

SANCTIONS AND RUSSIA



Edited by

Jarosław Ćwiek-Karpowicz
Stanisław Secieru

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EXECUTIVE SUMMARY



★ Sanctions have so far been the most effective instrument of Western influence on Russia's policy towards Ukraine, stopping the Kremlin from making a greater military incursion in the country. Restrictions were imposed against more than one hundred members of the Russian political and business elite, as well as dozens of Russian enterprises and banks. The annexation of Crimea and war in eastern Ukraine transformed assumptions about Russia, from a strategic partner, especially in energy, into a strategic challenge, mainly for regional security. Should Russia persist in challenging the principles of European cooperative order in Ukraine, by resuming fighting and taking over new towns and villages, the West will have to scale-up sanctions significantly. At the same time, the West should elaborate precise benchmarks against which to measure any potential Russian cooperative behaviour in Ukraine, before deciding to suspend or cancel sanctions.

★ Although Western sanctions against Russia aim to reverse the Kremlin's foreign policy towards Ukraine, the Russian leadership perceives sanctions as an attempt to undermine its political regime. To prevent what Moscow regards as a regime change strategy on the part of the West, the Kremlin has redoubled its efforts towards greater authoritarian consolidation triggered by the 2011–2012 post-electoral protests. Preventative measures seek to deny the

opposition any chance in future elections, suppress civic activism, enhance censorship in virtual space and promote patriotic youth education, cultivating strong anti-Western sentiments. Sanctions are also used by the Russian president to rein in elites and subtly promote a cult of personality. It is important for the U.S. and the EU to formulate a clear message towards Russian society: that sanctions were imposed against its government's aggressive policy towards Ukraine and are not aimed at humiliating Russia, but at raising the costs of escalation.

★ Most Russians have not fully felt the effect of sanctions yet and are not afraid of international isolation (66%). More than that, Russian citizens largely support counter-measures against states that have applied sanctions against Russia (78%). However, the food embargo Russia enacted in response, coupled with Western restrictions, is likely to amplify and speed up the negative impact on ordinary citizens, which might drastically amend society's outlook in the not so distant future. The Russian state will strive to enhance its control of society, further cultivating patriotic consensus and constraining even more fundamental civil liberties. Nevertheless, economic slowdown and intensification of repressive practices could encourage more young and skilled Russians to leave the country. Limitation of freedoms of Russian bureaucracy may also generate an exodus of professionals from public service and instead attract less professional but patriotically loyal public servants. Therefore, despite their restrictions towards the Russian establishment, the EU and U.S. should develop different programmes (scholarships, fellowships, workshops, etc.) focusing on Russian students and young professionals.

★ In the economic field, a major consequence of prohibitive measures against Russia is a reduction in the availability of cheap long-term loans from the West, which helped to fuel Russian companies' expansion inside as well as outside the country. Sanctions, together with the diminishing price of crude oil on the global market, are predicted to produce a further decrease in foreign investments and capital outflow (in 2014 more than \$100 billion compared to \$63 billion in 2013) annihilating any prospects for a resurgence of economic growth in Russia. This lack of easy and long-term money is likely to create problems

for Russian business elites and the Kremlin's inner circle. To hamper economic slowdown and redress the situation of Russian big business, the Kremlin will have to unseal its two sovereign funds and probably raise or introduce new taxes. The latter may prove unpopular and raise a spectrum of social tensions fuelled by the declining level of the population's revenues and purchasing power. Therefore, Western countries should not hurry to cancel sanctions, as it is the only way to influence Kremlin policy towards Ukraine in the short- and mid-term, and to force it to respect Ukraine's integrity and sovereignty.



INTRODUCTION



In 2014, relations between Russia and the West hit their lowest point since the end of the Cold War. Few would imagine that the same post-Soviet Russia that announced in the early 1990s a course towards democratic reforms and integration with the West would end up living under U.S. and EU economic sanctions in 2014, exactly as the Soviet Union did after the invasion of Afghanistan in 1979. At the time of writing this book, a fragile ceasefire is in place, while pro-Russian paramilitary forces, with the support of Russian regular armed forces, are probing Ukrainian defences in eastern Ukraine. Thus, there are strong motives to maintain sectoral sanctions imposed by the U.S. and EU in the short- to mid-term. Moreover, the probability of fresh sanctions will increase if fighting resumes or Russia makes undercover moves to destabilise other regions of Ukraine. The subject of sanctions will not go away soon, as relations between Russia and the West have no chance to return to business as usual. Sanctions will be an important element in defining relations between Russia and the West.

So far there are no books summarising all Western sanctions imposed on Russia in 2014, together with a clear assessment of their impact. Questions about the Kremlin's anti-sanctions policy, the loyalty of the Russian business elite and social acceptance of the Kremlin's policy seem to be crucial in this regard. This book proposes to look first at mechanisms of U.S. and EU sanc-

tions against Russia and to explain how sanctions work. Then it examines the impact of sanctions on Russia in several areas: economy, society, regions, bureaucracy, oligarchs, military and foreign policy.

The assessment of the sanctions' effects is a preliminary one. The longer sanctions are in place, the deeper the effect will be on Russia. The Russian government's economic decisions might even amplify the negative repercussions of sanctions for Russia. Therefore, far from being comprehensive, such an evaluative exercise might be repeated after some time to obtain a more thorough and updated snapshot of the situation in Russia. Alternatively, a new wave of sanctions might necessitate a reassessment of the restrictive measures' impact on Russia, and probably new projections for the future.

MECHANISM OF SANCTIONS





GENERAL OVERVIEW



International order is often characterised as lacking the enforcement measures for ensuring that its rules are complied with and followed. The responsibility for fulfilling the rules rests generally with states that may, individually or collectively, react to a violation of international order by imposing sanctions. The general objective of these measures is to bring back the state of legality or to preserve or re-establish the state of peace and security. Sanctions, however, are predominantly an important policy tool. Bearing coercive and afflictive features, sanctions aim to prevent, deter or limit opportunities for possible undesirable behaviour. They aim to increase costs for the targeted entity and, consequently, to incentivise a change of policy or behaviour. On the other hand, sanctions offer a relatively safe avenue to demonstrate disapproval for certain actions while carrying relatively small political and economic costs.

Understood most broadly, sanctions can be described as mechanisms enforcing compliance with international rules comprised of a wide category of consequences, ranging from unstructured social reactions—including pressure of public opinion or “naming and shaming” policies, to organised consequences taking effect in the form of non-coercive or coercive measures, which might also involve the use of force. There are many classifications of sanctions, and some distinguish among diplomatic, military, economic sanctions, sport sanctions, as well as sanctions targeted against individuals.

A strict understanding of the term “sanctions” tends to limit it to measures imposed by the UN Security Council.¹ Chapter VII of the UN Charter gives the Security Council (SC) the power to determine the existence of any threat to peace, breach of peace, or act of aggression and to make recommendations or decide on measures to be taken to maintain or restore international peace and security (Article 39 of the UN Charter). It is up to the SC to define what constitutes a threat to or breaches of peace.² However, its ability to take measures under Chapter VII suffers from inherently political constraints—a lack of a majority in the Council or unanimity among the P5.

The Charter provides for two categories of enforcement measures: sanctions under Article 41, which often coexist with similar measures taken by states or other international organisations, and measures under Article 42, which give the Security Council the power to use coercive military force. This report focuses on the first group: measures that are aimed at changing undesired behaviour or policies leading to or violating international law, human rights and the principle of the rule of law.

States and international organisations also impose sanctions independently of the UN Security Council. Primarily, an injured or threatened state or organisation can take individual measures (self-help) in response to illegal acts, or those that would otherwise be contrary to international law.³ There is also an increasing practice of states and international organisations imposing, independently of the UN Security Council, measures against serious violations of international obligations in the absence of a direct injury suffered by the imposing state.⁴

¹ Draft articles on Responsibility of States for Internationally Wrongful Acts, with commentaries, *Yearbook of the International Law Commission*, 2001, vol. II, Part Two, p. 75.

² So far the Council has adopted sanctions in situations of inter-state conflicts (see UNSC Res 82, 83, 84 (1950) concerning Korea, resolutions 502(1982) concerning Falkland Islands, and Res 660(1990) in relation to Iraq–Kuwait War), internal conflicts (for instance resolutions concerning the situation in Somalia, Sudan, Ivory Coast and Mali), breach of democracy and constitutional order and human rights or humanitarian law violations (Resolution 1970(2011) concerning Libya), terrorism, piracy and the proliferation of nuclear, chemical and biological weapons.

³ Draft articles on Responsibility of States for Internationally Wrongful Acts, with commentaries, *Yearbook... op. cit.*, p. 75.

⁴ *Max Planck Encyclopedia of Public International Law: Sanctions*, <http://opil.ouplaw.com/home/EPIL>; Draft articles on Responsibility of States for Internationally Wrongful Acts, with commentaries, *Yearbook... op. cit.*, pp. 137–139.

The so-called “autonomous sanctions” can be imposed by individual states or international organisations against another state or organisation, regardless of the measures adopted by the UN Security Council resolution. Such autonomous measures may complement those mandated by the UN, or be taken independently of the Council, including in instances when the Council is incapable of imposing sanctions due to lack of unanimity, as it was in the case of sanctions imposed by the EU, the U.S. and Australia against Myanmar, Syria and, recently, Russia.

From Global to Targeted and Smart

Following the Cold War, sanctions have become a common policy tool. UN practice was to impose wide-ranging enforcement measures, imposing, among others, comprehensive economic and trade sanctions, arms embargos, travel bans, financial or diplomatic restrictions, or communication interruptions.⁵ Comprehensive sanctions of that sort were imposed against Iraq (subsequent to its invasion of Kuwait, as well as in response to the country’s programmes concerning the development of weapons of mass destruction), against former Yugoslavia, and against Haiti. In time, such global measures were criticised as ineffective, while harming the populations of the targeted countries and negatively affecting the economy of developing countries.⁶ This was the case of sanctions imposed against Haiti by the OAS in 1991 and the UN in 1993. This criticism was one of the factors that led to the development of the so-called smart sanctions aimed at targeting specific players and providing for humanitarian exceptions.⁷ This refining process can be also linked with the increasing role of individual

⁵ K.A. Annan, “We the Peoples, the Role of the United Nations in the 21st Century,” United Nations, New York, 2000, pp. 49–50, available at www.un.org/en/events/pastevents/pdfs/We_The_Peoples.pdf.

⁶ S/1995/300, 13 April 1995: The five permanent members emphasise the importance of the peaceful settlement of international disputes in accordance with the Charter of the United Nations. While recognising the need to maintain the effectiveness of sanctions imposed in accordance with the Charter, further collective actions in the Security Council within the context of any future sanctions regime should be directed at minimising unintended adverse side effects of sanctions on the most vulnerable segments of targeted countries. The structure and implementation of future sanctions regimes may vary according to the resource base of the targeted country. See also the Council of the European Union, *Basic Principles on the Use of Restrictive Measures (sanctions)*, 10198/1/04 Rev 1, Brussels, 7 June 2004, para. 6.

⁷ K.A. Annan, *op. cit.*, pp. 49–50.

rights in international order and the broadening scope of interests protected by the Security Council enforcement measures, going beyond resolving interstate conflicts. Likewise, the category of entities that are targeted by sanctions has gone beyond the traditional state target to include individuals and private entities. This concept is reflected in the listing system, first developed against those who were members of governments or political factions, and then further in sanctions regimes established by anti-terrorist resolutions.

The scope of sanctions imposed in a situation depends on the given situation and on the targeted country or entity. These may include the following spectrum of measures: freezing the assets of certain people or companies, restrictions on loans and credit for certain people or companies, blocking financial transactions of political elites or entities responsible for triggering sanction mechanisms, travel or visa bans, arms embargoes or embargoes on specific commodities of key relevance for ongoing conflicts (for example the Kimberley Process), embargoes on the import and/or export of certain goods or technologies, or restrictions on the provision or export of services.

Ambiguous Efficacy

The more universal the sanctions are, the greater impact they may have. However, it is crucial to ensure the efficacy of sanctions regimes through their implementation, enforcement and monitoring. Flexibility is also particularly relevant, as it allows states to react responsively to the targeted entity's behaviour—to extend and strengthen or to suspend or lift sanctions.

Implementation entails a multilevel process. The UN sanction regimes often involve establishment of Sanctions Committees subsidiary to the Security Council. Currently, there are 15 Sanctions Committees in charge of supervising states' compliance with sanctions, examining requests from states affected by sanctions, granting derogations, establishing target lists, revising the latter and delisting. Because Sanctions Committees are political bodies, the supervision of their quasi-judicial activities is extremely important, especially given the risks of abuse in relation to sanctions targeting individuals. Therefore, the Security Council established a focal point dedicated specifically to receiving and verifying delisting requests (UN SC Resolution 1730(2006)), as well as the

Office of the Ombudsman, which is responsible for delisting requests regarding Al-Qaida Sanctions Committee lists.

The effectiveness of any sanctions regime, be it imposed under the UN umbrella or independently, rests on national measures of implementation and compliance monitoring. It is also predominantly at the national level that potential evasion of sanctions regimes can be most effectively dealt with, by imposing penalties for non-compliance. Therefore, it is crucial to ensure that the interests of states that are to be affected substantially by imposing sanctions are taken into consideration, thus minimising the risk of evading sanctions. The EU sanctions adopted against Iran in 2012 envisaged such a policy by introducing a gradual implementation timeline for the more restrictive measures, so that countries dependent on Iranian oil were given extra time to find alternative sources.⁸

Measuring the effectiveness and profitability of sanctions regimes requires a complex process of balancing economic and political costs and benefits. Sanctions against Iran are said to have led the state authorities to the negotiation table in 2012, and it is argued that sanctions against the military junta in Burma/Myanmar assisted in the change of regime. In these instances, however, sanctions have also destabilised and weakened the economy, trade and business, and the civilian society of the targeted states, while being one among many factors that contributed to the change in policy or regime.⁹ Sanctions may, on the one hand, serve to improve compliance with international rules. On the other hand, however, as a relatively easy and speedy solution, imposing sanctions creates space for countries in a stronger political position to exert pressure using their “law enforcement authority” competence, and does so in a way that does not always lead to constructive changes or is not fully in accord with international law.

⁸ D. Esfandiary, *Assessing the European Union's Sanctions Policy: Iran as a Case Study*, EU Non-Proliferation Consortium, Non Proliferation Papers No. 34, December 2013, p. 7.

⁹ K. Gebert, *Shooting in the Dark? EU Sanctions Policies*, European Council on Foreign Relations, January 2013, pp. 4–5.



U.S. SANCTIONS ON RUSSIA



Goal and Scope of Announced U.S. Sanctions

The sanctions imposed by the U.S. on entities in Russia can be divided into two types: the freezing of assets and the restriction of entry into the U.S., as well as sectoral limitations.¹⁰ These sanctions are targeted at Russian president Vladimir Putin's closest circle and officials involved in implementation of policy towards Ukraine (64 people, institutions and companies), and the list might be expanded in future. Apart from Kremlin decision-makers and advisors, sanctions are targeted at entities in Russia's financial, energy and defence industry sectors, which in the American assessment were engaged in military and economic aggression against Ukraine.¹¹ Beside the announced sanctions, there is also a reduced level of bilateral consultations and talks, including those concerning economic cooperation and investments.¹²

¹⁰ Sanctions were published in the U.S. President's Executive Orders (EO) EO 13660, EO 13661 and EO 13662, available at: www.treasury.gov/resource-center/sanctions/programs/documents/ukraine_eo2.pdf, www.treasury.gov/resource-center/sanctions/Programs/Documents/ukraine_eo3.pdf.

¹¹ See details in Annexes 1–4 to PISM's report and files with orders and explanations on the U.S. Department of Treasury website: www.treasury.gov/resource-center/sanctions/programs/pages/ukraine.aspx.

¹² Defined as resignation from bi-annual or quarterly meetings on the level of deputy ministers and deputy secretaries for finance, energy and commerce. See also: W. Muldin, "U.S. Suspends Trade and Investment Talks with Russia," *The Wall Street Journal*, 3 March 2014.

Sanctions of the first type involved people and the economic and non-recognised institutions created in Crimea and eastern Ukraine.¹³ These restrictions apply not only to the people mentioned on the list, but also anyone who in any way may allow, mediate or represent the person subject to sanctions. For corporations and non-recognised institutions, restrictions include a ban on contact, asset freezing, and restricted entry into the U.S. for members and employees of these entities.

Sanctions of the second type (sectoral) are evolving constantly. Financial sanctions include, for example, two thresholds of allowable debt: banks cannot make commitments for a period longer than 30 days, while companies in the energy industry have the opportunity to hold debts for a period not longer than 90 days (except ROSTEC). In the case of military and dual-use technology, the United States maintained the current licensing system to prevent trade. This system allows anyone to submit an application for a licence, but there is no guarantee that it will be accepted. In the case of dual-use technology, there is a published list of entities that can expect a negative decision. Sanctions on technology regarding deep exploration of oil and gas include a list of entities and goods that cannot be exported to Russia. The ban includes the provision of services, but not financial services related to oil and gas extraction, mining rights trading, and the provision of vehicles that could potentially be used to this end.

The mechanism of economic sanctions involves the application of different restrictions for different entities. Banks and companies are restricted regarding indebtedness, but not limited in other activities, unless the entity is listed in Annex 2. Restrictions on deep-sea oil extraction do not restrict ownership rights for the exploitation of mineral resources.

Debates about the Rationale of U.S. Sanctions

Decisions about sanctions were preceded by long and intensive internal discussions within Obama's administration on possible reactions to the escalation of the Ukrainian–Russian crisis. There were alleged differences of opinions

¹³ See Annex 1 (sections 1–3) and Annex 2.

in various parts of the administration on the general direction of U.S. policy as well as the scope of planned sanctions.¹⁴

Obama's next steps were accompanied by attempts by the U.S.–Russia Business Council (USRBC) to influence American public opinion, the administration and Congress, including advertisements stressing the harmfulness of sanctions for business in both countries.¹⁵ These attempts were ineffective due to the limited scale of bilateral trade exchange between the U.S. and Russia. Unlike European countries, Russia has a relatively small share in U.S. foreign trade: in 2013 it accounted for 0.71% of American exports and 1.19% of imports. Equally low are American investments in Russia, estimated in 2012 at \$2.9 billion, or 0.5% of all foreign investments. In 2013, the American market had a 2.7% share in Russian exports, and American commodities accounted for 5.6% of Russian imports.¹⁶

Approved sanctions should not be seen as a substitute for the American strategy towards Russia, which over time might be adapted and the subject of further and deeper changes. In parallel to the prepared sanctions, Washington increased its humanitarian and economic assistance to Ukraine, as well as announcing a package of actions within NATO, and increased military assistance to the countries of Central and Eastern Europe.¹⁷ Moreover, it should be noted that the U.S. is still a pillar of the global economy and financial system, and it also has ambitions to transform the global energy market through the so-called “shale revolution.” In this context, current approved sanctions might be seen as a threat to a much wider range of American options in financial and energy markets.¹⁸

¹⁴ Compare: J. Salomon, C.E. Lee, “Reset Rebuff: How Putin Parried Obama’s Overtures,” *The Wall Street Journal*, 19 March 2014, and P. Baker, C.J. Chivers, “A White House Split over Russia,” *The New York Times*, 28 April 2014.

¹⁵ A campaign of paid advertisements was filmed formally by USRBC, but this organisation is frequently and closely in cooperation with the Embassy of Russia and other Russian diplomatic missions within the United States. The Council is associated with more than 230 companies and organisations from the U.S. and Russia. See full list of members: “USRBC: Our Membership,” <https://www.usrbc.org/membership/ourmembership>. See also H. Schneider, H. Yeager, “As talk of Russia sanctions heats up, business draws a cautionary line,” *The Washington Post*, 7 March 2014, and W. Mauldin, “U.S. Business Leaders Alarmed about Russia Sanctions,” *The Wall Street Journal*, 20 March 2014.

¹⁶ According to: R.M. Nelson, “U.S.–Russia Economic Relations,” *CRS Insights*, 1 August 2014, <http://fas.org/sgp/crs/row/IN10119.pdf>.

¹⁷ See more: W. Lorenz, M.A. Piotrowski, “Obama’s Call to Congress May Spur Better Defence of Poland and the Region,” *PISM Bulletin*, no. 80 (675), 6 June 2014.

Previous Experience with Sanctions

Obama's sanctions on Russia and Congressional activity towards the Russian–Ukrainian crisis should also be analysed in the context of Washington's previous experiences with this tool of foreign policy. American experts present varying opinions on the effectiveness of unilateral and multilateral sanctions.¹⁹ However, experts agree that the sanctions introduced by the U.S. express long-term interests and goals, but are frequently the result of current policy and short-term calculations. As happened previously in Iran, it is possible that sanctions will change depending on priorities of the current U.S. administration and the alignment of votes in both chambers of Congress, particularly given the mid-term elections.²⁰ Successive U.S. administrations and Congress are rather consistent, and use tools of economic pressure targeted at governments or non-state players regularly. Sanctions target countries or groups engaging in anti-American policies, programmes that further proliferation of weapons of mass destruction, and groups supporting terrorism and violating human rights (among the best known examples are the DPRK and Iran).²¹

A common feature of almost all sanctions introduced by the U.S. administration and Congress is extraterritoriality of American law abroad. This is a case of existing and still expanding economic sanctions foreseen in plenty of presidential orders and Congressional law targeted at the governments of

¹⁸ In last few months, the American president and his many high-level officials have frequently stressed that Washington is not interested in a renewal of the Cold War with Moscow. The U.S. has many hypothetical options of "economic warfare" with Russia, through destabilisation of the Russian ruble on financial markets, withdrawal from restrictions on American LNG export and persuading Saudi Arabia to increase oil exports.

¹⁹ Compare: R.N. Haas, M. O'Sullivan, *Honey and Vinegar: Incentives, Sanctions, and Foreign Policy*, Brookings Institution Press, Washington DC, 2000; G.C. Hufbauer, J.J. Schott, K.A. Elliott, B. Oegg, "Economic Sanctions Reconsidered," Peterson Institute for International Economics, Washington DC, 2009, and J. Zarate, *Treasury's War: The Unleashing of a New Era of Financial Warfare*, Public Affairs, New York, 2013.

