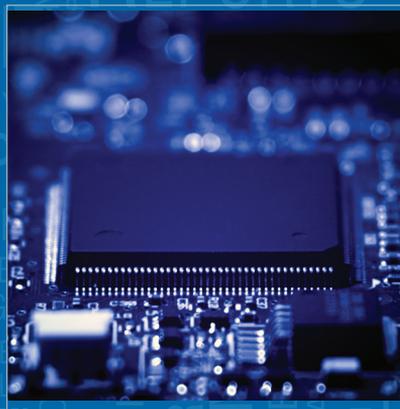




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REPORT

THE SANCTIONS AGAINST RUSSIA: ESCALATION SCENARIOS AND COUNTERMEASURES

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This report systemizes information on the use of sanctions as an instrument of international relations and offers a classification of types of sanction. Particular attention is paid to the issue of the legitimacy of sanctions. The report also outlines the principal differences between the sanctions imposed by the United States and the European Union against Russia.

The work is of significant practical importance, in part thanks to the author's practical recommendations.

The full text is published on RIAC's website. You can download the Report or leave a comment at russiancouncil.ru/en/report37

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Introduction

Since 2014, the United States, the European Union and a host of western countries have pursued a policy of sanctions against Russia. By sanctions, we mean a set of financial, trade, visa and other restrictions imposed for political purposes. These restrictions have been introduced by the sanctioning countries on specific industries and sectors of the Russian economy, and against certain Russian individuals and companies as well as business partners and contractors abroad. The overall aim of the sanctions is to disrupt the economy in such a manner that it will cause the country's leadership to radically change its foreign policy course. Initially, the main reason for the introduction of sanctions was the Ukrainian crisis. However, since 2016, a process of "escalating sanctions" – the consistent expansion of the reasons for imposing further sanctions and their classification – has been evident.

In terms of international law, the UN Security Council is the only legitimate body with the legal authority to introduce sanctions. In practice, however, individual countries or coalitions of countries widely use sanctions unilaterally. As a rule, the United States has always been the primary sender of sanctions, although it has been joined since the end of the Cold War by the European Union. In general, sanctions are normally imposed by developed countries on developing countries. In the overwhelming majority of cases, the economies of the sender countries are far more affluent than those of the countries placed under sanctions. This allows the sanctioners to apply economic pressure in order to force sovereign states to change their political course, interfere in their affairs or compel them to transform their political systems, while at the same time remaining relatively impervious to retaliatory measures.

We should expect the sanctions against Russia to develop for at least the next six years. The sender countries will target the most vulnerable parts of the Russian economy, society and political system, including: (1) the Russian economy's need for cheap loans and investments and its dependence on the US-centred global economy; (2) the reliance on the supply of high-tech equipment in a number of sectors of the economy, including the energy sector; (3) the sensitivity of the economy to changes in the commodities markets; (4) the vulnerability of the social sphere and the risk that economic problems may manifest themselves in the form of public protests against the background of continued inequality; and (5) the level of integration of the Russian elites, intellectual and business communities and major social groups in global institutions and processes.

A seductive solution to these problems would be to try to follow a course of political self-sufficiency and break off all ties with the outside world. But this would deal an even bigger blow to the prospects for Russia's development. We need to look for alternatives that could help neutralize the effects of the sanctions, pre-

serve and strengthen international ties (which are crucial for the country's development), benefit from participation in the global economy and eliminate the country's social and economic vulnerabilities in a consistent manner. This is an extremely difficult task, given the leading role that the sender countries play in the global economy.

Studies of sanctions policy suggest that two conditions are key to their success. The first is the degree of consolidation and agreement among the sender countries on the country under sanctions. The stronger the so-called "sanctions coalition," the stronger the effect of the restrictions. The second condition is the cost of the sanctions for the sender countries. The greater the losses and instability in a sanctioner's own economy, the more likely it is to make political concessions.

Accordingly, Moscow's interests would be served best by a situation in which (1) coalition pressure on Russia is not consolidated, and (2) the economic effect of the sanctions is minimized through the diversification of international economic ties and other measures.

The main tactical objective today is to prevent or limit as much as possible the process of "escalating sanctions" and create conditions in which the sanctions do not produce the desired political results for the sender countries and the opportunities for socioeconomic development and integration into the global economy continue on favourable terms for Russia. Minimizing the detrimental effect of the sanctions will give Russian diplomacy greater space for manoeuvre in their interactions with western countries on political issues.

Sanctions: Main Goals and Classification

Sanctions are the deliberate actions of a state (a “sender country”), coalition of countries or international organization to reduce, restrict or block entirely the customs, trade or financial actions of a “targeted” or “receiver” country.¹ These actions are aimed at achieving political results: forcing a change of political course, regime, foundation or individual components of domestic or foreign policy; compelling countries to fulfil or refrain from fulfilling certain political obligations; or altering the politics of a given state at home or on the international stage. Economic sanctions presuppose that the sender country creates conditions in which economic damage, the loss of expected gain or profit and the resulting consequences for society and the political system make preserving the current political course disadvantageous and force the target state to make concessions to the sanctioner.²

Thus, sanctions are an important instrument of coercion in international relations, and in the majority of cases that implies the direct or indirect interference of a country in the decision-making process of another state. Sanctions can be understood as an attempt to limit or influence the sovereignty and sovereign political course of another country through economic measures.

According to Hufbauer et al., of the 174 documented cases of countries imposing economic sanctions against another state in the 20th century, the United States deployed sanctions on 109 occasions, the United Kingdom on 16 occasions, the European Union on 14 occasions, the USSR and Russia on 13 occasions, and the United Nations on just 20 occasions. In other words, sanctions are an instrument used by powerful, advanced and developed governments or international associations, and it is their economic weight and/or size and their global and regional ambitions that allow them to do so.³ Their significant size and international clout give the sender countries a margin of safety to bear the costs of the sanctions for their own economies and offset retaliatory measures from the targeted countries. The economies of the sender countries often outstrip those of the receiver countries by tens or even hundreds of times.⁴ All this makes it possible to use sanctions as an instrument of domination – the ability of Subject A to impose its will on Subject B.

Sender countries attempt to legitimize this domination through the norms of international law (the UN Charter, for example), domestic legislation and reference to the principles of their morality and ideology.

¹ In this paragraph, we use the findings of the theoretical analysis of the concept of economic sanctions that are planned for publication in *Vestnik MGIMO University*. See: Timofeev I. Economic Sanctions as a Political Concept // *Vestnik MGIMO University*. 2018. No. 2 (upcoming).

² This definition is used in one of the key works on the issue of sanctions. See Hufbauer G., Schott J., Elliott K., Oegg B. *Economic Sanctions Reconsidered*. Third Edition. Peterson Institute for International Economics, 2009, pp. 3–5.

³ *Ibid.* p. 5, p. 17.

⁴ *Ibid.* p. 89.

Sanctions may be aimed at achieving the following results:⁵

One. To disrupt or impair the military potential of the targeted country, thereby limiting its economic ability to produce certain weapons and items of military equipment. This can also include restricting supplies of materials needed to produce nuclear weapons, weapons of mass destruction, missile technology and other types of weapons and their means of production, or measures aimed at forcing individual countries to abandon their own arsenals and military technologies.

Two. To prevent military action or stop the receiver country from carrying out offensive actions. Sanctioners proceed from the “theory of restraint,” believing that economic sanctions can either send a signal or make the costs of an offensive policy unacceptable.

