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### **LESSONS FROM THE EU-RUSSIA SANCTIONS 2014-2015**

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#### **ABSTRACT**

This article analyzes and discusses the objectives of the sanctions implemented by the European Union against Russia and Russian countermeasures against EU member states in 2014-2015, by comparing the official aims with the options expressed in theoretical debates and experiences gained from historical lessons. In principle, the study seeks an answer to the question: what could be realistically achieved as a result of the current form of restricted sanctions and what stays beyond their reach. Methodologically, this article focuses on the

evaluation of the ability of theoretical models to explain the logic of anti-Russian sanctions and debates the options of the outcomes of current formation of sanctions in light of theoretical models.

**KEYWORDS**

Sanctions, conditionality, European Union, Russia, Ukraine

## **INTRODUCTION**

The political tensions that began between Ukraine and Russia in 2013 have culminated in the violation of the territorial integrity of Ukraine and the annexation of Crimea in March 2014 and violent conflicts in the eastern part of Ukraine forced by pro-Russian separatist forces from 2014 on. To resolve the conflict, the European Union decided in March 2014 to use sector-specific targeted sanctions (or so-called smart sanctions) to put pressure on the Russian Federation. The scope of the sanctions has been widened several times in April, May, July, and September 2014 and the validity of the EU sanctions against Russia has been extended in January and June 2015. However, the sanctions have not reached the core areas of the Russian economy—mainly the export of oil, gas and raw materials. And they were only partially targeted against top ranking politicians, not including President Vladimir Putin and Prime Minister Dmitry Medvedev. As a countermeasure, Russia has imposed import restrictions on a wide range of products originating from the EU member states that had imposed sanctions against Russia. Undoubtedly, sanctions and Russian countermeasures represent an essential component of the Russian-Ukrainian conflict, which both sides expect to become an efficient tool for putting pressure on the other party.

However, the expectations of possible restoration of the territorial integrity of Ukraine or initiation of change of political regime in Russia have, after a period of 18 months, ended in partial disappointment. Therefore, a legitimate question arises of whether the sanctions against Russia, the goals of which were to resolve the conflict in Ukraine and reinstate territorial integrity of Ukraine, were unrealistic from the beginning.

The present article aims to analyse and discuss the objectives of the sanctions implemented by the European Union against Russia and Russian countermeasures against the EU member states in 2014-2015 by comparing the official aims with the options expressed in theoretical debates and experiences gained from historical lessons. In principle, the study seeks an answer to the question: what could be realistically achieved as a result of the current form of restricted sanctions and what stays beyond their reach? Methodologically, by using an analytical descriptive method, this study focuses on the evaluation of the ability of theoretical models to explain the logic of anti-Russian sanctions and debates the options of the outcomes of current formation of sanctions in light of theoretical models.

The discussion of the objectives of the EU-imposed sanctions on Russia is important because it lays the groundwork for the assessment of their outcome. As stated by Francesco Giumelli, "the analysis why sanctions are imposed, together

with the understanding of their purpose, is crucial to discuss how sanctions work and how we can create a new narrative for success." The identification of the aims of the main conflicting parties during the Russian-Ukrainian conflict contributes to further assessment of the outcome of sanctions. Nevertheless, it must be kept in mind that it may not suffice for the assessment of sanctions to determine only the extent to which sanctions meet their political objectives, but also the unintended consequences and the comparative utility of sanctions ("what would have happened had the sanctions not been imposed" should likewise be taken into account).<sup>1</sup>

The analysis of sanctions imposed during the Russian-Ukrainian conflict is also important since previously countries imposing sanctions have mostly been larger and economically/militarily more powerful than the target countries, and the imbalance in power seems to have grown since the 1970s.<sup>2</sup> In the Russian-Ukrainian conflict and with related sanctions, the sides of conflict include former members of G-8 (great power) and Ukraine, one of the largest states of Europe. Therefore, the current situation provides the academic community with a unique and valuable case study.

## 1. MOTIVES BEHIND THE SANCTIONS: THEORETICAL OPTIONS

The theoretical part of this article discusses the rationality and logic of sanctions in the international arena in the context of the current EU sanctions imposed on Russia.

In theory, sanctions are mainly aimed at changing the behaviour of the target (a tool for coercion), to limit its behaviour (a constraining effect), or to send the target a message (a signalling effect).<sup>3</sup> To some extent, sanctions could be associated with institutional and neo-institutional models of governance as a tool of self-identification and an instrument of meeting public expectations of interest groups. However, it should be noted that for each individual case the aims and motives of sanctions are case-specific, often consisting of both a formal and hidden agenda. Sanctions have been considered as a policy alternative to military force, material gains, and diplomacy, in a situation where "doing nothing" is not an

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<sup>1</sup> Francesco Giumelli, "How EU sanctions work: A new narrative. EU Institute for Security Studies," *Chaillot Paper* No. 129 (2013): 24.

<sup>2</sup> Lance Davis and Stanley Engerman, "History Lessons: Sanctions – Neither War nor Peace," *Journal of Economic Perspective* Vol. 17, No. 2, (2003).

<sup>3</sup> Francesco Giumelli and Paul Ivan, "The effectiveness of EU sanctions," *EPC Issue Paper* No. 76 (2013): 9.

option<sup>4</sup> and positive conditionality is not considered an alternative. As stated by Delevic,<sup>5</sup> sanctions are “less glamorous than diplomacy and less decisive than war.”

Sanctions can also be defined as a form of negative conditionality (opposed to positive conditionality), where the one imposing is motivating the target state with threats or punishment to change its economic, political or military actions. Thus, the pressure is expected to occur in different forms and in different time-frames. Accordingly, the vital part of sanctions is the demands or criteria to be fulfilled to end the sanctions<sup>6</sup>. Sanctions can be intended to have an independent effect, but they can also be aimed to amplify or slow down already ongoing political processes, be it budget or external trade deficit, military rearmament, etc.

Sanctions as a tool for coercion are targeted to change the behaviour of a target country and to put an end to its undesirable activities. The change in the behaviour of a target country is expected to occur as a result of direct material costs caused to them which in turn could be avoided upon changing the behaviour. Thus, targets know what to do to satisfy the sanctioning party’s requests and are motivated to implement policies demanded by the sanctioning parties to avoid additional costs.<sup>7</sup> They are expected to do it voluntarily without encountering the risk of political suicide or long term stagnation.<sup>8</sup> Still, the change in the target’s behaviour is obviously accompanied by the weakening of the political support for its leaders and regime<sup>9</sup>. At the same time, the imposing party must make consolidated reasonable demands that could be satisfied by a target state without making them “lose face”. As stipulated by Groves<sup>10</sup>, sanctions must have a “reasonable prospect of success”. However, in many cases next to open official demands there exists also a “hidden agenda”, consisting of the aims that are not suitable for official framework (change of the current political regime) or are not fully supported by all members of a multilateral coalition. To sum up, the aims of coercive sanctions should be clearly defined, realistic, measurable, and openly communicated to the target country to avoid false expectations and misleading reactions.