²⁰ For different reasons in the 1980s, the U.S. worked on containment of the Iranian "revolution export" in the Middle East and, again for different reasons and with a different scope, sanctions against Iran were introduced after the 2002 disclosure of the country's secret nuclear programme.

²¹ See comprehensive documentation and analysis of the U.S. sanctions towards Iran in: K. Katzman, *Iran Sanctions*, Congressional Research Service Report, Washington DC, version as of 26 June 2014, <http://fas.org/sgp/crs/mideast/RS20871.pdf>.

Cuba, DPRK, Iran and Syria. In contrast, the last decades' examples of gradual (sometimes fast) dismantling of U.S. sanctions could be seen in South Africa, Nicaragua, India and Pakistan, Serbia, Iraq, and Libya. Another category is the permanently changing list of entities from Russia and China financially sanctioned by the U.S. due to their suspected transfers of dual-use technologies and equipment to many of above-mentioned countries of concern.²²

The Role of Congress

The U.S. sanctions cannot be separated from the constitutional arrangements and dynamics of internal politics. Despite the personal initiatives of the president, the executive office might be obliged to take certain actions and is sometimes significantly curbed by existing Congressional laws. The special International Emergency Economic Powers Act (IEEPA) of 1977 authorises the president to undertake extraordinary financial and commercial sanctions but, on the other hand, obliges the administration to report regularly to Congress and consult it on details.²³ Depending on the current balance between the administration and Congress, there are different models for full or partial coordination of U.S. foreign policy, as well as weaker or stronger disagreement between the White House and Congress. The president, as head of the executive branch, might identify and implement priorities, but Congress, as the legislative branch, will determine the budgets of respective departments and agencies. Clearly, considerable roles in Congressional work are played by different organised groups of interests and lobbies. This can be seen frequently in American foreign policy, for instance during the ratification of international agreements, approval of economic sanctions or assistance, and with nomina-

²² For instance, since 1991 executive orders were targeting several dozen entities and people from China engaged in the proliferation of nuclear and missile technologies to the DPRK, Pakistan, Iran and Syria. Similar and closely inter-related were sanctions against some individual entities and people from Russia, also in the 1990s.

²³ Aside from IEEPA law, additional obligations of administrations are foreseen in the USA Patriot Act of 2001. Also, the majority of U.S. Congressional acts with sanctions against Iran and Syria introduced detailed obligations for the Federal Administration of the United States. See full texts of IEEPA and the Patriot Act, available at: www.treasury.gov/resource-center/sanctions/Documents/ieepa.pdf and www.gpo.gov/fdsys/pkg/BILLS-107hr3162enr/pdf/BILLS-107hr3162enr.pdf.

tions for U.S. ambassadors.²⁴ Furthermore, these lobbies have an effective influence on state governments, which can translate into the above-mentioned national influence.²⁵

Current debates within U.S. Congress have been unfavourable to Russia because they united both parties in opposition to Kremlin policy. Despite a split Congress, with a Republican majority in the House of Representatives and a Democratic majority in the Senate—the sanctions have been a bipartisan effort, and both chambers of Congress have strongly supported Obama’s decisions regarding the Russian–Ukrainian conflict. Evidence of this is the fact that both the House of Representatives and the Senate jointly approved, on 3 of April 2014, a law supporting the American administration and the government of Ukraine in countering Russia. The new law is called Support for the Sovereignty, Integrity, Democracy, and Economic Stability of Ukraine Act of 2014 and provides the State Department prerogatives to refuse visas to Russian officials.²⁶ Moreover, this law does not exhaust possible actions by Congress, which are initiated or might be voted on in the next few months. Among the actions already proposed against Russia are: its exclusion from the G-8 and the WTO; a ban on assistance by federal institutions to small and medium American business in Russia (via guarantees and loans of Eximbank Overseas Private Investment Corporation); a complete break in cooperation between NASA and the Russian Federal Space Agency; stopping Russian supplies of weapons and equipment to the Afghan National Security Forces; widening of visa and financial sanctions for all officials of the Russian state as well as representatives of the Donetsk People’s Republic (as a foreign terrorist organisation); and boycotting the FIFA World Cup in 2018.²⁷

²⁴ Most influential are perceived to be pro-Israel, pro-Saudi and pro-Taiwan groups, and Cuban and Armenian diaspora. Congressional staffers and experts of the CRS also indicate growing influence of the pro-India lobby. Additionally, there is disintegration and declining influence in Washington by the Central and Eastern European diaspora. Observations by the author, staying in the U.S. during 2005–2011.

²⁵ For instance, between 2007 and 2013, governments and congresses of 26 states approved their own laws and orders foreseeing penalties for companies and their partners that conducted business with Iran and Sudan.

²⁶ This Act is focused on American loans and other economic assistance to Ukraine, see full text available at: www.gpo.gov/fdsys/pkg/BILLS-113hr4152enr/pdf/BILLS-113hr4152enr.pdf.

²⁷ According to: D.E. Rennack, “Russia Sanctions: Options,” *CRS Insights*, 28 July 2014, <http://fas.org/sgp/crs/row/IN10117.pdf>.

Institutions Responsible for Sanctions

The effectiveness of U.S. sanctions towards Russia depends on actions by relevant federal departments and agencies. The majority of them might be seen as economic or financial intelligence. The Department of the Treasury leads in planning, monitoring and implementing U.S. sanctions. The Treasury, in coordination with the Department of Justice and the State Department, cooperate against sanctioned people or entities. The Department of the Treasury is also responsible for preparation of drafts and changes in presidential executive orders as well for contacts with foreign governments and financial institutions. Within this department, the special Office of Foreign Assets Control (OFAC) analyses available bank and financial information jointly with other bureaus to estimate the situation of sanctioned entities. So far, OFAC has been responsible for investigating and monitoring more than 6,000 sanctioned entities, which led to the bureau of the Treasury being labelled Obama's "favourite war-cabinet."²⁸ OFAC's regulations are applicable to all U.S. citizens, as well all people, companies and subsidiaries of entities with a presence on American territory. According to instructions by OFAC, all U.S. banking regulators are obliged to help the Treasury in investigations of people or entities violating sanctions. Obviously, without this kind of cooperation it would be hard to block prohibited transactions; therefore, such regulators could be severely punished for lack of assistance to the U.S. Federal Government.²⁹

²⁸ See: A. Lowrey, "Aiming Financial Weapons from Treasury War Room," *The New York Times*, 3 June 2014.

²⁹ OFAC might request American courts to penalise violations of sanctions. These penalties might be on the multiplied level of banned transactions. In the case of Iran, in 2009–2012, OFAC supported the U.S. Federal Prosecutor before courts in a few cases against European and Swiss banks, fined almost \$3.8 bln. During investigations and conclusions of lawsuits, some of these banks were very helpful in broadening other "Iranian investigations."

Table 1. Branches of the U.S. intelligence community operating in the area of finances

FEDERAL AGENCIES			FEDERAL DEPARTMENTS		
Central Intelligence Agency	National Security Agency	Federal Bureau of Investigation	TREASURY DEPARTMENT	STATE DEPARTMENT	DEPARTMENT OF ENERGY
			Office of Foreign Assets Control	Bureau for Intelligence and Research	Bureau of Intelligence and Counterintelligence
			Office of Terrorist Financing and Financial Crimes		
			Financial Crimes Enforcement Network		
			Office of Intelligence and Analysis		

Source: PISM.

In the case of U.S. sanctions targeting the Russian energy sector, their implementation will also be supported by the Department of Energy. Taking into account the already announced sanctions and the leading role of American technologies and companies in the global energy sector, long-term freezing or cancellation of joint Russian–American projects in this area is highly probable, with gradual influence on Russia’s other current or potential partners.³⁰

³⁰ In the context of announced sanctions, ExxonMobil cannot use loans guaranteed by the U.S. government and by American banks for joint projects with Rosneft. CEOs of both companies are still hoping for transfer of technologies necessary for Arctic oil exploration, but it is more probable that further oil drills, and indeed the whole project, will be put on hold. See: “Arctic chill: Sanctions will thwart Rosneft’s ambitions,” *The Economist*, 2 August 2014. It is worth remembering that in 1996 U.S. Congress approved the Iran-Libya Sanctions Act (ILSA) with a ban on even limited project of American oil companies in Iran that were advanced in initial negotiations. During the next decade, ILSA also influenced calculations of other potential investors, concerned about their interests with or in the U.S.

The Department of State is responsible for visa sanctions and also plays a minor role in the investment, commercial and energy sanctions. It supervises U.S. diplomatic missions, which are essential for monitoring any violation of law by sanctioned entities and their partners in a country of accreditation. Diplomatic missions are also necessary in cooperation with foreign governments and the banking system in a particular country. During the last two decades, U.S. administrations firstly and regularly requested assistance from their closest allies and partners. This cooperation and coordination was mainly with the EU, Canada, Japan, Australia and the Republic of Korea. In the case of military and dual-use technologies, Israel is no less important a partner of Washington.³¹ In the near future, close coordination of G7 actions by the U.S. should be expected, although it might be impossible to use the tools of the Financial Action Task Force (FATF) against Russia, which proved so reliable against terrorism after 2001.³²

The Broader Impact of the U.S. Sanctions against Russia

Despite global interests in Russian–American relations, Obama’s administration decided on far-reaching economic sanctions against the Kremlin. The announced sanctions should not be seen only through measurable financial costs, which are stressed by Moscow and American companies active on the Russian market. Equally important is the indirect influence of sanctions on Russia and its situation with respect to other countries and economic partners. Washington is using sanctions to complement its broader pressure on Russia while pursuing a strategy of assistance to Ukraine and allies on NATO’s eastern flank. These sanctions are responses to Kremlin policy, so in the absence of desired changes, they might be extended in scope, duration and severity.

In the past, many cases of U.S. sanctions were seen as more desirable than military pressure. Previous experiences also show that the effectiveness of

³¹ The reasons are, on the one hand, signed contracts for the transfer of these technologies from Israel to Russia, and on the other, the high dependency of the Israeli defence sector on American assistance and technologies. See also: A. Egozi, “Israel Blocks Further UAS Sales to Russia,” *Flight International*, 4 August 2014.

³² G. Dyer, “U.S. Deploys ‘Guerrillas in Grey Suits’ to Show Power of Sanctions,” *Financial Times*, 21 March 2014.

American sanctions depends on their duration. Sanctions were always more successful when synchronised with actions and assistance from close allies in the G-7, the EU and Asia. In the past, the extraterritoriality of Congressional laws complicated U.S. cooperation with some foreign governments, banks and other entities. The most successful sanctions were those coordinated with the support of the United Nations Security Council. Because Russia has a veto, it makes no sense to even consider the role of the UN in this area; Washington will be forced to use more extensive help from the G-7 and the EU. It should also be noted that progress and improvements by the Department of the Treasury and U.S. administration are tools and channels of monitoring sanctions on the global scale, which are supported by the American banking system. Contrary to disputes about sanctions on Iran, there is no disagreement between the White House and Congress to complicate American diplomacy towards Russia.



EU SANCTIONS ON RUSSIA



Goal and Scope of Announced EU Sanctions

EU restrictive measures against the Russian Federation include graduated sanctions, with subjective expansion (regarding restrictions on natural and legal persons) and objective expansion (restrictions in various areas of cooperation). The EU uses a progressive approach towards sanctions against Russia, moving from restrictive impact (both visa bans and asset freezing) to a relatively limited circle of individuals and legal entities, to impose restrictions on specific areas of EU–Russia economic cooperation, including specific Russian or Russian-controlled operators belonging to Russia or controlled by it (for example, in Crimea and east Ukraine). At the same time, more entities were added to the list of people subject to sanctions imposed in the first phase. In practice, this resulted in the prohibition of entry into the EU, or the freezing of financial assets of legal entities, which seriously limit Russian access to the European market.³³

The financial penalties tightened in September 2014 include two ranges: for transactions made between 1 August and 12 September, the time to debt maturity may not exceed 90 days, while for transactions entered into after

³³ See Annexes 1 and 2.

September 12, the time to debt maturity may not exceed 30 days. Restrictions have been applied to banks, enterprises and all subsidiaries of such companies established in the EU, as well as entities acting on their behalf. In turn, military sanctions consist of a total ban on arms exports to Russia, but they apply only to contracts concluded before 1 August 2014. Sanctions are also applied to Russian companies that may neither buy dual-use technology nor technology for deep-sea oil recovery in the EU. Prohibition further applies to any technical assistance, support services or placement. In the case of dual-use technologies, a specific solution was introduced: in August, the export of such goods to Russia was banned, while in September, an additional list of Russian entities subject to the same restrictions (some being subject to repeat bans) was prepared. Simultaneously, exceptions were introduced for aeronautics and the space industry, and for the provision of related technical or financial assistance for non-military use and for non-military end-users, as well as to ensure the maintenance and safety of existing nuclear capability for civilian use within the EU.

Discussion about the Rationale of EU Sanctions

EU sanctions against Russia have been gradually adopted depending on the intensification of the Ukrainian–Russian conflict. The EU decided to introduce visa sanctions and freeze the financial assets of concrete individuals in relation to the annexation of Crimea by Russia in March 2014 in order to signal its disagreement. A few days earlier, it also suspended negotiations on visa facilitation and a new agreement on cooperation as well as its participation in the G8 summit in Sochi (the G7 Summit was held without Russia’s presence in Brussels). Then the list of persons and legal entities subjected to such sanctions was expanded, and diplomatic restrictions were further developed (e.g., the EU suspended certain financial programmes and funding from the European Investment Bank) as a result of the Russian military involvement in Donbas and the failure of successive negotiations to resolve the conflict. Such actions have not posed major controversies among Member States due to its symbolic meaning. Simply, they have not resulted in significant economic consequences. However, from the early stage of the crisis, the EU discussed the

introduction of financial and economic sanctions. Member States could not reach a compromise on this issue for several months (from March to August 2014) because of their different economic interests. The turning point was direct and escalating military engagement of Russia in eastern Ukraine, together with the shooting down of the Malaysian plane in July: it catalysed the adoption of economic sanctions in the same month. They were tightened in September due to further escalation of the conflict.

The lengthy debate between Member States is understandable. The adoption of sanctions in the areas of trade, energy or military impacted the interests of the majority of these states, and therefore a compromise was difficult to reach. The discussion centred around the question of how to secure the sovereignty of Ukraine and at the same time maintain good relations with Russia as a trading partner (taking into account that Russia was the third EU trade partner after the U.S. and China in 2013, including supplying about one-third of consumed gas).³⁴

Despite major trade and energy connections, Poland, Romania and the Baltic States recognised the Ukrainian crisis as a significant threat to the security system and called for the introduction of economic sanctions. The Nordic countries such as Sweden, Denmark and (occasionally) Finland rather supported the Polish position. Nevertheless, the coalition of sanction opponents was more numerous. The majority of Central-Eastern and South-Eastern European countries (i.e., Bulgaria, Hungary, the Czech Republic, Slovakia, Austria, Croatia, Slovenia) were against restrictions due to strong trade and energy ties (including involvement of some of them in the South Stream project). The opposition strengthened as a result of Russia's embargo on certain EU agricultural products introduced in August in response to EU sanctions—countries feared the escalation of trade war with Moscow. The other Member States had various reasons to remain skeptical about the sanctions. For instance, Cyprus and Luxembourg feared the outflow of Russian capital and the southern countries (i.e., Portugal, Spain, Italy, Malta and Greece) probably did not perceive the Ukrainian crisis as a sufficient security threat in order to downgrade their relations with Russia.

³⁴ European Commission, *European Union, Trade in goods with Russia*, http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113440.pdf.

At the end of a day, the positions of main players within the EU, namely Germany, France and the United Kingdom, had the greatest impact on shaping the sanctions' substance. These countries tried to flip the burden of sanctions among themselves. The UK and Germany wanted to pressure France to agree on the arms embargo and cancel the delivery of Mistral warships to Russia. In response, France favoured financial (impacting the City of London) and energy sanctions (France imports less gas from Russia, while it is a key supplier for Germany). The negotiations also were fuelled by the lobbying of business circles against introduction of sanctions, namely German and French ones at the forefront.³⁵ Such differences between the positions of the main players explain the selectivity of economic sanctions imposed by the EU. For instance, the restrictions in the energy sector were limited to some technologies, and individual companies and the ban of military contracts has touched the agreements concluded only after 1 August 2014.

Previous Experience with Sanctions

The use of restrictive measures to date indicates that the EU typically decides on sanctions in the forms of personal travel and visa bans, asset freezing, or an arms embargo. Out of 28 countries currently covered by the restrictions, in 20 cases an arms embargo was adopted, whereas in 23 cases travel bans and bank account freezing were used.³⁶ However, such steps have limited potential to influence the political situation in a given country. A state targeted by arms embargo can easily redirect its arms trade from European supply, as happened in the case of sanctions against Myanmar between 1990 and 2013 (this year, the EU sanctions were lifted except for the arms embargo). Moreover, visa and travel bans to the EU are largely symbolic measures, while the financial resources party to asset freezes can be transferred to other countries, as in the

³⁵ M. Karnitschnig, "German Businesses Urge Halt on Sanctions against Russia," *The Wall Street Journal*, 1 May 2014, <http://online.wsj.com/news/articles/SB10001424052702303948104579535983960826054>; R. Sanderson, C. Oliver, "Italy Accused of Blocking Tougher Sanctions on Russia," *Financial Times*, 13 July 2014, www.ft.com/intl/cms/s/0/ad743cae-0a8a-11e4-be06-00144feabdc0.html#axzz3CCVO7xbG; "9 EU countries ready to block economic sanctions against Russia," *Russia Today*, 15 July 2014, <http://rt.com/business/172888-9-eu-block-sanctions-russia>.

³⁶ See the list of sanctions in force from 26 May 2014 at http://eeas.europa.eu/cfsp/sanctions/docs/measures_en.pdf.

case of Zimbabwean political elites between 2002 and 2013.³⁷ As the EU frequently relies on rather ineffective sanctions, the result is a lowered credibility and diminished standing on the international stage.

The potential impact of economic sanctions and restrictions on financial transactions is much greater, although in each individual case the EU has various possibilities to use its influence. When such sanctions were used against Iran in 2012, they forced the state to enter into negotiations on its nuclear programme, but the success was due, among other things, to the fact that the restrictions were global and coordinated with the United States and the United Nations.

The Mechanism of EU Sanctions Imposed on Russia

According to the Treaty of Maastricht, modified by a number of EU documents,³⁸ the EU may, with the prior agreement of all Member States, impose the following restrictions against third countries: visa or travel bans to the EU; arms embargo; financial sanctions such as asset freezing and restrictions on financial transactions by specific entities; and economic sanctions in the form of a trade ban on concrete goods and limits on investment in certain areas, for example in technologies. The first two types of sanctions only require a European Council decision, while the financial and economic restrictions are adopted through the use of a regulation, the proposal for which is prepared by the European Commission and the High Representative of the Union for Foreign Affairs and Security Policy.³⁹ In addition to formal sanctions, the EU can also opt for a number of informal restrictive measures, and the catalogue of such actions remains open. For instance, the EU may decide to

³⁷ C. Portela, "The EU's Use of 'Targeted' Sanctions: Evaluating Effectiveness," CEPS, March 2014, p. 17.

³⁸ The EU guidelines about the use of sanctions were detailed in the following documents: "Basic Principles on the Use of Restrictive Measures (Sanctions)," <http://register.consilium.europa.eu/doc/srv?l=EN&f=ST%2010198%202004%20REV%201>, "Guidelines on Implementation and Evaluation of Restrictive Measures (Sanctions) in the framework of the EU Common Foreign and Security Policy," <http://register.consilium.europa.eu/doc/srv?l=EN&f=ST%2015114%202005%20INIT>, and "EU Best Practices for the Effective Implementation of Restrictive Measures," <http://register.consilium.europa.eu/doc/srv?l=EN&f=ST%2011679%202007%20INIT>.

³⁹ "EU Restrictive Measures. Factsheet," Brussels, 29 April 2014, www.consilium.europa.eu/uedocs/cms_Data/docs/pressdata/EN/foraff/135804.pdf.

stop its financial assistance, limit lending provided by the International Financial Institutions, or suspend bilateral summits or negotiations on bilateral agreements. From the EU perspective, the purpose of sanctions is to change the behaviour of a particular country in cases of violations of human rights or international law, anti-democratic backlash, or significant security threats, including terrorism.

The mechanism of deploying sanctions has many limitations. Firstly, the EU can rarely impose economic sanctions (for example, an embargo on oil has been used only a few times, including against Syria and Iran), as it is a double-edged sword causing losses for EU companies and citizens as well, and it is very difficult to reconcile the economic interests of EU Member States. Moreover, the EU does not have an efficient monitoring system for the implementation of restrictions, as the sanctions are implemented at the level of Member States, which are required only to inform the Commission of the progress in this field. While in the case of Iran a group of experts was established to monitor implementation of the sanctions, such a solution is rarely used. To date, no such group has been created in relation to sanctions on Russia.

Secondly, the adoption of restrictive measures against individuals and non-state players must have adequate legal justification. Otherwise, it may end up in a trial before the General Court of the EU. For example, in 2013, several Iranian companies and individuals successfully appealed against a decision on sanctions imposed against them by the EU.⁴⁰

Thirdly, economic sanctions have a limited scope of impact, as countries covered by restrictive measures may develop alternative economic relations. The best illustration is the sanctions against Myanmar. After the introduction of trade restrictions by the West, the country began to develop economic relations with China and other Asian countries.⁴¹ Moreover, even if the financial and economic sanctions cover only some companies and sectors of the economy, the results are still felt by society, such as in the form of price increases.⁴²

⁴⁰ D. Esfandiary, *op. cit.*, p. 8.

⁴¹ F. Giumelli, P. Ivan, *The Effectiveness of EU Sanctions: An Analyses of Iran, Belarus, Syria and Myanmar (Burma)*, EPC, November 2013, p. 30.

⁴² C. Portela, *op. cit.*, p. 24.

Finally, the use of restrictions by the EU can be targeted by political regimes in propaganda, and cultivate a negative image of the EU, as exemplified by the regular activities of the Belarusian authorities.

Broader Impact of EU Sanctions

At the same time, the psychological effect of sanctions should be considered, particularly as an important element in assessing the effectiveness of EU sanctions on Russia. This applies especially to the recently implemented package of sanctions relating directly to the Russian financial market and the real economy. Brussels has demonstrated a certain determination, contrary to predictions of some politicians and experts, and resistance in significant economic circles, which has resulted in a significant decrease in confidence in the Russian market expressed by foreign and domestic investors alike. Accumulation of economic risks associated with activity on the Russian market supplemented by the factor of sanctions from the West affect the outflow of capital outside.