Three. To effect a change of political regime or destabilize the political system of the receiver country. Hufbauer et al. note that this is the most widespread goal of sanctions. Of the 174 cases of sanctions being deployed by a state or coalition of states against a country in the database compiled by Hufbauer et al., 80 were aimed at bringing about a change of political regime. This category may include punitive measures taken against a political regime that has come to power illegitimately (by military coup, clear or imagined fraudulent election results, etc.). During the Cold War, it was commonplace to punish former allies who had “defected” to the other side. Sanctions of this kind are often accompanied by secret operations of the intelligence services involved in eliminating a regime or individual leaders.

These three goals are united by the fact that they are precursors to war or military actions. In other words, sanctions are imposed as part of a wider package of measures of pressure applied to a given country. If the targeted country has significant military potential, a direct conflict may not happen (as in the case of sanctions imposed against the USSR and China in the past), although they are a forerunner or concomitant method of applying pressure on a country.⁶

Four. To effect moderate changes in the political course of the receiver country. Very rarely are such cases accompanied by measures aimed at military containment or intelligence services operations. Sanctions are used here in a transparent fashion; there is no ulterior goal other than the ones expressly stated. An example of this could be pressure placed on a country in order to influence it to change its attitude towards human rights, resolve an issue regarding the expropriation of property, or compel it to join a given treaty. The database compiled by Hufbauer et al. contains a significant number of cases of these kinds of sanctions being deployed as well (43 in total). It is worth noting that sanctions of this type are often levied on states with which the sender country enjoys relatively friendly or good-neighbourly relations.⁷

⁵ This typology is used by Hufbauer G. et al., in particular.

⁶ The logic and analysis of Graham Allison and Dimitry Simes concerning the containment of Russia are illustrative in this respect. See Allison G., Simes D. *Stumbling to War // The National Interest*. 2015. May/June.

⁷ *Ibid.* pp. 66–72.

In terms of economic content, trade and financial sanctions are the most widespread. Trade sanctions include restricting imports and exports to and from a receiver country. These sanctions may be met with reciprocal trade measures implemented against the sanctioner countries. One example of export sanctions includes embargoes on the transfer of arms, military equipment and technology. Another is imposing restrictions on the supply of equipment for certain sectors of the economy (the mining industry, for example). The problem with the effectiveness of trade sanctions is that they are easy enough to circumvent, especially if the goods in question are not exclusive or rare. While prices for goods tend to rise in these cases due to intermediary costs and the risks associated with possible smuggling or corrupt activities, receiver countries can technically get around trade restrictions.

Financial sanctions are another matter entirely. They include: delaying or cancelling loans, grants, development assistance or military aid; banning investments in certain countries or companies; prohibiting financial operations with certain countries, companies and individuals; and outlawing the financing of certain programmes. The freezing (temporary or permanent confiscation) of the assets of certain individuals, companies or countries held in sender countries or at the request of sender countries is a particularly prevalent measure. According to Hufbauer et al., 80 per cent of all sanctions of this kind are levied in the United States. This is not surprising, as the United States' dominance in world finance and the role of the dollar in global accounting ensure that such measures have the desired effect. The advantage of financial sanctions is that they are easier and quicker to implement than trade sanctions (the state regulates the financial market better than it regulates trade) and they are significantly more difficult to circumvent – searching for alternative investors or donors becomes extremely difficult, especially if sanctions are imposed by the United States. Even investors from countries that have not imposed sanctions may be scared off. Such investors are faced with a choice – either the American market or the market of the receiver country.⁸ The choice of most companies is obvious. It is extremely difficult for the receiver country to respond to financial sanctions. Ultimately, it is important that financial sanctions are more painful than trade sanctions. Hufbauer et al. calculate that the cost of financial sanctions for receiver countries amounts to 1.7 per cent of gross national income (GNI) on average, while the cost of trade sanctions is just 0.7% of GNI. When both financial and trade sanctions are imposed, the cumulative effect is 2.9 per cent of GNI. Add to that the freezing of assets, and the total cost of all sanctions is 4.3 per cent.⁹

In recent times, the concept of “smart” or “targeted” sanctions has become more widespread in the scientific literature and political lexicon.¹⁰ These kinds of sanctions are intended to impact certain individuals, companies or sectors of the economy of receiver countries in a specific way and are, on the whole, financial

⁸ See, for example, Cooper Z., Lorber E. Sanctioning the Dragon // *The National Interest*. 2016. March/April.

⁹ Hufbauer G., Schott J., Elliott K., Oegg B. *Economic Sanctions Reconsidered*. Third Edition. Peterson Institute for International Economics, 2009.

¹⁰ See, for example, Dreznder, D. Targeted Sanctions is a World of Global Finance // *Interactions*. 2015. Vol. 41, pp. 755–764.

in nature. Visa restrictions are also a kind of smart or targeted sanction. The idea behind these kinds of sanctions is to “punish” the political elite or specific individuals (for example, drug traffickers or terrorists) while at the same time avoiding unnecessary pressure on the country’s population. Smart sanctions are the opposite of comprehensive sanctions. The sanctions against Iraq in the 1990s are an example.

Another trend that can be observed in recent scientific discourse is the tendency to divide sanctions into those which have already been deployed (sanctions as a precedent) and those whose deployment is threatened. For example, Nevin Bapat investigated the effectiveness of existing sanctions against the effectiveness of threatened sanctions.¹¹ In this sense, sanctions can be viewed as a tool of “symbolic power,” when the very fact that sanctions may be imposed is enough to achieve the desired results. An analogy here might be the practice of battleships or ground forces “flying the flag” of victory, which has a similar symbolic meaning.

It is noteworthy that flying the flag can be intended both for other countries and for one’s own people. Often, the leadership of a sender country will impose sanctions without a coherent strategy with regard to the targeted country. The purpose of this may be to demonstrate to the people in the sender country that a specific political problem is being resolved. The “security theatre” function – when the leadership of sender countries attempts to create the impression that measures are being taken to improve security in order to strengthen their positions and protect them from criticism – can be applied to sanctions as well.¹²

¹¹ See, Bapat N., Heinrich T., Kobayashi Y., Morgan C. Determinants of Sanctions Effectiveness: Sensitivity Analysis Using New Data // *International Interactions*. 2013, Vol. 39, pp. 79–98.

¹² Hafbauer G., pp. 5–6.

Legitimacy of Sanctions: Political Interests vs. International Law

The use of sanctions is a subject of fierce regulatory dispute. There are two opposing views on the subject.¹³

The first assumes that sanctions are an effective and perfectly legal instrument of foreign policy. Sanctions are a viable course of action as they allow the sanctioners to avoid using military force and achieve the desired political results by peaceful means, or to weaken the military potential of the targeted country, which in turn makes it possible to conduct military campaigns with fewer losses. Ideally, sanctions should be approved by the UN Security Council, and this is what we should strive towards. However, unilateral sanctions are also necessary, particularly in cases that require immediate measures and rapid results. The legitimacy of sanctions is not only linked to national and international law, but also to the ideologies, morals and national interests of the sender country. For example, the concept of democracy is seen by a number of countries as a moral category. Accordingly, the deployment of sanctions against those who, in their opinion, violate democratic principles is morally justified.

