

# SANCTIONS

EU-Russia  
relations

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## The Role of Sanctions in current and future EU-Russia Relations

By Tatiana Romanova

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# The Role of Sanctions in current and future EU-Russia Relations

By Tatiana Romanova\*

## Introduction

The EU first imposed sanctions ('restrictive measures') on Russia in March 2014 as a reaction to Russian activities in Crimea. Brussels then extended sanctions in coordination with the US to respond to developments in Donetsk and Luhansk, the downing of the MH17 plane, the Russian capture of three Ukrainian Navy vessels in the Kerch Strait, Russian cyberattacks, the use of chemical weapons, the poisoning of Russian opposition leader Alexei Navalny, and some other events.<sup>1</sup> At the moment there are four types of EU sanctions, as indicated below.

- Diplomatic: EU-Russia summits have been suspended; negotiations on easing of the visa regime, on a visa-free regime for short-term stay, and on a new EU-Russia agreement have been halted; Russia does not have access to lending from the European Investment Bank nor from the European Bank for the Reconstruction and Development.
- Designated: a growing number of Russian individuals and companies have been blacklisted, which means that their bank accounts in the EU are frozen, respective individuals cannot travel to the EU, and all trade and financial transactions with them are forbidden.<sup>2</sup>
- Crimea-related: EU companies are not allowed to have any commercial operation in Crimea and the city of Sebastopol.
- Sectoral: restrictions are imposed on access to:
  - financing of over 30 days (for 11 Russian entities, including five banks, which together represent 70% of the Russian banking sector in assets);
  - certain oil equipment (for example, for deep-sea exploration in the Arctic, for shale oil development);
  - military technologies and dual-use goods (for nine companies).

Russia for its part has always stressed that these are restrictive measures (with the UN having

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<sup>1</sup> A chronology of sanctions is available here: European Council / Council of the EU (2021) Timeline - EU restrictive measures in response to the crisis in Ukraine ([www.consilium.europa.eu/en/policies/sanctions/ukraine-crisis/history-ukraine-crisis/](http://www.consilium.europa.eu/en/policies/sanctions/ukraine-crisis/history-ukraine-crisis/)).

<sup>2</sup> The most recent lists can be found here: for entities, RBC (2020) Polnyj spisok organizacij iz Rossii, DNR i LNR, popavshih pod sankcii so storony SSHA i ES na 10 dekabrya 2020 goda, ([https://s0.rbk.ru/v6\\_top\\_pics/media/file/2/58/756092584389582.pdf](https://s0.rbk.ru/v6_top_pics/media/file/2/58/756092584389582.pdf)); for individuals, RBC (2020) Polnyj spisok rossiiyan i predstavitelej DNR i LNR, popavshih pod sankcii so storony SSHA i Evropejskogo soyuza na 10 dekabrya 2020 goda ([https://s0.rbk.ru/v6\\_top\\_pics/media/file/0/90/756092584264900.pdf](https://s0.rbk.ru/v6_top_pics/media/file/0/90/756092584264900.pdf)).

the sole authority to impose international sanctions). Moscow has also responded with three types of 'unilateral sanctions', as indicated below.

- Designated, which have blacklisted some EU citizens (the list is mostly confidential, although parts of it have been leaked in the press by EU authorities).
- Sectoral, which ban the import of certain agricultural products (including meat, milk products, fish, fruit and vegetables) from the EU (and other actors that have introduced restrictive measures against Russia).
- Procurement restrictions for certain goods produced in countries which have imposed sanctions against Russia.

Other measures have been contemplated (for example, suspension of payments for international credits) but they have never been introduced for fear of irreversibly damaging Russia's credibility as an economic partner.

Sanctions have been applied for nearly seven years now, which enables some conclusions to be drawn on their effect on the EU-Russia relationship. These conclusions are summarised in the five points below.

### **1. What is the economic effect of the sanctions?**

The overall impact of the sanctions is difficult to assess. Firstly, it is difficult to disentangle the impact of the sanctions from the effect of Russia's structural economic deficiencies (in particular, its macroeconomic regulation, legal uncertainty, and domination of the state in the economy). Secondly, the Russian economy is vulnerable to fluctuations in oil and gas prices. These prices experienced a steep decline in 2014 and have never returned to their 2011-2013 level. They are also reflected in the EU-Russia trade balance as hydrocarbons account for 70% of this. Thirdly, it is impossible to assess how many trade deals and new contracts have not been signed as a result of the deterrent effect of EU and US sanctions.

