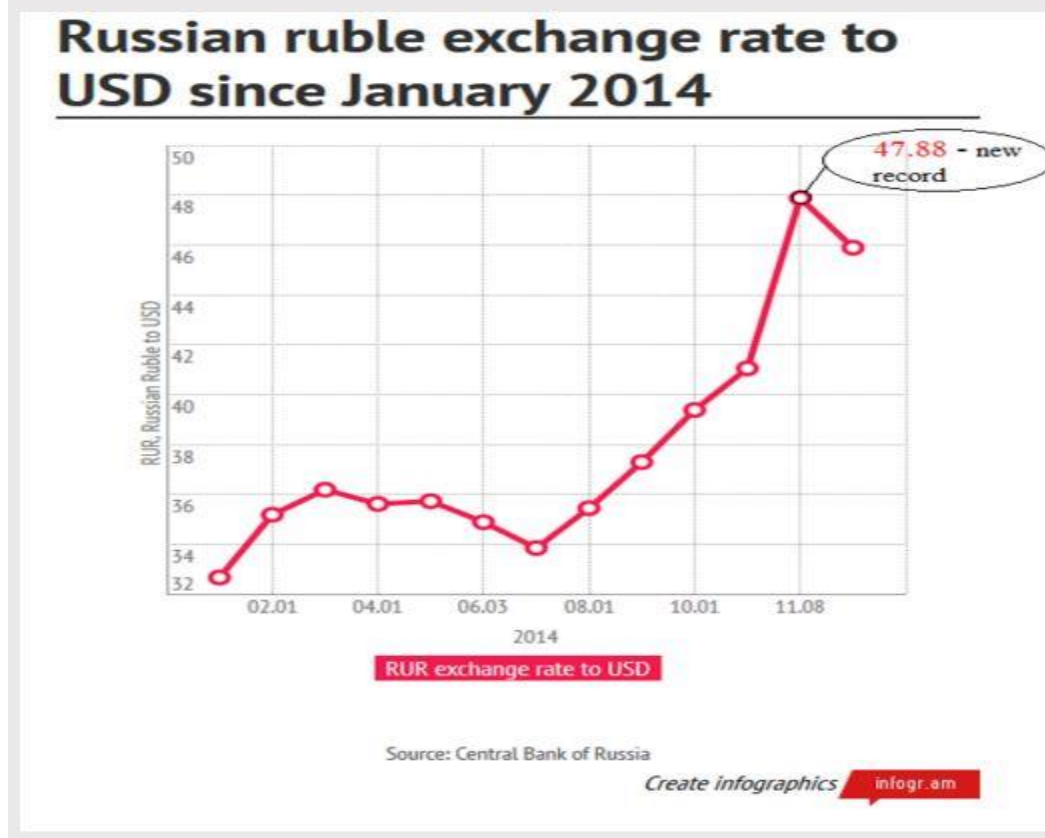
Source: [Congressional Research Service](#)

Financial sector: The Ukrainian crisis has already affected the Russian economy. Instability, military clashes in Ukraine, the Crimean referendum and anti-Russian sanctions were negatively assessed by the international community, which has led to a deterioration in Russia's credit rating ([Standard & Poor's downgraded Russia's sovereign credit](#) rating to BBB- from BBB in late April 2014).

Investors, too, have started to revise Russia's investment prospects. The International Monetary Fund analyzed that [Russia's GDP is expected to grow by only 0.2 percent in 2014 and 0.5 percent in 2015](#).

According to the Russian Central Bank (RCB) Russia's international reserves decreased from \$500 to \$456 billion since the beginning of 2014. Capital flight from Russia this year has already exceeded some [\\$70 billion](#). On October 2, 2014 the head of the RCB, Elvira Nabiullina, claimed that the [capital flow out of Russia might exceed \\$90 billion](#).

The Russian ruble has declined against the US dollar. The Russian currency has now fallen as much as 40 percent since January 2014. However, for some sectors of Russian economy, like agriculture or the automotive industry, a [weak ruble is actually supportive](#).



Along with ruble devaluation, decrease of foreign investment and capital flight, Russia's Ministry of Economic Development has raised its forecast for 2014 inflation from 6 percent to 7.5 percent.