The most fervent proponent of this approach is the United States. The National Security Strategy 2017 contains an entire section devoted to economic diplomacy, in which sanctions are seen as an important element of “broader strategies to deter, coerce, and constrain adversaries.” It is noteworthy that the “Us vs. Them” mentality is viewed in the document from a normative point of view. “Us” means free market economies, allies and partners, while “Them” means state-led economies. According to the National Security Strategy, as the centre of the world economy, the United States is able to play a central role in global financial affairs and effectively protect its interests.¹⁴ The National Security Strategy 2015 defines targeted economic sanctions as an effective policy tool “for imposing costs on irresponsible actors” who do not fulfil their obligations, as well as to help “dismantle criminal and terrorist networks.” The Strategy notes that the United States “will pursue multilateral sanctions, including through the UN, whenever possible, but will act alone, if necessary.”¹⁵

The importance of sanctions is also mentioned in the doctrinal documents of the European Union.¹⁶ Here, sanctions are seen as an instrument for the deterrence

¹³ In this paragraph, we use the findings of the theoretical analysis of the concept of economic sanctions that are planned for publication in Vestnik MGIMO University. See: Timofeev I. Economic Sanctions as a Political Concept // Vestnik MGIMO University. 2018. No. 2 (upcoming).

¹⁴ National Security Strategy of the United States of America, December 2017, p. 34.
URL: <https://www.whitehouse.gov/wp-content/uploads/2017/12/NSS-Final-12-18-2017-0905.pdf>

¹⁵ National Security Strategy of the United States of America, February 2015, p. 4, p. 11, p. 23.
URL: <http://nssarchive.us/wp-content/uploads/2015/02/2015.pdf>

¹⁶ See, for example, Shared Vision, Common Action: A Stronger Europe. A Global Strategy for the European Union's Foreign and Security Policy, 2016.
URL: https://eeas.europa.eu/archives/docs/top_stories/pdf/eugs_review_web.pdf

and prevention of conflicts that must be used alongside diplomacy. The legitimacy of sanctions is provided by international law, EU law and the European Union's international commitments as part of the World Trade Organization (WTO) and other organizations. In other words, unilateral measures are envisioned alongside multilateral measures. At the same time, the European Union notes the desirability of carefully calibrating sanctions in order to “avoid harming local societies.” Sanctions are also defined as an instrument for reacting to crisis situations (alongside humanitarian aid, diplomacy, etc.). The European Union gives a detailed description of sanctions and the procedures for applying them.¹⁷

Russia takes a different position. As far as the Russian Federation is concerned, the only legitimate source of sanctions is the UN Security Council. Unilateral measures of economic coercion are unacceptable. Specifically, this is enshrined in the 2016 Foreign Policy Concept of the Russian Federation: “to continue efforts to improve the UN sanctions mechanism, specifically, proceeding from the premise that decisions to impose such sanctions should be taken by the UN Security Council jointly following comprehensive discussions...; contribute to eliminating from international relations illegal, unilateral coercive measures adopted in violation of the UN Charter and other norms of international law.”¹⁸

A similar position is taken by China and a number of developing countries. In particular, the Declaration of the Summit of Heads of State and Government of the Group of 77 + China held in Santa Cruz, Bolivia stated that unilateral economic measures of coercion are unacceptable and should be eradicated from the practice of international relations.¹⁹

The UN's Special Rapporteur on the negative impact of unilateral coercive measures on the enjoyment of human rights, Idriss Jazairy, is a harsh critic of unilateral sanctions. The Special Rapporteur position was created in 2015. Since that time, Jazairy has produced three reports on the impact of unilateral coercive measures on the enjoyment of human rights, covering a range of legal, political and ethical issues.

Above all, Jazairy makes a distinction between unilateral and international coercive measures. Both are often united by the term “sanctions.” However, there is a clear difference between the two. Only actions taken by the UN Security Council on the basis of Article 41 of the UN Charter can be considered international.²⁰ This is the key source of their legitimacy. Unilateral measures are taken by individual states or a coalition of states in circumvention of the UN Security Council. Sanctions that have been imposed by international organizations against their own members on the basis of their statutes can also be deemed

¹⁷ See Guidelines on Implementation and Evaluation of Restrictive Measures (sanctions) in the Framework of the EU Common Foreign and Security Policy, 2012.

URL: <http://register.consilium.europa.eu/doc/srv?l=EN&f=ST%2011205%202012%20INIT>

¹⁸ Foreign Policy Concept of the Russian Federation. Section 26, Article “e”.

URL: http://www.mid.ru/foreign_policy/news/-/asset_publisher/cKNonkJE02Bw/content/id/2542248

¹⁹ Summit of Heads of State and Government of the Group of 77, 2014.

URL: http://www.harmonywithnatureun.org/content/documents/275yellow_g77%20English.pdf

²⁰ Jazairy, I. Report of the Special Rapporteur on the Negative Impact of Unilateral Coercive Measures on the Enjoyment of Human Rights. UN Commission on Human Rights, p. 5.

URL: <https://documents-dds-ny.un.org/doc/UNDOC/GEN/G15/177/07/PDF/G1517707.pdf?OpenElement>

legitimate, as these states become members of these organizations of their own volition.²¹ An important feature of unilateral coercive measures is their extraterritoriality; they are introduced by one or several states and deployed outside their territory, affecting both the targeted countries and third countries through the mechanism of “secondary” sanctions.²² This is why sanctions can be considered an instrument of interference in the sovereign affairs of the receiver state or third countries.

One of the main problems of applying unilateral restrictive measures, according to Jazairy, is that they infringe on the human rights of the people living in the targeted countries. They often hit the least protected social strata, causing great damage to their quality of life, undermining the wellbeing of the population and exacerbating social problems. At the same time, smart or targeted sanctions are not a panacea.²³ For example, restrictions against a particular economic sector may hurt the citizens of a country and still not bring any political results. It is human rights that should be the main measure of the ethical foundation, legitimacy and effectiveness of sanctions. Sanctions are unlawful if they are intended to serve any kind of economic interest of the sender country. Jazairy notes that, from the point of view of international law, sanctions can be legitimate if they are applied in response to a violation of international obligations and this violation causes damage to another state or states, thus making their right to retaliation and retribution legitimate. However, human rights are an important indicator here too. Observing human rights is a criterion for mitigating the norms of international law. If sanctions are imposed for an indefinite period, then this is an infringement on human rights. And if the declared goals are not achieved, then the application of unilateral measures must be limited.²⁴ The purpose of the Special Rapporteur’s reports is to develop recommendations that would make international and unilateral restrictive measures more sensitive to human rights violations.

The activity of the Special Rapporteur represents a huge step forward in the promotion of a more equitable (from the point of view of human rights) approach to sanctions. All the more because the issue has been raised by the UN General Assembly on a number of occasions. The number of countries that see unilaterally imposed sanctions as unacceptable is growing. For example, a vote on Resolution 51/103 (A/RES/51/103) on human rights and unilateral coercive measures was held in 1997, with 57 countries voting in favour, 45 voting against and 59 abstaining. A similar resolution (A/RES/69/180) was voted on in 2014, this time with 134 in favour, 53 against and 1 abstention. The renowned researcher on sanctions problems, Michael Brzoska, refers to these statistics in his work.²⁵ However, he also notes another trend. As a rule, developed countries pursue a policy of combining unilateral and multilateral measures, acting in one of two

²¹ Ibid., p. 5.

²² Ibid., p. 7.

²³ Ibid., p. 10.

²⁴ Ibid., p. 14.