Some figures are nevertheless available. Between 2013 and 2019, the EU's exports of goods to Russia decreased by EUR 27 billion (to EUR 87.8 bn) while imports fell by EUR 55.6 bn (to EUR 143.4 bn).<sup>3</sup> Much of this decrease results from the fluctuation in oil prices. At the same time, some studies estimate that Russia's ban on agricultural products from the EU had an effect that was eight-times stronger on trade flows than the effect arising from EU and US sanctions.<sup>4</sup> According to Belin and Hanousek, this is the result of Russia imposing restrictions whose effect is felt immediately, whereas Western measures target future Russian hydrocarbon and military production.<sup>5</sup> Other studies demonstrate that much of the trade reduction has taken place in goods that are not directly covered by sanctions;<sup>6</sup> it is instead caused by shrinking consumption and financial sanctions. Foreign direct investment (FDI) to Russia fell from USD 69 bn in 2013 to USD 22 bn in 2014 and to USD 6.8 bn in 2015. It recovered to about USD 30 bn annually in 2016 only to fall again to USD 8.8 bn in 2018.

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<sup>3</sup> EU (2020) Russia-EU International Trade in Goods Statistics ([https://ec.europa.eu/eurostat/statistics-explained/index.php/Russia-EU\\_-\\_international\\_trade\\_in\\_goods\\_statistics](https://ec.europa.eu/eurostat/statistics-explained/index.php/Russia-EU_-_international_trade_in_goods_statistics)).

<sup>4</sup> Belin, M. and Hanousek, J. (2020) 'Which sanctions matter? Analysis of the EU-Russian sanctions of 2014', *Journal of Comparative Economics* (<https://doi.org/10.1016/j.jce.2020.07.001>).

<sup>5</sup> Ibid.

<sup>6</sup> Crozet, M. and Hinz, Y. (2016) 'Collateral Damage: The Impact of the Russia Sanctions on Sanctioning Countries' Exports', CEPII Working Paper, No 2016-16, June.



Russia's outward FDI has remained high since 2014,<sup>7</sup> provoking talks about capital flight.

According to some studies, the sanctions also meant a loss of about 1% of Russia's annual GDP in 2014-2015.<sup>8</sup> The International Monetary Fund (IMF) later reassessed the influence of sanctions on GDP to 0.2% annually between 2014 and 2018.<sup>9</sup> Inflation nearly doubled in Russia in 2014 and 2015 (compared to 2013).<sup>10</sup> The rouble has experienced a dramatic loss in value against major currencies (from RUB 35.18 per 1 USD in January 2014 to RUB 75.04 in January 2021; and from RUB 47.65 per 1 EUR in January 2014 to RUB 91.21 in January 2021).<sup>11</sup>

Meanwhile the EU lost about 0.2% of its GDP between 2014 and 2018. Within the EU, member states have been unevenly affected by the sanctions and countersanctions. In absolute terms Germany, Italy, Finland and Denmark have lost the most. In terms of the share of its exports to Russia, Malta has lost the most (about 70%). At the same time, Greece, Sweden, Luxembourg and Bulgaria have managed to increase their exports to Russia.<sup>12</sup> According to other studies, however, the Czech Republic and Hungary have been the most affected in terms of the GDP (-0.6% in 2014-2018), followed by Austria and Germany (-0.5%). More specifically, the most exposed sectors have been textiles, pharmaceuticals, machinery and transport equipment. Agriculture, by contrast, has been significant in terms of trade losses only for the Baltic states, Poland, Finland, Germany and the Netherlands.<sup>13</sup> The overall impact on member states has depended on their type of economic relations with Russia, on the relative place of the sectors directly affected by sanctions, on their geographical proximity, and on how strictly the national export licencing authorities have interpreted restrictive measures.

