



Centre for Air Power Studies

IMPOSITION OF NEW SANCTIONS: PUTTING PRESSURE ON RUSSIA

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The Euromaidan demonstrations in Kiev, recognition of Crimea as an independent entity by Russia, call for 'Greater Novorossiya' in Eastern Ukraine and the downing of Malaysian MH17 Passenger Jet in the separatists region of Ukraine have illustrated the sensitive positions of Russia and the West. The ire of the West towards Russia has continued in response to the escalating War in Donbass¹ despite the call for ceasefire. West antagonism is reflected in a wave of new sanctions imposed on Russia. It is, however, important to investigate the scope of the latest sanctions and its impact on Russia's intervention in Eastern Ukraine. Will the latest round of sanctions manage to make any dent on the economic growth of Russia and will they place a long term pressure on Russia?

Russia has been under the scanner of the West for its potential role in the onset of Ukraine imbroglio. The new list of sanctions aims at putting pressure on Russian President and his loyalists to change course of their intentions on Ukraine.² More US restrictions came in September, targeting the biggest Russian bank - Sberbank - defence conglomerate Rostec, Gazprom and some other major players in the Russian economy. The access of these banks to long-term loans has been blocked. After having been buoyed by oil income, observers say the sanctions are potentially grim for a Russian economy that has slumped this year and is now facing weak direct investment and soaring capital flight.³

EU sanctions announced on 12 September targeted Russia's state finances, energy and arms sectors. It blacklisted dozens of senior Russian officials, separatist commanders and other Russians for their role in Ukraine crisis. By tightening restrictions on major

Russian state banks and corporations, the EU put its capital markets off-limits to Russian state-owned banks. EU's sectoral sanctions did not however affect subsidiaries of Russian banks in the European Union.⁴ Nevertheless, these are sectors managed by the powerful elites around President Vladimir Putin. EU has excluded long-term loans to Russian banks including, exports of dual-use equipment that can be used in the oil and military industries in Russia are banned, future EU-Russia arms deals have been prohibited and the EU will not export a wide range of oil industry technology.⁵

The U.S. and European sanctions against Russia's energy and finance sectors are believed to be strong enough to cause deep, long-lasting damage within months unless Moscow prompts the West to annul them by withdrawing support for anti- Kiev insurgents. The new set of sanctions hurled at Russia is clearly aimed at hurting Russia's economy without doing undue damage to own trade interests especially of the European Union.⁶ As for the hardliners in Putin's immediate circle, the penalties go further than the previous sanctions. Economists have revised downward their predictions for Russian growth this year, with some saying the country will go into recession.⁷

In addition, the European Parliament and Ukrainian Rada (parliament) ratified the landmark association and free trade agreements on 16 September following the decision by legislators in Kiev to grant "special status"⁸ for eastern regions of the country. Russia argued that the flood of cheap EU goods could ruin many Russian producers, if Ukraine were to adopt EU free trade rules. In 2013 EU imports from Ukraine amounted to 13.8bn Euros, and the bloc's exports to Ukraine totaled 23.9 bn Euros.⁹ The ratification however follows a request from Kiev to postpone bilateral implementation of free trade until December 2015 from November this year as originally agreed.

Before one may conclude that the imposition of new sanctions may have alarmed Moscow, Russia has not lost its cradle completely in Ukraine. The delay of the implementation of the agreement is seen as a victory by Russia who repeated its threat to impose trade penalties against Kiev as soon as the deal enters into force.¹⁰ With heavily armed pro-Russian separatists now controlling a huge swathe of eastern Ukraine, President Poroshenko, appear anxious as Ukraine could run out of gas in the bitter winter,

as Russia has stopped deliveries, demanding that Ukraine repay its debts.¹¹ The call for 14-month suspension by Ukraine has triggered alarm in the EU, with many officials expressing concerns that Russia had dictated the terms of a deal that was meant to be bilaterally agreed between Brussels and Kiev.¹²

This leaves us with the question whether these measures by both US and Europe would really hurt Russia. Russia is Europe's main energy supplier as it supplies about 30% of Europe's natural gas and 35% of its oil imports come from Russia. Given the substantial trade and economic co-operation between Russia and the members of the EU, any form on sanctions with regard to energy markets of Russia will have repercussions on both the regions and market security.¹³ According to European estimates, Europe's losses from Russia's sanctions amounted to about 40 billion Euros. The measures affected mostly the countries that had close ties with Russia - Germany, the Netherlands, Lithuania, Poland and Estonia.¹⁴ As a response to the Western sanctions, Russia announced an immediate embargo on a wide range of food imported from the EU, US, Norway, Canada and Australia.¹⁵