This approach follows closely the traditional “more pain, more gain” logic of economic sanctions which suggests that enough pressure should be put on targets to force them to change their behaviour with the aim to strengthen international

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<sup>4</sup> Francesco Giumelli, *Coercing, Constraining and Signalling: Explaining and Understanding International Sanctions after the End of the Cold War* (Colchester: ECPR Press, 2011), 30.

<sup>5</sup> Milica Delevic, “Economic sanctions as a foreign policy tool: The case of Yugoslavia,” *The International Journal of Peace Studies* Vol. 3, No. 1, 1998.

<sup>6</sup> Viljar Veebel and Raul Markus, “Wirtschaftssanktionen als die Mittel der internationalen Druck,” *Estonian Discussions on Economic Policy* Vol. 23, No. 1 (2015): 132-133.

<sup>7</sup> Francesco Giumelli and Paul Ivan, *supra* note 3: 18.

<sup>8</sup> *Ibid.*: 34

<sup>9</sup> Michael Brzoska, “Putting More Teeth in UN Arms Embargoes”; in: D. Cortright and G. A. Lopez, eds., *Smart Sanctions: Targeting Economic Statecraft* (Rowman and Littlefield Publishers, 2002).

<sup>10</sup> Adam Groves, “Are Sanctions an Appropriate Tool for Coercion in International Politics? Why?” *www.e-ir.info* (2007) // <http://www.e-ir.info/2007/12/03/are-sanctions-an-appropriate-tool-for-coercion-in-international-politics-why/>.

security, uphold respect for human rights and democracy, or other motives. There is also a belief that the most natural reaction of a target state to the sanctions is to comply and cooperate but not to mobilize additionally.<sup>11</sup> At the same time, there is an element of caution in this logic that makes it vital to allow the opponent to save face. In any case, due to sanctions, the change in the cost-benefit calculation of decision-makers in a target country is expected that forces the latter to change its behaviour. However, the bases and logic for cost-benefit calculation of a target state can differ significantly from the expectations of imposers (for example in the current case of Crimea).

Should the restrictive measures be aimed at making it impossible for the target country, entity, or individual to carry out their actions and intentions, sanctions can be claimed to contain the constraining element by materially limiting the target's capability to act.<sup>12</sup> In contrast to coercive sanctions, constraining sanctions require targets not to do anything, which also refers to the deterring effect of sanctions aimed at avoiding future violations. The sanctioning parties usually make unfeasible requests or do not make specific requests for actions at all<sup>13</sup>.

Sanctions could also be aimed at sending a signal that the target's behaviour is not approved of and will not be tolerated.<sup>14</sup> The signalling element could be targeted to the international community, countries, populations, non-state entities or individuals. As regards sending a signal to the target, the change in its behaviour is expected due to possible reputation costs, the possibility to enhance future gains, or to enjoy the benefits of multilateral diplomacy.<sup>15</sup> A favourable outcome of signalling sanctions would include the projection of a positive image of the sanctioning party to the rest of the world, the strengthening of a global norm and the indication that the crisis has escalated to a higher level of diplomatic confrontation. Signalling sanctions predominantly does not impose a material impact; however, they may have indirect material impact, e.g. in the form of the loss of foreign direct investment in target countries.<sup>16</sup> Thus, sanctions could also be interpreted as an expression of a country's economic and political influence in the global arena, sending signals to the allies about the credibility and global influence of the state imposing sanctions.

As regards sending a signal to the international community or to a domestic audience, sanctions could be interpreted as one of the tools in a "communication

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<sup>11</sup> Michael Brzoska, *supra* note 9.

<sup>12</sup> Francesco Giumelli and Paul Ivan, *supra* note 3: 19.

<sup>13</sup> Francesco Giumelli, *supra* note 4, 34.

<sup>14</sup> Michael Brzoska, *supra* note 9.

<sup>15</sup> Francesco Giumelli, *supra* note 1: 19.

<sup>16</sup> Francesco Giumelli, *supra* note 4, 35.

war". Seen in this light, sanctions could be aimed at "shaming" and stigmatizing the target state.<sup>17</sup> In this regard, sanctions are imposed to destabilize or to subvert the target country by convincing the international community, markets, investors, and other subjects that the target's behaviour will not be tolerated and may have untoward and unintended consequences. However, as a side effect the "rally-around-the-flag" phenomenon in the target country could occur in the form of consolidated support to the political leadership and an increased nationalism<sup>18</sup>. Sanctions could also be imposed to send a signal to the domestic audience, thus confirming a nation's vital interests.<sup>19</sup> For example, the US embargo against Cuba before 1991, intended to isolate Cuba economically, was carried out along lines of national security rationale, since Cuba was considered a threat to American and/or regional security.<sup>20</sup> Sanctions could also be considered a signal to the international community about the credibility and economic and political influence of the sanctioning party in the global arena.

In addition to this, sanctions can be explained with institutional and neo-institutional theories of governance. In an institutional environment decision-making is dominated by habits, procedures, norms and compromises that prefer expectable, rational, continuing, regulated and less risky choices. Rules and norms tend to be dominant over idealist goals and broader gains.<sup>21</sup> The neo-institutional model approaches political processes as regards their appropriateness, i.e. whether they follow the rules and habits, and whether they represent a rational choice among morally acceptable options. Administrative and legal motives are dominant over economic and political ones, and small administrative solutions guide bigger political choices, not vice versa.<sup>22</sup> Bearing in mind that both multilateral and bilateral sanctions have been increasingly used in the international arena since the 1990s and that sanctions have become "a standard reaction to crisis"<sup>23</sup>, sanctions could be interpreted as a "safe" solution, something that "has to be done" in case somebody is violating universally accepted norms. Measures imposed for declarative purposes to show that "in principle, we are able to do it and we might consider other measures if the situation does not change" are unlikely to succeed in forcing the target country to change its behaviour.

<sup>17</sup> Rebecca Adler-Nissen, "Stigma Management in International Relations: Transgressive Identities, Norms and Order in International Society," *International Organization* No. 68 (2014).

<sup>18</sup> Johan Galtung, "On the Effects of International Economic Sanctions: With Examples from the Case of Rhodesia," *World Politics* Vol. 19, No. 3 (1967).

<sup>19</sup> Gary Clyde Hufbauer, Jeffrey J. Schott, Kimberly Ann Elliott, and Barbara Oegg, *Economic Sanctions Reconsidered*, 3<sup>rd</sup> ed. (Peterson Institute for International Economics, 2007).

<sup>20</sup> Daniel Griswold, "Four Decades of Failure: The U.S. Embargo against Cuba," *www.cato.org* (2005) // <http://www.cato.org/publications/speeches/four-decades-failure-us-embargo-against-cuba>.

<sup>21</sup> Peter A. Hall and Rosemary Taylor, "Political Science and the Three New Institutionalisms," *Political Studies* Vol. 44, No. 5 (1996): 938.

<sup>22</sup> Mette Eilstrup-Sangiovanni, *Debates on European Integration* (New York: Palgrave Macmillan, 2006), 194.

<sup>23</sup> Adam Groves, *supra* note 10.

Regardless of whether sanctions have been used for the purpose of coercing, constraining, or sending a signal to the target country, the outcome of sanctions depends on the circumstances of each case and, in particular, its context. Although the academic literature is somewhat ambiguous about this, some generalisations about the efficiency of sanctions could be drawn which help us understand the role of sanctions in the Russian-Ukrainian conflict.