## 2. Are the sanctions achieving their goal?

The most conventional question related to restrictive measures is whether they achieve their goal. The answer depends on what the goal was. Sanctions, in general, pursue at least one of three goals (most of the time – all three of them): signalling, restricting, and coercing. In this particular case, the signalling goal was to demonstrate the EU's negative attitude to various of Russia's activities. This goal has been fully achieved. The restricting goal amounts to preventing Russia from aggravating the situation in Ukraine and in other thematic areas where the EU believes Russian leadership was involved (for example, the use of chemical weapons and cyberattacks). This argument is frequently cited by Western scholars<sup>14</sup> to prove that sanctions are effective; but it is difficult to prove that Russia had ambitions to go any further. Finally, the coercing goal would presuppose that sanctions modify Russia's behaviour and its foreign policy. And this is where sanctions have made no progress, which is keenly stressed by Russia's representatives.

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<sup>7</sup> For details see Bank of Russia (2021) Statistika vneshnego sektora ([www.cbr.ru/statistics/macro\\_itm/svs/](http://www.cbr.ru/statistics/macro_itm/svs/)).

<sup>8</sup> See for example Havlik, P. (2019) 'EU-Russian sanctions exchange has had important economic and political consequences', WIIW, Vienna, 20 February; IMF (2015) *Russian Federation: Staff Report for the 2015 Article IV Consultation*, Washington DC: IMF.

<sup>9</sup> IMF (2019) *Russian Federation: Staff Report for the 2015 Article IV Consultation*, Washington DC: IMF.

<sup>10</sup> Rosstat (2021) Uroven inflyatsii (<https://уровень-инфляции.рф/таблицы-инфляции>).

<sup>11</sup> Central Bank of Russia (2021) Kursy valut nd zadannyu datu ([http://cbr.ru/currency\\_base/daily/](http://cbr.ru/currency_base/daily/)).

<sup>12</sup> Giumelli, F. (2017) 'The Redistributive Impact of Restrictive Measures on EU Members: Winners and Losers from Imposing Sanctions on Russia', *Journal of Common Market Studies*, 55(5): 1062-1080.

<sup>13</sup> Havlik, P. (2019), op.cit.

<sup>14</sup> See for example Riley, A. (2020) 'Impact and Effectiveness: Sanctions on Russia 2014-2020', Atlantic Council, Washington.

On the contrary, the sanctions have solidified both the regime and Russia's foreign policy rhetoric in defence of its position. Western restrictive measures have provoked the so-called 'rally around the flag effect' – in other words, the effect of consolidating the state and society in Russia. In particular, the sanctions against Russia bolstered the approval rate of Russian President Vladimir Putin's activities to a record of 89% by 2015.<sup>15</sup> Putin has fuelled societal mobilisation and consolidation through a discursive link of present-day resistance with the deeply embedded perceptions of Russians demonstrating a stoic character and an invincible nature throughout history, most prominently in the second world war. Although economic difficulties are well felt by now, few people link inflation, economic stagnation and a decrease in living standards with Russia's foreign policy. The corruption and selfishness of the government remain a far more popular explanation, with the burden of unpopularity being placed on the Russian government. Putin frequently equates sanctions to unfair competition,<sup>16</sup> which further dissuades the link between foreign policy and internal economic hardship.

Two other issues contribute to the failure of the sanctions against Russia to achieve their coercive goal. First, Russia believes that the sanctions will be in place for good because the prospects of them being removed are vague. This belief became rooted when the EU regularly and meticulously rolled over its sanctions. Even when sectoral sanctions were linked with implementation of the Minsk agreements, Russia's belief did not change. Rather, the Soviet experience with the Jackson-Vanik amendment, which the US imposed in 1974 on countries restricting emigration and repealed only in 2012, served as a powerful reminder that sanctions live much longer than the reasons for their introduction (the Soviet Union lifted its ban on emigration in 1987, and was dissolved in 1991). Furthermore, US secondary sanctions, which limit the EU's flexibility in its relations with Russia (see also point 5 below), have solidified that belief. Second, after tying its sanctions to implementation of the Minsk agreements, the EU linked restrictive measures against Russia not only to steps taken by Russia but also to those (not) taken by the Ukrainian authorities. Yet there is no consensus among different strands of the Ukrainian elite on the interpretation and scale of possible implementation of the Minsk agreements. Non-implementation thus emerges as the only plausible option for today's Kyiv. Russian authorities, for their part, underline that the linkage of the agreements and the sanctions is profoundly unfair, penalising Russia for the refusal of the Ukrainians to implement their part of the deal.<sup>17</sup>