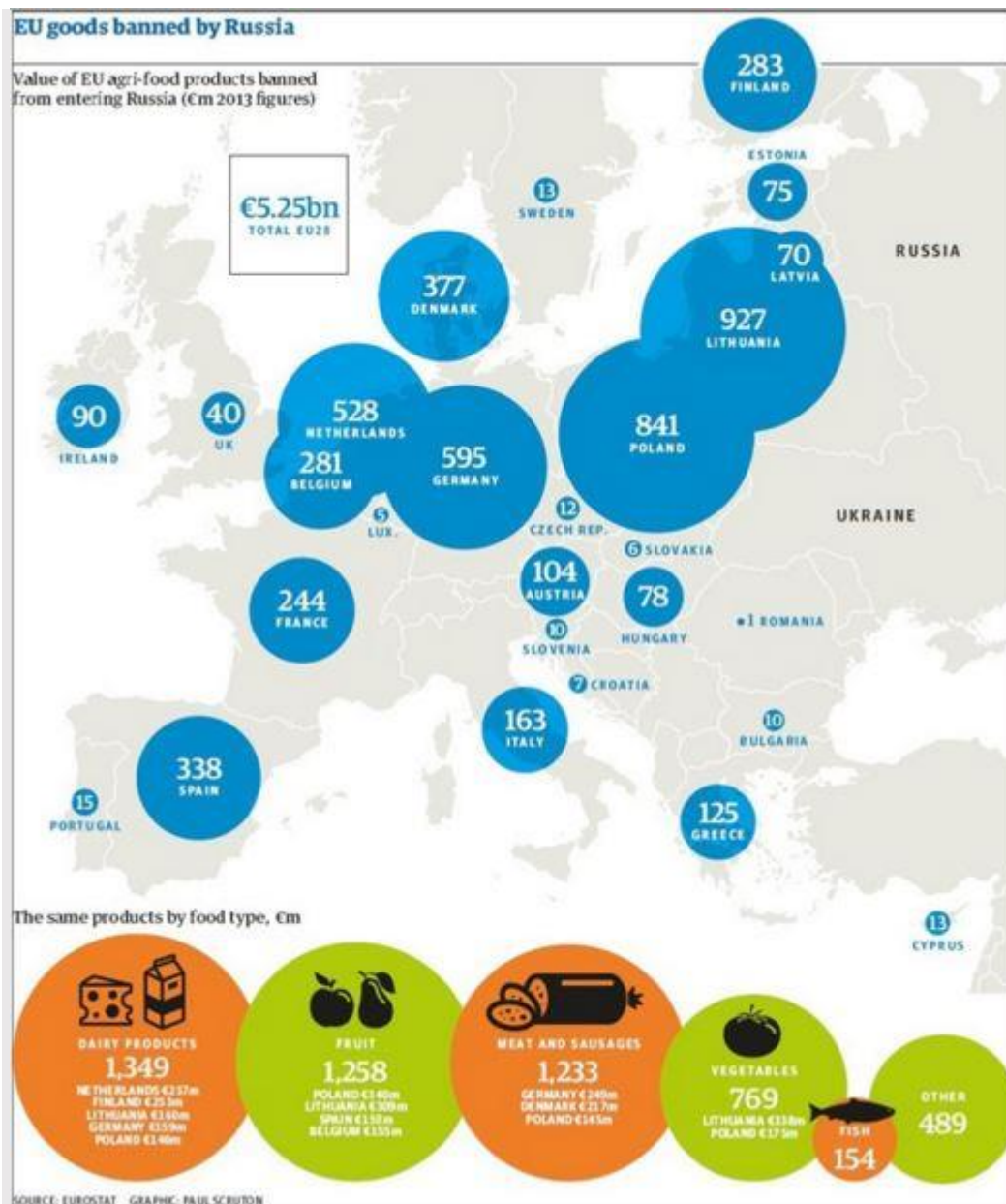
However, some big economic sectors are generally unaffected by the sanctions, such as Russian gas exports and nuclear energy, as they are of a strategic character for Russian partners in the West.

