

CONTACT GROUP SUMMARY, WEDNESDAY 30 NOVEMBER 2022



# EUROPEAN LEADERSHIP NETWORK

## THE IMPACT OF SANCTIONS ON RUSSIA

Contact Group members were joined for this discussion by other experts, one member of the senior network, and members of the ELN team. It is common to describe a discussion as ‘rich’, but in this case the conversation covered a truly remarkable amount of ground in 90 minutes. This summary does not do justice to some very thoughtful and detailed exchanges.

### How should we understand sanctions?

The meeting recognised that the US, the EU and the ‘West’ have never set entirely explicit goals for Russia sanctions. So, the purposes of sanctions and their measures of effectiveness are wide open to debate.

At the same time, participants recognised the need to distinguish between sanctions and other impacts, including the voluntary departure of Western companies and the emigration of Russian skilled professionals. For example, it has not been sanctions but European import substitution that has driven energy prices higher.

The West’s sanctions on Russia are not purely economic. They are a substitute for military action and can perhaps be better seen as part of an economic war than as independent measures intended directly to influence Moscow’s decision making. There are emotions and politics behind them, not purely realist calculations. Many speakers felt the West had little option but to impose them and had no comparable alternative tools – sanctions might be described as “the worst diplomatic tool apart from all the others”.

In the economic sanctions, at least three objectives can be discerned. First, they are a diplomatic signal and expression of Western unity. Second, the measures against Russian finances and technology are designed to complicate Russia’s ability to wage war. Third, some sanctions seek to hit Russia’s economy and energy sector over the long term.

On what might be termed ‘values’ sanctions, the group differed over whether sanctioning all Russians (for example over visas) was an essential part of the confrontation or was counterproductively punishing and alienating innocent individuals – possibly opposed to the war – with measures that might be illegal in EU law. In fact, President Putin might be actively courting sanctions against some sectors (for example, Russian universities) in order to implicate them in his war.

### **Are sanctions working?**

While most speakers were in favour of smarter, better targeted, more considered sanctions, participants disagreed over how effective present sanctions are.

The West’s sanctions response to Russia’s February 2022 invasion of Ukraine had been stronger and had demonstrated greater collective Western resolve than President Putin had expected. One participant argued that the 2014 sanctions too had been stronger than expected and had served to postpone deeper Russian incursions into Ukraine. Participants also generally accepted that sanctions had complicated Russia’s financial and technological ability to wage war, for example denying Russia cutting edge extraction technology in the Arctic for which China could not substitute, and already creating a manifest shortage of semiconductors for weaponry.

More generally, although unquantifiable, sanctions may be contributing alongside a host of other factors to apparently growing Russian popular disenchantment with the war. A recent Levada poll showing majority support for negotiations was cited.

On the other hand, partner countries like Turkey are not aligned on sanctions, there are legitimate questions about legality (for example, if expropriation of Russian assets were to be considered), and while it may be true that the sanctions will slowly asphyxiate the Russian economy, including its energy sector, the overall impact is arguably more modest than the West expected. Does a 3% shrinkage in GDP extending into next year establish meaningful pressure on Russian decision making? At a time of declining Russian demographics, low productivity growth, a global turn towards green energy, and no ban of Russian energy exports, a reduction in Russia’s share of global energy supplies from 30% now to a predicted 15% by 2030 may show that sanctions have an effect. But what exactly are they achieving?

In particular, will the EU oil price cap hurt Russia significantly? If set at \$60/barrel or above, it won’t impact Russian sales to India at \$55-57/barrel. But the cap may contribute to a lowering of Russian energy revenues, affecting Russia’s finances in the longer term.

Among the undoubted effects of sanctions are geopolitical shifts. In many cases, however, these shifts have been unintended. 40% of Russian oil now goes to India, for example. Western trade sanctions on Belarus have failed because Belarus has re-oriented its economy to Russia’s. And new hubs of Russian emigration are no longer in the West but in Central Asia, Tbilisi or Dubai.

## **How could sanctions be more effective?**

For the future, many sanctions should be time-limited and complemented by positive incentives to change behaviour (“carrots as well as sticks”). There should be more attention to unintended consequences. This demands regular reviews and willingness to adapt. Sanctions need to be multilateral. They require enough vestiges of pluralism in Russia for pressure to be exerted on Russian decisionmakers. They could be better targeted – the sanctions on Russian oligarchs are “mostly theatre”. And they really should be kept consistent with European values (reference was made to Ursula von der Leyen considering the confiscation of frozen Russian assets).

Participants disagreed on whether sanctions could be strengthened. On the one hand, Russian oil exports will be squeezed further, and exclusion from SWIFT, bans on dollar use and deployment of secondary sanctions are all theoretically possible - US sanctions on Russia are at the moment far less stringent than those on Iran. On the other hand, European (and possibly US) political constraints make further scaling up doubtful. The EU is already struggling to enforce existing sanctions: Polish exports of electrical goods to Turkey have soared in the past 4 months.

## **What about the collateral damage?**

This question opened up a significant difference among non-Russian participants. Smart, targeted sanctions might not be enough to have an effect. But sanctions on the wider Russian or Belarusian population do cause people to suffer.

Some speakers argued that hitting Russia and Russians everywhere and as hard as possible was the only approach that made sense given the seriousness of the confrontation and the need to get Moscow to change course. Yes, there is collateral damage. But that is always the case with an instrument as blunt as sanctions. And it is all the more the case given the unprecedented scale of what is being attempted. Moreover, sanctions are a long-term tool and should be given time to work, with the West learning as it goes along.

Others pointed to the risk of the West alienating the Russian population and thus prolonging the confrontation. They urged the need for positive incentives and not just punishment. And they argued that, to mitigate the damage with Russian popular opinion, whatever is done should be done in a manner visibly consistent with the rule of law and with the EU’s (and wider West’s) values.