This also applies to parts of Russian capital being redirected to other markets such as Hong Kong (China), and has an impact on the position of the Russian ruble, which in recent months has dropped in value. The currency depreciation, combined with the continuing relatively high inflation and uncertainty about the response of the international environment (especially of the EU) to the Russian Federation and its policy, will result in further deterioration of the economic situation in Russia. The psychological factor, changing according to the incoming pulses from the real economy, may be a gradual decline in public confidence in the Kremlin in Russia. At the same time, a clear decline in the value of the ruble does not influence Russian terms of trade, because the majority of Russia's exports are energy resources.

A COMPARISON OF U.S., EU AND OTHER COUNTRIES' SANCTIONS



Although the scope of the U.S. and EU sanctions are similar, their impact varies considerably. European Union countries and Norway are focused on reducing contacts with individuals connected with the escalation of the conflict in Ukraine by limiting their opportunity to travel and freezing their financial resources. In total, this affects about 80 people. In this case, the U.S. sanctioned only 17 individuals. In addition, Australia has decided to freeze the assets of and ban travel for 60 people, and Canada has 40 on its list. Penalties imposed by Switzerland and Japan included only people directly engaged in separatist activities, in each case more than 30 individuals. There were 50 people on the EU list of individuals associated with the Russian authorities, and only 24 on the U.S. list.⁴³

The imbalance, in the case of Putin's associates and aides, is still smaller. Eight people are the subject of EU sanctions in comparison to 14 highlighted by the United States. Japan did not introduce any restrictions in relation to people connected with the Russian authorities. In contrast, Canada and Australia, with few exceptions, have introduced restrictions against the same people, more than 40 representatives of the Russian parliament, government and military, and several associates of Putin.

⁴³ See Annex 1.

Table 2. Numbers of people and entities covered by sanctions

	THE NUMBER OF PEOPLE COVERED BY VISA SANCTIONS	THE NUMBER OF ENTITIES COVERED BY ECONOMIC SANCTIONS (FREEZE ASSETS)	THE NUMBER OF ENTITIES COVERED BY FINANCIAL SANCTIONS (DEBT LIMITATIONS)	TOTAL
EU	141	23	11	175
NORWAY	141	23	11	175
CANADA	103	48	7	158
AUSTRALIA	114	27	1	142
USA	52	34	12	98
SWITZERLAND	60	13	5	78
JAPAN	39	2	1	42

Source: PISM.

The European Union and the U.S. are guided by different prerequisites. The European Union has focused on people who took direct part in the annexation of Crimea and the escalation of the conflict in Ukraine, and Putin’s associates, who now hold prominent positions in the state administration or are strongly related to Russian business. The list presented by the European Union contains names of those people who openly support the Russian engagement in Ukraine, such as politicians, parliamentarians and the military. The American authorities decided to use sanctions for those who can influence the Kremlin’s policy. These people can affect domestic politics and the economy of the country. That list includes long-standing friends of Putin, his political and economic associates, and representatives of the defence industry, the railways and Russian business.

The gap between U.S. and EU sanctions is even greater in the case of restrictions dealing with banks, enterprises, separatist regions and their self-

appointed administrations.⁴⁴ The EU and Norway froze the assets of Russian banks, just as Switzerland did. In the case of companies, only 13 were placed on the list. Meanwhile, the U.S. froze the funds of eight banks and more than 30 companies. European Union countries and Norway insisted on the cessation of contacts and freezing of assets of companies which, after the annexation of Crimea, have been taken over by Russia, while the United States has expanded its list of Russian military and energy companies. Other countries have also prohibited contacts and frozen the assets of a number of entities. In the case of banks and companies, it is possible to see a remarkable determination from the Canadian authorities, who froze the assets of the 13 banks and 30 companies. Australia has introduced restrictions, but only in relation to the four Russian banks and fewer than 20 companies. In the case of separatist regions, their administration and their assets, the U.S. used a general description of the entities. Relations and assets of two separatist entities have been banned, without introducing any description of the individual authorities and the military. However, such a restriction is due to the structure of the decrees of the president ordering the cessation of any dealings and freezing assets of all institutions connected with separatists.

In general, U.S. sanctions clearly gravitate towards reducing the possibility for Russian companies to do business, while the EU sanctions are aimed at “punishing” those involved in the events in Ukraine. The third type of sanctions are sectoral restrictions imposed on individual areas of activity of Russian companies.

In the case of financial restrictions imposed on banks, the United States, the EU and Norway, Canada and Switzerland all speak with nearly one voice.⁴⁵ The limitations are the same, and differences lie in the length of time allowed for funding only in the case of Switzerland. Restrictions rely on the introduction of the long-term authorisation of financial transactions. Greater divergence appears in the case of firms. Only one-third of entities are the subject of EU and U.S. sanctions. European countries have banned the financing of oil and gas extraction companies and three arms producers. Meanwhile, the U.S. government is more focused on the energy sector, stipulating more players than the

⁴⁴ See Annex 2.

⁴⁵ See Annex 3.

EU, complemented by one high-tech enterprise. Other countries have introduced practically no restrictions in this area.

In the case of weapons, European countries introduced a limited ban on exports since 1 August 2014. Contracts signed before that date may still be enforced. In reality, U.S. sanctions are not so explicit. Rather, the U.S. used a pre-existing export licensing mechanism. General guidelines indicate that the issue of the relevant licence is not possible if it is determined that Russia is the country of destination. Other countries do not have limitations, but because of the unique status of arms, it can be assumed that a similar solution will be applied elsewhere.

EU and American restrictions on the export of dual-use technologies are based on different assumptions. The United States, as in the case of weapons, has not issued a ban, but uses a licensing system, while publishing a list of entities that would receive a negative decision. European Union countries decided on an unusual method for reducing the export of dual-use technology. On 1 August, a general prohibition on the export of such products to Russia was introduced. Then, on 12 September, the EU introduced a separate ban on exports of the same products, this time listing the companies that cannot buy them. At the same time, the EU claimed that the restrictions did not apply to "export, sale, supply or transfer of goods and dual-use technologies for aeronautics and the space industry or related to the provision of technical or financial assistance for non-military use and for non-military end-users."⁴⁶ In the case of other countries, only Switzerland has introduced restrictions in this area.

Sectoral bans on the sale of technology for deep-sea oil production is an issue in both cases; in sum, there is a list of products for which export to Russia is verboten. The American list includes items that are not on the European list, and is more specific, so that its scope is narrower. Meanwhile, the structure of the European sanctions was supplemented in September with a list of companies on which sanctions have been imposed.

The design of sanctions introduced by the United States, the European Union and other countries implies multidimensionality of the imposed re-

⁴⁶ Council Decision 2014/659/CFSP of 8 September 2014, art.3a, http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=OJ:JOL_2014_271_R_0009.

strictions. The entity may be covered by the freezing of funds, prohibition on the purchase of technology, or prohibited indebtedness; alternatively, all the types of economic sanctions, combined with political ones, may be bundled together for use at the same time.

IMPACT OF WESTERN SANCTIONS IN RUSSIA





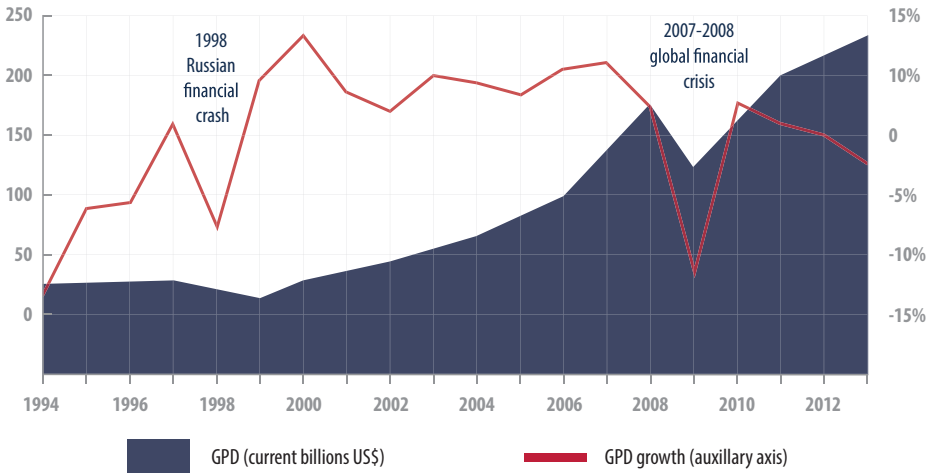
ECONOMY



Despite a propitious external and internal environment in recent years—characterised by higher oil prices and an economy running below capacity—Russia’s economy has been beset by structural difficulties, which have caused its growth to slow since 2011. Sanctions imposed by the EU, the U.S. and others can be expected to exacerbate these problems—particularly given the Russian economy’s vulnerability to shocks. The imposition of sanctions by the EU and the United States in March 2014 has already taken a heavy toll on the Russian economy, and the imposition of further sanctions is likely to cause economic stagnation.

Expected consequences of sanctions—in particular capital flight, fiscal difficulties for the government, the adoption of anti-inflationary monetary policy, and hindered access to financing—are likely to exercise downward pressure on investment and stifle it as a source of growth. Lack of confidence resulting from sanctions is likely to harm the ruble exchange rate against the U.S. dollar and the euro, and depress domestic consumption. Difficult relations with its trading partners (even in sectors not included in sanctions) could stymie the contribution of non-energy exports to Russia’s economic growth. What is more, low unemployment (below 6%) and declining productivity growth (0–2%) over the last three years, mean production growth is unlikely to boost economic growth to make up for downward pressure in other fields.

Figure 1. Shocks and their impact on Russia's GDP and GDP growth, 1994–2013



Sources: Russian Federation: 2014 Article IV Consultation, International Monetary Fund, July 2014, www.imf.org; "Russia Economic Report: Confidence Crisis Exposes Economic Weakness," World Bank, no. 31, March 2014, p. 10, www.worldbank.org.

Inflation

Geopolitical tensions over Ukraine have had an impact on the ruble exchange rate, causing inflation of 8% y-o-y in September 2014. With the introduction of sanctions, this trend can be expected to continue. The IMF estimates that the Central Bank of Russia (CBR) is unlikely to meet its 4.5% inflation target for 2015, and expects inflation to reach 6.6% in 2014 and 6% in 2015. As a result of this high inflation, the CBR is adopting a policy of monetary tightening, further raising its interest rates (also in a bid to reduce capital flight).⁴⁷ Policy rates were increased by 150 basis points in early March, and a further 50 in April.

Sanctions have reinforced this approach. Following the imposition of new sanctions on Russia by the U.S. and the EU in July, the CBR surprised analysts by hiking up interest rates by a further 50 basis points to 8% per annum (it also widened the currency corridor, which meant it did not intervene immediately to

⁴⁷ *Russian Federation: 2014 Article IV Consultation*, International Monetary Fund, July 2014, www.imf.org, p. 34.

protect the ruble).⁴⁸ This increase in interest rates is likely to stimulate savings and discourage investment and consumption, which are important sources of growth: in 2010–2013, consumption contributed approximately 3.3 percentage points to growth, while investment contributed approximately 2.1.

Figure 2. Inflation and ruble exchange rate, 2000–2014

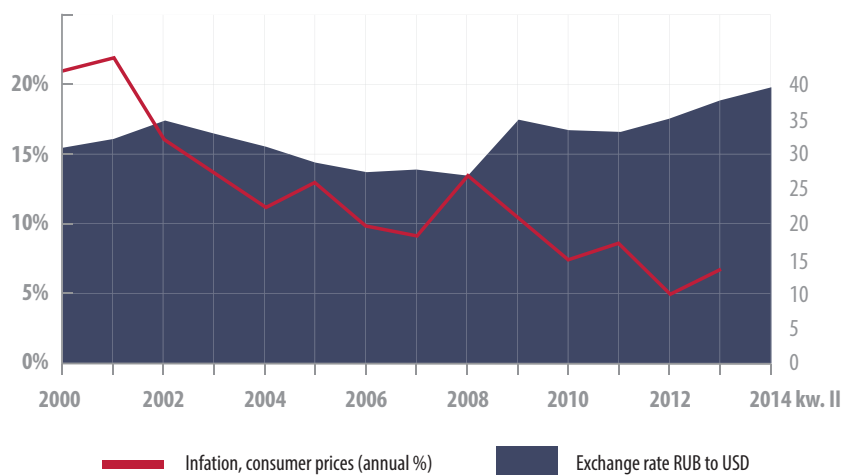


Table 3. Contribution to growth by demand components, percentage points

	2008	2009	2010	2011	2012	2013
GDP growth, percent	5.2	-7.8	4.5	4.3	3.4	1.3
CONSUMPTION	5.5	-2.6	2.5	3.6	4.8	2.4
Of which:						
Household consumption	4.9	-2.5	2.8	3.4	4.1	2.5
Government consumption	0.6	-0.1	-0.3	0.3	0.7	0
GROSS CAPITAL FORMATION	2.5	-10.5	4.7	4.2	0.3	-0.8

Source: World Bank Database.

⁴⁸ Information Notice on Bank of Russia Key Rate, The Central Bank of the Russian Federation (Bank of Russia) Press Service, 25 July 2014, www.cbr.ru.

Capital Flight

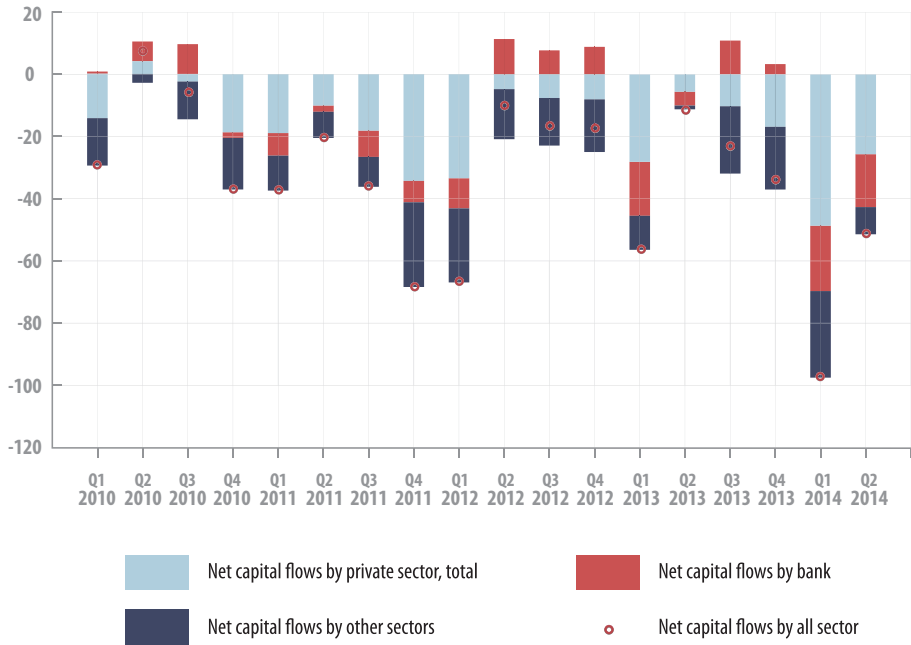
The biggest impact of sanctions can be their expected effect on Russia's business environment. This has long been sub-par, due to endemic corruption, the tightly interconnected political-business nexus, the deeply flawed judicial system, a distinctly investor unfriendly tax code, and a penchant for protectionism. Russia is ranked 140th out of 186 countries in the Heritage Foundation's Index of Economic Freedom⁴⁹ and 92nd out of 189 economies in the World Bank's Doing Business index. It ranks worst in categories such as protecting investors (this year it fell by two spots to 115th), trading across borders (157th) and dealing with construction permits (178th), which are particularly important for encouraging foreign investment.

The introduction of sanctions in March, July and September, as well as the possibility of further sanctions, is spooking many of the foreign investors who had braved Russia's difficult business climate so far. The IMF expects capital outflows to exceed \$100 billion in 2014, compared to \$63 billion in 2013.⁵⁰ Already in the first quarter of the year, before sanctions were fully implemented and had time to take effect, capital flight exceeded \$50 billion, as a result of heightened geopolitical tensions and a political crackdown in Russia. This capital flight—combined with higher interest rates—will reduce investment rates, thus putting downward pressure on growth.

⁴⁹ *Index of Economic Freedom 2014: Russia*, Heritage Foundation, www.heritage.org; *Ease of Doing Business in the Russian Federation*, World Bank, 2014, www.worldbank.org.

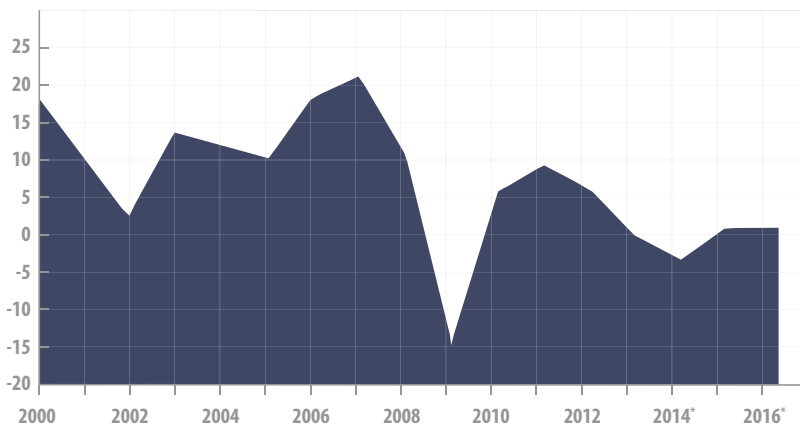
⁵⁰ *Russian Federation: 2014 Article IV Consultation*, *op. cit.*, p. 13.

Figure 3 . Capital flows in and out of Russia, 2010–2014 (USD billions)



Source: Central Bank of Russia.

Figure 4 . Fixed capital formation, 2009–2016 (annual percent change)



Source: World Bank, IMF (* IMF projections).

Consumption

Even in a scenario in which tensions de-escalate, prolonged uncertainty is likely to affect not only business confidence but also consumer confidence. After a quick recovery following a crash during the international financial crisis, consumption growth in Russia has been in decline. The IMF expects overall consumption growth to fall from 3.5% in 2013 to 1.6% in 2014 and 1% in 2015.⁵¹ Morgan Stanley predicts that this uncertainty will cause households to consume less and save more.⁵²

Given that consumption is the main demand growth driver of the Russian economy, this could prove particularly detrimental to Russia's economic outlook. Consumption's contribution to economic growth fell 50% last year (from 4.8% in 2012 to 2.4% in 2013).⁵³

Consumption is also likely to suffer due to high inflation. As a result of the various embargos being imposed by Moscow in response to Western sanctions, the inflation rate for 2014 may be higher than IMF predictions published in July, possibly as high as 7.5%. According to VTB Capital, the Russian embargo on Polish apples alone could push inflation up by 0.5–0.8 percentage points, as apple prices are expected to rise by as much as 40% by the end of the year, when the arrival of winter will make Russian apples scarcer. As a result of a ban on EU pork imports, pork products have seen a price increase of 10–15%.⁵⁴

Furthermore, these imports are unlikely to be replaced by a growth-creating increase in domestic production, but rather by imports from alternative sources, such as Latin America, Turkey, Central Asia and China.⁵⁵ With reduced competition on the Russian market, these exporters are likely to hike up their prices, further driving up inflation.

⁵¹ *Russian Federation: 2014 Article IV Consultation*, *op. cit.*, Table 2, p. 36.

⁵² *Russia Cross-Asset*, Morgan Stanley Research, 21 July 2014, www.linkback.morganstanley.com.

⁵³ *Russia Economic Report: Confidence Crisis Exposes Economic Weakness*, no. 31, March 2014, www.worldbank.org, p. 10.

⁵⁴ A. Kublik, "Putin każe brać odwet za sankcje," *Gazeta Wyborcza*, 7 August 2014, www.wyborcza.pl.

⁵⁵ "Medvedev Outlines Ban on EU Food Imports," *Prague Post*, 7 August 2014, www.new.praguepost.com.

Figure 5. Consumption growth in Russia, 2000–2013 (annual percent change)



Source: World Bank.

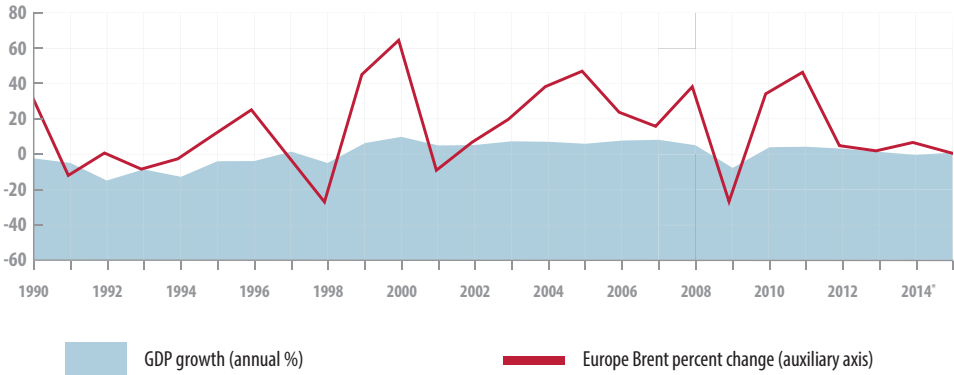
Trade

Russia’s oil exports are still vast, amounting to 13.5% of GDP in 2013 (\$283 billion). However, world oil prices are not expected to rise in coming years, and Russia’s oil export volumes projected to flatline. As a result, the value of oil exports is expected to fall in coming years, down almost 5% to \$270 billion in 2015. Given the strong correlation between oil prices and Russian GDP growth, this could have an important impact on the Russian economy, increasing the importance of non-oil exports for Russian growth.