First, as suggested in the secondary literature, sanction threats are more effective when used against democracies than non-democracies, whereas democracies are also less sensitive to promises of reward than non-democracies. Thus, democracies need to be punished, whereas autocracies should be rewarded.<sup>24</sup> However, Lektzian and Souva<sup>25</sup> argue that autocracies are more likely to concede to sanctions than democracies. Among the former, personalist regimes and monarchies are more sensitive to the loss of external sources of revenue and are, therefore, more likely to be destabilized by sanctions, whereas dominant single-party and military regimes will be less sensitive to the loss of external resources, as they will be able to increase their tax revenues and reallocate their expenditures.<sup>26</sup> Similarly, democracies employ sanctions more than other regime types, because they pursue human rights and democratization goals with economic sanctions as well as encompass a great variety of interest groups, affecting the incentives of the leaders.<sup>27</sup>

Secondly, sanctions cause behavioural change *after* being imposed, if the target country has initially underestimated the impact of sanctions, miscalculated the sanctioning country's determination to impose them, or wrongly believed that sanctions will be imposed and maintained whether it yields or not, and if the target's misperceptions are corrected *after* sanctions are imposed.<sup>28</sup>

Thirdly, different types of sanctions have different effects.<sup>29</sup> In principle, trade sanctions have proved to be rather inefficient, as in a globalised world the substitute sources of supply could be easily found in the majority of cases. In theory, as suggested by Tostensen and Bull<sup>30</sup>, smart sanctions are more effective in targeting political elites committing actions that are condemned by the international community and in protecting vulnerable social groups. However, several

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<sup>24</sup> Daniel Verdier and Byungwon Woo, "Why rewards are better than sanctions," *Economics & Politics* Vol. 23, No. 2 (2011).

<sup>25</sup> David Lektzian and Mark Souva, "The economic peace between democracies: Economic sanctions and domestic institutions," *Journal of Peace Research* No. 40 (2003).

<sup>26</sup> Abel Escribà-Folch and Joseph Wright, "Dealing with Tyranny: International Sanctions and the Survival of Authoritarian Rulers," *International Studies Quarterly* Vol. 54, No. 2 (2010).

<sup>27</sup> David Lektzian and Mark Souva, *supra* note 25.

<sup>28</sup> Jon Hovi, Robert Huseby, and Detlef Sprinz, "When Do (Imposed) Sanctions Work?" *World Politics* Vol. 57, No. 4 (2005).

<sup>29</sup> Francesco Giumelli, *supra* note 1.

<sup>30</sup> Arne Tostensen and Beate Bull, "Are smart sanctions feasible?" *World Politics* Vol. 54, No. 3 (2002): 373.



controversial examples could be provided based on historical experiences, such as financial sanctions imposed by the US against Iran in 1979. Particularly in the totalitarian and authoritarian regimes, decision makers might easily insulate themselves, which makes "smart" sanctions very difficult to impose. Furthermore, Drezner<sup>31</sup> has argued that targeted sanctions may make sense if the aim of the sanctions is avoidance of future violation, since smart sanctions would rather work as a signalling or constraining tool than the tool for coercion.

Fourthly, Dizaji und van Bergeijk<sup>32</sup> show that economic sanctions predominantly succeed in the early phase of imposing sanction, such as within the first two years from the triggering event. In the long run, sanctions tend to be unsuccessful. After about seven years, the positive effect turns negative because economic and political variables adjust to the shock. Thus, the time works against sanctions rather than contributing to the policy change. Even when sanctions cause economic stagnation in target state, it can hardly be seen as a success in terms of original goals.

Fifthly, as regards the outcome of sanctions the role of the incentives is particularly important. Giumelli and Ivan<sup>33</sup> have studied the cases of Iran, Belarus, Syria and Myanmar and have argued that in none of the cases the EU sanctioning regime alone was decisive or that it was unlikely to be decisive to cause a policy change. Thus, sanctions should be combined with the elements of conditionality and various other foreign policy tools.

## **2. IMPOSED SANCTIONS, COUNTERMEASURES, AND EXPECTED RESULTS**

The economic and political sanctions and the countermeasures taken represent an important component of the Russian-Ukrainian conflict, from which both sides expect to become an efficient tool to put pressure on another conflicting party, as well as to send a strong signal to the international community and to their own citizens.

However, the situation in 2014-2015 has been particularly risky because of the opposing interests confronting success criteria for the participants. The persistency of the Russian supported separatist military pressure in East Ukraine increases the risk that Ukraine's economy could collapse. This is because it renders the economic recovery of the country extremely difficult. However, it would be in

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<sup>31</sup> Daniel.W. Drezner, "How Smart are Smart Sanctions," *International Studies Review* Vol. 5, No. 1 (2003).

<sup>32</sup> Sajjad F. Dizaji and Peter van Bergeijk, "Could Iranian sanctions work? 'Yes' and 'no', but not 'perhaps'," *www.voxeu.org* (2013): 721-723 // <http://www.voxeu.org/article/could-iranian-sanctions-work-yes-and-no-not-perhaps>.

<sup>33</sup> Francesco Giumelli and Paul Ivan, *supra* note 3: 2

the primary interests of the separatist forces and the Russian Federation to continue the destabilization of East Ukraine as “lasting economically and fiscally longer” than Ukraine would give Russia tactical advantage in local power-balance. The EU is aimed to regain territorial integrity and economic stability of Ukraine and to prevent Russian pressure in neighbouring states in the future. Since Ukraine is currently on the brink of economic collapse, it would be in the interest of the EU to create a situation where with the help of the imposed sanctions Russia would be unable to adapt to the international economic and political pressure in the short-term, but at the same time not to fall into the chaos. The latter is undesirable as it would destabilize the overall security situation in Europe. A long-term scenario with sanctions implemented longer than five years, causing economic stagnation to Russia, but unable to force Russia to return Crimea and liberate East-Ukrainian territories, will not satisfy neither the western countries nor Ukraine.

To fulfil their strategic aims, both the European Union and Russia have taken numerous sanctions-related actions during 2014-2015.

In March 2014, the European Union introduced sanctions imposing travel restrictions and asset freezes<sup>34</sup> on Russian and Ukrainian officials and individuals involved in human rights violation and corruption in Ukraine as regards the annexation of Crimea and Sevastopol to the Russian Federation<sup>35</sup>. Instead of the G8 summit in Sochi, a G7 meeting was held in Brussels on 4-5 June. The EU member states also supported the suspension of negotiations over Russia's membership in OECD. Bilateral negotiations with Russia on visa matters as well as on the New Agreement between the EU and Russia were suspended. In addition, a re-assessment of EU-Russia cooperation programmes is currently ongoing with a view to suspending the implementation of the EU bilateral and regional cooperation programmes. Projects dealing exclusively with cross-border cooperation and civil society were maintained<sup>36</sup>. Even when the final decision was officially supported by all member states of the EU, some top politicians of Slovenia, Hungary, Cyprus, Slovak Republic, Italy and Greece have pointed out that sanctions have low economic potential and will have negative impact to the economies of the member states. As an example, the Hungarian Prime Minister, Viktor Orban, declared that “the sanctions have, in fact, harmed the West more than they have hurt Russia. In politics, this is called shooting oneself in the foot.”<sup>37</sup> Accordingly, the selection of a rather short list of persons and companies which were to be sanctioned was a

<sup>34</sup> *Decision 2014/145/CFSP*, Council of the European Union, OJ L 78 (17 March 2014).