### 3. How has Russia adapted to the sanctions?

The EU and US sanctions were meant to be smart – in other words, targeting companies and individuals that have (allegedly) been involved in the destabilisation of Ukraine and in the violation of its territorial integrity, in cyberattacks and poisoning on EU territory. However, Russian domestic resources have been reshuffled to shield certain individuals and strategic companies. Sanctioned banks have benefited from the extensive purchase of the Central Bank of Russia, which has also helped sanctioned banks gain access to foreign currencies. In addition, Russia has inflated its military spending, which has supported employment in this

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<sup>15</sup> Levada (2020) Odobrenie deyatelnosti Vladimira Putina ([www.levada.ru/indikatory/](http://www.levada.ru/indikatory/)).

<sup>16</sup> See for example RBC (2018) Putin nazval antirossiiskie sanktsii sposobom nechestnoi konkurentsii, 7 March, ([www.rbc.ru/rbcfreenews/5a9fa61c9a794768526e548f](http://www.rbc.ru/rbcfreenews/5a9fa61c9a794768526e548f)).

<sup>17</sup> See for example Tass.ru (2021) Lavrov schitaet, chto minkskie soglasheniya po Donbassu ostautsya 'sovershenno neubivaemyimi' (<https://tass.ru/politika/10685921>).

sector. Sanctioned companies and individuals have been awarded lucrative contracts (for example, for the bank servicing of Russia's electricity market and household maintenance fees market, and for the construction of the bridge between the mainland of Russia and Crimea). According to some estimates, the Russian state budget has shouldered about 45% of the overall costs of the sanctions.<sup>18</sup>

The sanctions have led to a massive programme of import substitution in Russia, in particular in agriculture, machinery, and information technologies. This programme involves a mix of support for R&D, grants, state investment in new production facilities and a favourable procurement policy for domestically produced goods. The programme was implemented at the level of companies, which means that for the time being its results cannot be assessed. The price of duplicating assets, which already exist globally, is borne mostly by the state budget. Durable import substitution also requires access to Western technologies and global markets, both limited at the moment. At the same time, import substitution policies have created stakeholders within the country that are interested in sanctions being in place, as this guarantees these stakeholders additional state finance and protection against global competition.

Russia's oil and gas production increased in the years following the imposition of sectoral sanctions,<sup>19</sup> which could be an indicator of a successful adaptation to the imposed sanctions. Yet the oil and gas sanctions targeted Russia's future production, and in so doing, they have caused oil companies to postpone the exploration of new fields in the Arctic and Siberia. Although it can be argued that the exploration of these fields would not make much sense anyway given today's oil prices, insufficient exploration will nevertheless result in the shrinking of oil production in the longer run. Moreover, given the global energy transition towards renewables and the planned decrease in reliance on hydrocarbons in the energy balance, Western sanctions can diminish Russian chances of converting its resources into capital in this transition period from hydrocarbons to renewables.

Internally, the sanctions have contributed to further consolidation of power in the Kremlin, assisted by the 'siloviki' (a group of elite consisting of present or former officers of security services, police or other enforcement agencies, characterised by conspiracy thinking and distrust of the West).<sup>20</sup> The relative power of the liberal and business elite has continued to decline, which is a logical consequence of weakening economic interdependence. The EU sanctions have also limited the availability of international funding and thus increased competition between the Russian elite for state funding. As a result, the 'discipline' among the Russian elite has been reinforced. Indeed, being blacklisted by the West has, for some, almost become a sign of their loyalty to the present regime.

Russian farmers have also benefited from countersanctions, which have shielded them from global competition. Opinions on the results of this countersanctions vary from those labelling it as a failure<sup>21</sup> to those praising Russia's increased agricultural exports,<sup>22</sup> which are the result

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<sup>18</sup> Ahn, D.P. and Ludema, R.D. (2020) 'The sword and the shield: The economics of targeted sanctions', *European Economic Review*, 130(2020)103587.