Meanwhile, sanctions can be expected to impact Russia’s non-energy trade. Sanctions directed at Russian banks in particular are likely to hinder commerce. Difficulties in processing payments in deals with foreign partners

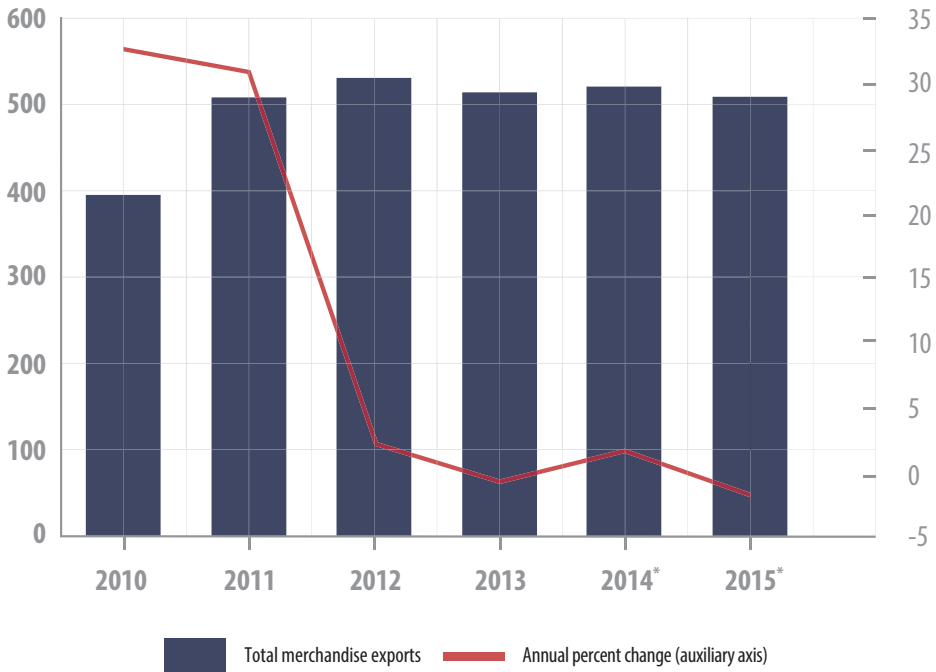
can be expected to harm trade in goods and services. In the event of further escalation in tensions, Russia’s trade partners may also change, as Russian companies seek to diversify their exports markets and expand their trade links with other parts of the world, such as Asia or Latin America. However, such trade diversion will require some time to complete, and a slowdown in non-energy merchandise exports can be expected in the coming years. Sanctions directed at the energy sector could also cause significant trade disruptions for Russia, and severely affect income for the federal budget (see Energy Chapter).

Figure 6. Oil price and real GDP growth, 2000–2015 (annual percent change)



Source: IMF (* IMF projections).

Figure 7. Russian merchandise exports, 2009–2015 (USD billions)



Source: IMF, own calculations (* IMF projections).

Fiscal Difficulties

Sanctions are likely to exacerbate Russia’s recent fiscal downturn. Already, the economic slowdown has caused budget revenues to fall and VAT refunds increased following the completion of several large infrastructure projects. Consequently, the general government balance moved from a surplus of 0.4% of GDP in 2012 to a deficit of 1.3% in 2013. In response to this decline in non-oil revenues, oil revenues have been diverted from the Reserve Fund to the federal budget (creating yet another potential source of inflation, as money is released from the country’s two sovereign wealth funds).

As a result of these fiscal difficulties and of sanctions, Russia’s sovereign rating has been downgraded by S&P, Moody’s and Fitch (to BBB-). This is likely

to affect the ability of central government to raise funds. Although Moscow is able to dip into its sovereign wealth funds in times of crisis, the finances of sub-national governments may be strongly affected. Many of these have been saddled with new expenditure obligations by the Kremlin, and had their transfers from the central budget reduced, forcing them to rely on high-interest, short-term bank loans.⁵⁶ Any more pressure on their ability to raise funds is likely to lead regions to cut investment, further stymying growth.

In addition to the above, existing downward pressures on budgetary income—linked in part to predictions of falling oil prices—are likely to be exacerbated by sanctions. Many state-owned enterprises (SOEs, such as Rosneft and Gazprombank) are under EU and U.S. financial sanctions. This will worsen their financial position, and potentially squeeze their contributions to the federal budget, creating fiscal pressures. This is likely to have a particularly strong impact as state budget expenditure is set to increase next year (from €291 billion to €323 billion). Any holes in the budget will have to be filled with tax income, causing potential downward pressure on consumption and investment if tax increases are imposed. Moreover, some investment projects may have to be abandoned, affecting yet another source of growth.

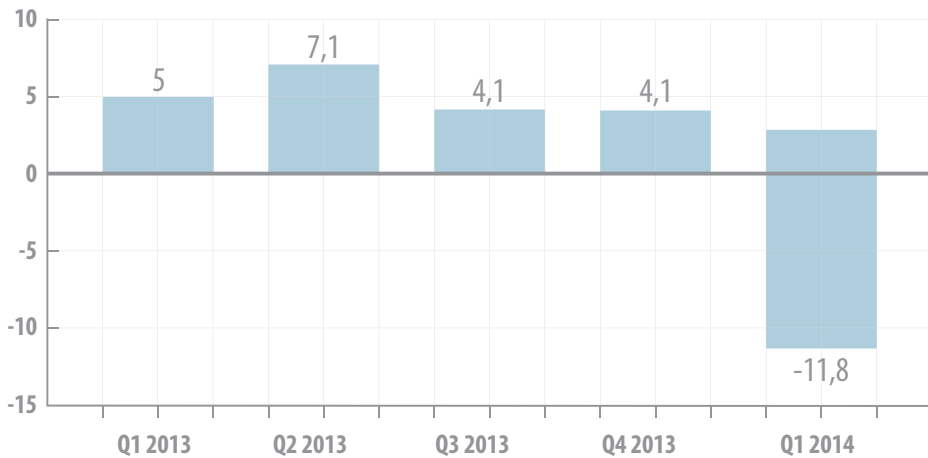
Access to Financing

Sanctions will also affect companies' access to financing. Already, borrowing rates have risen sharply, and Russian international bond issuances have fallen. Major Russian banks such as VTB Bank, as well as subsidiaries of international banks, have seen their ratings downgraded. State-owned banks (VTB, Bank of Moscow, Russian Agricultural Bank, Vneshekonombank) receive medium and long-term loans on international markets. Sanctions against them are likely to harm their financial strategies and their liquidity in the longer-term. These banks are the largest financial institutions in Russia, and any difficulties that they find themselves in are likely to harm the Russian banking sector and to increase borrowing costs for Russian business.

⁵⁶ M. Rostowska, "Russia's Hidden Underbelly of Debt," *PISM Policy Paper*, no. 11 (94), July 2014, www.pism.pl.

As a result, Russian companies are likely to abandon investment plans or begin looking for more expensive forms of financing. This is likely to aggravate the expected contraction in investment linked to the deteriorating business environment in Russia. For SOEs, potential alternative sources of financing include China, which could bring with it the potential cost of insuring loans with Russian oil deliveries. Another potential source is the CBR: it has already decided to buy VTB and Agricultural Bank shares, and figures for July show it as the biggest creditor for Russian commercial banks. However, this course of action creates the risk of inflation, which is already expected to remain above the CBR's target due to the depreciation of the ruble.⁵⁷ For smaller, private businesses there are even fewer affordable alternative sources of financing, and investment by these firms can be expected to fall drastically.

Figure 8. Russian issuances of international bonds and notes (USD billions)



Source: Bank for International Settlements.

⁵⁷ Russian Federation: 2014 Article IV Consultation, *op. cit.*, p. 13.

POLITICS AND SOCIETY



Currently, Russian public opinion is not convinced of the impact of sanctions on the lives of average citizens. Most of the population does not own stocks and shares, and the Russian media is portraying the sanctions as detrimental mostly to those who are imposing them. Most Russians have not yet fully felt the effect of sanctions and are not afraid of international isolation (growth from around 40% to more than 65%). More than that, Russian citizens largely support counter-measures against states that have applied sanctions against Russia (78%).⁵⁸ This means that Russian society identifies with the actions of Russian authorities in Ukraine and clearly misjudges the proceedings of the West. As only 13% of the citizens objected to the Kremlin embargoes on Western imports it does not mean that all of them could be considered as accepting the narrative of the West—that the current Russian government provoked the Ukrainian crisis and that the West is rightly trying to stop this aggression.

⁵⁸ "Sanktsii: otsenki i ozhidaniya," Levada Centre, 28 August 2014, www.levada.ru/28-08-2014/sanktsii-otsenki-i-ozhidaniya.

Figure 9. Russians' opinion on the isolation of Russia imposed by Western countries

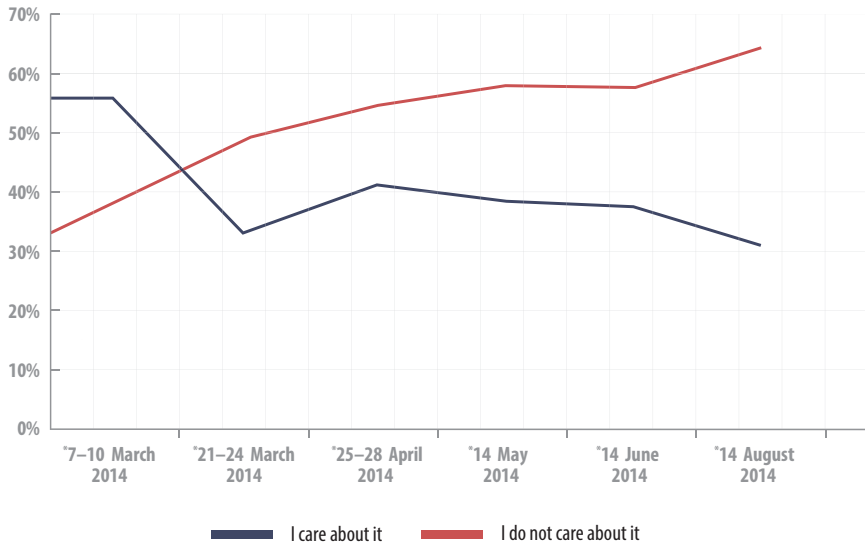
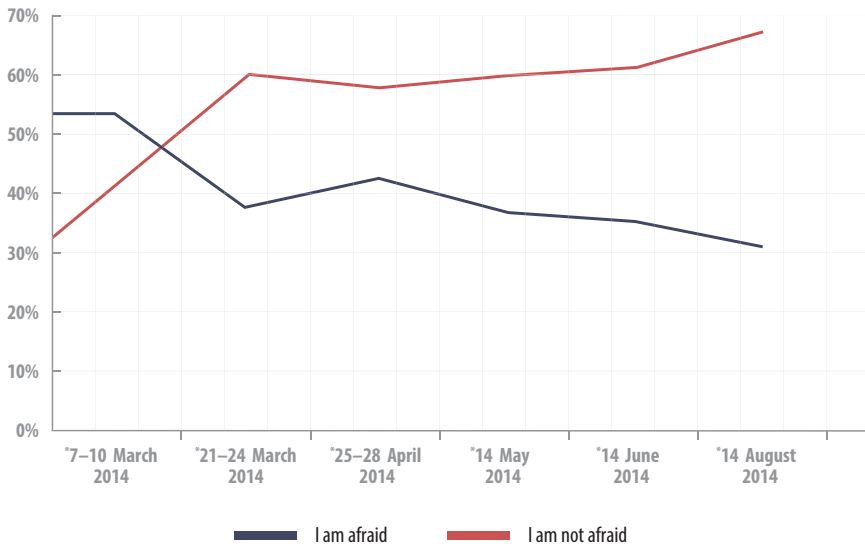


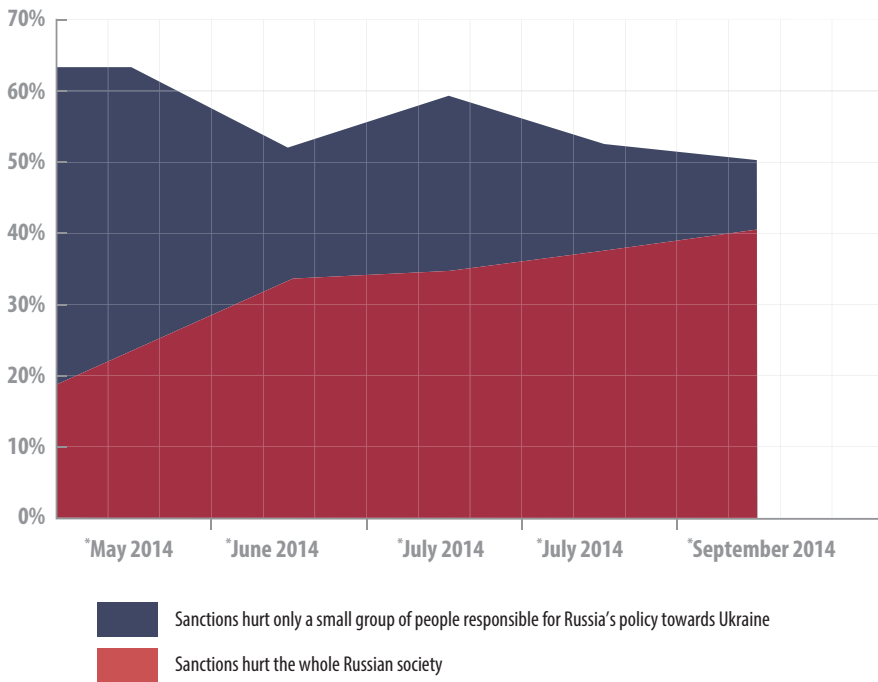
Figure 10. Russians' opinion on the implication of Western sanctions on Russia



Source: Levada Center, www.levada.ru.

However, the food embargo Russia enacted in response, coupled with Western restrictions, is likely to amplify and speed up the negative impact on ordinary citizens, which may drastically amend society's outlook in the not so distant future. As public perceptions change and public opinion begins to perceive sanctions as detrimental to all Russians, consumption is likely to suffer. Russians are becoming more aware that the sanctions do not apply to only a small group of people in charge of the state and its policies towards Ukraine, but increasingly to wider social circles (an increase of approx. 20% to almost 40%). Despite the continued high level of support for the authorities, citizens realise that the policy of the Kremlin and imposed sanctions result in increasingly higher prices of basic goods (76%).⁵⁹

Figure 11. Russians' opinion on question of who will be affected by Western sanctions



Source: Levada Center, www.levada.ru.

⁵⁹ *Ibidem*.

Government Wins Thanks to the War

In August 2014, one could observe a record high level of support for Putin, reaching 87%. Undoubtedly, the main reason for this was his reaction to the situation in Ukraine, the Maidan and the success of anti-Yanukovich and pro-Western opposition: first the annexation of Crimea, followed by support for allegedly persecuted Russians in eastern Ukraine. It should be emphasised that the actions of Russia in Ukraine have been very well received by Russian citizens; in July 2014, 94% of Russians thought that their country had a right to annex the peninsula,⁶⁰ and only 3% of the population thought the opposite. When Western politicians did not recognise the annexation of Crimea, only 5% wanted to introduce sanctions against the West, but as many as 52% believed that it was not important.

Data shows that 63% of Russians believe Putin's actions are contributing to the peaceful resolution of the conflict in eastern Ukraine; interestingly, that is overwhelmingly a view held in cities of at least a million inhabitants.⁶¹ This means that the public in large cities do not have to be geared more towards the opposition. This may change, though, if the Russian army overtly invades Ukrainian territory—especially if losses are suffered within the military personnel engaged there.

The issue of sanctions is part of the overall picture. As many as 66% of the population now believe that things in the country are going in the right direction, and only 19% of respondents say otherwise. The public sentiment index recorded an increase from November 2013; while in October of this year it was 75, and in June 2014 it was 90. There have been no significant political or economic developments inside or outside Russia in the short run, except events in eastern Ukraine, which could affect this index.

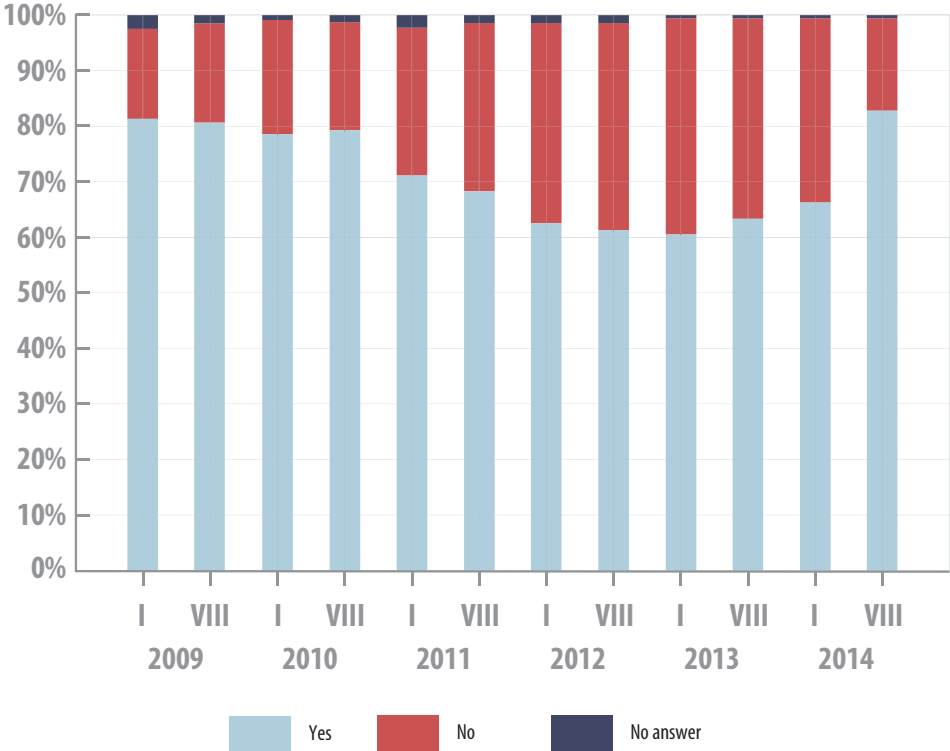
It should be emphasised that, historically, support for the Russian president has increased during conflicts and external threats. Such an increase was recorded in 1999, following a series of bombings in Moscow and the start of

⁶⁰ "VTsIOM: Bolshinstvo rossiyan schitaiut pravilnym reshenie o prinyati Kryma v sostav RF," *Itar-Tass*, 9 July 2014, <http://itar-tass.com/obschestvo/1306364>.

⁶¹ "Voina v Donbasse: chego khochet Moskva?," *VTsIOM*, 13 August 2014, <http://wciom.ru/index.php?id=459&uid=114931>.

the second Chechen war (rising from 31% to 80% in three months), and also during the Russian–Georgian war in 2008. (Putin had 88% support in August of that year). This means that if the Russian president cannot get support from the public by improving the economic situation, a war or threat may be to his benefit, at least in the short term. This fuels suggestions from the Russian opposition that Putin deliberately creates such threats.

Figure 12. Approval of Vladimir Putin’s policies



Source: Levada Center, www.levada.ru.

How to Keep the Patriotic Consensus

The fight in eastern Ukraine might not be sufficient to keep the hypnotic effects of patriotic consensus afloat in the wake of Crimea's annexation. The new consensus might prove to be social glue with a short expiry date. Therefore, besides attempts to turn sanctions, at least on the rhetorical level, in its favour, the Kremlin will have to feed societal illusions and enhance control over society to prolong the life span of current patriotic feelings and dilute the effect of sanctions on society. Most probably, the Kremlin—while denying any opportunities for the opposition to rise—will focus on curbing Internet freedoms, expanding its presence in virtual space and promoting patriotic youth education. All in all, these gestures will evidence a more repressive authoritarian regime.

There are strong signals that confirm the path towards greater authoritarian consolidation in Russia in the post-Crimea context. In June, the Kremlin submitted a bill to the Duma to amend a law on party finances that would prevent crowd sourcing, extensively used by non-systemic opposition to finance electoral campaigns.⁶² Unlike the 2013 elections for the office of mayor of Moscow, this time, the Kremlin decided to abandon any appearance of competition and keep tight control on the local legislative elections in Moscow.

The Kremlin made various inroads in virtual space which was previously regarded as a more permissible environment and the turf of the opposition. In May, state-owned Rostelecom tested a search engine (sputnik.ru) available only to users in Russia. The experiment proved unsuccessful, as in spite of initial interest among users, the number of searches dropped from 141,800 to 16,500 per day.⁶³ In February, Roskomnadzor, Russia's media watchdog, was granted power to suspend access to any website on Russian territory without court ruling or warning. In April, following Crimea's annexation, Roskomnadzor blocked several websites critical of the Kremlin's policy on Ukraine (for

⁶² See: S. Opalev, M. Rubin, Z. Ulyanova, "Gosduma zapretit finansirovat' partii po skheme Navalnogo," *RBK*, 16 June 2014, <http://top.rbc.ru/politics/16/06/2014/930237.shtml>.

⁶³ See: M. Bodner, "Test: How Does State Search Tool Sputnik Compare to Google and Yandex?," *Moscow Times*, 1 June 2014, www.themoscowtimes.com/business/article/sputnik-vs-google-vs-yandex-how-does-russia-s-state-search-engine-stack-up/501248.html.

example, grani.ru and ej.ru). Further restricting online freedoms, the president signed a law in May requiring all popular bloggers (3,000 or more daily hits) to register as a mass media outlet and thus comply with norms governing activities of mass media. As of August, around 580 bloggers had applied for registration.⁶⁴ The procedure will not be absolutely voluntary, as Roskomnadzor made public its own list of bloggers who must register or face legal consequences. The Internet was also used to organise public harassment campaigns against critical voices and amplify patriotic feelings. For instance, “Traitors” (predatel.net) is a website that provides names—accompanied by photos—of public figures who opposed the Kremlin’s policy towards Ukraine after Maidan, labeling them as traitors. It is likely that the Internet will be instrumentalised to vilify those who support sanctions against Russia or shed light on the negative impact of sanctions for the Russian economy and society.

Learning lessons from the Arab Spring, the Kremlin increasingly aims to win and control the hearts and minds of youth. Amid the crisis in Ukraine, Putin warned that Russia’s future depends on the views of more than 30 million Russians between the ages of 15 and 29. To protect them from outside harmful influences and instill the correct understanding of national policy, he asked the Ministry of Education to speed up development of a document on priorities of the state’s youth policy.⁶⁵ The Kremlin had already begun work in this direction. In April, a new youth group “Network” launched its webpage with local branches spread from Kaliningrad to Vladivostok. The group explains pro-Kremlin messages (social bonds, family values, orthodoxy, and patriotism) through its activities.⁶⁶

Another Kremlin-sponsored youth project is the summer camp Seliger, attended by Putin, which underwent changes in 2014. Ahead of the event, organisers promised that, beyond sport and socialising activities, “Seliger—

⁶⁴ See: I. Khrennikov, “Russia Forces Its Popular Bloggers to Register—or Else,” *Bloomberg*, 19 August 2014, www.bloomberg.com/news/2014-08-19/russia-forces-its-popular-bloggers-to-register-or-else.html.