<sup>35</sup> *Implementing Decision 2014/151/CFSP*, Council of the European Union, OJ L 86 (21 March 2014).

<sup>36</sup> “EU sanctions against Russia over Ukraine crisis,” *European Union Newsroom* (July 19, 2015) // [http://europa.eu/newsroom/highlights/special-coverage/eu\\_sanctions/index\\_en.htm#5](http://europa.eu/newsroom/highlights/special-coverage/eu_sanctions/index_en.htm#5).

<sup>37</sup> Vauhini Vara, “Hurt Putin hurt yourself,” *The New Yorker* (August 19, 2014) // <http://www.newyorker.com/business/currency/hurt-putin-hurt>.

compromise between member states demanding decisive measures and member states opposing decisive sanctions.<sup>38</sup>

Russia responded in March 2014 by introducing retaliatory measures against high-ranked officials of the EU and the member states. Council decisions from March and April 2014 (145/CFSP, 151/CFSP and 238/CFSP) stated the policy tools, expected impact, validity of decision and the option to revise it, but did not consist clear criteria to be fulfilled to end the sanctions. Accordingly, the current form of sanctions can rather be qualified as form of punishment than a form of conditionality. The same applies to persons covered by sanctions—no indications were given as regards the criteria vital for being excluded from the list.

From the European side the scope of the individuals as well as entities subject to sanctions has been widened in April<sup>39</sup>, May<sup>40</sup> and July<sup>41</sup> 2014, while the logic of sanctions remained similar to the original sanctions imposed in March 2014. To strengthen the economic effects of sanctions, on July 30, 2014, the EU announced sector-specific economic sanctions against Russian military industry and its financial and energy sector.<sup>42</sup> Russia's access to the European capital markets was restricted, an embargo on the trade of arms and related material with Russia was agreed and import of goods originating from Crimea<sup>43</sup> was prohibited. In the council decisions amended in April, May and July, additional attention was paid to the description of reasons of restrictive measures and of listing the relevant criteria, however no indications were given about which conditions need to be fulfilled to end the sanctions or how to be removed from the list.

As a countermeasure, on August 6, 2014, Russian president Vladimir Putin signed a decree "on the use of specific economic measures", which mandated an effective embargo for a one-year period on imports of most of the agricultural products "whose country of origin had either adopted the decision on introduction of economic sanctions in respect of Russian legal and (or) physical entities, or joined same". The Russian government ordinance was adopted and published with immediate effect, which specified the banned items as well as the countries of provenance: the member states of the European Union, but also the United States,

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<sup>38</sup> Francesco Giumelli, "Who pays for the sanctions on Russia?" *www.ecfr.eu* (September 5, 2014) // [http://www.ecfr.eu/article/commentary\\_who\\_pays\\_for\\_the\\_sanctions\\_on\\_russia372](http://www.ecfr.eu/article/commentary_who_pays_for_the_sanctions_on_russia372).

<sup>39</sup> *Implementing Decision 2014/238/CFSP*, Council of the European Union, OJ L 126 (28 April 2014).

<sup>40</sup> *Decision 2014/265/CFSP*, Council of the European Union, OJ L 137 (12 May 2014); *Decision 2014/308/CFSP*, Council of the European Union, OJ L 160 (29 May 2014).

<sup>41</sup> *Decision 2014/455/CFSP*, Council of the European Union, OJ L 205 (12 July 2014); *Decision 2014/475/CFSP*, Council of the European Union, OJ L 214 (19 July 2014).

<sup>42</sup> *Decision 2014/508/CFSP*, Council of the European Union, OJ L 226 (30 July 2014).

<sup>43</sup> *Decision 2014/386/CFSP*, Council of the European Union, OJ L 365 (19 December 2014).

Norway, Canada and Australia, including a ban on fruit, vegetables, meat, fish, milk and dairy imports.<sup>44</sup>

In September 2014, the next level of sanctions was reached as the leaders of the EU agreed on additional sanctions, forbidding state-controlled Russian oil and defence companies from raising money in European capital markets and cutting off foreign investment.<sup>45</sup> Following additions to the list of persons organizations and companies were made in November 2014.<sup>46</sup> In decisions implemented in September, November, and December 2014, the core reasons of sanctions were once again described in more precision, but also first specific conditions for lifting sanctions were introduced: "The EU called on Russia to immediately withdraw its armed forces to the areas of their permanent stationing, in accordance with the Agreement on the Status and Conditions of the Black Sea Fleet stationing on the territory of Ukraine of 1997"<sup>47</sup>. Next to concrete criteria, also broader terms for ending sanctions were formulated: the EU also remains ready to reverse its decisions and reengage with Russia when it starts contributing actively and without ambiguities to finding a solution to the Ukrainian crisis.<sup>48</sup>

As a response, Russia continued to close the cooperation with EU member states.<sup>49</sup> On 22. June 2015, the Council extended EU economic sanctions, which were introduced in response to Russia's destabilising role in East Ukraine, until 31 January 2016. Also in this case some member states remained sceptical even when joining the sanctions.<sup>50</sup> This follows an agreement at the European Council in March 2015, when EU leaders linked the duration of these sanctions to the complete implementation of the Minsk agreements, which is foreseen by December 31, 2015<sup>51</sup>. The Council of the European Union has additionally stressed that the EU remains ready to reverse its decisions and reengage with Russia when it starts contributing actively and without ambiguities to finding a solution to the Ukrainian

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<sup>44</sup> *On measures to implement the Russian President's Executive Order 'On Extending Certain Special Economic Measures in the Interest of Ensuring the Security of the Russian Federation'*, Government of Russia (August 2014) // <http://government.ru/docs/14195/>; *Resolution of the Government of the Russian Federation no. 835 of 08.21.2014, On additional measures to regulate the import of meat of cattle and poultry*, Government of Russia (21 August 2014) // <http://government.ru/docs/all/92613/> [in Russian].

<sup>45</sup> *Decision 2014/658/CFSP*, Council of the European Union, OJ L 271/47 (12 September 2014).

<sup>46</sup> *Decision 2014/801/CFSP*, Council of the European Union, OJ L 331 (18 November 2014); *Decision 2014/855/CFSP*, Council of the European Union, OJ L 344 (29 November 2014).

<sup>47</sup> "EU sanctions against Russia over Ukraine crisis," *supra* note 36.

<sup>48</sup> *Ibid.*

<sup>49</sup> *Resolution of the Government of the Russian Federation no. 156 of 02.21.2015. On the Russian part of the intergovernmental commission on trade-economic and scientific-technical cooperation between Russia and foreign countries*, Government of Russia (21 February 2015) // <http://government.ru/docs/all/94975/> [in Russian].