### **How did Russia respond to sanctions?**

Ever since the violence in Ukraine escalated in February 2014, Moscow's official position is that Russia is not interested in crisis escalation and urges all sides of the conflict to avoid provocations. After two rounds of sanctions, Moscow did not hit back; however, after sectoral sanctions were imposed, the Kremlin answered in the beginning of August. On August 6, President Vladimir Putin ordered a year-long trade ban on food and agricultural imports from the countries that had introduced tougher sanctions against Russia. The next day, a full list of products to be banned was released and Prime Minister Dmitry Medvedev [officially confirmed](#) that Russia has banned fruit, vegetables, meat, fish, milk and dairy imports from the U.S., the EU, Australia, Canada and Norway.

As a matter of fact, farmers in the U.S. and the EU are heavily subsidized by their governments, which link them tightly together in case of such situation, meaning that farmers can push on their governments. As Russia is Europe's second-largest market for food and drink, and [EU countries exported about \\$14 billion worth of food to Russia](#) in 2013, EU members are experiencing surplus of food products, which pushes down prices and leads them to experience financial losses.

After the ban went into effect, prices for [Dutch cucumbers and tomatoes dropped 80 percent](#). Apple prices in the Czech Republic are down 70 percent from last year, while Spanish, Italian, and Greek farmers get 30 percent to 50 percent less for their peaches and nectarines. EU food exporters could lose some \$9 billion in sales, say [analysts at Dutch bank ING](#). The analysts predict the ban could lead to [the loss of 130,000 jobs across the 28-nation bloc, led by Poland with 23,000 jobs lost](#). By contrast, [the U.S. is forecast to lose only 12,000 jobs, with an estimated \\$1.7 billion](#) in lost sales to Russia. U.S. producers have largely shrugged off the Russian retaliation.



Source: *The Guardian*

On the other hand, Russia stimulates domestic producers of agricultural products and food by banning Western goods. The share of Western producers in the Russian market is decreasing, opening opportunities for Russian companies.

However, Russian retaliatory sanctions already contributed to the rise of inflation in Russia itself. Although some positive effect is also already seen. There is a tendency of industrial production to rise, based firstly on machine-building and metallurgic companies that received additional market share as a result of the ban on Ukrainian products. In late summer after Russian retaliatory sanctions had been imposed, the food industry joined them. In the first half of

the year, the growth of industrial production was 1.5 percent in comparison with the same period in 2013, while GDP grew by almost twice as less: 0.8 percent.

After the latest round of Western economic sanctions was imposed, the Russian leader changed his rhetoric if to compare with the previous round. In the Russian president's speech during a meeting of the State Council on Thursday, Sept. 18, he said: "Russia has no plans to punish West with retaliatory sanctions... First of all, we are thinking about our own interests and development goals."

However Prime Minister Medvedev signaled that Russia might ban Western airlines from flying over its territory as part of an asymmetrical response to new European Union sanctions over the Ukraine crisis. [Blaming the West for damaging the Russian economy](#), Prime Minister Dmitry Medvedev said Moscow would press on with measures to reduce reliance on imports, starting with increasing output of domestic aircraft.

### **Will there be further sanctions?**

So far, neither the EU nor the U.S. is planning to expand sanctions further. However, there is always a possibility that if the situation in Ukraine deteriorates, new sanctions might be considered.

The [European Union decided](#) on September 30, 2014 to keep economic sanctions against Russia over its alleged support for separatists in eastern Ukraine regardless of a ceasefire deal that was reached on September 5. However, Brussels views it as a positive development on the way to end the current crisis. European Council President Herman Van Rompuy did not exclude that, if the situation in eastern Ukraine improves, sanctions could be amended, suspended or even fully repealed.

President Obama said during his address to the United Nations General Assembly in September, 2014 that if Russia takes "the path of diplomacy and peace, a path that for stretches of the post-Cold War period resulted in prosperity for the Russian people—then we will lift our sanctions and welcome Russia's role in addressing common challenges."

However, the sanctions are unlikely to be lifted in the short-run. [As German Chancellor Angela Merkel said](#), Moscow is far from having economic sanctions eased or lifted due to persisting tensions in Ukraine, warning that it may even be necessary to reconsider energy cooperation with Russia. Moreover Russian governmental officials believe that the sanctions are

likely to stay at least for the medium-term. As Russian Minister for Economic Development Alexey Ulyukaev believes, [sanctions that are already imposed are going to stay for a long time](#); however, he does not expect new sanctions to be imposed.