⁶⁵ “Zasedanie Soveta po mezhnatsionalnym otnosheniam,” *Kremlin.ru*, 3 July 2014, <http://state.kremlin.ru/council/28/news/46144>.

⁶⁶ For more see: T. Balmforth, “Network, Son of Nashi: New Youth Group Seeks to Woo Russia’s Middle Class,” *RFE/RL*, 3 July 2014, www.rferl.org/content/network-russian-youth-group-nashi-/25444358.html.

territory of meanings" will have a more pronounced social and political orientation.⁶⁷ Seliger-type camps are likely to proliferate across Russia and annexed Crimea. In August 2014, the All-Russian Front organised a youth festival with the historical-patriotic inclination "Tavrida" targeting creative young people of various professions. Organisers pledged to make it an annual event. There are also plans in Crimea to hold a film festival called "Saint Anna" for young artists and students who make their debut in cinema under the patronage of the Russian Union of Cinematographers. The Kremlin cultivates the creative elites who can explain in an accessible way, and amplify, the patriotic message, thus enhancing indirect control over society.

⁶⁷ For more see: A. Kashevarova, "Seliger popal pod rebrending," *Izvestia*, 28 July 2014, <http://izvestia.ru/news/574440>.



REGIONS



Sanctions will fuel authoritarian trends in centre-periphery relations heightened after post-election protests in 2011. The Kremlin will continue to fine-tune the local power vertical, which should be able to quell discontent from the outset. It will mean even less autonomy for local authorities and more oversight and repressive practices exported from the centre. In this endeavour, the Kremlin will focus on completing the formation of governors' corps, introduced in the 2012 direct elections. Before introducing amendments,⁶⁸ the Kremlin re-appointed more than 20 governors whose terms were due to expire in 2015–2017. Dozens of governors with the Kremlin's blessing resigned before the 2014 term in an attempt to secure new mandates during September's local elections, which were held in 31 regions, including annexed Crimea and Sevastopol. With another 13 campaigns scheduled for 2015 (which may increase in the case of more pre-term resignations), it seems that the Kremlin is set to finalise the configuration of the governors' corps ahead of the parliamentary

⁶⁸ In 2012, direct elections of governors were reintroduced in Russia. While nominally citizens were to elect governors, candidates could not be admitted to the race without enrolling the support (between 5% and 10% of signatures) of municipal deputies. As local legislatures are usually dominated by United Russia, the Kremlin has veto power over who can run for office. Only in few regions did parliamentary opposition parties (e.g., the Communist Party or the Liberal Democrats) have enough signatures to nominate candidate without United Russia support.

elections in 2016.⁶⁹ The process is unlikely to improve the quality of local governance but is likely to cement loyalty to the Kremlin and reinforce the ability to deliver necessary votes in national elections. Seen from the Kremlin, in the context of the economic impact of sanctions, governors should be able to preempt any discontent and maintain social harmony in the regions.

Besides securing loyal governors through elections, the Kremlin will attack the institution of the mayor. Back in 2012, opposition parties won in 10 cities, inflicting the most resounding defeat to the Kremlin in Yaroslavl. In September 2013, United Russia lost further ground on the mayoral level, losing to independent candidates in Yekaterinburg and Petrozavodsk. Although a pro-Kremlin candidate prevailed in Moscow, the main opposition contender received an impressive 27% of the votes. From the Kremlin perspective, independent mayors were not only setting local bases for opposition from which it could launch attacks on the Kremlin, but were also disrupting the local power vertical. Governor-mayor linkage is essential for generating—with the help of administrative resources—necessary electoral scores for United Russia and Putin. In order to prevent the re-emergence of any new independent figures on the local level, the Duma approved the Kremlin's proposed amendments to the law on self-governance in May 2014. According to modifications, local authorities have to decide in a six-month term whether mayors will be elected directly by citizens or alternatively by local popular representative institutions. Given United Russia's preponderance in local administrations and the Kremlin's drive for tighter social control in the context of economic sanctions, by the end of 2014, it is anticipated that direct elections will be canceled in major Russian cities with the highest concentration of the middle class citizens. These rearrangements will sever important feedback mechanisms between power and citizens, with debilitating effects on the quality of local governance.

Overall, degradation of local governance could stimulate public demands for veritable federalisation, providing regions with more financial and decision-making autonomy. While still marginal, the call on activists in Novosibirsk to organise the "March for federalisation of Siberia" in August 2014 reflects such preoccupations.

⁶⁹ See: A. Pertsev, "Gubernatorov ulozhili v sroki," *Kommersant*, 16 July 2014, www.kommersant.ru/doc/2492139.

Sanctions coupled with the costs of absorbing Crimea into the Russian Federation are likely to worsen the regions' finances. This in turn could spill over negatively into centre-periphery relations and undermine "social peace," particularly in the 342 *monogoroda* (single-industry towns) in Russia. Russian regions entered 2014 with growing debts (a 28.6% annual increase), expanding budget deficits (by 2.3 times), a declining in income tax revenue (a 13% drop), and increasing debt service costs (up by 22%).⁷⁰ Partially, this is a result of Russia's economic slowdown. At the same time, the regions were forced to share the financial burden of implementing the 2012 presidential decrees in which Putin outlined the main objectives for Russia by 2018. Lacking necessary funds, the regions took loans from banks to fulfill the president's electoral promises to increase state workers' salaries and other social benefits. Thus, governors executed the president's pledges at the expense of regional fiscal health. Ironically, in response to growing indebtedness of the regions, for which the Kremlin is responsible, the Ministry of Finance worked on a bill in 2014 that would allow removal of governors for debts that surpass 10% of the regional budget.

The annexation of Crimea and resulting sanctions forced the central government to cut finances for regional development and infrastructure projects and channel the money into economic and social absorption of Crimea (for example, the construction of a bridge across the Lena River in Siberia, and road and infrastructure projects across Russia were halted).⁷¹ The costs of developing Crimea will jump as a result of the EU's prohibition of imports from and investments to Crimea, forcing the Kremlin to enact even deeper cuts in regional programmes to free resources for Crimea. Although governors praised the annexation of Crimea, they are less than happy about the reduction of federal investments in local mega-projects. They also silently resent the birth of a new competitor (Crimea) for subsidies, as federal revenues and opportunities to borrow on the international market shrink. In 2013, out of 83 Russian regions,

⁷⁰ "Minfin: Defitsit biudzhetov regionov vyros v 2.2 raza," *Newsru.com*, 17 February 2014, www.newsru.com/finance/17feb2014/minfin.html.

⁷¹ See: A. Panin, "Crimea Sucks Funds from Infrastructure Mega-Projects in Russia's Regions," *The Moscow Times*, 13 May 2014, www.themoscowtimes.com/business/article/crimea-sucks-funds-from-infrastructure-mega-projects-in-russias-regions/500075.html.

only six covered expenses without federal money.⁷² The economic downturn—fuelled by sectoral restrictions—will intensify competition between regions for federal funds. It will also raise dilemmas in the Kremlin on how best to distribute the shrinking pie between the unstable North Caucasus, the gradually depopulating Siberia and the Far East, and the recently grabbed Crimea.

Addressing immediate incoming challenges from the regions, Putin, despite previous pledges, gave the green light to raise taxes. From 2015, Russia may re-introduce sales tax (up to 3%) in regions to shore up local budget revenues. In addition, the government decided to provide 20 Russian regions with state loans at low interest rates to curb spiraling regional budget deficits.⁷³ Fearful of any signs of dissatisfaction in the regions, Moscow compelled social networks and media outlets in Russia to erase any mentioning of the “March for federalisation of Siberia” on the grounds of extremism, while its four organisers were detained for interrogation. By over-reacting, the Kremlin has shown its domestic weakness rather than strength and confidence. Moscow mistakenly treats demands for real federalism as a sign of separatism. Economic sanctions will only heighten this perception and will evoke a harsh Kremlin reaction, exacerbating problems. However, if left without proper consideration, issues of genuine devolution of power and local governance in the regions may raise the spectre of popular disobedience and feed creeping disintegration of the country (de facto, if not de jure) in the long run. Thus, the reportedly popular T-shirt in Omsk bearing the inscription “United States of Siberia”⁷⁴ may one day turn from a cool art joke into a political message.

⁷² See: “Minfin: defitsit biudzhetov...” *op. cit.*

⁷³ See: V. Visloguzov, “Belyi Dom perekredituyet gubernatorov,” *Kommersant*, 26 August 2014, www.kommersant.ru/doc/2552711.

⁷⁴ See: A. Belousov, “Elektoralinaya degradatsiya: shto utrachivaetsea vmeste s legitimnostiu regionalisnoi vlasti,” *Slon*, 25 August 2014, http://slon.ru/russia/elektoralnaya_degradatsiya_chno_utrachivaetsya_vmeste_s_legitimnostyu_regionalnoy_vlasti-1147632.xhtml.



BUREAUCRACY



After his 2012 re-election, Putin tried to rein in state bureaucracy. This trend is likely to gather pace as a result of sanctions and growing authoritarian dynamics.

Under Putin, state bureaucracy swelled significantly. Uncontrolled multiplication of the bureaucratic apparatus and spiraling costs to sustain it triggered a 2011 debate on reducing state bureaucracy. In spite of planned (but not implemented) cuts, in 2012 the number of Russian bureaucrats climbed to almost 7 million.⁷⁵ The Ministry of Crimean Affairs and local authorities in Crimea will further expand Russian bureaucracy. The status and wealth of bureaucrats grew as well. Bureaucrats' salaries are higher than the average national wage (1.5 times and more) and have continued to grow over the years. Notoriously, corrupt bureaucracy in Russia substantially supplements official incomes with bribes, kickbacks, or through corporate raiding (for example in the Magnitsky case). Surveys show that, more often, state officials are those who nudge entrepreneurs to give bribes, rather than other way around.⁷⁶

⁷⁵ Data presented in: S. Maneeva, "Armya chinovnikov v Rossii dostigla 7 millionov chelovek," *President*, 30 August 2012, www.prezidentpress.ru/news/prezident/2165-armiya-chinovnikov-v-rossii-dostigla-7-millionov.html.

⁷⁶ Results of survey presented in: T. Shirmnova, "Opora Rossii: dve treti malogo biznesa vovlecheny v korruptsiyu," *Izvestia*, 28 July 2014, <http://izvestia.ru/news/574415#ixzz38ktbWVYU>.

Wealthier than before, Russian bureaucracy has increasingly sought to invest, buy property and spend holidays abroad.⁷⁷ Many also have applied for second citizenship or a residence permit in EU Member States. For instance, the popular blogger Alexey Navalny revealed, after a thorough investigation based on open sources, that the head of the Russian Investigation Committee, Alexander Bastrykin, owns real estate and has a residence permit in the Czech Republic.⁷⁸ Although relying on the state to multiply personal incomes, the Russian bureaucracy's interconnection with Europe and the U.S. has expanded dramatically over the last decade.

After the annexation of Crimea, the freedoms that bureaucrats had enjoyed to top-up incomes and use of corruption abroad, were constrained. On the one hand, some top and mid-ranking state officials were blacklisted by the EU and U.S. (see Annexes). On the other hand, the Kremlin intensified its campaign to shorten the leash of the Russian bureaucracy. In July, the Ministry of Justice prepared a bill prohibiting state and municipal public servants from travelling abroad on money provided by other states, foreign organisations, or citizens, as well as Russian organisations that receive external funding. In April, reminiscent of Soviet practices, employees of ministries (for example, the Interior and Prosecutors Office) and judges were "advised" not to travel abroad (between 120 to 173 states) until further instructions from the top. Partially, as a result of these travel restrictions, the demand in Russia for travel tours overseas dropped by 50%, forcing 14 travel agencies to go bankrupt.⁷⁹ The decision to limit freedom of travel for several segments of Russian bureaucracy was officially motivated by concerns that, in the context of sanctions against Russia, they could be provoked and detained while abroad. Instead, state servants were asked to spend holidays in Crimea. Towards this aim, the government demanded state corporations to report on the number of employees or their children who spent their summer breaks in Crimea.

⁷⁷ For countries in which Russian public servants own real estate, see the detailed investigation by E. Myazina, I. Mokrousova, "V kakikh stranakh u rossiiskikh gossluzhashih est' nedvizhimost'," *Vedomosti*, 20 August 2012, www.vedomosti.ru/library/news/3030681/deklaraciya_i_zhizn.

⁷⁸ "The Czech Spy," *Blog of Navalny*, 27 June 2012, <http://navalny-en.livejournal.com/28761.html>.

⁷⁹ "Rossiskii Soiuz Turindustri zaiyavil o padeni sprosa na poezdki na 50%," *Polit.ru*, 17 September 2014, <http://polit.ru/news/2014/09/17/tourismmarket>.

The Kremlin's initiative in August to invite all MPs to Crimea in order to meet the president also aimed to force state officials to spend at least part of their vacation on the peninsula. The president showed less tolerance than before towards unsanctioned criticism. In August, the deputy economy minister was fired after criticising on his Facebook page the government's decision on the management of pensioners funds.⁸⁰

In June, the president submitted a bill that would enlarge the list of public officials who cannot have foreign assets. Back in 2013, the Kremlin pushed for legislation prohibiting senior officials from holding bank accounts or other financial instruments overseas. In August, a law was ratified requiring Russian citizens living in Russia to notify authorities within 60 days about dual citizenship or residency permits in other countries. As citizens with dual citizenship are prohibited from occupying certain positions in public service, the law will help to identify those concealing this fact. Employees at state corporations will also have to choose between keeping a job or retaining dual citizenship. Those who fail to declare will face a fine up to \$5,800 or 400 hours of community service.⁸¹ So far, out of approximately 5–6 million citizens with dual citizenship, only half a million have made a declaration about this, or about residence permits abroad.⁸² In March, under pressure of declining budget revenues, the question of the reduction of the bureaucratic apparatus (by as much as 50%) resurfaced. More disadvantageous initiatives for bureaucracy could be in the pipeline.

Although such measures have triggered silent discontent among public servants (in particular travel restrictions),⁸³ they are unlikely to provoke open rebellion of state bureaucracy against the president and his political course. In the short term, such measures can increase the number of exits of professionals

⁸⁰ "Russia Fires Deputy Minister Who Called Shame on Pension Freeze," *Bloomberg*, 6 August 2014, www.bloomberg.com/news/2014-08-06/russia-fires-deputy-minister-who-called-shame-on-pension-freeze.html.

⁸¹ "Russian Dual Citizenship Declaration Law Comes into Force," *RFE/RL*, 4 August 2014, www.rferl.org/content/russian-bill-criminalize-hiding-of-dual-citizenship-comes-into-force/25479962.html.

⁸² "More than 553,000 Russians notify authorities of double citizenship or residence permit," *Itar-Tass*, 18 October 2014, www.en.itar-tass.com/russia/755149.

⁸³ See for instance reactions in online forums: A. Varkentin, "V raydakh MVD – massovoe nedovolstvo!," *URA.RU*, 24 April 2014, <http://ura.ru/content/svrd/24-04-2014/news/1052180049.html>.

from the system, especially from state corporations. Instead, less competent but more patriotically driven public servants can be brought in to the system and rapidly elevated in ranking.⁸⁴ Alternatively, bureaucrats who decide to stay are likely to look for loopholes to avoid restrictions or sabotage Putin's policies (in, for example, the anti-corruption field). Nevertheless, isolationist measures that affect bureaucracy have the potential to accumulate dissatisfaction, which could blow up in Putin's face one day, shattering his political regime. Moreover, patriotic bureaucracy brought to the fore on the wave of Crimea annexation and economic sanctions will reduce the quality of governance, further undermining the Russian state from the inside.

⁸⁴ For more see: S. Karaganov, "Izbezhati Afganistana-2," *Vedomosti*, 28 July 2014, www.globalaffairs.ru/pubcol/Izbezhat-Afganistana-2-16844.



OLIGARCHS



Sanctions applied against Russia have sorely hit business elites. But the effect of sanctions and the scale of the Kremlin's assistance to targeted individuals and companies varies, according to whether they are old oligarchs from the 1990s or those newly emerged in the 2000s—Putin's inner business circle.⁸⁵

In Russia, economic elites are commonly referred to as oligarchs. Under Putin, business elites that emerged in the 1990s lost political clout. The uncertain status of private property—coupled with hectic power centralisation—helped Putin to turn oligarchs into instruments of the Russian state. After re-establishing predominance, the Kremlin regularly used business elites to expand Russian economic presence abroad (in particular, in the energy sector), to make social donations or to become involved in infrastructure mega-projects. For instance, the Russian private company Lukoil benefited from loan guarantees and political backing from the Kremlin in its strategy to expand in Europe (Spain and the Netherlands) and the Middle East (Iraq). In another example, the oligarchs Oleg Deripaska (Basic Element Company) and Vladimir Potanin (Interros) footed the bill for some works in preparation

⁸⁵ See: J. Ćwiek-Karpowicz, *Rosyjska elita władzy centralnej w latach 2000–2008*, Aspra-JR, Warszawa, 2011.

for the Sochi Olympic Games.⁸⁶ As long as oligarchs attuned their business interests with the Kremlin's grand objectives and stayed out of politics, they kept and multiplied their fortunes. As statistics show, the number of Russian billionaires spiked from 33 in 2005 to 111 (second only to the U.S. and China) in 2014.⁸⁷

While old oligarchs were sidelined but kept augmenting wealth, a new distinct group of oligarchs, who are much closer to Putin, emerged in the 2000s. They enjoy political influence to some extent, which is difficult to measure. For instance, while Igor Sechin—serving simultaneously as the CEO of Rosneft and executive secretary of the Presidential Commission on Strategic Development of the Fuel and Energy Sector and Ecological Safety—exercises significant influence over Russia's energy policy (particularly the pivot to China), it is hard to assess the level of influence of Yuri Kovalchuk (Bank Rossyia), who is rumoured to be a regular guest at the Kremlin. Sanctions applied against close associates of the president reveal the existence of such a group and helps to distinguish them from other oligarchs who were not put on the list (see table with selective list). Putin's close business circle was, until recently, more secretive. Publications speculated about who is included in the new oligarchic group.⁸⁸ As the list of blacklisted individuals and companies in the U.S. and EU shows, Putin's close business circle encompasses businessmen who hold no public positions in government, legislative or presidential administration. Their businesses and rapid enrichment is directly linked with privileged access to the Kremlin. It also includes several individuals who sit on the boards of Russian state corporations (so-called "state oligarchs"), administrating massive state assets as private ones. The links connecting these people and the president are common career pathways in Dresden or Saint Petersburg, or private relations (such as past sport activities). Overall, they are friends of the president, whom he has known

⁸⁶ See: interview with Oleg Deripaska, *BBC News Business*, 10 February 2014, www.bbc.com/news/business-26117153; interview with Vladimir Potanin, *BBC News Europe*, 7 February 2014, www.bbc.com/news/world-europe-21352065.

⁸⁷ See: "The World's Billionaires," *Forbes*, www.forbes.com/billionaires.

⁸⁸ See: A.K. Ross, "Rulers' Riches: The Fabulous Riches of Putin's Inner Circle," 2 March 2012, www.thebureauinvestigates.com/2012/03/02/the-fabulous-riches-of-putins-inner-circle.

for 20–40 years and with whom he occasionally spends personal time (for example, playing hockey).⁸⁹

Table 4. Russian oligarchs and Putin’s business inner circle

PUTIN’S BUSINESS INNER CIRCLE	OLIGARCHS FROM THE 1990s
Igor Sechin—Rosneft	Vagit Alekperov—Lukoil
Gennady Timchenko—Volga Group/Novatek	Vladimir Yevtushenkov—Sistema
Sergey Chemezov—Rostec	Alisher Usmanov—Metalloinvest/MegaFon
YuryKovalchuk—Bank Rossiya	Mikhail Fridman—Alfa-Group
Bothers Rotenberg—SMP Bank/SGM Company	Vladimir Potanin—Interros
Nikolay Shamalov—Bank Rossiya	Oleg Deripaska—Rusal

Source: PISM.

One of the ingredients of the old oligarchs’ business expansion was cheap long-term money borrowed in Europe or the United States. This is reflected in figures of Russia’s corporate debt, which, in 2014, swelled to around \$650 billion. Sectoral sanctions challenged this business growth model, with foreign banks more reluctant to engage with Russian companies. As a result, several Russian companies recently faced significant hurdles to refinance debts or secure new loans on the international market (such as Mechel, Rusal or Lukoil). The Kremlin is unlikely to leave oligarchs and national champions to face their troubles alone. The financial crisis in 2008–2009 is an illuminating precedent. State banks (VTB and Sberbank) will probably intervene to refinance debts and support systemic industrial companies. But the Kremlin will provide help not out of love, but to keep social stability, particularly in *monogoroda*, where ten-

⁸⁹ For more see: B. Judah, “Behind the Scenes in Putin’s Court: The Private Habits of a Later-Day Dictator,” *Newsweek*, 23 July 2014, www.newsweek.com/2014/08/01/behind-scenes-putins-court-private-habits-latter-day-dictator-260640.html.

sions can easily explode (as happened in Pikalevo in 2009).⁹⁰ However, Russia's state resources are not limitless, and financial assistance for oligarchs might drain rapidly under the economic impact of sanctions.