²⁵ Brzoska M. *International Sanctions Before and Beyond UN Sanctions // International Affairs*. 2015. Vol. 91, No. 6, p. 1345.

ways. The first route is to impose unilateral sanctions and then try to legitimize them through the UN Security Council. In this case, the role of the sender country remains key, as it is the sender country that draws up the relevant draft resolutions. The second route is to introduce additional unilateral sanctions after a resolution by the UN Security Council if the sender country believes the sanctions imposed by the UN Security Council are too soft or if it does not agree with them.²⁶ The sanctions against Iran are a perfect example of this. In 2015, the UN Security Council adopted Resolution 2231 endorsing the Joint Comprehensive Plan of Action on Iran's nuclear programme and abolishing sanctions imposed previously. However, in 2017, the United States Congress adopted Bill 3364 – Countering America's Adversaries through Sanctions Act (CAATSA), which imposed sanctions on Iran for developing ballistic missiles, violating human rights and other reasons. The United States also raised the issue of reviewing the deal itself. All this calls into question the effectiveness of the UN Security Council as the sole source of legitimate international sanctions.

²⁶ *Ibid.*, pp. 1339–1349.

The Sanctions against Russia: The Approaches of the United States and the European Union

The number of sender countries in the coalition which imposed sanctions against Russia is considerable (37 in total). The key and most influential participants are the United States and the European Union. Compared to Russia, they have overwhelming economic superiority. The United States plays the dominant role in the global financial system, which allows it to compel those countries that do not formally support financial sanctions to nevertheless impose them on Russia. In any case, the approaches of the United States and the European Union to the sanctions against Russia differ significantly in aim, scope, decision-making mechanisms and other aspects. This makes it possible for us to talk about a sanctions regime that is proceeding at two different speeds, and this presents Moscow with certain opportunities to minimize the damage.

First and foremost, the US and EU sanctions differ in terms of their goals. The sanctions imposed by the European Union focus on the Ukrainian issue and are associated with the implementation of the Minsk Accords. In other words, the European Union uses sanctions as a mechanism for compelling Russia to influence a ceasefire and the observance of other parts of the agreements. This position is itself contradictory in nature, as the fulfilment of the Minsk Accords in large part depends on Ukraine, which is not a target of sanctions. Kiev can deliberately stall the implementation of the accords in order to serve its own domestic interests and with the aim of preserving sanctions pressure on Russia.

Unlike the restrictions imposed by the European Union, the aims of the sanctions introduced by the United States are much broader in scope. The Ukrainian issue is included in Bill 3364 adopted by the United States Congress, which corrects previous presidential decrees and directives on the matter. However, in addition to Ukraine, CAATSA includes a wide range of subjects, each of which carries its own sanction or set of sanctions, including: cybersecurity, human rights in Russia, Russia's policy in the Middle East, nuclear non-proliferation, Russia's energy policy, the Russian media, etc. The sanctions policy of the United States pursues a far broader set of goals. On the basis of the law (PL 115-44) and the obligations that that law imposes on the US administration and individual agencies, we can conclude that the United States pursues the following goals in its sanctions regime against Russia:

- 1) To exert an influence on the Russian political system, discredit and isolate the political leadership of the country and fragment the Russian political elite. To turn Russia into a "toxic" partner for countries which have not joined the sanctions regime and undermine Russia's authority on the international stage.

- 2) To isolate Russia from investments and advanced technologies in critical areas, exert financial pressure on Russia and undermine investors' trust in Russia.
- 3) To consolidate the United States' European allies against the backdrop of the "Russian threat" and strengthen US influence in Europe.
- 4) To stimulate European countries to expand the scope of sanctions and increase financial investments into Russia's ideological opposition.
- 5) To drive Russia from Europe's energy markets in the interests of US suppliers and achieve similar goals on the global weapons and arms markets.
- 6) To transform Russia into a "pariah" in Europe and use Russia as a recognizable enemy in the United States' game of identity politics.
- 7) To eliminate Russia as an active player in the post-Soviet space.
- 8) To effect a radical change in Russia's foreign political course on all major issues.

In other words, the aims of the sanctions introduced by the United States and the European Union are fundamentally different. While Brussels pursues narrow and specific goals, CAATSA includes a far more wide-reaching set of objectives that can be interpreted broadly and arbitrarily. The EU sanctions are more utilitarian in nature, while those of the United States are to a large extent based on ideological attitudes (democracy, human rights, etc.). The EU sanctions are a tactical step, whereas the US sanctions are a comprehensive strategy.

The approaches of the European Union and the United States also differ in terms of adopting decisions on implementing sanctions. In the European Union, the issue of extending the sanctions is reviewed every six months. At present they are extended automatically; however, the European Union has a mechanism in place for promptly changing the sanctions regime in the event that the situation in Ukraine improves.

The United States has a fundamentally different decision-making architecture with regard to the sanctions. The passing of Public Law 115-44 (PL 115-44) on August 2, 2017 means that it is virtually impossible to implement any swift changes to the sanctions regime. The President and his Administration will not be able to alter the parameters on the sanctions by themselves, even if they have sufficient grounds and political will to do so. The law consists of a set of "baskets," and it is impossible to achieve progress on all of them at the same time, even in theory. The law contains all of Russia's possible "sins." Even if progress is made on the Ukrainian issue, it will at best provide an opportunity for partial changes to be made to the law or for it to be suspended. It will not, however, lead to a repeal of the law.

To top it all off, the law binds the executive branch of the United States to a range of financial procedures for implementing the law, each of which is fraught with deepening US–Russia tensions, thus making it possible to promptly expand the scope of the sanctions at the working level of the Department of the Treasury or the State Department.

Thus, the key difference between the approaches of the European Union and the United States is the reversibility of their policies. The European Union's policy is reversible depending on the situation in Ukraine, which provides fundamentally different opportunities for negotiations and bargaining with Russia. The European Union has broad space for manoeuvring, having placed itself in a position where it can both expand and reduce the sanctions. The United States, however, has almost no room for manoeuvre in the negotiations, as the executive branch does not really have the ability to make any positive proposals with regard to Russia. Congress, or indeed the next administration, may very well torpedo any commitments the country has, as we have already seen in the case of the sanctions against Iran. The decision-making structure in the United States with regard to the sanctions deepens the crisis of confidence in relations with Russia and other actors.

The situation is also aggravated by the fact that the US sanctions policy has historically gone hand in hand with measures of military deterrence, proxy wars, etc. Russia has a sufficient margin of safety to prevent such threats, but the very possibility of such scenarios further exacerbates the issue of trust. The European Union is also becoming an active player in the sanctions game, but it has not yet had the opportunity to combine economic pressure with military deterrence.

Intermediate Results of Sanctions Pressure on Russia

Four years of sanctions pressure on Russia from the West have brought contradictory results. The main political objectives of the sanctions have not been achieved. Russia is not “capitulating” or making unilateral concessions. The Russian political system is largely consolidated. Moscow has managed to avoid political isolation, developing its traditional ties further and building new ones. The government has been able to maintain macroeconomic stability.

Nonetheless, the sanctions have been detrimental to Russia. And with time, the damage could have a cumulative effect on the country.