<sup>19</sup> Minenergo (2020) Deyatelnost (<https://minenergo.gov.ru/node/987>).

<sup>20</sup> For the distinction between 'siloviki' and liberals see Kryshtanovskaya, O. and White, S. (2005) 'Inside the Putin Court: A Research Note', *Europe-Asia Studies* 57(7): 1065-1075.

<sup>21</sup> RBC (2020) Analitiki zayavili o provable programmy importozamescheniaya produktov, 7 December ([www.rbc.ru/economics/07/12/2020/5fcda5279a7947bf1230ecbf](http://www.rbc.ru/economics/07/12/2020/5fcda5279a7947bf1230ecbf)).

<sup>22</sup> Kommersant (2020) Putin: plevat na nih, na eti canksii, 16 March ([www.kommersant.ru/doc/4290579](http://www.kommersant.ru/doc/4290579)).



of higher production. At the same time food inflation, resulting from Russia's agricultural embargo, has accelerated while the quality of some products has diminished. Agricultural import substitution costs every Russian citizen RUB 3,000 annually,<sup>23</sup> with many more households finding themselves below the poverty line.

Most losses from sanctions have been incurred by common people and by small and medium-sized enterprises. The losses have been in the form of inflation, decreased public spending, higher taxes and strained access to bank credits. This means that sanctions have had an indirect effect in the form of worsening the economic standing of the majority of the population, while also leading to increased socio-economic tensions. These tensions have been reflected most recently in the demonstrations of 23 January in support of detained Russian opposition leader Alexei Navalny. While his arrest and his investigation of the so-called Putin's palace in Gelsenjik motivated people in over 100 cities of Russia to join these protests, people were mostly driven to protest by the growing sense of injustice and lack of economic prospects in their own lives. Again, no link between the deteriorating living standards and Russia's foreign policy was made.

Externally, Russia relies on its pivot to the East as part of its strategy to adapt to sanctions. Moscow views its partners there (in particular, China) as an alternative source of technologies and finance but also as a market that can decrease the EU's importance for the export of Russia's oil and gas. Some oil and gas companies have secured funding from China to proceed with their projects (in particular, constructing pipelines and LNG facilities). Yet the terms of the deals seem – from what is known publicly – to be far from favourable for the Russian participants. Moreover, US secondary sanctions (see point 5 below) have also deterred many entities in Asia from close contact with Russian partners, especially with those that are designated on various sanctions lists.

#### 4. Are the EU and Russia drifting apart economically?

Russia's import substitution policies and pivot to the East have gradually limited EU-Russia economic interdependence. This process is further strengthened by the EU's energy transition (as presented in the Green Deal, which is the basis for the EU's economic recovery).<sup>24</sup> The Green Deal favours renewables and energy efficiency and (in the long run) presupposes the phasing out of oil and natural gas (which currently account for 70% of the EU-Russia trade balance).<sup>25</sup> It is not certain how and whether EU-Russia economic interdependence could be recreated. Talks about Russia's participation in the EU's Green Deal have recently intensified (the EU and Russia have co-organised several conferences and other discussions on this topic). Yet there is much ambiguity over whether the EU will rely on natural gas in the long run or whether this will only be used until 2030 as an intermediate fuel with little finance available for it from public sources (like the European Investment Bank). Moreover, EU stakeholders<sup>26</sup>

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<sup>23</sup> Kuznetsova, P. and Volchkova, N. (2019) 'The Russian Food Embargo: Five Years Later', Moscow, October (<https://freepolicybriefs.org/2019/10/14/the-russian-food-embargo-five-years-later/>).

<sup>24</sup> European Commission (2019) Communication from the Commission to the European Parliament, the European Council, the Council, the European Economic and Social Committee and the Committee of the Regions 'The European Green Deal', Brussels, 11 December, COM(2019)640final.

<sup>25</sup> EU (2020) Russia-EU International Trade in Goods Statistics, op.cit.