While quietly dissatisfied by Putin's geopolitical gamble in Ukraine, old oligarchs are unlikely to challenge him in the short run. Nevertheless, if Russia advances further on a path of economic autarchy, or if harsher sanctions are imposed on Russia, some oligarchs may decide to leave the country or scale down business in Russia. Russian oligarch Roman Abramovich set a precedent in the mid 2000s when, after the Kremlin's attack against Yukos, he drastically reduced his participation in Russian business (for example in Rusal, Aeroflot and Sibneft). According to the Russian Central Bank, several private banks (including Alfa-Bank and Moscow Credit Bank owned by Mikhail Fridman and Roman Avdeev, respectively) were rapidly accumulating funds in overseas accounts by June.⁹¹

Oligarchs from Putin's inner circle will also face problems finding external financial resources for projects. However, sanctions have created several additional complications for them. Firstly, strategies of internationalisation of business will probably have to be postponed. U.S. partners (such as ConocoPhillips) are withdrawing from or suspending projects with Rosneft, where Igor Sechin is CEO. Furthermore, Total suspended acquisition of shares of Novatek, casting doubt on the implementation of the Yamal LNG project in Siberia. Secondly, sanctions make the oligarchs public figures and present them as openly providing support for the president. They loathe publicity, but sanctions have dragged them out of the shadows. After his Bank Rossiya was blacklisted in the U.S., Yury Kovalchuk went on Russian public TV channel Vesti to answer questions about sanctions.⁹² Gennady Timchenko, who usually keeps a low profile, gave a significant interview to Itar-Tass after sectoral sanctions were put in

⁹⁰ In June 2009, inhabitants of small town near Saint Petersburg—Pikalevo—blocked the railway and road. The causes of the protest were unpaid salaries, lay-offs from three factories located in the city (one owned by Russian oligarch Oleg Deripaska), and suspension of heating and water supplies. The situation was resolved after the direct intervention of Putin, who was then prime minister.

⁹¹ See: A. Baiyazitova, "Gosbanki wernuli v Rossiyu iz-za rubezha 352 mlrd rublei," *Izvestia*, 24 July 2014, <http://izvestia.ru/news/574219>.

⁹² Interview with Yuri Kovalchuk, *Vesti Nedeli*, 23 March 2014, <http://vesti7.ru/news?id=42475>.

place by the U.S. and the EU.⁹³ Both threw unconditional support behind the president's political course, but also recognised that sanctions create certain business-related and personal problems. As a result, Arkady Rotenberg transferred some assets to his son, while Rosneft filed a suit against EU sanctions.⁹⁴ Thirdly, sanctions deprive Putin's cronies of freedom to travel and spend their incomes abroad. All in all, sanctions have grounded them in Russia and linked their future successes and failures even tighter to Putin.

Aware of a multitude of troubles, Putin employed compensatory measures to reward loyalty, soothe dissatisfaction and prevent any schism inside his inner business circle. He pledged to open bank accounts in Bank Rossyia. In April, Bank Rossyia (instead of Alfa-Bank) became the institution servicing payments (up to 2% volume of Russia's GDP) between players on the wholesale energy market in Russia. The government lifted its opposition to a draft law on compensation for Russian citizens whose assets are seized by foreign authorities, a project seen as aimed to protect Putin's friends' interests.⁹⁵ After lobbying from Rosneft and Novatek, Putin ordered an inquiry into the possibility of allowing other companies to export gas to China via Gazprom's envisaged pipeline. In August, Timchenko's construction company received lucrative contracts to modernise parts of the Baikal-Amur-Mainline (BAM). Timchenko also hinted that he would like to have bigger budgets for construction of stadiums for the 2018 World Cup, in which his companies will participate. Reportedly, the president's friends will be building a bridge across the Kerch Strait to Crimea, which—according to initial estimations—will cost the Russian state between \$1.5 and \$3 billion. Left with few opportunities abroad, and with the president's blessing, Putin's associates are set to pursue aggressive expansion inside the country, sidelining not only well-established oligarchs and companies (such as Alfa-Group), but also state corporations (for example, Gazprom).

⁹³ Interview with Gennady Timchenko, *Itar-Tass*, 4 August 2014, <http://itar-tass.com/opinions/top-officials/1353227>.

⁹⁴ "Putin Billionaire Allies Move Assets to Sons Amid U.S. Sanctions," *Bloomberg*, 13 October 2014, www.bloomberg.com/news/2014-10-13/putin-billionaire-allies-move-assets-to-sons-amid-u-s-sanctions.html; and "Russia takes EU to court over Ukraine sanctions," *Financial Times*, 16 October 2014, www.ft.com/intl/cms/s/0/8e460fe4-5547-11e4-b750-00144feab7de.html#axzz3Gmlj9h9A.

⁹⁵ "Cabinet Wants to Compensate Russian Victims of 'Illegal' Asset Seizures Abroad," *The Moscow Times*, 2 October 2014, www.themoscowtimes.com/business/article/russian-government-backs-rotenberg-bill-to-blunt-western-sanctions/508304.html.

The early signs of this trend can be detected behind the criminal investigation against Russian oligarch Vladimir Yevtushenkov, who controls a major stake in independent oil producer Bashneft. Yevtushenkov's placement under house arrest is allegedly regarded as Rosneft's first move in absorbing Bashneft.

In the short run, Putin and his inner circle are learning how to live and do business amid deadlocked relations with the EU and the United States. It seems they are set to play for the long haul. Putin is further escalating conflict in Ukraine, and his business circle continues to be rewarded with mega contracts inside the country. This equilibrium may survive for quite some time, unless the EU and the U.S. deepen sectoral sanctions for Russia's non-compromising attitude on Ukraine, or as a result of an open full-scale invasion. Harsher sanctions will in the short- and mid-term further cement Putin's business associates' dependence on him. At the same time, new sanctions inflicting even greater damage on the Russian economy and the Kremlin's inner circle might trigger frictions within it. The outcome of underground conflicts and the resulting political impact is hard to foresee.



ENERGY SECTOR



The introduction of the international sanctions will adversely affect new projects in deep-water and Arctic oil exploration in Russia. Russia's regulations stipulate that access to the shelf is provided only to the companies in which a stake of more than 50% belongs to the state and which have a minimum of five years of shelf exploration.⁹⁶ Currently, only two companies meet the criteria to carry out exploration on Russia's Arctic shelf: Rosneft and Gazprom. Both of them are banned from importing deep oil exploration technology. Rosneft already holds 46 licences on exploration and production of oil and gas on the Russian continental shelf, which contain up to 450 million tonnes of oil equivalent (TOE).

Impact on Oil Production

Western sanctions will primarily curtail Rosneft's projects in the Barents Sea and the Kara Sea, developed in cooperation with foreign oil companies, which will have a long-term impact on Russia's oil export volumes.

The biggest Russian project in the Arctic is the East Prinovozemelski (EPNZ) field in the Kara Sea. Total oil reserves of that field are estimated at 5.3 billion t,

⁹⁶The Law of the Russian Federation "On Subsoil" (Zakon Rossiyskoy Federatsii "O nedrakh"), 2008.

by far the biggest of all known non-shale reserves in Russia. The first block of the EPNZ field is being developed by Rosneft in cooperation with ExxonMobil. The U.S. company has a 33% share in the project and has committed more than \$600 million in investment, while the cost of drilling one well in this field is estimated at \$1 billion. Despite the previous round of sanctions, ExxonMobil began exploratory drilling in the West Alpha platform (also known in Russian as "Universitetskaya-1") in August 2014. Therefore, ExxonMobil sunk substantial costs into the project before the tightening of the sanctions regime by the U.S. and EU.

The latest round of U.S. and EU sanctions, which forced companies to suspend the transfer of technology until 26 September, has endangered the project. According to media reports,⁹⁷ Exxon suspended drilling in the area and is now posed with the problem of shutting it down safely. Since the Universitetskaya well is estimated to contain over 1.3 billion TOE of crude oil, the projected terms of oil production in the Arctic will be substantially delayed.

Amid the Arctic oil production threatened by the tightening sanctions regime, Russia will have to rely on smaller projects outside the Arctic to achieve the planned growth of 4.5 million TOE by 2020 (estimated by the Ministry of Energy). The production on Gazprom Neft's Prirazlomnaya platform in the Pechora Sea, launched this year, may yield up to 6 million TOE annually by 2020. However, the output volumes in the next two years will be limited: the planned production in 2014 will not exceed 300 thousand TOE. That said, Russia is unlikely to drastically increase oil production in the Arctic in the next year.

Increased production in the Far East is equally unlikely in light of the tightening conditions for long-term financing and equipment supply. The existing fields in Sakhalin are undergoing a trend of stagnating production. Oil output from the Sakhalin-1 field, which is operated by Exxon Neft, with a 20% stake held by Rosneft, remained at 7 million TOE from 2010 until 2013. Similarly, Sakhalin-2 (where the majority stake is held by Gazprom) stayed at 5.4 million TOE from 2010 until 2013, despite an industry average overall growth of 6% during the same period. According to company sources, Rosneft's production may decrease by 2–3 million TOE in 2014, which is about 0.5% of Russia's total

⁹⁷ "Exxon Said to Halt Arctic Oil Well Drilling on Sanctions," *Bloomberg*, 19 September 2014, www.bloomberg.com/news/2014-09-18/exxon-said-to-halt-arctic-oil-well-drilling-on-sanctions.html.

annual output. In August, the output of Rosneft fell to the lowest level since the company's acquisition of TNK-BP, having decreased by 1% in comparison to August 2013. The trend is likely to persist, given that the new fields in the Far East have not been developed as planned.⁹⁸

The only likely short-term extension of oil production in these fields is expected from the Arkutun-Dagi block in the Sakhalin-1 field, co-developed by Rosneft and ExxonMobil. In June 2014, the Berkut drilling platform was installed on the north-eastern shelf of Sakhalin Island. If production starts according to plan, the block will produce 4.5 million TOE of oil annually within a year, in addition to the current output of 7 million TOE a year on the Sakhalin-1 field. It is important to note, however, that Rosneft will not be the sole (or even the biggest) beneficiary of this production growth, as American ExxonMobil, Japanese SODECO, and Indian ONGC Videsh hold even bigger stakes in Sakhalin-1 than Rosneft, according to the production-sharing agreement.

China is another rising oil partner in the Far East. Despite Western sanctions—or perhaps because of them—this partnership can be expected to strengthen within the next three to five years. As part of the Sakhalin-3 field in the Sea of Okhotsk, Rosneft is developing the Veninski block in cooperation with the Chinese state-owned company Sinopec (which has a 25% stake). The Vininski project, however, shows the problems of “autonomous” exploration in comparison to PSAs with Western majors: although it was licensed in 2010, production is far from beginning. Also, the volume of the Veninski reserves is rather modest, estimated at 25 million TOE of oil. By comparison, the reserves of the Sakhalin-3 field are estimated at 700 million TOE. Given these factors, the joint Russo-Chinese project is unlikely to drastically increase Russian production even in the more remote perspective.

⁹⁸ See: “‘Kommersant’ soobshchil o snizhenii dobychi nefi ‘Rosneftu,’” *Lenta.Ru*, 3 September 2014, <http://lenta.ru/news/2014/09/03/rosneftoil>; also *Bloomberg*, 2 September 2014; “Rosneft’s Russian Crude Output Drops to Lowest since TNK-BP Deal,” *Bloomberg*, 2 September 2014, www.bloomberg.com/news/2014-09-02/rosneft-s-russian-crude-output-drops-to-lowest-since-tnk-bp-deal.html.

Impact on Shale Oil and Conventional Gas Production

The biggest known shale oil field of Bazhenovaya Svita is located in west Siberia. The field is estimated to contain reserves ranging from 10 to 30 billion tonnes of oil. In the past two years, at least four partnerships between Russian and Western companies were considered, with a view to start exploration of those resources. These partnerships were Salym Petroleum Development (Gazpromneft and Royal Dutch Shell), Bazhenovskaya (23 blocks, Rosneft and Exxon), Galyanovsky (Lukoil and Total), and the joint venture between TNK-BP and Schlumberger.

Thus, Rosneft will incur the biggest losses following the suspension of shale oil projects. In particular, 27 licences have been granted to Rosneft for developing Bazhenovskaya Svita oil reserves in west Siberia, which may yield up to 2 billion tonnes of oil equivalent. However, the sanctions imposed on Rosneft and Novatek are likely to cause an indefinite suspension of all projects for shale oil and shale gas exploration in Russia, given that the export technology restrictions explicitly target the equipment used for non-conventional oil production.

The restrictions on access to credit for Gazprom are starting to influence its subsidiaries. In September, Gazprom's subsidiary Novourenгой Gas-Chemical Plant failed to sell bonds for \$520 million,⁹⁹ which will probably necessitate the request for a loan from Russian state-owned banks. Given that the U.S. is likely to impose further sanctions on Gazprom in the months to come, the company's new projects may be postponed due to a lack of access to credit. This will mean that it would have to rely on Russian state banks to finance the big projects in Sakhalin-3 in the Far East (estimated gas reserves of 162 bcm) and the Shtokman gas condensate deposit in the Arctic (reserves of 3,200 bcm). In the event of delays with financing for these projects, Russia's long-professed hopes to increase gas supply in the eastern direction will be dashed.

⁹⁹ "Sanctions deprived a Gazprom-affiliated structure of a 520-million loan," *Slon.RU*, <http://slon.ru/fast/business/sanktsii-lishili-strukturu-gazproma-kredita-na-520-mln-1157871.xhtml>.



MILITARY SECTOR



Scope of EU Sanctions

One of the most important elements of sanctions imposed by the European Union on Russia is a ban on new arms contracts. However, it has primarily a symbolic dimension, as—according to the SIPRI—between 2011 and 2013, Russian arms contracts with the EU were worth only \$75 million.¹⁰⁰ The arms exports of individual EU countries (mainly the Czech Republic, France and Italy) to Russia were also insignificant—\$33 million in 2010–2013. It should also be noted that the EU and the U.S. are not Russia’s major arms export market, as the majority (nearly 65%) of Russian arms were sold in the Asian markets to countries such as India, China, and Vietnam.¹⁰¹

More painful are sanctions concerning dual-use technologies, particularly as, according to media reports, the value of EU exports of such equipment to Russia (for example, hardware and high-performance electronics or quantum cryptography) was estimated at about €20 billion per year. The largest contracts concluded by the EU Member States and Russia were the delivery

¹⁰⁰ *TIV of arms exports from Russia, 2010–2013*, SIPRI, http://armstrade.sipri.org/armstrade/html/export_values.php; SIPRI military expenditure database, www.sipri.org/research/armaments/milex/milex_database/milex_database.

¹⁰¹ *SIPRI 2011 Yearbook, Armaments, Disarmaments and International Security*, pp. 276–277.

by France of two Mistral class ships, the Italian sale of Iveco M65 Light Multirole Vehicles, and the participation of the German company Rheinmetall in building a military training centre in the Nizhegorod Oblast.¹⁰² According to the sanctions, these do not have to be terminated, but, for example, the German government forced the company Rheinmetall to break the contract for the construction of the military training centre (the Russians declared that they will be able to complete the project independently, since it is already 95% implemented). Regarding the French contract, although France's president François Hollande declared on 3 September, that France will not sell Mistrals to Russia, on 13 September, 200 Russian soldiers started exercises on the first ship delivered (the "Vladivostok").¹⁰³

The EU sanctions included, among others, companies such as AviaGrup, LCC, which is a subsidiary of Sheremetyevo Airport, and deals with the construction of the centre of business and aviation, the JSC Concern Sozvezdie, which produces, among other things, systems of control and communications, MIG Engineering (fighter aircraft), the St Petersburg Electronic Company, dealing with the distribution of Russian electronic components, and support companies of this sector in Russia.

Scope of U.S. Sanctions

At the same time, due to the importance of the defence industry not only for the Russian military but also for the international arms trade, EU sanctions in this area have to be considered together with actions taken by the United States and Ukraine. The U.S. imposed sanctions on the enterprises such as the joint-stock Company Almaz-Antey, which chiefly produces air defence systems and radars; Uralvagonzavod, which produces tankers and rail carriages, fire support combat vehicles and T-90 tanks; NPO Mashinostroyeniya (launch vehicles and satellites); Kalashnikov, Sozvezdie (communications systems and

¹⁰² P. Spiegel, "Ukraine Crisis: EU to Weigh Far-reaching Sanctions on Russia," *Financial Times*, 24 July 2014, www.ft.com/cms/s/0/15ecc35c-12a4-11e4-a6d4-00144feabdc0.html#axzz3AHUwYHCM; J. Borger, P. Lewis, R. Mason, "EU and US Impose Sweeping Economic Sanctions on Russia," *The Guardian*, <http://www.theguardian.com/world/2014/jul/29/economic-sanctions-russia-eu-governments>.

¹⁰³ V. Prokofyev, "A 'Mistral' plyvet," *Rossiyskaya Gazeta*, www.rg.ru/2014/09/13/vladivostok-site.html.

an automated system for command and control at the tactical level, KRET (complex electronic warfare and radar systems), NPO Bazalt (aerial bombs and grenade launchers), and Konstruktorskoye Biuro Priborostroyeniya (air defence systems and anti-tank missile systems). What is more, the United States' sanctions, also primarily symbolic, influenced not only the actions of the EU, but also the policies of Israel, which withdrew from a contract with Russia to provide drones.

The U.S. and EU sanctions may be difficult for Russia because they undermine access to the latest technologies in the field of electronics, computing, communications, and more, namely in the area of dual-use technology. However, in terms of strict armament production they are not important because neither are key partners for the Russian military-industrial sector. The other problem may be Russia's retaliation in the form of denial of post-warranty service or supplying replacement parts for Soviet-era weapons remaining in Central and Eastern European countries. The United States was also an important market for hunting and sporting weapons for Kalashnikov. However, for the United States, the primary concern is the ability to continue purchasing equipment from NPO Energomash and OAO Motostroitel, and OAO Kuznetsov rocket engines (RD-180 and NK-33—Aerojet AJ-26) used to launch the Atlas-5 rocket by United Launch Alliance and Antares. The Pentagon did not allow Congress to extend the sanctions to these manufacturers.

The Actions of Ukraine and the Growing Significance of Third Countries

In June, the Ukrainian president, Petro Poroshenko, ordered a complete break of cooperation in the defence industry with Russia (although press reports say that not all Ukrainian companies, such as Motor Sich, abide by this order).¹⁰⁴ This decision is particularly painful for Russia, as the replacement of military equipment produced so far in Ukraine will take at least two years (for example turbine engines for ships, engines for helicopters, inhibitory parachutes for Su

¹⁰⁴ M. Birnbaum, "Ukraine Factories Equip Russian Military Despite Support for Rebels," *The Washington Post*, 15 August 2014, www.washingtonpost.com/world/europe/ukraine-factories-equip-russian-military-despite-support-for-rebels/2014/08/15/9c32cde7-a57c-4d7b-856a-e74b8307ef9d_story.html.

family fighters, servicing of the SS-18 intercontinental missile), which will adversely affect the implementation of the plan for the modernisation of Russia's armed forces. For Roskosmos, replacing Ukrainian equipment for projects such as space programmes and developing new technologies, this will mean the expenditure of about RUB 33 billion (approx. \$900 million) by 2018.

China can benefit primarily from EU, U.S. and Ukrainian sanctions, as Russia will seek sources of modern technology. The Russian press has reported that, during the next several months, the military and space-rocket companies will buy microelectronics from the Chinese for about \$2 billion.¹⁰⁵

Perhaps Russia will also decide to use the potential of the Belarusian defence industry. The Belarusian authorities continue to encourage Russia to establish joint venture defence enterprises, which could partly strengthen Russia's potential. Belarus may, for example, propose providing electronic warfare equipment, produced by KB Radar, and the production of small An-38 transport aircraft, from the Minsk aviation repair plant.¹⁰⁶ However, looking for alternative suppliers will be a temporary issue, and the aim will be ensuring the supply of equipment, electronics and communication up to the time when the Russian defence industry will be able to produce it independently.

Consequences for the Russian Defence Industry

Russia is to a great extent self-sufficient in the production of weapons but, problems attributable to Western sanctions, both breaking cooperation with Ukrainian companies (especially in the production of engines for helicopters and servicing intercontinental ballistic missiles), as well as the lack of supply of the latest technology in the field of information technology and telecommunications, will be unfavourable to the Russian defence industry. In response to the actions of the EU, the U.S. and Ukraine, Russia introduced a plan to completely replace the production of imported armaments with domestically produced equipment in the next two and a half years.

¹⁰⁵ "Rossiya zakupit kitayskuyu mikroelektroniku na \$2 mlrd," *Izvestia*, 6 August 2014, <http://izvestia.ru/news/574886>.

¹⁰⁶ A.M. Dyer, "What Ending Cooperation on Armaments Means for Russia and Ukraine," *PISM Bulletin*, no. 50 (645), 15 April 2014, www.pism.pl/publications/bulletin/no-50-645.

The challenge, however, will be to prepare human resources, expand and build modern factories, and restore cooperative ties between them. This will delay implementation of targets set in the programme of development of Russia's military and industrial complex by 2020,¹⁰⁷ and will cost, according to the maximum estimate, approximately €10 billion.¹⁰⁸ It is highly likely that, despite the threat of recession, rearmament of the army will remain a priority for the Russian government.

For complete independence from foreign suppliers, Russia will have to replace imported military production, as well as accelerate the development and modernisation of its defence industry. This will be particularly important in areas such as nuclear power, communication, construction of engines for aircraft, helicopters and ships, and the production of modern electronics. Already, work on a heavy intercontinental ballistic missile, Sarmatian, which is to replace the SS-18 missile, has been accelerated. From 2020, Russia also plans to produce various pieces of space rocket technology independently.

Ukraine's withdrawal from arms contracts, and the U.S. and EU restrictions on dual-use technology exports to Russia will be important for the fulfillment of Russian contracts with third countries, such as India (in 2009, both countries signed a 10-year contract for joint production of helicopters, infantry fighting vehicles and fifth-generation fighters).¹⁰⁹ For example, Russia's SU-30 fighters feature French-installed electronics, without which Russia will not be able to fulfill this contract. The same story can happen with tanks, which Russia will be unable to export to Asian partners without French thermographic cameras. What is more, the Russian defence sector may suffer losses if Israel withdraws from other areas of cooperation, such as providing electronics, which were installed in Russian export equipment.

¹⁰⁷ Russia was going to spend approx. \$600 billion on modernising the army.

¹⁰⁸ E. Dobkin, M. Gordeyeva, "Rossiya ostavit ukrainskuyu oboronku bez raboty," *RBK Daily*, 18 June 2014, <http://rbcdaily.ru/industry/562949991737502>.

¹⁰⁹ "Russia, India to Jointly Develop 5th-generation fighter," *RIA NOVOSTI*, 15 October 2009, <http://en.ria.ru/russia/20091015/156475971.html>. See also *SIPRI 2010 Yearbook, Armaments, Disarmaments and International Security*, pp. 291–292.