Data on the economic damage caused by the sanctions differs in terms of both quantitative assessments and the parameters analysed. Speaking in November 2014, Minister of Finance of the Russian Federation Anton Siluanov stated that the economic damage to Russia as a result of the first year of the sanctions was around \$40 billion, with a further \$100 billion in losses due to the fall in oil prices.²⁷ In 2015, former Deputy Chairman of the Central Bank of Russia Sergey Aleksashenko estimated the economic damage at 5 per cent of GDP, or \$60–70 billion, per year.²⁸ At the same time, he pointed out that the effect of the sanctions in combination with other factors is not a constant, changing from year to year.²⁹ In March 2016, Presidential Aide Sergey Glaziev estimated that the total economic damage over the two years since the sanctions were imposed amounted to \$250 billion.³⁰ E. Gurvich and I. Prilepsky calculate that losses as a direct result of the sanctions totalled \$170 billion for the period of 2014–2017. The shortfall in energy exports accounts for another \$400 billion in losses (although these losses are a result of market conditions, rather than political pressure). Gurvich and Prilepsky also point to the serious dip in gross capital inflow into Russia (\$280 billion over the three-and-a-half years of sanctions), which can be attributed to both the sanctions and to deteriorating market conditions. In any case, sanctions account for three quarters of all economic losses, as they not only hit the companies that are the target of the sanctions, but also Russian business as a whole. However, Gurvich and Prilepsky also note the fact that the Russian economy has adapted to the sanctions, which is reflected in a similar

²⁷ Siluanov Estimates Russia's Losses as a Result of the Sanctions and Falling Oil Prices to be \$140 billion // RBC. November 24, 2014.

URL: <https://www.rbc.ru/finances/24/11/2014/5472ededcbb20f50f1970522>

²⁸ Glaziev Estimates Losses as a Result of the Sanctions at \$250 billion // Polit.ru. March 15, 2016.

URL: <http://polit.ru/news/2016/03/15/glaziev/>

²⁹ Sergey Aleksashenko, Consumers Can't be Fooled by Import Substitution // Deutsche Welle. September 15, 2015.

URL: <http://www.dw.com/ru/сергей-алексашенко-импортзамещением-потребителя-не-обмануть/a-18713452>

³⁰ Glaziev Estimates Losses as a Result of the Sanctions to be a Quarter of a Billion Dollars // Lenta.ru. March 15, 2016.

URL: <https://lenta.ru/news/2016/03/15/damage/>

decrease in capital outflow from the country. In general, worsening market conditions have intensified the effect of the sanctions.³¹

The estimates of Western analysts with regard to the impact of the sanctions on the Russian economy differ from those of Russian experts, with some citing figures that are greater than those presented by their Russian counterparts and others estimating the losses to be smaller. The *EU Observer*, citing sources from the European Union, estimated Russia's potential losses to be 23 billion euros in 2014 and 75 billion euros in 2015.³² Meanwhile, *The Economist* calculated the losses to be \$1 trillion. However, this is a clear overestimation and includes a range of parameters – from sanctions to the effectiveness of governance.³³

In terms of methodology, the 2017 report prepared by a group of Austrian and German researchers for the European Parliament has a solid foundation. The authors of the report proceed from the fact that a combination of factors is responsible for the damage caused to the Russian economy. In addition to the sanctions, we have the fall in oil prices and the weakening of the rouble. What is more, Russia is not the only country that has felt the effects, as the sanctioners have suffered too. The main "victim" in this respect is the European Union. In terms of trade relations, the European Union is Russia's biggest trade partner, while Russia is the fourth largest export destination for EU goods. The set of factors that appeared in 2014 has dealt a serious blow to EU exports to Russia: exports fell by more than 20 per cent annually from 2013 to 2016, having grown by 20 per cent per year in the previous four-year period (2009–2012). In absolute terms, the biggest losers have been the major exporters, such as Germany. It is symptomatic that it is not just the industries which have imposed mutual sanctions that have suffered, but also industries that are not directly connected to the sanctions. In terms of exports, Russia's neighbours in Central and Eastern Europe – the Czech Republic, Austria, Hungary, the Baltic countries, etc. – have suffered the most. US exports to Russia have also declined; however, given the weak trade relations between the two countries, the American side has hardly felt the effects. Moreover, the damage for the European Union has been more serious due to the cumulative impact of the sanctions on business. The total damage of the sanctions for the European Union is estimated at 40 billion euros (0.3 per cent of GDP) for 2014 and 50 billion euros (0.4 per cent of GDP) for 2015. For comparison, the damage to the Russian economy was estimated at 8–10 per cent of GDP for 2015, which is far more serious in real terms. The measures taken by EU companies to adapt to the sanctions (diversifying their markets, etc.) have failed to compensate for the losses. Despite this, the damaging effects of the counter-sanctions deployed by Russia were partially mitigated by re-exports through Belarus, Serbia and other countries. In addition to mentioning the significant damage to trade, the authors of the report expressed even

³¹ Russian Economic Growth down 8.4% // Vedomosti. February 5, 2016.

URL: <https://www.vedomosti.ru/economics/articles/2016/02/05/626922-ekonomika-lishilas>

³² Multi-billion losses expected from Russian sanctions // EU Observer. July 28, 2014.

URL: <https://euobserver.com/economic/125118>

³³ Trillion-dollar boo-boo // The Economist. July 26, 2014.

URL: <https://www.economist.com/news/finance-and-economics/21608754-bad-governments-cost-investors-fortune-trillion-dollar-boo-boo>

greater concern about the financial sector in connection with the drop-off in investment volumes.³⁴

In 2016, the French Centre for Prospective Studies and International Information (CEPII) estimated the economic damage of the sanctions to the sender countries to be \$60.2 billion for the period from 2014 to September 2015, with the European Union incurring 76.5 per cent of the total damages. It is also noteworthy that 83.1 per cent of losses were in goods not affected by the trade embargoes. In other words, the indirect damage of the sanctions was significant. The authors of the report assume that this is in connection with the financial sanctions, which also have an effect on trade. Like the German researchers mentioned above, the French team came to the conclusion that replacing the Russian market with other markets is limited in its effectiveness.³⁵

The United States has suffered far less economically as a result of the sanctions than the European Union. Russia accounts for less than 1 per cent of U.S. trade. This is around half the volume of the United States' trade with Belgium. Researchers at the Geneva International Sanctions Network note that the decline in trade with Russia can be explained by more fundamental factors related to the slowdown in the Russian economy that began in 2014. Given the strong economic growth in the United States, the sanctions have had a negligible effect on the U.S. economy.³⁶

In November 2017, Julian Hinz – one of the researchers who worked on both the report prepared for the European Parliament and the CEPII paper – published a report of his own on the estimated economic impact of the sanctions. In the paper, Hinz notes that the sanctions hurt both Russia and the European Union as its main trade partner. The high level of trade relations before the 2014 crisis was a factor in this. Hinz also points out that if the sanctions are softened or even repealed altogether, then restoring economic ties will take a great deal of time, developing through ties with those countries which did not join the sanctions regimes.³⁷ Nevertheless, statistics for January–September 2017 show that trade turnover between Russia and the European Union grew by 24.2 per cent compared to the same period in 2016.³⁸

The various assessments presented in this chapter differ. However, they all speak to several important trends. First, the sanctions have delivered a considerable economic blow to Russia, affecting its foreign trade, the competitiveness of its companies and its investment attractiveness. The sanctions have also had

³⁴ Fritsz O., Christen E., Sinabell F., Hinz J. *Russia's and the EU's Sanctions: Economic and Trade Effects, Compliance and the Way Forward*. Brussels: Directorate-General for External Policies, 2017. An important result of the research is the data concerning the hit to the GDPs of Russia and the European Union as a consequence of the sanctions. In absolute terms, the figures are comparable. However, in terms of GDP, Russia has experienced far greater losses, as the European Union's GDP is far superior to that of the Russian Federation. See also Kholodilin K., Netsunajev A. *Crimea and Punishment: The Impact of Sanctions on Russian and European Economies*. Berlin: German Institute of Economic Research, 2016.

