Russia's war on Ukraine: New EU sanctions

Outraged by Moscow's invasion of Ukraine, EU countries have adopted unprecedentedly tough sanctions, in cooperation with partners such as the US, Canada and the UK. Although Russia will partially adapt, these measures are expected to cause major disruption and isolate the country from the global economy.

Pre-2022 EU Ukraine-related sanctions against Russia

After Russia's March 2014 annexation of Crimea and support for Donbas separatists, the EU adopted numerous sanctions against Russia. These include targeted measures (asset freezes, visa bans) against some 160 individuals (including Russian politicians and military officers) and 40 organisations responsible for violations of Ukrainian sovereignty. There are also sectoral sanctions: severe restrictions on EU lending to five major Russian state-owned banks, three oil companies and three arms manufacturers; an arms embargo, and a ban on exports of dual-use (civilian/military) items to Russian defence companies; and a ban on providing innovative extractive technology and services, used by Russian companies to develop deep-water, Arctic and shale oil reserves.

New sanctions triggered by Russia's attack on Ukraine

On 24 February 2022, Russia launched an unprovoked attack on Ukraine. Earlier in February, US officials predicted that an invasion could claim up to 50,000 Ukrainian civilian lives, together with 25,000 military casualties on the Ukrainian side and 10,000 for Russia, while displacing up to 5 million people. According to the United Nations, as of 1 March 2022, at least 136 civilians had been killed and 400 injured, with the real toll probably much higher. At the time of writing one million refugees have left the country.

The invasion was preceded by months of debate on Europe's response to expected Russian aggression. Given the damage that further sanctions would cause to their own economies, there were some doubts as to how far EU leaders were prepared to go. However, the scale and the brutality of the attack, as well as its worrying implications for European security, have highlighted the need for harsher measures.

Four new sanctions packages

The EU adopted sanctions on 23 February after Russia's decision to recognise the two 'People's Republics' of Donetsk and Luhansk as independent states, followed by three packages of much harsher measures after the start of the invasion, on 25 February, 28 February and 2 March. These include:

- targeted individual sanctions against Russian President Vladimir Putin, senior government ministers including defence minister Sergei Shoigu and Foreign Minister Sergei Lavrov, members of the National Security Council, oligarchs in the oil, banking and finance sectors, propagandists such as Margarita Simonyan, head of the RT news channel, and all 351 Russian parliamentarians (out of 450) who voted for recognition of the two territories;
- bans on: financial transactions with all state-controlled banks (70% of Russia's banking sector); trading in shares of Russian state-owned companies; financial deposits from Russia in EU banks exceeding €100,000; accounts belonging to Russian clients in EU banks; the sale of euro-denominated securities to Russian clients; transactions with the Russian Central Bank; supply of euro banknotes to Russia; participation in Russian Direct Investment Fund projects;
- exclusion of seven banks from the SWIFT financial messaging system. However, the list includes only one of Russia's top five banks (VTB, the second largest by total assets);
- energy sector: a ban on exports of services and technology used by Russian oil refineries;
- aviation sector: a ban on the sale of all aircraft, spare parts and equipment to Russian airlines. Russian planes, including private jets, are banned from EU airspace and EU airports;
- restrictions on exports of high-tech goods with potential military applications, such as electronics, computers, information security, telecoms, sensors and lasers, navigation and avionics equipment, not only to military companies, but to all Russian purchasers;
• a ban on broadcasts by Kremlin propaganda channels RT and Sputnik.

Sanctions coordination, and further restrictive measures:
Like the previous sanctions of 2014, these measures have been coordinated with the USA, Canada, and the UK. Together with the EU, the latter three countries have frozen Russian international reserves, banned Russian planes, restricted technology exports, and adopted targeted sanctions against elite figures. The four partners have committed to ending ‘golden passports’ for wealthy Russians connected to the Russian government. Following the example of the UK and Canada, the EU and USA are considering a ban on Russian ships. Czechia is one of the EU countries that have already stopped issuing visas to Russian citizens, and there are calls for other Member States to follow suit.

Western companies have taken some initiatives of their own that go beyond sanctions compliance. Shell and BP have announced that they will sell off their Russian assets. Apple and Jaguar Land Rover will stop selling products in Russia, while MSC and Maersk will no longer ship containers to Russia.

Consequences of new sanctions
Previous EU and Western sanctions adopted in 2014 were targeted at a narrow group of strategic companies and sectors. Their objective was not to cripple the Russian economy but to slow down long-term growth. After an initial shock, Russian banks and energy companies adapted to the new situation; energy production and exports have now reached record levels. Nevertheless, there are signs that sanctions have imposed significant costs: foreign investment is down, and according to some estimates, Russia may be losing around 1% of GDP growth per year.

The latest sanctions are more similar to Washington's post-2018 'maximum pressure' campaign against Iran, in that they aim at a much broader impact. Without access to SWIFT, Russian traders will find it difficult to send and receive international financial transfers, obstructing the oil and gas exports on which the Russian economy so crucially depends (however, it is still unclear whether this ban will include energy exports). Whereas previous sanctions targeted elites rather than ordinary Russians, the new measures, such as the ban on Russian flights and heavy restrictions on visas, could make travel almost impossible for everyone in the country. With the ban on aviation exports, Russia could run out of spare parts for its commercial air fleet, three quarters of which originate from Western countries, in just a few months. Technology export restrictions will hold back economic modernisation, and financial restrictions will isolate Moscow from international markets.

Since the invasion, the Russian rouble has lost 30% of its value against the euro and share markets have crashed, forcing Moscow’s stock exchange to close. In a bid to prop up the rouble, Russia’s Central Bank raised interest rates sharply, from 9.5 to 20%; the latter move will hurt heavily indebted Russian households, which had already seen disposable incomes decline to a 12-year low even before the conflict. Moscow has US$630 billion in international reserves, giving it some scope for cushioning the impact of economic shocks, but around half of these reserves are now frozen by Western sanctions.

The longer-term impact is less clear. Russia proved more resilient to previous sanctions than expected, and there is a limit to how far EU countries are prepared to go in restricting energy trade, given that many of them depend on Russian supplies. For the time being, gas exports continue to flow, including via Ukraine. In 2014, to overcome Western restrictions on exports of dual use goods for the defence sector, Russia looked to domestic manufacturers and Chinese imports for replacements. Yet such alternatives are often of inferior quality and can take years to develop. Furthermore, it is not clear whether Chinese producers will want to risk secondary sanctions from the USA, which is by far their biggest export market.

In the short term, EU countries are unlikely to stop buying gas from Russia, which supplies over 40% of their imports. However, in the long term, sanctions could spur more determined diversification efforts; Germany, which is currently the biggest importer, has already put the Nord Stream 2 pipeline on hold and announced plans to build two LNG terminals.

European Parliament: in its 1 March 2022 resolution on Russian aggression against Ukraine, Parliament welcomes the EU’s swift adoption of sanctions, but calls for further measures against Russia and Belarus, including total exclusion from SWIFT, a ban on exports of all high-tech products, and a ban on Russian shipping.