<sup>50</sup> Boris Cerni and Dina Khrennikova, "Slovenia Wants End to EU Sanctions on Russia That Hurt Trade," *www.bloomberg.com* (July 2015) // <http://www.bloomberg.com/news/articles/2015-07-27/slovenia-wants-to-see-end-of-eu-russia-sanctions-than-hurt-trade>.

<sup>51</sup> "Russia: EU extends economic sanctions by six months, Council of the European Union," *European Council Press Release* (June 22, 2015) // <http://www.consilium.europa.eu/en/press/press-releases/2015/06/22-russia-sanctions/>.

crisis.<sup>52</sup> Russia responded with additional sanctions on June 24, 2015, and with additional legal and economic measures to integrate Crimea on July 15, 2015.<sup>53</sup>

As seen from the form of the measures taken by Russian administration, based on the outlined theoretical criteria, it is questionable if Russian countermeasures can qualify as sanctions, as not including independent conditions and description of expected policy change from the EU side (except lifting the sanctions). The selection of measures and target states was based on motivation to react to the EU sanctions with a constraining aim to convince Russian audience that Russian government is actively and successfully fighting against EU sanctions. The expected economic effect, by harming the export of EU member states to Russia, has been mentioned by the government and President of Russia, but has not been stated as the aim of Russian actions.<sup>54</sup>

In July 2015, the leaders of the European Union have agreed on additional sector-specific sanctions against Russia<sup>55</sup>. As a result, following restrictions are in force from the EU side since July 19, 2015<sup>56</sup>:

1. EU nationals and companies may no longer buy or sell new bonds, equity or similar financial instruments issued by five major state-owned Russian banks, three major Russia energy companies and three major Russian defence companies.<sup>57</sup>

2. Services related to the issuing of such financial instruments, e.g. brokering, are also prohibited. EU nationals and companies may not provide loans to five major Russian state-owned banks.<sup>58</sup>

3. Embargo on the import and export of arms and related material from/to Russia. Prohibition on exports of dual use goods and technology for military use to Russian military end-users. Export of dual use goods to nine mixed defence companies is also banned.<sup>59</sup>

4. Exports of certain energy-related equipment and technology to Russia are subject to prior authorisation by competent authorities of Member States. Export licenses will be denied if products are destined for deep water oil exploration

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<sup>52</sup> "EU sanctions against Russia over Ukraine crisis," *supra* note 36.

<sup>53</sup> *Russian President's Executive Order no. 368, 15.07.2015, On closure of the Ministry of the Russian Federation for the Crimea and the State Commission for Socio-Economic Development of the Republic of Crimea and Sevastopol*. President of Russia (15 July 2015) // <http://www.kremlin.ru/acts/bank/39955> [in Russian].

<sup>54</sup> *On measures to implement the Russian President's Executive Order "On Extending Certain Special Economic Measures in the Interest of Ensuring the Security of the Russian Federation"*, *supra* note 44.

<sup>55</sup> "EU sanctions against Russia over Ukraine crisis," *supra* note 36.

<sup>56</sup> *Ibid*.

<sup>57</sup> *Regulation 1290/2014*, Council of the European Union, OJ L 349 (4 December 2014).

<sup>58</sup> *Regulation 960/2014*, Council of the European Union, OJ L 271/3 (8 September 2014).

<sup>59</sup> *Regulation 833/2014*, Council of the European Union, OJ L 229/1 (31 July 2014); *Regulation 1290/2014*, *supra* note 57.

and production, arctic oil exploration or production and shale oil projects in Russia.<sup>60</sup>

While the reasons and tools of sanctions have been described in depth, the expected outcome and policy change has only been covered in very general terms. In terms of demands, the European Council agreed that the duration of the restrictive measures against the Russian Federation, should be clearly linked to the complete implementation of the Minsk agreements, bearing in mind that this is only foreseen by December 31, 2015. The necessary decisions will be taken in the coming months. The European Council stands ready to take further measures if necessary<sup>61</sup>. On behalf of the EU, in the political rhetoric a direct confrontation between Russia and the EU has been avoided. Several European politicians have stressed that the sanctions were not imposed to cause long-term harm to Russia<sup>62</sup>. At first sight the traditional "more pain, more gain" does not seem to be at stake in the present case.

In case of the Russian-Ukrainian crisis, politicians have stipulated that the purpose of the EU sanctions "is not to punish Russia, but to make clear that it must cease its support for the separatists and stop destabilizing Ukraine"<sup>63</sup> and that "acceptance of the status quo does not belong among the topics for discussion"<sup>64</sup>. Thus, hereby the EU admits that sanctions should not be imposed with the aim to cause economic harm, but to send a signal to the target country – and probably also to the potential investors – that actions targeted to harm the territorial integrity of Ukraine are not tolerated. Hereby, one could draw a conclusion, that it is only indirectly relevant how much Russia will be actually punished because of the sanctions, as it determines the scale of the pressure to Russia to change its behaviour, but is not an aim in itself. Thus, in the case of the EU it is more about the "signalling effect", which should be evaluated when discussing the effectiveness of the sanctions than the economic impact. At the same time, the Russian countermeasures against EU countries and their partners were primarily designed to "punish" the EU and its partners, as the argument of "if we are restricted then we'll have to respond" was used.<sup>65</sup>

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<sup>60</sup> *Ibid.*

<sup>61</sup> "EU sanctions against Russia over Ukraine crisis," *supra* note 36.

<sup>62</sup> See the statements of Francois Hollande, Franz-Walter Steinmeier, Erkki Tuomioja and others. For example, as stated by the German Vice-Chancellor of Economic Affairs and Energy Minister, Sigmar Gabriel "The goal was never to push Russia politically and economically into chaos" (Deutsche Welle 2015).

<sup>63</sup> Tony Blinken, "Ukraine in the White House Press Briefing" (July 28, 2014) // <http://ukraine.usembassy.gov/statements/wh-ukraine-07282014.html>

<sup>64</sup> "U.S. and Europe Set to Toughen Russia Sanctions," *www.nytimes.com* (July 28, 2015) // [http://www.nytimes.com/2014/07/29/world/europe/us-and-europe-agree-to-escalate-sanctions-on-russia.html?\\_r=0](http://www.nytimes.com/2014/07/29/world/europe/us-and-europe-agree-to-escalate-sanctions-on-russia.html?_r=0).

<sup>65</sup> *On measures to implement the Russian President's Executive Order "On Extending Certain Special Economic Measures in the Interest of Ensuring the Security of the Russian Federation", supra* note 44.

In sum, politically motivated economic sanctions often carry a symbolic and communicative value, with the aim of sending signals to the target countries, partners, and the domestic audience, rather than actually serving as the prevention of further violent actions. Both the EU sanctions and Russian countermeasures have focused on stigmatizing the opponent and signaling to the local audience that certain actions by the target state are not tolerated. According to the authors' opinion, in case of the sanctions against Russia, to some extent they succeeded in signalling the potential investors that Russia's behaviour is not accepted by the European countries and that risks exist in investing in the Russian market. At the same time, the sanctions have failed in signalling to the Russian administration that actions targeted to harm the territorial integrity of Ukraine are not tolerated.