³⁵ Crozet M., Hinz Y. *Collateral Damage: The Impact of the Russia Sanctions on Sanctioning Countries' Exports* // CEPII Working Paper, 2016.

³⁶ Moret E., Giumelli F., Bastial-Jarosz D. *Sanctions on Russia: Impacts and Economic Costs on the US* // Geneva International Sanctions Network, 2017.

³⁷ Hinz J. *The Cost of Sanctions: Estimating Lost Trade with Gravity* // Kiel Working Paper. 2017. No. 2093.

³⁸ According to Bank of Russia data.

a negative impact on the commodities markets, slowing down the already sluggish economic growth. Second, the sanctions have hit the European Union as Russia's most important trade partner. However, the overall size of the EU economy has made bearing the economic losses much easier than it has been for Russia. The damage to the EU economy is estimated at fractions of a per cent, whereas the damage to the Russian economy can be counted in much greater percentages. And while the losses inside the European Union have been uneven and efforts to find new markets have proved ineffective, the EU economy has a much greater margin of safety compared to Russia. Third, the United States remains virtually immune to the negative effects of the sanctions that have been levied against Russia, even though it acts as the main sender and mastermind of the sanctions.

What is more, in addition to the purely economic consequences, there have also been political and reputational costs. These are difficult to put into numbers, but they have a clear negative influence. Sergei Afontsev, a Corresponding Member of the Russian Academy of Sciences, warns about this in one of his articles.³⁹

The political effects can conditionally be divided into domestic political effects and foreign political effects. As far as domestic politics is concerned, sanctions can often lead to the consolidation of the political system and society against external challenges. Contrary to the ideological designs of the sender countries, sanctions do not as a rule lead to "democratization."⁴⁰ What is more, sanctions are a convenient excuse for centralizing power. This produces a "sanctions paradox," in which increasing sanctions against a country does not lead to political concessions being made. The worse the political relations with the receiver country, the less likely sanctions are to work, even if the sanctions are intensified.⁴¹ Russia is no exception in this instance. Nevertheless, the economic damage caused by sanctions hampers the quality of life and narrows the possibilities for economic development. The middle class and vulnerable social strata are the ones who suffer most as a result of sanctions. This can create additional risks in the long term, especially in conditions of technological backwardness. It is unclear exactly when and to what degree these factors will deal a blow to social stability and how unexpected it will be. At the end of the day, a country's development rests on the issues of national security and sovereignty. A backward economy and low human capital generate challenges that are comparable to direct military threats.

Sanctions complicate foreign policy as well. Of course, the root cause is political differences on fundamental issues, such as the Ukrainian crisis. Sanctions are a derivative of these contradictions. However, sanctions that have already been implemented can have a negative impact on the prospects for international

³⁹ Afontsev, S. The Sanctions Regime Trap // RIAC. October 3, 2017.

URL: <http://russiancouncil.ru/analytics-and-comments/analytics/lovushka-sanktsionnogo-rezhima/>

⁴⁰ See, for example, Grauvogel J., Soest C. Claims to Legitimacy Count: Why Sanctions Fail to Instigate Democratization in Authoritarian Regimes // European Journal of Political Research. 2014. Vol. 53.

⁴¹ At the same time, using sanctions against friendly countries is far more effective. See Drezner D. The Sanctions Paradox: Economic Statecraft and International Relations. Cambridge Studies of International Relations, 1999, p. 11.

cooperation, even in those spheres where the interests of the sender and receiver countries objectively coincide. For example, the US sanctions law includes imposing sanctions against Russia for supporting Bashar al-Assad's government in Syria, despite the fact that the Middle East is a source of threats for both Russia and the West. The sanctions concretize the dividing lines between them. As for relations with third countries, the country that is in the minority and which has the most vulnerable economy is the one that suffers. Third countries can offer assurances of their friendship, while at the same time applying pressure, bargaining for more favourable conditions of cooperation and further increasing the losses.

The costs to the country's reputation and image are also important. Increasing sanctions also increases the level of uncertainty for counterparts of the targeted countries, making the risks for them even costlier – even in areas that are not formally affected by the sanctions. At the same time, making concessions under sanctions pressure is also unacceptable for a country's reputation, especially if we are talking about such a large country as Russia. The reputational harm is either preserved or increased depending on the level of the sanctions pressure, although a country may opt to “ride it out until the end” due to considerations of its international prestige. In the end, the receiver country and its companies still suffer losses.

Escalation Scenarios for the Sanctions against Russia

Sanctions may escalate in a number of directions simultaneously.

First, the European Union may broaden its sanctions nomenclature. Such a scenario is consistent with US interests, as it would allow a more consolidated policy towards Russia to be developed and the financial burden of applying pressure on Moscow to be shared. Specifically, the European Union may be encouraged to introduce new sanctions against Russia for “interfering in the elections” of European countries. The issue has already been raised in EU political discourse. However, the clear tautness of the accusations, the absence of reliable evidence and the occasionally anecdotal situations have thus far not led to the narrative about intervention spreading “like a virus.” The probability of new grounds for deploying sanctions against Russia appearing is low. However, the European Union may expand its list of persons and companies under sanctions in relation to the Ukrainian issue. Moreover, the European Union will use WTO rules to counter Russian trade sanctions and food import restrictions (the case on the import of pigs). At the level of interaction with NATO, the European Union will be a part of the “counteraction to Russian information aggression,” although such activity will not be part of sanctions. The European Union is unlikely to expand its sanctions against Russia if the status quo in Donbass is maintained.

The second escalation scenario is the extra-territorial application of American sanctions that may affect Russia’s partners in third countries, especially in the energy and defence sectors. The United States Department of State has, through its embassies, already warned the governments of foreign countries about the possibility of sanctions being levied against them in the event that they cooperate with Russia in the defence sector. A spokesperson for the State Department has stated that sanctions in the defence industry have allegedly disrupted Russian defence contracts to the tune of \$3 billion.⁴² This figure is a huge overestimation (if it corresponds to reality in any way, shape or form) and we do not know the methodology used for calculating it. The volume of such sanctions is unlikely to be significant in the near future. Deploying them against companies in economically strong countries may cause serious protest and even outright sabotage, which would in turn negatively affect the reputation of the United States. It may also be risky to impose sanctions on Russia’s allies in the Collective Security Treaty Organization (CSTO), for which Russian supplies (as a rule, at preferential prices) are an important factor in security and sovereignty. Washington is unlikely to increase its influence by imposing sanctions on these countries. And given the large discounts that Moscow already affords them, such sanctions are hardly likely to cause it any damage. This is why the US authori-

⁴² U.S. Believes New Sanctions Have Derailed \$3m-worth of Russian Contracts // Kommersant. February 21, 2018. URL: <https://www.kommersant.ru/doc/3555241>

ties will, in all likelihood, tread very carefully when it comes to introducing sanctions on an extra-territorial basis. Nevertheless, Russia's partners are worried about this escalation scenario and consider it a risk. However, we should not dismiss the idea that the US authorities may attempt to introduce sanctions when it is convenient for them to do so. What is more, even the symbolic threat of sanctions gives Russia's counterparts on the defence market an excuse to negotiate for lower prices.