The Change in Military Doctrine and Combat Capabilities

One of the consequences of the current situation in Ukraine, and related NATO and EU reactions, will be changes in Russia's military doctrine and national security strategies for the period to 2020, and security law, which introduces new categories of risks associated with the activities of not only conventional, but also information war.¹¹⁰ The most important proposal of changes in military doctrine concerns the introduction of a provision giving Russia the right to make a preventive nuclear strike.¹¹¹ At the same time, a new armament strategy means that the Russian military will strive for total self-sufficiency in the supply of military equipment and communications technologies. "Information troops," to combat "Western propaganda," have also been suggested as part of the response to U.S. and EU sanctions.

It seems unlikely that EU, U.S. and Ukrainian sanctions will reduce the combat capabilities of the Russian army significantly, given that the Russian army's probable decline in dependence on supplies from these countries. The armed forces of the Russian Federation have sufficient potential, both regarding conventional weapons and nuclear power, to ensure the safety of the state. However, in the short and medium perspective, the activities of the U.S. and the EU may slow down the process of modernisation of the Russian army. In the longer term, they may be seen as the cause of a new-found independence from foreign military supplies.

¹¹⁰ V. Mukhin, "Moskva korrektruyet voyennuyu doktrinu," *Nezavisimaya Gazeta*, 1 August 2014, www.ng.ru/armies/2014-08-01/1_doctrine.html?print=Y.

¹¹¹ "Izmeneniya v voyennoy doktrine Rossii – pravo na preventivnyy yadernyy udar," *Moskovskii Komsomolets*, 2 September 2014, www.mk.ru/politics/2014/09/02/izmeneniya-v-voennoy-doktrine-rossii-pravo-na-preventivnyy-yadernyy-udar.html.

THE INFLUENCE OF SANCTIONS ON RUSSIA'S FOREIGN POLICY



UKRAINE AND THE EU



Russia has taken a defiant stance on Western sanctions since the beginning, arguing that they will not help to find a solution to the crisis in Ukraine. In other words, Russia is sending a message that restrictive measures will not deter it from further destabilising Ukraine through various means. Russia has in part upheld this position by breaking the Ukrainian forces' siege of Donetsk and Luhansk, and forcing Ukraine's border guards to leave the Russian-Ukrainian border in the east. But as the West further deepened sanctions and Ukraine proved its better than anticipated capacity for military action (raising the human costs of the Russian military offensive), the Kremlin was compelled to adapt its tactics in Ukraine, which resulted in the Minsk negotiations, a shaky ceasefire, and a limited exchange of prisoners. Without tightening sanctions against Russia, the probability of hostilities engulfing more of Ukraine's regions in the east was and remains very high.

Russia devised a complex strategy to prevent and later dilute damage caused by Western sanctions, but ultimately without much success. On the rhetorical level, Russia engaged in a full-scale war of words with the U.S. and the EU. The Kremlin blamed the U.S. first for nurturing Maidan and supporting "illegitimate" authorities in Kyiv. It also criticised what it called the U.S. "dictatorship" in international affairs, and Washington's propensity to impose its will and values on others. To fuel divisions inside the trans-Atlantic community,

Russia claimed that the EU was bullied by the U.S. into adopting sanctions that ultimately run against Europe's economic interests. Moscow said the EU's stance was a mistake, predicting that the U.S. will shift focus from Europe to the Pacific region.¹¹²

Increasing its pressure on the EU Member States, which face uncertain economic recovery, the Kremlin actively engaged the European business community in a bid to recruit it as an influential voice in opposition to sanctions. To this end, Putin tried to use high profile meetings with business communities such as the St. Petersburg International Economic Forum in May, a meeting with Austrian business people in June, and the "Russia Calling!" Investment Forum in October 2014. Voicing his opinion at the latter event, Putin said: "... sanctions are foolish, considering that those governments are limiting their own businesses, not letting them operate, reducing their competitiveness, opening up opportunities on such a promising market as ours for their competitors."¹¹³ Last but not least, as in case of the United States, Russia tried to shift the responsibility for turmoil in Ukraine, blaming the EU's eastern neighbourhood policy and its alleged "zero-sum" approach.

However, Russia's foreign policy strategy has not been confined to aggressive rhetoric and a charm offensive towards the European business community. Russia took several steps to preclude the formation of consensus inside the EU, by intimidating the EU Member States or fostering disagreements by insisting on divisive issues. The Russian air force drastically increased the number of flights near or inside sovereign territory of the EU Member States. Among those that faced an unprecedented number of Russian intrusions or provocative flights near their borders were Lithuania, Latvia, Estonia, Sweden, Finland, the Netherlands, the UK, Bulgaria, and Romania. For instance, over last eight years, Russia violated Estonia's airspace seven times, whereas in 2014 alone, Russian planes have so far crossed the Russian-Estonian border five times.¹¹⁴

¹¹² S. Lavrov, speech at the 69th Session of the UN General Assembly, 27 September 2014, www.mid.ru/brp_4.nsf/0/42A12ECFF2162A4B44257D6000655B82.

¹¹³ V. Putin, speech at "Russia Calling!" Investment Forum in Moscow, 2 October 2014, <http://eng.kremlin.ru/transcripts/23035>.

¹¹⁴ R. Milne, S. Jones, K. Hille, "Russian Air Incursions Rattle Baltic States," *Financial Times*, 24 September 2014, www.ft.com/intl/cms/s/0/9d016276-43c3-11e4-baa7-00144feabdc0.html#axzz3Gmlj9h9A.

Russian diplomacy also pushed on with implementation of the controversial “South Stream” gas pipeline project, which violates the EU’s 3rd Energy Package. In 2014, Russian officials raised the issue of “South Stream” construction during trips to Sofia and Vienna. The Kremlin renewed efforts to recruit Italy’s support for “South Stream” during a trip to Moscow by Italy’s foreign minister Federica Mogherini in July. Russia also put pressure on the embattled government in Paris by insisting that France must deliver Mistral class helicopter-carriers or return money (approximately €1.2 billion) and potentially face a fine for breaking a contract (around €250 million).¹¹⁵

To make the adoption of sanctions more complicated, Moscow pursued several tracks. Ahead of the EU institutions’ meetings regarding the adoption of prohibitive measures against Russia, the Kremlin made overtures to European capitals for a diplomatic solution, only to renege on this several days later. Russia alternated apparent de-escalation of violence with unexpected scaling up of hostilities in Ukraine. This tactic worked until August 2014, when the EU substantially strengthened sanctions, followed by new restrictions in September 2014. In an attempt to prevent further restrictive measures and raise the costs for countries that imposed sanctions on Russia, the Kremlin introduced a food import ban. As Russia is second biggest destination for the EU’s agriculture exports (10% of the total),¹¹⁶ the ban specifically targeted the EU in the hope of sowing discontent among farmers and challenging European governments from the inside. Russia further extended the import ban in October 2014.

Not least, Russia withdrew from negotiations on gas deliveries to Ukraine until September 2014, keeping Europe guessing on secure gas transit via Ukraine for the upcoming winter season. At the same time, Russia pursued a destructive strategy in Donbas (destroying infrastructure) and “trade wars” with Ukraine in order to portray Ukraine as a “failed state” and discourage the West from assuming a heavy financial burden for the stabilisation of the country. Yet in spite of a defiant attitude towards sanctions, Russia ultimately sus-

¹¹⁵ “France Faces Huge Mistral Bill for Halting Russia Deal,” *BBC*, 4 September 2014, www.bbc.com/news/world-europe-29060398.

¹¹⁶ European Commission, *Agricultural Trade in 2013: EU Gains in Commodity Exports*, 2014, http://ec.europa.eu/agriculture/trade-analysis/map/2014-1_en.pdf.

pended its march on the Mariupol port on the Azov Sea and became more willing to explore diplomatic ways out of the crisis. This being said, it would be a mistake to assume that Russia's main objectives in Ukraine, namely obstructing state-building and European integration (which are interlinked), have changed, or that the Kremlin has given up. The Russian foreign minister was very frank when he said that Russia cannot lose Ukraine.¹¹⁷

¹¹⁷ "Lavrov: Russia Cannot Lose Ukraine," *Itar-Tass*, 19 October 2014, <http://en.itar-tass.com/russia/755207>.

THE POST-SOVIET REGION



The formation of the Eurasian Economic Union (EEU) was one of Putin's foreign policy electoral promises in 2012. Russia's annexation of Crimea reduced, if not completely wiped out, the chance of bringing Ukraine into the EEU. As Russian involvement in the conflict in Ukraine grew, so did its efforts to nail down an EEU treaty by May at the meeting in Astana. In pursuit of this goal, the Kremlin employed a combination of coercion and financial rewards to make Belarus and Kazakhstan agree on the text of treaty. Failure to approve the agreement in Astana would, from the Kremlin's perspective, send a signal of weakness and creeping isolation in the post-Soviet region. Russia successfully pushed through the signing of the treaty in May 2014, and ratification in October 2014, in Belarus and Kazakhstan.¹¹⁸

Moscow also focused on EEU enlargement as a demonstration of the attractiveness of Eurasian integration in the region. Armenia, after being constrained by Russia in its attempt to sign an association agreement (AA) with the EU in 2013, signed the EEU accession treaty almost a year later, and might become, if national ratification procedures proceed smoothly, a fully-fledged member in January 2015. In 2014, Russia gave Kyrgyzstan financial incentives to sign, by pledging \$1.2 billion to diminish any negative effects and prepare the country for membership. To avoid Kyrgyzstan's foot-dragging on accession,

¹¹⁸ *Dogovor o Evraziiskom ekonomicheskom soyuze*, 29 May 2014, www.economy.gov.ru/wps/wcm/connect/economylib4/mer/about/structure/depsng/agreement-eurasian-economic-union.

the Kremlin dispatched the speaker of the Russian upper-house to Bishkek in October, as a “friendly reminder.”¹¹⁹

States that signed and ratified AAs have not escaped from the Russian radar either. In the case of Moldova, Moscow introduced, in addition to a partial wine ban in 2013, a fruit embargo in July 2014. It was followed by a Russian government decision in August to suspend tariff-free preferences for Moldovan products, valid under the Commonwealth of Independent States Free Trade Area (CIS FTA). Russia targeted agriculture products, raising tariffs for products which in July were banned from the Russian market. As a result, between January and August 2014, Moldova’s exports to Russia declined by 26.5%. But Russia’s actions were undermining its own leverage, as Moldova’s exports to the EU for the same period soared by almost 16%. At the same time, Romania replaced Russia as Moldova’s main trade partner.¹²⁰ The Kremlin strived to reverse the implementation of the AA too. After several rounds of bilateral consultations in Chisinau and Moscow, Russia demanded in October a change of format (involving the EU in talks), and granting powers to a trilateral commission to review the AA that is already provisionally in force.¹²¹ Russia has not yet given the green light to extend its gas supply contract with Moldovagaz, piling additional pressure on the government ahead of elections scheduled for November 2014. Since the summer, the Kremlin has been active in supporting various political forces on the centre-left political spectrum that militate for renouncing the AA and accession to the EEU.

In the case of Georgia, Moscow pursued a different approach on trade issues, but intensified the old one on security matters. Because bilateral trade had collapsed since the 2006 Russian trade embargo, punitive measures would not pay off in Georgia. From 2013, following the change of government in Georgia the previous year, Russia gradually began to open its market to Georgian wine, mineral water, fruit, and vegetables. Consequently, Georgia’s exports to Russia

¹¹⁹ B. Asanov, “Matvienko zakriepiaet pozitsii Rossii v Kyrgyzstane,” *RFE/RL*, 21 October 2014, <http://rus.azattyk.org/content/article/26647878.html>.

¹²⁰ “Exporturile moldovenesti spre UE au crescut cu 15.8%, iar in CSI s-au redus cu 16.4%,” *Independent*, 13 October 2014, http://independent.md/grafic-exporturile-moldovenesti-spre-ue-au-crescut-cu-158-iar-csi-s-au-reduc-cu-164/#.VEecSGd_vld.

¹²¹ Rossiya dobivaetsia izmenenia soglashenia ob assotsiatii Moldovy s ES,” *NOI.MD*, 7 October 2014, www.noi.md/ru/print/news_id/48665.

in 2013 grew by 315% in comparison to 2012, elevating Russia to fourth place among Georgia's trade partners. In particular, the share of the Russian market in Georgia's wine exports kept growing, reaching 68% in first half of 2014.¹²² Despite threats to suspend a bilateral FTA accord (in force since 1994), Russia has not halted the process of increasing Georgia's access to the Russian market, continuing in this way to strengthen a trade lever that could be employed later. Speculating on the change of power in breakaway Abkhazia, the Kremlin tried to use the momentum to solidify its grip on the separatist region and liquidate essential attributes of the de facto state. The Kremlin submitted a draft of a new "inter-state" treaty to Sukhumi, which envisions Russia's gradual absorption of separatist armed forces, interior and customs officers, and border guards.¹²³ The document also proposes gradual approximation of Abkhazian "legislation" to Russian law. If approved, the treaty will represent Russia's full-annexation of Abkhazia. Infrastructure projects linking Abkhazia with the North Caucasus, which are under consideration in Russia, control facilitate the absorption process.¹²⁴

¹²² "Georgia's Exports to Russia Increases 315%," *Agenda.Ge*, 30 April 2014, <http://agenda.ge/news/13266/eng>; "Georgia's Trade with Russia in January–May 2014," *Civil.Ge*, 24 June 2014, www.civil.ge/eng/article.php?id=27404.

¹²³ "Dogovor mezhdu Rossiiskoi Federatsieii Respublikoi Abkhazia o soiuznichestve i integratsi," *Apsnypress*, 13 October 2014, <http://apsnypress.info/docs/13258.html>.

¹²⁴ V. Dzutsev, "Is Moscow's Proposal to Link Abkhazia to the Circassian Parts of North Caucasus a Step Toward Annexation?," The Jamestown Foundation, *Eurasia Daily Monitor*, 22 October 2014, www.jamestown.org/programs/edm/single/?tx_ttnews%5Btt_news%5D=42983&tx_ttnews%5BbackPid%5D=27&cHash=33491d5f8aea12429cdd749cd82bcd04#.VEjyGd_vlc.



PIVOT TO ASIA



The idea of Russia's pivot to Asia is not new. Russian officials have spoken since the early 2000s about the need for Russia to integrate in the growing Asia-Pacific economic realm, expand export markets for its natural resources, and attract investments to develop the Russian Far East.¹²⁵ Back in 2006, Russia applied to host the Asian Pacific Economic Cooperation (APEC) Summit for the first time, in Vladivostok. The event that was held in 2012 should have demonstrated that Russia's pivot to Asia is for real and represents a long-term orientation. However, in the context of Western sanctions, the Asian pivot of Russian foreign policy gained more geopolitical weight than before. Under sanctions, Russia sought to demonstrate its other options in terms of trade, technologies and investments. Although the Asian direction is worth pursuing, it will require years of concentrated effort from Russia in order to reap the rewards of a pivot to Asia. Sanctions that make Asian partners more cautious in relations with Russia will hardly make this task easier.

In this region, China caught most of Russia's attention. In 2014, Russian-Chinese high level contacts increased visibly. Putin travelled to Beijing in May, with numerous delegates, and the Chinese prime minister paid a visit to Moscow in October. After almost 10 years of negotiations, Gazprom and CNPC

¹²⁵ V. Putin, "Russia and APEC: Topical Issues and Prospects for Cooperation," *Kremlin.ru*, 17 October 2003, <http://eng.kremlin.ru/transcripts/7412>.

signed a 30-year contract on gas deliveries to China, pledging 38 billion cubic meters annually, worth \$400 billion. From the Kremlin's point of view, the contract should signal to the EU the prospects of reorientation of gas exports from Europe to Asia.¹²⁶ However, the average price of gas exported to China will be less than what the Russia's European customers pay. Moreover, exports are scheduled to begin no earlier than 2019 (with 5 billion cubic meters in the first stage), and will require at least \$55 billion of investment on the Russian side.¹²⁷ For Gazprom, securing long-term money from another source when Western financial markets are closed to it remains a big question. Thus, reorientation in regard to the gas market is not very credible.

Besides the energy sector, Russia courted China for cooperation in several other fields. Gazprombank introduced the Chinese payment system UnionPay, while several other commercial banks (such as VTB-24 and Alfa Bank) were making preparations to implement this. The Russian government has also shown an interest in UnionPay as a model on which to construct a Russian payment system, which has to be immune to Western sanctions (for example, the blocks imposed by VISA and MasterCard). Russian companies looked increasingly towards Hong Kong and the Shanghai Stock Exchange, as Western financial markets closed down to them. Moscow initiated a shift of bilateral trade in national currencies between the Russian ruble and Chinese yuan. Russia's Sukhoi concluded a preliminary agreement to deliver 100 Superjet-100s to China,¹²⁸ while Chinese investors received several infrastructure projects from Russian companies (for example, Rushydro and Evrotsement). Traditionally export-oriented, the Russian nuclear industry eyed contracts to build floating nuclear power stations in China. Ties between Russian regions and Chinese provinces were formalised. Russian and Chinese railways discussed a plan to build a 7,000 km long high-speed rail connection between Moscow and Bei-

¹²⁶ I. Barsukov, A. Gabuev, "Kak razobrali kitaiskuiu gramotu," *Kommersant*, 15 September 2014, www.kommersant.ru/doc/2567331.

¹²⁷ V. Soldatkin, "Under Putin's Gaze, Gazprom Starts Mega-Pipeline to China," *Reuters*, 1 September 2014, <http://uk.reuters.com/article/2014/09/01/uk-russia-gazprom-china-idUKKBN0GW2CH20140901>.

¹²⁸ I. Gorst, "Russia's Sukhoi Eyes Big Jet Deal with Chinese Company," *Beyond Brics – Financial Times blog*, 26 March 2014, <http://blogs.ft.com/beyond-brics/2014/03/26/russias-sukhoi-eyes-big-jet-deal-with-chinese-company>.

jing, which is estimated to cost \$230 billion.¹²⁹ Overall, the Kremlin strove to expand cooperation with China significantly, in order to increase its room for manoeuvre on the international arena, which had been so drastically reduced by the Western sanctions.

Under the impact of sanctions, the Kremlin reinvigorated international economic diplomacy, which went beyond China. Russian sent trade emissaries to India, Indonesia, Mongolia and Vietnam, to explore new economic opportunities. In a surprising move, Russia lifted its arms embargo against Pakistan and engaged Islamabad in talks on the delivery of attack helicopters. In the Middle East, Moscow courted Egypt (with arms contracts and food deliveries) and Iran (an exchange of oil in return for products exchange). Russia used BRICS as a loud-speaker to portray itself as part of a group of newly emerging powers that challenges the West's economic and political dominance. With relations strained with the West, Russian diplomacy was busy reactivating links to the east and south, in an attempt to prove that sanctions will not change its foreign policy outlook and behaviour in the post-Soviet area.

¹²⁹ "Russia and China Want to Build the Longest High-Speed Railway in the World to Connect Them," *AFP*, 17 October 2014, www.businessinsider.com/afp-china-russia-mull-high-speed-moscow-beijing-rail-line-report-2014-10.

PROSPECTS FOR RUSSIA'S REGIME



Western sanctions against Russia signal a major paradigm shift in bilateral relations. The annexation of Crimea and war in eastern Ukraine exposed not only different philosophies about the nature of relations with neighbours, but also on organising principles of European order. To change political calculations in the Kremlin, the U.S. and EU had to rely on instruments applied previously against rogue states and repressive regimes. Under such circumstances, the gap between rhetoric delineating Russia as a strategic partner and reality has widened, while applied sanctions point out Russia's emergence as a strategic challenge rather than a pillar upholding European order. Such a reversal demands a fundamental review on part of the West, of relations with Russia.

As the sanctions are relatively new, any analysis of the impact of prohibitive measures against Russia is still preliminary. What can be observed though, in this short period of time since sanctions were imposed, is that, through counter-measures, the Kremlin has augmented rather than neutralised the effect of sanctions. The Russian regime looks stable for now, but the ingredients for degradation of the state in the long run are emerging, and this has, in the past, had devastating ramifications. The quality of governance is declining, professionals are being pushed out of system, the economic model has shown its limits and, without structural reforms, resumption of sustainable growth is highly

improbable. Society is massively misinformed about the domestic situation, encouraged to develop a cult of personality and regard the West as something alien and dangerous. However, as in the case of the Soviet Union, the wake up will be painful and possibly even fatal for Russian statehood.

While sanctions begin to bite, Russia has resources to cushion the effects of the economic slowdown in the mid term. This partially explains why Russia's course in Ukraine was less amendable than expected. Assuming that sanctions will not be reconsidered and their impact will strike the Russian economy deeper, the Kremlin will have to think about its policy options. Given recent developments in Russia, what could these be?

Turn towards China

Moscow might seek a more sustained turn towards China in an attempt to draw loans and investments, develop joint technological projects, economically revamp Russia's Far East, and receive diplomatic backing on the international arena. Although China is unlikely to reciprocate Russia's overtures fully, the Kremlin's pivot towards China from a position of weakness will relegate it decisively to the position of junior partner. China will gladly provide export credits to back its producers' expansion of their share of the Russian market, or will accept stakes in major energy projects in Russia, but it will not adhere to anti-Western rhetoric and will be cautious about providing Russia with long-term money for projects with no bilateral links. As long as Russia's relations with the West remain frozen, China will enjoy the upper hand to extract more concessions from a further-deepening power asymmetry between Moscow and Beijing. China is likely to request, in return for loans, stakes in what Russia considers its "strategic sectors of economy." China's more robust presence in Central Asia might over the years challenge Russia's Eurasian integration project as well. Thus, in the process of pivoting to China, Moscow might discover that living in the shadow of the growing Asian powerhouse is more dangerous than a rule-based relationship with the EU.

Besieged Fortress

Another option the Kremlin might test is to build a “besieged fortress,” in other words, a more inward-looking Russia. Accordingly, in foreign affairs, Russia will keep regarding the post-Soviet region as its sphere of unrestrained interference. While pivoting to Asia, it will try to maintain as wide a list of partners as possible. At the same time, the Kremlin will invest more resources internally in the cult of personality around Putin, on militarisation of political discourse, and mobilisation of domestic resources for top-down “modernisation.” Unlike in the Cold War, it will be much more difficult to effectively shutdown Russian society from the outside world and sustain the leader’s popularity while financial resources are rapidly drained under the continued impact of economic sanctions. Equally important is that potential financial Asian partners, except China, are likely to keep economic activities with Russia at a minimum, avoiding risks associated with providing loans or investing in Russia, which is isolated from Western financial markets and offers an unsecure environment for overseas investors. Although it might serve the Kremlin well in the short run, this option poses a huge risk of macroeconomic disequilibrium and social explosion.