### **3. CAN THE PRESENT SANCTIONS SUCCEED IN LIGHT OF POLITICAL EXPECTATIONS?**

Previous experience of the EU over the past twenty years, including approximately thirty cases, shows that none of them could be regarded as a complete success. It must be admitted that, in a historical perspective, EU sanctions have been heavily influenced by fragmented political and economic interests of the EU member states. As regards the Russian-Ukrainian crisis, the EU and the US are expecting a political solution after implementing relatively restricted economic measures lacking a clear and quantifiable package of requirements. From the EU side, the *cherry-picking technique* has been used, where individuals and entities under sanctions are selected individually, and sensitive sectors are intentionally left aside.

The answer to the question of if the sanctions have put significant economic pressure on Russia and initiated regime change depends both from the expectations and the ways we evaluate quantitative effect (change of the gross domestic product, change of foreign direct investments, change of currency exchange rate and change of central bank reserves) and expect it to cause major political change.

What must also be taken into account, particularly after the first round of sanctions in March 2014 the international community, was the potential negative impact of sanctions on the Russian economy. This is probably because the economic "harm" is often the only visible short-term indicator of success or failure of sanctions imposed and thus it is possible to speculate that the international community expected major political changes to occur in Russia during a relatively short period after imposing sanctions. In the absence of political success, the



economic recession in Russia has been interpreted as the only tangible outcome of international sanctions. This may not be a desirable outcome.

In order to understand the impact of the sanctions apart from the general cost of the Ukrainian conflict, it would make sense to use the economic and social development of Ukraine itself as a basis of comparison. Current sanctions may make more sense if we consider the existence of "hidden agenda" from both sides. From the perspective of the EU and Ukraine, the main aim of the sanctions can be to change the relative economic cost of conflict in favour of Ukrainian central government, by reducing the motivation and ability of Russia to support the separatists and lowering the long term perspective for successful separation of East Ukraine. In this light the international financial pressure that has been endured so far, appropriated funds and reserves may be considered as an investment that can still turn out to be profitable.

From the perspective of the separatists and the Russian Federation, the hidden agenda could be to succeed despite the sanctions of keeping the social and economic costs of Ukraine so high that the latter are forced to withdraw from conflict to avoid fiscal breakdown. Accordingly, in terms of sustainable conflict solution, the sides of conflict and sanctions can be interpreted as trying to convince the opposing side to lose faith in a successful final solution.

Even from the economic perspective it is complicated to distinguish the impact of sanctions from the impact of global economic change and the precise cost of the conflict to Russian economic indicators, some comparisons will illustrate plausible economic effects.

First, Russian GDP has survived the combined pressure of the global economy and sanctions quite well between Q2 2014 and Q4 2014 by showing an average of 0.6% growth, matching the average GDP growth in the Eurozone. Negative effects appeared first in Q1 2015 when the Russian economy declined by 2.2%. The decline was even deeper in Q2 2015 when the GDP dropped 4.6%<sup>66</sup>. When comparing the Russian GDP drop in Q2 2015 with the GDP growth of Eurozone (0.4%), the negative effect is evident. However, when one compares the decline of GDP in Russia with the economic decline in Ukraine (-17.2% in Q2 2015), it is even more evident that current sanctions have not been sufficient to bring the level of costs of continuing the conflict in Russia as high as it has been with the Ukrainian economy.

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<sup>66</sup> "Russian GDP annual growth rate," [www.tradingeconomics.com](http://www.tradingeconomics.com) // <http://www.tradingeconomics.com/russia/gdp-growth-annual>.





Fig. 1. GDP annual growth rate in Russia 2012-2015<sup>67</sup>

The second indicator to evaluate the economic effects on Russia is the exchange rate of the national currency (in this case the exchange rate will be compared with euro). The Russian rouble started at 46RUB/EUR in the beginning of 2014 and jumped to 85 RUB/EUR in December 2014, but stabilized at 60RUB/EUR for the July 2015, having lost roughly one-third of its value during one year. The Ukrainian grivna started at 15 UAH/EUR in January 2014, reached its lowest level in February 2015 with 37UAH/EUR, and stabilized at 24/UAH/EUR for the second quarter of 2015. The summary loss during one year was approximately 60%, which is twice as high as the loss of value of rouble.



Fig. 2. Russia core inflation rate<sup>68</sup>

The third important indicator is inflation, which plays a central role in harming the trust of the central government and its ability to fulfil fiscal duties. Russian inflation remained within single digits in 2014, at an average of 8% in the second half of 2014. In 2015 inflation has consistently been over 10%, scoring an average

<sup>67</sup> Source: <http://www.tradingeconomics.com/russia/gdp-growth-annual>.

<sup>68</sup> Source: <http://www.tradingeconomics.com/russia/core-inflation-rate>.

of 16% in comparison with the previous year.<sup>69</sup> Ukrainian inflation scored from 12% in the beginning of 2014 to 25% at the end of 2014. In May and June 2015 inflation reached 60% on average, in comparison to the previous year's level.

One field where sanctions should produce quick and measurable results are foreign direct investments. Russian foreign direct investments have been rather stable during 2014, remaining on a level similar to 2012-2013, but since December 2014 the net flow has turned negative. However, remaining less than 50% from the previous year's inflow level, in Q1 2015 net foreign investments turned again into positive territory. Net foreign direct investments to Ukraine were stable until January 2014, but after a negative balance in the first half of the year the positive flow has reinstalled itself, yet approximately 50% lower level than in 2013.



Fig. 3. Foreign direct Investments to Russia 2012-2015<sup>70</sup>

In summary: the economic decline in Russia (caused by the sanctions of global economic circumstances) is visible, but according to our view, it is not sufficient to initiate significant political change.

There are also possible negative effects caused by the current EU sanctions and Russian countermeasures. After the first round of sanctions in March 2014 the international community was strongly highlighting their potentially negative effect on the Russian economy, whereas the actual aim of the sanctions was serving notice to Russia that it must stop destabilizing Ukraine.

Indeed, in this particular case it is hard to imagine what benefit the collapse of the Russian economy could bring to the EU, as the latter's economic degradation would create threats to the stability in Europe in many ways. The risks mainly stem

<sup>69</sup> "Russia core inflation rate," [www.tradingeconomics.com](http://www.tradingeconomics.com) // <http://www.tradingeconomics.com/russia/core-inflation-rate>.

<sup>70</sup> Source: <http://www.tradingeconomics.com/russia/foreign-direct-investment>.

from the close economic relations of Russia with many CEE countries preceding the conflict, which could backfire on the respective EU member states.

Intriguingly, building on the above, it could be argued that the hidden agenda of the sanctions against Russia has actually been to encourage the change of political regime in Russia. In this context, a parallel could be drawn with the sanctions imposed by the international community against Iran in 2005. It has been argued that particularly during the George W. Bush presidency, some experts have seen the prolonged application of sanctions as a possible way to change Iran's regime given the pressure on the Iranian people from corruption, internal power struggles, a devalued currency, high inflation and unemployment, and rising food costs. In the case of Iran, the change was expected to come largely as a result of actions by the Iranian people.<sup>71</sup> Similar developments—devalued currency, high inflation and rising food prices, high level of corruption—have occurred also in Russia during some phases of the Russian-Ukrainian crisis. Thus, the question remains whether coercive, constraining or signalling effects of the EU-sanctions were expected to occur and to be large enough to force Russia to change its behaviour or, as a hidden agenda, to cause regime change, but not to destroy the country economically.