The third escalation scenario is the implementation of the US sanctions law. Here, much will depend on how the executive branch of the United States implements the requirements of PL 115-44. The Law defines a clear framework of the accountability of the executive bodies to Congress. The reports (proceedings) presented to Congress can be divided into three groups.⁴³

The first group contains reports that are prepared primarily by the Department of the Treasury. The US Department of the Treasury is the key (although not the only) instrument for implementing the country's sanctions policy. However, Congress gives the Department of the Treasury broad scope for working in close cooperation with the National Intelligence Agency, the State Department and other agencies in possession of information that could help significantly expand the possibilities of financial intelligence.

The most anticipated document from this group was the report on Russian oligarchs and organizations close to the government (the so-called "Kremlin Report"). Published in late January 2018, the report was intended to contain a list of key figures in Russian foreign policy, as well as various oligarchs and businesspeople close to the Kremlin. Congress tasked the authors with assessing the links of all the individuals on the list with the ruling elite, and with the President of the Russian Federation personally. The report was supposed to contain information about any known corruption episodes related to or involving these figures. It was also supposed to include data on all of their possible sources of income and their commercial activities outside of the Russian Federation, as well as similar information about the members of their families. In addition, the report was supposed to contain information on structures and business entities that have close ties with the government, their activities, beneficiaries, etc.

The inclusion of the name of a person or company in the report did not automatically mean that they would be included on the sanctions lists. However, the law unequivocally states that the report is one of the mechanisms for identifying individuals and organizations that might be included. At the very least, one of the requirements for placing an individual or organization on the sanctions lists is an assessment of the expediency of applying additional sanctions to the entities mentioned in the report and including them in the Department of the Treasury's blacklist, as well as the possible effects on the economies of Russia on the one hand, and the United States and its allies on the other.

⁴³ The information contained here and in the section that follows draws from Timofeev, Ivan, U.S. Sanctions against Russia. Prognosis for 2018 // Valdai Club. December, 2017.
URL: <http://ru.valdaiclub.com/a/highlights/sanktsii-ssha-protiv-rossii-2018/>

The “Kremlin Report” published in late January 2018 turned out to be an altogether contradictory document. The opening section is essentially a composite list of ministers, key employees in the Presidential Administration, heads of the chambers of the Federal Assembly and a list of businesspersons from the *Forbes* list. There is no discernible strategy to the document. On the one hand, it contains the *siloviki* and the heads of state companies traditionally criticized in the West. On the other, it also includes the names of entrepreneurs who actively invest in the United States and who command a great degree of respect there. The inclusion in the list of the Presidential Commissioner for Children’s Rights and the High Commissioner for Human Rights in the Russian Federation was nothing short of absurd. Not to mention the factual errors and outdated information. The list was met with open scorn by many of those who had offered their assistance to the US authorities and who had prepared recommendations of their own with regard to the preparation of the “Kremlin Report” in the past.⁴⁴ Regardless, it is premature to say that the fallout of the “Kremlin Report” will not bring any harm. To begin with, the report has a confidential section which most likely reflects the requirements set out in the CAATSA for the document (information on incomes, assets, etc.). Second, any list has the potential to inflict reputational damage to the people included in it, even if from a legal point of view specific sanctions are not implied. Third, the Department of the Treasury can add any individual or company that it deems appropriate, according to the criteria set out in the CAATSA and other documents, to its Specially Designated Nationals and Blocked Persons List (SDN List). And it does not need any kind of special “Kremlin Report” to do so. Thus far, the “Kremlin Report” has inflicted limited damage to US–Russia relations, especially considering that, according to PL 115-44, it is a one-off document that will not be updated or revised. However, this does not mean that the sanctions policy towards Russia will ease up any time soon.

The next report also appeared at the end of January. It concerned the possibility of expanding the sanctions on Russia’s obligations with regard to its sovereign debt. These sanctions are part of the “Ukrainian Package” and have their roots in Executive Order 13662, which was then subsequently reflected in PL 115-44. The Department of the Treasury’s report pointed out that expanding the sanctions to include new obligations on Russia’s sovereign debt could seriously hurt that country: the price of borrowing will increase; the Russian authorities will be forced to urgently alter their fiscal and monetary policies; economic growth will stall; the financial markets will be destabilized; and the banking sector will be under pressure. However, these measures will not inflict damage on Russia alone; they will also affect the global financial markets and business, including American businesses. This is due to the far reaching international ties of the Russian economy. What is more, such measures will be ineffective if the United States introduces them unilaterally, without the support of the European Union.

⁴⁴ The report published by the Atlantic Council in November 2017, which provides recommendations on the drafting of the “Kremlin Report” is of particular note. See Aslund A., Fried D., Illarionov A., Piontkovsky A. How to Identify the Kremlin Ruling Elite and its Agents. Criteria for the US Administration’s Kremlin Report // Atlantic Council, 2017.

In other words, the Department of the Treasury's report has not led to an escalation in the sanctions, although this can be explained by the potential risks for the United States, rather than a change in policy towards Russia for the better.

Unlike the first two reports, the third one will require greater preparation. It is planned for submission only in August 2018 and will be updated annually until 2021 (and there is nothing preventing this from being extended). The report concerns all illicit financial operations with Russia or carried out by Russians. It is supposed to contain information about specific violations and the results of investigations into them, as well as information on work being carried out with the private sector to prevent this kind of activity. Individuals who appear in this report face criminal charges. The report should also disclose the results of the interaction of U.S. departments with their colleagues from the European Union and other countries, which is also important. In other words, the report aims to internationalize the activities of the American side. The report is also a mechanism for finding "holes" in law enforcement practice with regard to the sanctions against Russia and includes measures to eliminate identified shortcomings.

The next group of reports is united by the section in PL 115-44 entitled "Countering Russian Influence in Europe and Eurasia." The law obliges the US government to take on the role of "protector" of the sovereignty and security of all Eurasian countries that are or could be "victims" of Russian influence. The key department in the drafting of these reports is the Department of State. What is more, the implementation of policy in this area involves the widespread use of "soft power," with reliance on non-profits in the United States and Eurasian countries (a partial list is included directly in the law itself). A total of \$250 million has been earmarked for these tasks in 2019, which is a significant amount considering the fact that it is being pumped into largely ideological and educational work and does not require any kind of investment into infrastructure. At first glance, this money appears to have been allocated for the achievement of a significant number of tasks and to assist several countries. These tasks include protecting the electoral infrastructure, fighting corruption, improving legislation, assisting NGOs and the media, and fighting "propaganda." However, given the low costs associated with these kinds of measures and the fact that they are designed specifically as countermeasures to Russian influence, they are becoming a serious resource for applying pressure. At the very least, the amount allocated is significantly greater than that spent by the Russian Federation on its "soft power" institutions. And even then, the Russian institutions engage with the entire agenda of international relations. And the West (particularly actions against it) is hardly the first, or even a particularly important, item on this agenda.

PL 115-44 obliges the State Department to present an annual report on the work carried out in this area, how efficiently the money was spent and the results that were achieved. A separate report is to be submitted on interaction with foreign organizations and their contribution. In other words, the Americans believe that if they are increasing expenditures on these activities, then their allies in the European Union and other countries should do the same. The report is expected to be submitted on April 1, 2018.

The next two reports also have to be submitted to the President of the United States on a permanent basis.