<sup>26</sup> See for example European Commission (2018) Communication from the Commission to the European Parliament, the European Council, the Council, the European Economic and Social Committee, the Committee of the Regions and the European Investment Bank 'A Clean Planet for all. A European strategic long-term vision for a prosperous, modern, competitive and climate neutral economy'. Brussels, 28 November,

justify the overall shift to renewables by linking this objective to that of decreasing the EU's energy dependence on Russia. It is also telling that there are no specific plans for EU-Russia cooperation on energy transition and hydrogen (in contrast, for example to EU-Africa plans).

The use of natural gas in the EU in the long run also depends on whether there will be commercial technologies for the production of hydrogen from natural gas with low emissions of greenhouse gases. For the time being these technologies have only reached an experimental stage. Russian energy companies delay commercialisation of these technologies (for example, pyrolysis) and frequently belittle the importance of the Green Deal, as well as the commercial viability and environmental friendliness of renewables. In addition, EU and Russian market players diverge on whether to produce hydrogen in Russia (the option preferred by the EU) or to export natural gas to the EU and convert it into hydrogen once there (the option advanced by Russian energy experts).<sup>27</sup> Although there are technological reasons for each of the options, the divergence between EU and Russian actors is also the result of uncertainty in the bilateral relations and their wish to avoid unfavourable outcomes (for example, stranded assets or the non-completion of projects as a result of sanctions). Both the existing and any potential new sanctions decrease the readiness of the partners to invest in long-term projects.

Sanctions also limit the financial resources available (as well as the willingness of banks to engage in relevant operations). In addition, the murky structure of ownership in Russia makes it difficult to prove whether designated (blacklisted) individuals or entities control a particular company. This reinforces a cautious, risk-averse attitude on the part of the EU's investors when they opt not to engage with Russian partners.<sup>28</sup> Moreover, sanctions destroy trust, which is essential for any cooperation.

In sum, rebuilding EU-Russia economic relations on the basis of energy transition and climate change mitigation is not a given outcome. Similar arguments can be made about the digital economy and medicine/pharmaceuticals, which are two other areas that are critical for the present economic revival and for the economy of the future. Deep mutual suspicions exacerbate problems of economic cooperation in these areas.

Lastly, given the shock created in Russia by the sanctions, the country's leadership will be suspicious about recreating economic interdependence with the EU and hence its leverage on the Russian economy.

### 5. What are the political effects on EU-Russia relations?

Despite the difference of views on Russia inside the EU and the differences in how member states are affected by sanctions, the EU has regularly and unanimously renewed all types of sanctions. Some member states (Spain, Hungary, Slovakia, Greece, Cyprus) and regions of Italy and Germany have called for a change in sanctions, underlining their inefficiency and the resulting EU losses. Yet these calls have not affected the unity of the EU's position, which has been reconfirmed every six months or even more frequently as different measures that the EU has imposed in reaction to Russia's policies have been rolled over. In the end, member

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COM(2018)773final; Angel, S. (2020) Strategic sovereignty for Europe. EPRS Ideas Paper. Towards a more resilient EU. European Parliament Research Service. Briefing Paper. PE 652.069. September.

<sup>27</sup> See, for example, Конопляник, А. (2021) Как не угодит' в водородную ловушку ([www.konoplyanik.ru/ru/publications/210118-Конопляник-Эксперт-Н2-финал.pdf](http://www.konoplyanik.ru/ru/publications/210118-Конопляник-Эксперт-Н2-финал.pdf)).

<sup>28</sup> For more details, see for example Ahn and Ludema (2020), op.cit.

states have always traded their specific position on Russia for concessions on other policies in the EU. Russian representatives have publicly lambasted the EU's solidarity as akin to 'complicity', saying that Russia is 'wrongly understood' and 'abused by Russophobes'.<sup>29</sup> At the same time the EU's unity has reconfirmed the stereotype that Russia had about the EU well before 2014: that any positive experience of cooperation between Russia and an EU member state is rarely if ever 'europeanised', and that the EU resonates only with concerns about Russia and negative policies towards it.

Diplomatic sanctions imposed by the EU have also deprived the EU and Russia of regular contact. Officially it is only summits that have been stopped, but in reality many transgovernmental meetings (at the level of middle-level officials) have also been put on hold. Regular meetings of various EU-Russia dialogues have been terminated, and authorities only see each other on an ad hoc basis. Ideas on closer (institutional) cooperation between the EU and the Eurasian Economic Union have not been implemented either.