Since the targeted sanctions against Russia have limited its ability to carry out its actions, the sanctions could be said to some extent to contain the constraining element. However, targeted sanctions in the form of the so-called cherry-picking technique have not represented the most stringent measures available. For example, only a modest selection of persons and entities directly linked to the Russian decision-makers have been included on the "black list". No explanations have been provided why the real "architects" of the violent events in the East Ukraine, such as Vladimir Putin, Dmitry Medvedev and other high level members of the Russian administration, have not been included<sup>72</sup>. Thus, there was no real reason to expect that the pressure on Russia through the constraining effect would be extensive enough to cause the change in their behaviour.

It is also questionable whether the *coercive element* of the EU-sanctions was expected to occur. The target's voluntary cooperation is an essential pre-condition for the coercive element of sanctions to work. However, in this particular case two aspects speak against Russia's voluntary cooperation. First, according to the theory, it should be possible for the target country to satisfy the demands of the sender without losing face. Whereas the EU has stressed, in particular from the

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<sup>71</sup> Anthony H. Cordesman, Bryan Gold, and Chloe Coughlin-Schulte, *Iran – Sanctions, Energy, Arms Control, and Regime Change* (Washington: Center for Strategic and International Studies, 2014), 133

<sup>72</sup> Viljar Veebel, "Will Economic Sanctions fulfil Baltic Expectations in terms of Ukraine and Russia," *Baltic Rim Economies* No. 6 (2014).

beginning of 2015, that the sanctions against Russia are directly related to the full implementation of the Minsk agreement<sup>73</sup>, Russia's powerful elite have consistently stressed that Russia is only a guarantor of the Minsk agreement and not a party of it, despite the ample evidence to the contrary. So, without admitting that its military forces were involved in destabilizing Ukraine, it would have been difficult for Russia to simultaneously satisfy the European Union's requests to withdraw its troops and equipment from the area and not to lose face both on the international and national stages. Therefore, although fully justified in theory, in real terms the EU's request that Russia should cease its support for the separatists in East Ukraine had no reasonable prospect of success. Secondly, another precondition for the coercive element of sanctions to work is that sanctions cause direct material costs to targets, something that could be avoided when changing the behaviour. However, as discussed earlier, the economic harm has not been declared as the main aim of the EU-sanctions; on the contrary, it was hardly mentioned when implementing the sanctions.

Conversely, a lot was expected from the *signalling element* of the sanctions. The international community has been overtly vocal about making it clear to Russia that the persistent breach of the principle of territorial integrity of sovereign states cannot be accepted. The EU-sanctions imposed on Russia in 2014 were presented by the political leaders of the EU member states such as Angela Merkel, Francois Hollande, David Cameron, Matteo Renzi and others as "a strong warning to Russia, that the EU will not tolerate Russia's behaviour in Ukraine and it will not remain without enormous consequences". However, the desired political outcome—the restoration of the territorial integrity of Ukraine and the full implementation of the Minsk agreement—has not been achieved as yet.

The signalling effect of the sanctions has been mitigated by the fact that the opinions of the EU member states' on the issue have diverged considerably. According to Leenders,<sup>74</sup> it is difficult to impose EU-sanctions against non-EU countries due to the insufficient solidarity in the EU which combines with the divergent individual interests of the member states, the tensions between "realist" and "idealist" needs, uncooperative international actors, and other factors. As regards the Russian-Ukrainian conflict, according to the *YouGov EuroTrack survey*<sup>75</sup> conducted in March 2014, in seven European countries (Germany, France, Sweden, Denmark, United Kingdom, Norway, and Finland) public support of the European

<sup>73</sup> "West sends mixed signals over Russia sanctions, G7, Ukraine crisis," *www.rt.com* (2015) // <http://www.rt.com/news/223303-eu-russia-sanctions-opinions/>.

<sup>74</sup> Leander Leenders, "EU Sanctions: A Relevant Foreign Policy Tool?" *EU Diplomacy Paper* No 3 (2014): 9.

<sup>75</sup> "Eurotrack Survey Results," *YouGov* (2014) // [http://cdn.yougov.com/cumulus\\_uploads/document/n1z35e9mya/YG-Archive-140327-Ukraine-Eurotrack.pdf](http://cdn.yougov.com/cumulus_uploads/document/n1z35e9mya/YG-Archive-140327-Ukraine-Eurotrack.pdf).

countries' for further sanctions against Russia and for different parties in the Russian-Ukrainian conflict varied remarkably. For example, more than 60% of the survey participants in Denmark supported further sanctions against Russia, whereas in Germany the respective figure was only 43%. In Denmark, 57% of the survey participants sympathized with the new Ukrainian government in comparison with 24% in France. 53% of the survey participants in Germany and 60% of the participants did not sympathize either with the Russian government or the Ukrainian government.<sup>76</sup>

The fragmentation of interests and positions of the EU member states as regards sanctions against Russia is in fact anything but unpredictable, arising out of the individual fears and interests of the member states. For example, Austrian banks have extensive business relations with Russia, the Czech Republic fears for its engineering exports, Poland is concerned about the food export, Finland and the Baltic countries are highly dependent on Russian gas supplies, and this is merely a short excerpt from a long list.<sup>77</sup> Although the impact of the Russian sanctions on the growth of the EU and the euro zone has been estimated as rather limited several EU countries have nevertheless announced that they face serious difficulties due to the Russian sanctions and asked for measures to compensate it.<sup>78</sup>

Furthermore, there is the important matter of whether the pressure on Russia could actually occur as a result of stigmatization. For example, among other measures, the EU has requested the European Investment Bank to suspend its new financing operations of public sector projects in Russia. Also, during the second round of the EU-sanctions a proposal has been made to disconnect Russia from the global SWIFT banking transaction system, to which Russia responded fiercely saying that Russia's "response to any SWIFT restrictions would be 'without any limits' in economic and other ways" (see the statement of D. Medvedev<sup>79</sup>) or even that it would mean "war" (see the statement of A. Kostin, the head of the VTB bank<sup>80</sup>). The reaction of the West to these statements has been rather modest and there have not been any further discussions about Russia's exclusion from SWIFT anymore.

In addition, the international stigmatization of Russia's actions also has not worked. Russia has sent a signal to the international community that Russia does

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<sup>76</sup> *Ibid.*

<sup>77</sup> "Resistance grows in the EU to new Russian sanctions," *www.dw.com* (2014) // <http://www.dw.com/en/resistance-grows-in-eu-to-new-russia-sanctions/a-17903208>.

<sup>78</sup> Kaspar Oja, "No milk for the Bear, the impact to the Baltic states of Russia's counter sanctions," *Baltic Journal of Economics* Vol. 15, No.1 (2015): 46-47.

<sup>79</sup> "Russian Cut off From Banking Backbone Said to be Ruled Out," *www.bloomberg.com* (2015) // <http://www.bloomberg.com/news/articles/2015-03-19/russian-cutoff-from-bank-backbone-said-to-be-ruled-out-as-option>.