The first is a report on media outlets that Russia either owns or supports. This is also a “blacklist” of sorts, designed, at the very least, to damage reputations. The intention here is to stigmatize the Russian media itself, as well as those media outlets that Russia supports in one way or another.

The second report concerns Russian influence on elections in Europe and Eurasia. It is important as a mechanism for internationalizing the approach of the United States to alleged Russian “interference” in the 2016 presidential election. Unlike those in the United States, people in Europe and beyond are more or less sceptical about the US position on the matter. The fact that the report is to be published annually will ensure that it remains in the public view, aggravating any kind of noteworthy event and pushing discourse on the issue in the West closer to the position of the United States.

The final report is related to the implementation of legal mechanisms to ensure the energy security of Ukraine and other countries, which is understood as independence from Russian energy supplies, or indeed any links with Russia whatsoever. The proposals are meant for promoting reforms to, as well as liberalizing and increasing the effectiveness of, the country’s energy sector, among other things. However, in this case too there is opposition to Russian energy projects (Nord Stream, etc.) and “Russian aggression” in general. The report states directly that the goal of US policy should be to promote the export of US energy to Europe, which includes creating jobs in the United States (that is, the United States is employing a political tool in competition on the commodities markets). The Secretary of State is to deliver the report on the implementation of the Ukraine Freedom Support Act of 2014 and the results of work in this area in February, with subsequent reports to be submitted every six months after that.

The bottom line is that PL 115-44 provides a specific bureaucratic procedure and narrative that largely determines US policy towards Russia. Each new report can serve as a reason for the further deterioration of US–Russia relations and a “deepening” of the sanctions – within existing legislation, that is.

Recommendations and Possible Courses of Action for Russia

Taking the tendencies that we have mentioned throughout this report into account, the Russian arsenal can identify the following ways to minimize the damage of the sanctions, adapt to them and even counteract the sanctions policy:

First. Diversifying trade and economic relations, especially in industries affected by the trade restrictions. It is fundamental to implement the “pivot towards the East” – the development of trade relations with countries in the Asia-Pacific Region.

However, simply building trade relations with non-Western countries does not address the problem of sanctions at a fundamental level. It is financial rather than trade sanctions that are felt most acutely. It is extremely difficult to shield the country from the effects of financial sanctions without a radical restructuring of the global financial system. Russia needs to cooperate with its BRICS partners on the creation of alternative payment and financial systems. It is in their interests to do so, as the BRICS countries have historically been subjected to US sanctions and very well may be targets again in the future. However, we must understand that companies and banks in these countries are unlikely to give up their share of the US market or risk sanctions because of the desire of their countries to maintain friendly relations with Russia. When diversifying trade relations, the sides involved need to understand all the limitations of such an approach.

Second. Given the fact that the sanctions programmes of the United States and the European Union are being conducted at different speeds, we must single out relations with the latter as an unconditional priority. The European Union’s rigid stance on the Ukrainian issue will not change, and it will involve itself in NATO policy to contain Russia. However, if constructive solutions and progress are possible, then it is precisely in EU–Russia relations.

In this sense, Russia should avoid aggravating relations with the European Union on issues that do not concern its vital interests, conduct an extremely careful information policy with regard to the European Union and maintain an open and frank dialogue on complex issues and common challenges. In order to do this, it is necessary to use both official channels and civil society institutions. It is extremely important to launch work on “selective cooperation” with the European Union. Despite the importance of these steps, the most significant step in terms of relations with the European Union is achieving progress in the implementation of the Minsk Accords. Even partial execution of the agreements (achieving a ceasefire, exchanging POWs, the possible launch of a peacekeeping mission on the line of delineation) could give an impetus to a shift in the European Union’s policy towards Russia. However, a number of EU countries may hinder

the constructive development of the dialogue. The likelihood of progress on Minsk II remains low for a number of reasons, but the lack of mutual trust is chief among them. However, real progress on the Ukrainian issue will significantly strengthen the positions of those countries that are committed to partner relations.

Third. The negative trends in Russia's relations with the United States are unlikely to change. The US sanctions will remain in place for decades to come. However, Russia's response should not focus on breaking ties with the United States. It is necessary to maintain ties at the level of business, education, NGOs, research centres and expert organizations (tracks 1.5, 2 and 3 diplomacy). Inter-parliamentary ties need to be restored, which will be extremely difficult to achieve, as the US Congress is the main engine of anti-Russian policy. This means it is necessary to build an inter-parliamentary dialogue, even if it will be uncomfortable and not produce any results to begin with. A similar dialogue is needed at the level of the media, with an aim to reduce the biased nature of assessments on both sides. An open, systemic and unbiased discussion of the key issues in bilateral relations is required, as is the development of new, predictable "rules" of interaction, including in such complex areas as the digital environment.

None of this removes the need for clear, consistent and carefully planned responses to specific hostile actions against Russia within the framework of the sanctions law of the United States. Possible measures include: performing an analysis of corruption and financial crimes of US citizens, companies and institutions; documenting cases of human rights violations perpetrated by US soldiers and civilians abroad; recording instances of discrimination on the part of the media and NGOs on ideological grounds; identifying illegal secret operations and interference in the sovereign affairs of foreign governments; noting cases of the media providing false or distorted information; and preparing objective, professional, systemic and ideology-free reports on these cases.

It is also extremely important to avoid confrontation with the United States along the line of "autocracy versus democracy." Russia is a country for which building effective political institutions, implementing the rule of law and fighting corruption should be among the main priorities. In this respect, the objectives of Russia and the United States, rather paradoxically, coincide. If the US authorities have detected illegal financial operations and corrupt schemes on the part of Russian citizens or organizations, then they must be thoroughly checked by the competent authorities in the Russian Federation, with the understanding that corruption does not have a nationality and should be punished regardless of the political climate. At the same time, Russia should not shy away from showing concern about and pointing out violations of democratic procedures, corruption and human rights abuses in the United States.

Fourth. The issue of unilaterally imposing sanctions should be brought up frequently within the UN institutions. In 1996, a General Assembly Resolution on this issue (A/RES/51/103) was supported by just 57 countries, with 45 voting against and 59 abstaining. In December 2014, however, a similar resolution

(A/RES/69/180) was supported by 134 countries, with 53 voting against and 1 abstention. This speaks to a serious increase in concern over the possibility of implementing unilateral sanctions. The reports presented by UN Special Rapporteur Idriss Jazairy also play an important role in the current discussion of the problem. Dialogue with China and other countries which see unilateral sanctions as illegal needs to be intensified.

Fifth. Comprehensive expert work is required in order to study the experience of applying sanctions, the legal and regulatory framework for doing so, and the possible directions in which the sanctions policy may evolve. Unfortunately, Russian expertise in this area lags seriously behind that of the United States. Russia needs to fill these gaps in legal, economic and political expert knowledge as quickly as possible.

Finally, the most important task is to develop and diversify the Russian economy and deepen its ties with the global market and global business. Sanctions work against economically weak and isolated countries. The price of implementing sanctions against major globally integrated economies is, as a rule, too steep for the sender countries. This is why the traditional sender countries have avoided imposing sanctions on China, as China's response would be extremely damaging. Russia should concentrate on issues of its own development, because the main threat to its sovereignty today is economic and technological backwardness.

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Russian International Affairs Council

**THE SANCTIONS AGAINST RUSSIA:
ESCALATION SCENARIOS AND COUNTERMEASURES**

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