In parallel, all discussions on the future of EU-Russia relations and on a new EU-Russia basic agreement (to substitute the 1994 Partnership and Cooperation Agreement) have been terminated. This means that longer-term prospects for this relationship have not been discussed since 2014. The EU's five guiding principles of 2016 on relations with Russia cast in stone this taboo on the discussion of the future. The five principles have limited EU-Russia interaction to the implementation of the Minsk agreements and selective engagement (with no clear definition of the criteria for the latter).<sup>30</sup> Yet if there are no clear prospects (or at the very least, a discussion on these prospects), the stimuli to change the policy cannot emerge either. Both sides believe that they can just wait and that time will decide in their favour (either it will lead to a change of power in Russia, making it a more comfortable partner for the EU, or global turbulence will alter the structure of the Western domination, consolidating Russia's positions).

The European Parliament attempted to address the lack of a long-term goal for EU-Russia cooperation last year. Yet it limited itself to reiterating values and the need for the dialogue of civil societies.<sup>31</sup> While this dialogue is essential, it cannot be a long-term alternative to relations at the official level. Moreover, Russia's attempts to further limit this civil society dialogue (most recently through developing legislation on individuals as foreign agents) send a clear signal that the EU's perseverance on the involvement of civil society will lead to further

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<sup>29</sup> See for example Lavrov, S. (2021). Vystuplenie i otvety na voprosy SMI Ministra inostrannyh del Rossijskoj Federacii S.V.Lavrova v hode press-konferencii po itogam deyatelnosti rossijskoj diplomatii v 2020 godu, Moscow, 18 January ([www.mid.ru/web/guest/foreign\\_policy/international\\_safety/conflicts/-/asset\\_publisher/xlEMTQ3OvzCA/content/id/4527635](http://www.mid.ru/web/guest/foreign_policy/international_safety/conflicts/-/asset_publisher/xlEMTQ3OvzCA/content/id/4527635)); Lavrov, S. (2020) Otveti Ministra inostrannyh del Rossijskoj Federacii S.V.Lavrova na voprosy redakcii «Rossijskoj gazety» i ee regional'nyh partnerov v hode delovogo zavtraka, Moskva, 10 fevralya 2020 goda, Moscow, 10 February ([www.mid.ru/web/guest/maps/ua/-/asset\\_publisher/ktn0ZLTvbbS3/content/id/4029123](http://www.mid.ru/web/guest/maps/ua/-/asset_publisher/ktn0ZLTvbbS3/content/id/4029123)); Zakharova, M. (2021) Brifing oficial'nogo predstavatelya MID Rossii M.V.Zaharovoj, 12 March ([www.mid.ru/web/guest/foreign\\_policy/news/-/asset\\_publisher/cKNonkJE02Bw/content/id/4623242](http://www.mid.ru/web/guest/foreign_policy/news/-/asset_publisher/cKNonkJE02Bw/content/id/4623242)).

<sup>30</sup> Mogherini, F. (2016) Remarks at the press conference following the Foreign Affairs Council, Brussels, 14 March ([https://eeas.europa.eu/headquarters/headquarters-homepage/5490/remarks-by-high-representativevice-president-federica-mogherini-at-the-press-conference-following-the-foreign-affairs-council\\_en](https://eeas.europa.eu/headquarters/headquarters-homepage/5490/remarks-by-high-representativevice-president-federica-mogherini-at-the-press-conference-following-the-foreign-affairs-council_en)).

<sup>31</sup> European Parliament (2020) Motion for a resolution to wind up the debate on the statement by the Vice-President of the Commission / High Representative of the Union for Foreign Affairs and Security Policy, pursuant to Rule 132(2) of the rules of Procedure, on the situation in Russia: the poisoning of Alexei Navalny. Brussels, 14 September, No 2020/2777(RSP).

geopoliticisation of transnational relations. Russian civil society representatives will then face the prospect of repeating the fate of Soviet dissidents. Yet people-to-people contact can facilitate cooperation on energy transition and climate change mitigation – and indeed, these are areas where transnational relations still seem to be tolerated by Russian authorities.