<sup>80</sup> "Cutting Russia out of SWIFT banking system would mean 'war'," *www.rt.com* (2015) // <http://www.rt.com/business/211291-swift-banking-russia-vtb/>.

not acknowledge the obvious violation of the fundamental principles of international law, and that the country is ready to combat “unfair” measures against Russia, whatever the costs. However, knowing that its federal budget is highly dependent on oil revenues, the avoidance of using the “transit card” could be, to some extent, interpreted as a sign that Russia is still not determined to win the current “sanctions game” at any cost. In general, the international community is also rather sceptical as regards Russia’s willingness to block oil transit through Ukraine as Russia did not block oil export in the early 1980s, when the Cold War was at its height.

In practice, the economic as well as political pressure on Russia has occurred during the Russian-Ukrainian conflict as a result of a combination of the reaction of international financial and capital markets, domestic inflationary pressure and overall macroeconomic imbalances (mainly the overall fall in oil prices). From October to December 2014, the Russian rouble weakened remarkably, direct investments to Russia decreased and capital continued to flee Russia.

At the same time, the weaker rouble has provided protection for the federal budget (i.e. export earnings and taxes paid on exports will be translated into a larger sum of roubles, thereby boosting the country’s budget revenues) and created indirect stimulus to domestic producers (imported products are relatively more expensive while domestic goods become more price-competitive). About two-thirds of government revenue comes from taxes on oil, gas, and other dollar-denominated exports. Because government expenditure is in roubles, a stronger rouble would exacerbate the government's deficit and add further tension to an already painful political process.<sup>81</sup> To avoid the growing risk of hyperinflation, the Russian Central Bank has also spent remarkable amounts of reserves since the beginning of 2015, and has so far succeeded in stabilizing the exchange rate.

Assuming that a regime change could occur only due to a growing dissatisfaction among Russian citizens, in reality and despite the economic difficulties, regime change in Russia is still rather unlikely because a strong opposition (or, political alternatives more generally) is missing. Some existing alternatives are as problematic for the EU as current President V. Putin (i.e. Russian Prime Minister D. Medvedev) or even worse (i.e. R. Kadřov or S. Shoigu). Controversially, even not so much the EU-sanctions against Russia as the Russian sanctions against the EU and its allies have strengthened the “rally-around-the-flag” in Russia and consequently increased domestic support to the Russian political elite and its actions in the eastern part of Ukraine. This tendency can be directly

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<sup>81</sup> “Weak rouble is here to stay,” *The Economist* (July 21, 2015) // <http://country.eiu.com/article.aspx?articleid=223362006&Country=Russia&topic=Economy&subtopic=Forecast&subsubtopic=Exchange+rates>.

associated with those theoretical statements that presume sanction threats to be more effective when used against democracies than non-democracies, and that in totalitarian and authoritarian regimes the decision makers might easily insulate themselves from the "harm" caused by sanctions.

Intriguingly, as regards the aims of the EU-sanctions against Russia, a further issue is related to the question whether the sanctions against Russia should be considered just another institutionally safe and comfortable solution. Drawing on the schools of institutionalism and neo-institutionalism, one could assert that the EU-sanctions in the existing restricted format were something that were used to avoid the opponents losing face. This statement is, to some extent, supported by Leenders,<sup>82</sup> who argues that "as the EU is increasingly confronted with situations requiring a firm response, sanctions – arguably the EU's 'hardest' tool – have become somewhat of a standard reaction." As regards the Russian-Ukrainian conflict, sanctions can be described as a measure demonstrating that the EU has some "teeth" in standing by its values, rather than focusing on specific economic or political aims or objectives. At the same time, during the escalation of the conflict, from the beginning of 2015, the demands from the EU side also have been clarified (i.e. full implementation of the Minsk agreement; several sanctions were also directly related to the annexation of Crimea). However, the lack of clearly communicated aims of sanctions in the initial phase of the Russian-Ukrainian crisis has probably diminished the potential of sanctions as an efficient tool to solve the conflict.

## CONCLUSIONS

The roots and core reasons of the Russian sanctions against the EU should be discussed within a broad context. Russian President, Vladimir Putin, has considered the collapse of the Soviet Union as "the greatest geopolitical catastrophe of the 20<sup>th</sup> century."<sup>83</sup> This statement clearly refers to his ambitions to restore the former Soviet Union. In recent years Russia has made significant efforts to integrate Russia, Belarus, and Kazakhstan in the form of the Eurasian Economic Union. At the same time, some of the former Soviet Union republics, such as Georgia and Ukraine, have been gravitating away from the Russia's sphere of influence. Thus, it could be argued that the conflict in Ukraine has been undoubtedly driven by Russia's ambitions to restore its power in the region. In this context, Russian sanctions against the EU basically constitute another tool for jeopardizing the

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<sup>82</sup> Leander Leenders, *supra* note 74: 3.

<sup>83</sup> Andrew Osborn, "Putin: Collapse of the Soviet Union was 'catastrophe of the century'," *www.independent.co.uk* (April 25, 2005) // <http://www.independent.co.uk/news/world/europe/putin-collapse-of-the-soviet-union-was-catastrophe-of-the-century-6147493.html>.



position of the EU' in the world arena in the eyes of these countries. However, contrary to Russia's expectations, violent conflicts in Georgia in 2008 and in Ukraine in 2014-2015 also involving Russian military forces have tended to increase the support in these countries for European values.

In imposing sanctions against Russia, the European Union has defined the aims of these sanctions somewhat ambiguously, leaving considerable room for interpretation as to whether the sanctions have served their purpose or not. The EU-sanctions imposed during the Russian-Ukrainian crisis have been more or less focused on a symbolic and communicative level and therefore function merely to persuade the European Union member states and the allies of the EU that they stand united in the international arena and support democratic values in Europe. Both crucial elements for successful sanctions—a clear, achievable aim and sufficient economic and political pain—are missing: Russian oil and gas are still flowing to the markets and Putin himself is not only in power but more popular than ever before and, curiously, also without any travel restrictions. This could hardly be considered sufficient in motivating Russia to change its behaviour. There is also hardly any reason to believe that the short-term pressure on Russia should amount to any serious coercive and constraining effect while sticking to the current set of sanctions.

Along these lines, the question remains whether the sanctions against Russia could contribute to the resolution of the military conflicts in Ukraine within a sufficient timeframe to save Ukrainian economic and political stability. Drawing on the available historical parallels, the sanctions imposed to alter military activities and to force the target country to withdraw its troops from border skirmishes have in general not been successful.

In the particular case under discussion, i.e. during the Russian-Ukrainian crisis, it is unlikely that the sanctions against Russia could force it to change its behaviour in active way (by returning Crimea). The maximum that can be expected is to discourage Russia from further aggressive actions against other former Soviet republics. As argued above, this is because the aims of sanctions were unclear in the beginning and also a relatively weak "tool-box" of sanctions has been used by the EU. Although the individuals and entities under sanctions were selected individually, in reality the cherry-picking technique has not succeeded as only a limited number of persons/entities directly linked to the Russian decision makers were actually put under pressure. Likewise, the case analysed here suggests that sanctions alone are seldom successful if their aims remain too broad, if not all possible methods are exploited by the one imposing sanctions, and if achieved results are expected in a relatively short period of time.



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