Sources claim that the EU may start revising its sanctions against Russia by September 30. The EU foreign policy service is planning to provide to permanent representatives a report on the discharge of Minsk Peace Plan and how ceasefire in Eastern Ukraine is being observed. Thereafter, permanent representatives may decide to gradually

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lift the previously imposed restrictive measures. Most likely, the sanctions will be lifted similarly to how they were imposed - in packages.¹⁶

The response of the West to Ukraine crisis and the imposition of new sanctions has led to a contagion effect not only on Russia but also on Ukraine and EU in particular. Instead of denouncing Russia, the foremost requirement is to address the crisis and revamp the relationship between Russia and the West and initiate further steps together for a lasting ceasefire. The Kiev leadership, anti-Kiev insurgents, Moscow and European Union should adopt a meaningful dialogue with peaceful solution to the ongoing crisis in Ukraine.

(Disclaimer: The views and opinions expressed in this article are those of the author and do not necessarily reflect the position of the Centre for Air Power Studies [CAPS])

End Notes

¹ "War in Donbass" is referred to the demonstrations by [pro-Russian](#) and anti-government groups that took place in the [Donetsk](#) and [Luhansk](#) oblasts of Ukraine which together is commonly called the "Donbass". [Vladimir Socor](#), "Strelkov/Girkin Demoted, Transnistrian Siloviki Strengthened in 'Donetsk People's Republic'", *Eurasia Daily Monitor*, Volume: 11 Issue: 151. 15 August 2014. http://www.jamestown.org/programs/edm/single/?tx_ttnews%5Btt_news%5D=42756&tx_ttnews%5BbackPid%5D=27&cHash=d9a2b36398fb823841ea5b668577feca#.VCUsFWeSyE1

² Kathrin Hille "Russia's Dwindling Liberal Minority Rails Against Putin", 1 August 2014. <http://www.ft.com/cms/s/0/2da4d674-198e-11e4-9745-00144feabdc0.html#axzz3E8QGVXRL>

³ "How Far Do US-EU Sanctions on Russia Go?", 21 July 2014. http://www.avim.org.tr/bulten_print/en/90781

⁴ *EU Backpedaling on Anti-Russian Sanctions not to Freeze in Winter*, 24 September 2014. http://english.pravda.ru/russia/economics/24-09-2014/128597-eu_russian_sanctions-0/

⁵ "How Far do EU-US Sanctions on Russia Go?", 15 September 2014. <http://www.bbc.com/news/world-europe-28400218>

⁶ "This Time, U.S. and European Sanctions on Russia Could Hurt, Analysts Say?", 30 July 2014. <http://www.cbsnews.com/news/sanctions-from-u-s-europe-could-cause-serious-damage-to-russia/>

⁷ Ibid.

⁸ Ukraine's parliament passed legislation granting "special status," to the rebel-held parts of Ukraine's eastern Donetsk and Luhansk regions by giving them broader autonomy for a temporary three-year period. The provisions were welcomed by the insurgents. [Umberto Bacchi](#), "Ukraine Ratifies EU Association, Grants Amnesty and Autonomy to Rebel Regions", 16 September 2014. <http://www.ibtimes.co.uk/ukraine-ratifies-eu-association-grants-amnesty-autonomy-rebel-regions-1465708>

⁹ "This Time, U.S. and European Sanctions on Russia Could Hurt, Analysts Say", 30 July 2014. <http://www.cbsnews.com/news/sanctions-from-u-s-europe-could-cause-serious-damage-to-russia/>

¹⁰ Ibid.

¹¹ "This Time, U.S. and European Sanctions on Russia Could Hurt, Analysts Say", 30 July 2014. <http://www.cbsnews.com/news/sanctions-from-u-s-europe-could-cause-serious-damage-to-russia/>

¹² Olearchyk, "EU and Ukraine Ratify Trade Agreement in Historic Vote", 16 September 2014. <http://www.ft.com/cms/s/0/1051b562-3d8b-11e4-8797-00144feabdc0.html#axzz3ENYaAAei>

¹³ Arvind Gupta, "Crimean crisis: A New Phase of Cold War?", *Institute for Defence and Strategic Analysis*, March 21, 2014. Pg. 3 http://idsa.in/idsacomments/CrimeancrisisANewPhaseofColdWar_agupta_210314 Accessed on 10 May 2014

¹⁴ "Russia Prepares New Sanctions Against the West", 16 September 2014. http://english.pravda.ru/russia/economics/16-09-2014/128543-russia_new_sanctions-0/

¹⁵ "How Far Do US-EU Sanctions on Russia Go?", 21 July 2014. http://www.avim.org.tr/bulten_print/en/90781

¹⁶ EU Backpedaling on Anti-Russian Sanctions not to Freeze in Winter, 24 September 2014. http://english.pravda.ru/russia/economics/24-09-2014/128597-eu_russian_sanctions-0/