At the same time, it is worth remembering in the context of this discussion on sanctions that the EU's suspension of both the new visa facilitation agreement and the dialogue on visa-free movement has mostly hit the grassroots and people-to-people contact. Visa suspension has limited the mutual socialisation of EU and Russian citizens by discouraging the flexibility of contact. It is also a clear message that it is relations with public authorities – not the facilitation of people-to-people contact – that is the key factor in easing the visa regime.

Lastly, the sanctions have downgraded the EU's importance for Russia and ultimately the EU's civilian/soft power. This downgrading is the result of the close alliance between the EU and the US on sanctions. The US sanctions are of a more comprehensive nature than those of the EU. They cover more Russian entities, and blacklisting and other restrictions are reinforced in different acts for different reasons (for example, attacks against Ukraine's territorial integrity, cyberattacks, the use of chemical weapons, and interference in the US elections). US measures affect not only future contracts but also existing ones, thus covering more commercial transactions. Yet it is the EU, which accounts for about 40% of Russia's external trade, that has ensured that Western sanctions are felt in Russia, while the economic impact of the US sanctions against Russia remained negligible.

By contrast, however, the US sanctions have deprived the EU of much of its independence in constructing its economic relations with Russia, and thus of most of the EU's civilian/soft power. The US carries out strict verification of compliance of all entities (including those based in the EU) with US measures. Washington also reserves the right to impose penalties for the violation of its sanctions regime. This strategy has proven to be an extremely effective leverage on various individuals and entities across the world (including EU companies and banks). Even if the EU decides to introduce more flexibility in its sanctions (for example, to link their gradual abolishment to incremental progress with the Minsk agreements), the US secondary sanctions will effectively limit the impact of the EU's initiatives because EU companies will still be observing US sanctions. Given today's state of US-Russian relations, US sanctions are unlikely to be eased or repealed in the medium-term. The EU has already become aware of this extraterritorial effect of the US policies. Yet EU discussions on any mechanism to bypass US secondary sanctions have not looked credible so far.

### **Conclusion**

The five points above confirm a well-known fact: sanctions are most effective when they are not imposed. Once applied, they harm both the sender and the receiver; they cause economic restructuring in the country that is targeted, but also (irrevocably?) transform and unravel political and economic relations between the sending and receiving parties. Furthermore, sanctions rarely achieve their coercive goal (of causing a change in the behaviour of the receiving party). In light of this, the following policy recommendations could be made.

### **Policy recommendations**

1. A credible EU strategy of exiting sanctions should be set up. With this aim, the EU would need to address the US secondary sanctions and the linkage of sanctions with the policy choices of Ukraine's leadership.
2. The possibility should be explored of incremental changes to the sanctions regime that are commensurate with the gradual implementation of the Minsk agreements.
3. The EU and Russia need a long-term goal for their relationship. For the time being no such goal exists, with each of the partners believing that time is on their side. Yet the absence of this goal complicates the search for a solution to the present stalemate. People-to-people contact cannot be a substitute for a long-term goal for EU-Russia relations.
4. The absence of regular EU-Russia contacts at the levels of leadership and transgovernmental bureaucracies limits the chances of this goal emerging any time soon. Moreover, the restructuring of economic relations and contact at civil society level also requires the re-establishment of at least some official contact. It would therefore make sense to relaunch at least a few regular meetings. Putting all the weight on people-to-people relations will lead to their geopoliticisation.
5. People-to-people contact remains an important way of preserving the resilience of EU-Russia relations. Moreover, this contact could facilitate socialisation that would help relaunch the EU-Russia economic relationship on the basis of energy transition and climate change mitigation.
6. The EU and Russia should clearly identify where their cooperation is possible and shield that cooperation from restrictive measures. Energy transition and climate change represent the most obvious areas but the digital economy and medicine/pharmaceuticals could also be explored. One way of doing this would be by developing an action plan or a roadmap for cooperation on energy transition and climate change mitigation.
7. Business would appreciate additional guarantees that projects which contribute to the relaunch of EU-Russia economic cooperation would not fall under sanctions (including financial and secondary sanctions). This would also require more transparency on the Russian side regarding the ownership of different entities.



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