Deceptive Rapprochement with the West

Finally, an option the Kremlin might consider worth pursuing is deceptive rapprochement with the West. It will represent a blend of charm offensive towards the EU states that call for sanctions to be revised and hidden invitations for a grand bargain with the EU’s heavy-weights, while pledging to resurrect its joint fight with the U.S. against international terrorism. In parallel with diplomatic efforts, Russia will temporarily scale back military action in eastern Ukraine and will tolerate OSCE activity to some extent, without, however, fully delivering on primary demands, such as withdrawal of military forces or re-establishing control on the internationally recognised Russian–Ukrainian border. Assuming that a risk-averse Europe wants rapid stabilisation of the situation in Ukraine, the Kremlin might show piecemeal steps of compliance with some conditions in order to push for the removal of EU sanctions. This will help the

Kremlin to eliminate some factors contributing to economic decline and separate the EU's approach from that of the United States, while keeping a window open for a "surprise" resumption of military operations in eastern Ukraine. When Russia acts again in Ukraine, it will strive to frustrate the emergence of any EU consensus on imposing sanctions against Russia. Moscow will try to induce in Europe, appealing particularly to some states, that it is futile to defend a "failed state" and that it is better to give up on Ukraine in exchange for stable and profitable relations with Russia. Therefore, it is crucial that the EU elaborates precise criteria to measure Russia's cooperative attitude in Ukraine before deciding to suspend or cancel sanctions. All the more important is that the EU should be ready to impose, in tandem with the United States, new sanctions in the event that Russia breaks the fragile ceasefire and pursues, openly or covertly, more territorial gains in eastern Ukraine.

Work on the text was concluded in November 2014.

ANNEXES



★ ANNEX 1. LIST OF PEOPLE COVERED BY SANCTIONS ★

Section 1. Crimea, and East Ukraine



★ **Aksyonov, Sergey Valeryevich**

Aksyonov was elected the “prime minister of Crimea” in the Crimean Verkhovna Rada on 27 February 2014 in the presence of pro-Russian gunmen. His “election” was decreed unconstitutional by Oleksandr Turchynov on 1 March. He actively lobbied for the “referendum” of 16 March 2014.



★ **Anosov, Victor Yuriiovich**

Member of a large insurgent group stationed in Slovyansk, Donetsk region, under the command of Igor Girkin (Igor Strelkov).



★ **Antyufeyev, Vladimir**

Former “Minister of state security” in the separatist region of Transnistria. Since 9 July 2014, he has been the first vice-prime minister of the People’s Republic of Donetsk, responsible for security and law enforcement. In this capacity, he is also responsible for the separatist “governmental” activities of the “government of the People’s Republic of Donetsk.”



★ **Apraksimov, Viacheslav Anatoliiovych**

Member of a large armed insurgent group stationed in Slovyansk, Donetsk region, under the command of Igor Girkin (Igor Strelkov).



Arbuzov, Serhiy

Economist and politician, connected with banking sector. First deputy prime minister, then after dismissal Mykola Azarov cabinet until end of February 2014, prime minister of Ukraine.



Azarov, Mykola Yanovych

Politician, prime minister of Ukraine until January 2014.



Azarov, Oleksii Mykolayovych

Politician and businessman, son of former prime minister Azarov. Owner of companies located in Austria.



Bashirov, Marat

“Prime minister of the Council of Ministers of the People’s Republic of Luhansk, confirmed on 8 July.” Responsible for the separatist “governmental” activities of the “government of the People’s Republic of Luhansk.”



Bereza, Oleg

“Internal affairs minister” of the “People’s Republic of Donetsk.”



Berezin, Fedor

“Deputy defence minister” of the “People’s Republic of Donetsk.” He is associated with Igor Strelkov/Girkin, the “defence minister” of the “People’s Republic of Donetsk,” who is responsible for actions that undermine or threaten the territorial integrity, sovereignty and independence of Ukraine.



Berezovskiy, Deniz Valentinovich

Berezovskiy was appointed commander of the Ukrainian navy on 1 March 2014. He took the oath of the armed forces of the “Crimean Army.” The Prosecutor General’s Office of Ukraine launched an investigation against him for high treason.



Bezler, Igor Mykolaiovych

One of the leaders of self-proclaimed militia of Horlivka. He took control of the security service of Ukraine’s office in Donetsk, and afterwards seized the Ministry of Internal Affairs’ district station in the town of Horlivka. He has links to Ihor Strielkov, under whose command he was, according to the SBU, involved in the murder of the peoples’ deputy of Horlivka’s Municipal Council, Volodymyr Rybak.



Bohatyriov, Raisa Vasylivna

Former deputy prime minister and minister of health, leader of the Party of Regions faction in Verkhovna Rada, and the party’s executive committee member.



- EU
- Switzerland
- Japan
- Australia
- Canada
- Norway
- U.S.

Bolotov, Valeriy

One of the leaders of the separatist group “Army of the South-East,” which occupied the building of the security service in the Luhansk. Retired officer. Before seizing the building, he and other accomplices possessed arms apparently supplied illegally from Russia and from local criminal groups.



- EU
- Switzerland
- Japan
- Australia
- Canada
- Norway
- U.S.

Borodai, Aleksandr Yurevich

“Prime minister of People’s Republic of Donetsk.” Responsible for the separatist “governmental” activities of the “government of the People’s Republic of Donetsk” (for example, on 8 July he stated “our military is conducting a special operation against the Ukrainian ‘fascists’”), Signatory of the Memorandum of Understanding on the “Novorossiya union.”



- EU
- Switzerland
- Japan
- Australia
- Canada
- Norway
- U.S.

Chaliy, Aleksei Mikhailovich

Chaliy became “mayor of Sevastopol” by popular acclamation on 23 February 2014, and accepted this “vote.” He actively campaigned for Sevastopol to become a separate entity of the Russian Federation following a referendum on 16 March 2014.



- EU
- Switzerland
- Japan
- Norway
- Australia
- Canada

Gubarev, Pavel

One of the self-described leaders of the “People’s Republic of Donetsk.” He requested Russian intervention in eastern Ukraine, including the deployment of Russian peace-keeping forces. He is associated with Igor Girkin (Strelkov), who is responsible for actions that undermine or threaten the territorial integrity, sovereignty and independence of Ukraine. Gubarev is responsible for recruiting people for armed forces of separatists and for taking over of the regional government building in Donetsk with pro-Russian forces, then proclaimed himself the “people’s governor.” Despite being arrested for threatening the territorial integrity of Ukraine, and subsequently released, he has continued to play a prominent role in separatist activities, thus undermining the territorial integrity, sovereignty and independence of Ukraine.



- EU
- Switzerland
- Norway
- Australia
- Canada

Gubareva, Ekaterina

In her capacity as “minister of foreign affairs” she is responsible for defending the “People’s Republic of Donetsk,” thus undermining the territorial integrity, sovereignty and independence of Ukraine. In addition, her bank account is used to finance illegal armed separatist groups. In taking on this role and acting in this capacity, she has therefore supported actions and policies that undermine the territorial integrity, sovereignty and independence of Ukraine.



- Australia

Ikalev, Ruslan Yunirovich

Member of a large insurgent group stationed in Slovyansk, Donetsk region, under the command of Igor Girkin (Strelkov).



Ivakin, Yuriy

“Minister of internal affairs of the People’s Republic of Luhansk.” Responsible for the separatist “governmental” activities of the “government of the People’s Republic of Luhansk.”



Ivanyushchenko, Yuriy

Politician and businessman, Party of Regions MP.



Yarosh, Petr Grigorievich

Acting head of the Federal Migration Service office for Crimea. Responsible for the systematic and expedited issuance of Russian passports for residents of Crimea.



Kakidzyanov, Igor

One of the leaders of the armed forces of the self-proclaimed “People’s Republic of Donetsk.”



Kalinin, Ihor Oleksandrovych

Former adviser to the president of Ukraine, former chief of Security Service of Ukraine. Member of “family” group of trusted associates of Viktor Yanukovich.



Kalyusky, Alexandr Aleksandrovich

“De facto deputy prime minister responsible for social affairs of the People’s Republic of Donetsk.”



Karaman, Aleksandr

Protégé of Russia’s deputy prime minister Dmitry Rogozin. New foreign minister of the “People’s Republic of Donetsk,” replacing Ekaterina Gubareva around 16 August. A Transnistria native, who previously served as deputy prime minister responsible for social policy of “People’s Republic of Donetsk.”



Karyakin, Aleksey

“Supreme Council chairman of the People’s Republic of Luhansk.” Responsible for the separatist “governmental” activities of the “Supreme Council,” responsible for asking the Russian Federation to recognise the independence of the “People’s Republic of Luhansk.” Signatory of the Memorandum of Understanding on the “Novorossiia union.”



Kaurov, Valery Vladimirovich

The self-declared “president” of the so-called “Republic of Novorossiya” who has called on Russia to deploy troops to Ukraine. In taking on and acting in this capacity, he has therefore supported actions and policies that undermine the territorial integrity, sovereignty and independence of Ukraine.



Khodakovsky, Alexander

“Minister of security of the People’s Republic of Donetsk.” Responsible for the separatist security activities of the so-called “government of the People’s Republic of Donetsk.”



Khryakov, Alexander

“Information and mass communications minister of the People’s Republic of Donetsk.” Responsible for the pro-separatist propaganda activities of the “government of the People’s Republic of Donetsk.”



Kliuiev, Andrii Petrovych

Politician, businessmen, former head of administration of the president of Ukraine.



Kliuiev, Serhii Petrovych

Brother of Andrii Kliuiev, businessman and politician. In January 2014 he was supporting implementation of law standing in contradiction with the Constitution of Ukraine, the Convention for the Protection of Human Rights and Fundamental Freedoms and the international obligations of Ukraine.



Klymenko, Oleksandr

Former minister of revenues and charges.



Kononov, Vladimir /aka ‘Tsar’

“Defence minister” of the “People’s Republic of Donetsk,” he replaced Igor Strelkov/ Girkin.



Konstantinov, Vladimir Andreevich

As speaker of the Supreme Council of the Autonomous Republic of Crimea, Konstantinov played a key role in the decisions taken by the Verkhovna Rada concerning the “referendum” violating the territorial integrity of Ukraine, and called on the public to vote in favour of Crimean Independence.



Kozyura, Oleg Grigorievich

Acting head of the Federal Migration Service office for Sevastopol. Responsible for the systematic and expedited issuance of Russian passports to residents of Crimea.



Kurchenko, Serhiy Vitaliyovych

Businessman, founder and owner of the group of companies called “Gas Ukraine,” which controls 18% of the liquefied gas market in Ukraine. Owner of Metalist Kharkiv football club.



Litvinov, Boris

As of 22 July, chairman of the “Supreme Council” of the “People’s Republic of Donetsk,” who was at the source of policies and organisation of the illegal referendum leading to the proclamation of the “People’s Republic of Donetsk,” which constituted a breach of the territorial integrity, sovereignty and unity of Ukraine.



Lukash, Olena Leonidivna

Politician, lawyer, MP former minister of justice.



Lyagin, Roman

Head of the “People’s Republic of Donetsk” central electoral commission. Actively organised the referendum on 11 May, on the self-determination of the “People’s Republic of Donetsk.”



Malofeev, Konstantin Valerevich

Closely linked to Ukrainian separatists in eastern Ukraine and Crimea, Malofeev is a former employer of Alexander Borodai, “prime minister” of the “People’s Republic of Donetsk,” and met Sergey Aksyonov, “prime minister” of the “Republic of Crimea,” during the Crimean annexation process. The Ukrainian government has opened a criminal investigation into his alleged material and financial support to separatists. In addition, he gave a number of public statements supporting the annexation of Crimea and the incorporation of Ukraine into Russia, and notably stated in June 2014 that: “You cannot incorporate the whole of Ukraine into Russia. The east [of Ukraine] maybe.” Therefore, Mr. Malofeev is acting in support of the destabilisation of eastern Ukraine.



Malykhin, Aleksandr

Head of the “People’s Republic of Luhansk” central electoral commission. Actively organised the referendum on 11 May on the self-determination of the “People’s Republic of Luhansk.”



Malyshev, Mikhail

Responsible for administering the Crimean referendum. Responsible under the Russian system for signing off the referendum results.



Medvedchuk, Viktor

Ukrainian politician, oligarch, and chairman of Ukrainian Choice, a pro-Russian organisation.



Medvedev, Valery

Responsible for administering the Crimean referendum. Responsible under the Russian system for signing off the referendum results.



Menyailo, Sergei Ivanovich

Acting governor of the Ukrainian annexed city of Sevastopol.



Mozgovy, Oleksiy

One of the leaders of armed groups in eastern Ukraine. Responsible for training separatists to fight against the Ukrainian government forces.



Muradov, Georgiy L'vovich

"Deputy prime minister" of Crimea and plenipotentiary representative of Crimea to Vladimir Putin.



Musiienko, Valerii Kostiantynovych

Member of a large armed insurgent group stationed in Slovyansk, Donetsk region, under the command of Igor Girkin (Igor Strelkov).



Nikitin, Vasyl

"Vice-prime minister of the Council of Ministers of the People's Republic of Luhansk" (formerly the "prime minister of the People's Republic of Luhansk," and former spokesman of the "Army of the South-east"). Responsible for the separatist "governmental" activities of the "government of the People's Republic of Luhansk." Responsible for the statement of the "Army of the South-east" that the Ukrainian presidential elections in the "People's Republic of Luhansk" cannot take place due to the "new" status of the region.



Nosatov, Alexander Mihailovich

Deputy commander of the Black Sea Fleet, Rear-Admiral. Responsible for commanding Russian forces that have occupied Ukrainian sovereign territory.



Pinchuk, Andrey Yurevich

"State security minister" of the "People's Republic of Donetsk."



Plotnitsky, Igor

"Defence minister" of the "People's Republic of Luhansk." Responsible for the separatist "governmental" activities of the "government of the People's Republic of Luhansk."



EU
Norway
Australia
Canada
Japan

Poklonskaya, Natalia Vladimirovna

Prosecutor of Crimea. Actively implementing Russia's annexation of Crimea.



EU
U.S.
Japan
Australia
Canada
Norway

Ponomarev, Viacheslav

Self-declared mayor of Sloviansk. Ponomarev called on Vladimir Putin to send in Russian troops to protect the city, and later asked him to supply weapons. Ponomarev's men are involved in kidnappings (they captured Ukrainian reporter Irma Krat, and Simon Ostrovsky, a reporter for Vice News, both of whom were later released. They also detained military observers acting under the terms of the OSCE Vienna Document).



EU
Norway

Portnov, Andriy Volodymyrovych

Former adviser to the president of Ukraine.



EU
Norway
Australia
Canada
Japan

Prokopiv, German

Active leader of the "Luhansk Guard." Took part in the seizure of the building of the Luhansk regional office of the security service. Close links with the "Army of the South-East."



Australia

Protsenko, Yurii Oleksandrovych

Member of a large armed insurgent group stationed in Sloviansk, Donetsk region, under the command of Igor Girkin (Igor Strelkov).



EU
Norway

Pshonka, Artem Viktorovych

Son of former Prosecutor General, deputy head of the faction of Party of Regions in the Verkhovna Rada of Ukraine.



EU
Norway

Pshonka, Viktor Pavlovych

Former General Prosecutor of Ukraine.



EU
U.S.
Japan
Australia
Canada
Norway

Purgin, Andriy

Head of the "Donetsk Republic," active participant and organiser of separatist actions, coordinator of actions of the "Russian tourists" in Donetsk. Co-founder of the "Civic Initiative of Donbass for the Eurasian Union."



EU
U.S.
Australia
Canada
Norway

Pushylin, Denys

One of the leaders of the "People's Republic of Donetsk." Participated in the seizure and occupation of the regional administration. Active spokesperson for the separatists.



EU
Norway

Ratushniak, Viktor Ivanovych

Former deputy minister of internal affairs.



Rodkin, Andrei Nikolaevich

Moscow Representative of the “People’s Republic of Donetsk.”



Rudenko, Miroslav Vladimirovich

Commander of the “Donbass People’s Militia.”



Savelyev, Oleg Genrikhovich

Minister for Crimean affairs. Responsible for the integration of the annexed Autonomous Republic of Crimea into the Russian Federation.



Sheremet, Mikhail Sergeyeovich

“First deputy prime minister” of Crimea. Sheremet played a key role in organising and implementing the 16 March referendum in Crimea on unification with Russia. At the time of the referendum, Sheremet reportedly commanded the so-called pro-Moscow “self-defence forces” in Crimea.



Shevchenko, Igor Sergeievich

Acting Prosecutor of Sevastopol. Actively implementing Russia’s annexation of Sevastopol.



Stavytskyi, Edvard

Minister of fuel and energy of Ukraine.



Strelkov, Igor; Girkin, Igor Vsevolodovich

Identified as on the staff of the main intelligence directorate of the general staff of the armed forces of the Russian Federation (GRU). He was involved in incidents in Sloviansk. He is an assistant on security issues to Sergey Aksionov, the self-proclaimed prime minister of Crimea.



Tabachnyk, Dmytro Volodymyrovych

Former minister of education and science.



Tchigrina, Oksana

Spokesperson of the “government” of the “People’s Republic of Luhansk,” who made declarations justifying, inter alia, the shooting down of a Ukrainian military plane, the taking of hostages, and military activities by the illegal armed groups, which have consequently undermined the territorial integrity, sovereignty and unity of Ukraine.



- EU
- U.S.
- Japan
- Australia
- Canada
- Norway

Temirgaliev, Rustam Ilmirovich

As deputy chairman of the Council of Ministers of Crimea, Temirgaliev played a significant role in the decisions taken by the Supreme Council of Crimea concerning the “referendum” that undermined the territorial integrity of Ukraine. He lobbied actively for the integration of Crimea into the Russian Federation.



- EU
- Norway
- Australia
- Canada

Tkachyov, Alexander Nikolayevich

Governor of the Krasnodar Krai. He was decorated “for the liberation of Crimea” by the acting head of the Autonomous Republic of Crimea, in recognition of the support he provided to the unlawful annexation of Crimea. On that occasion, the acting head of the Autonomous Republic of Crimea said that Tkachyov was one of the first to express his support to the new “leadership” of Crimea.



- Australia

Totoonov, Aleksandr Borisovich

Member of the Russian Federation Council Committee on Culture, Science, and Information. On 1 March, Totoonov publicly supported the deployment of Russian forces in Ukraine.



- EU
- Norway
- Australia
- Canada
- Japan

Tsariov, Oleg

Politician and businessman. Member of the Verkhovna Rada. Publically called for the creation of the Federal Republic of Novorossiya, composed of south-eastern Ukrainian regions. In January 2014 he support adoption of anti-protest laws which force non-governmental organizations which benefit foreign funds to register as a “foreign agents.”



- EU
- U.S.
- Japan
- Australia
- Canada
- Norway

Tsekov, Sergey Pavlovych

Vice-speaker of the Verkhovna Rada; Tsekov, along with Sergey Aksyonov, initiated the unlawful dismissal of the government of the Autonomous Republic of Crimea (ARC). Into this endeavor, he drew Vladimir Konstantinov, threatening him with his dismissal. He publically recognised that the MPs from Crimea were the initiators of inviting Russian soldiers to take over the Verkhovna Rada of Crimea. He was one of the first Crimean leaders to ask in public for Crimea to be annexed by Russia.



- EU
- Norway

Tsypkalov, Gennadiy Nikolaiovych

“Prime minister” of the “People’s Republic of Luhansk,” replacing Marat Bashirov.



- EU
- Switzerland
- Japan
- Australia
- Canada
- Norway

Tsyplakov, Sergey Gennadevich

One of the leaders of the ideologically radical organisation, called the “People’s Militia of Donbas.” He took an active part in the seizure of a number of state buildings in the Donetsk region.

- ★  **Turchenyuk, Igor**
The de-facto commander of Russian troops deployed on the ground in Crimea. Russia continues to refer officially to these troops as “local self-defence militias”).
- ★  **Vasin, Oleh Anatoliiovych**
Member of a large armed insurgent group stationed in Slovyansk, Donetsk region, under the command of Igor Girkin (Igor Strelkov).
- ★  **Yakymenko, Oleksandr Hryhorovych**
Former head of the security service of Ukraine.
- ★  **Yanukovych, Oleksandr Viktorovych**
Son of former president. Businessman.
- ★  **Yanukovych, Viktor**
Former president of Ukraine.
- ★  **Yanukovych, Viktor Viktorovych**
Son of former president, member of the Verkhovna Rada of Ukraine.
- ★  **Zakharchenko, Vitalii Yuriyovych**
Person subject to criminal proceedings in Ukraine, concerning an investigation into crimes connected with the embezzlement of Ukrainian State funds and their illegal transfer outside Ukraine.
- ★  **Zakharchenko, Alexander**
“Prime minister” of the “People’s Republic of Donetsk,” replacing Alexander Borodai.
- ★  **Zdriliuk, Serhii Anatoliyovych**
Senior aide to Igor Strelkov/Girkin, who is responsible for actions that undermine or threaten the territorial integrity, sovereignty and independence of Ukraine. In taking on this role and acting in this capacity, Zdriliuk has therefore supported actions and policies that undermine the territorial integrity, sovereignty and independence of Ukraine.
- ★  **Zherebtsov, Yuriy**
Counsellor of the speaker of the Verkhovna Rada of Crimea, one of the leading organisers of the 16 March 2014 “referendum” in violation of Ukraine’s territorial integrity.



Zima, Pyotr Anatoliyovich

Zima was appointed as the new head of the Crimean security service (SBU) on 3 March 2014 by the “prime minister” Sergey Aksyonov. He has given information, including a database, to the Russian intelligence service. This included information on Euro-Maidan activists and human rights defenders of Crimea. He played a significant role in preventing Ukraine’s authorities from controlling the territory of Crimea. On 11 March 2014, former SBU officers of Crimea proclaimed the formation of an independent security service of Crimea.

Section 2. Russian Government, Army, Parliament and Administration



Abisov, Sergey

By accepting his appointment as “minister of the interior of the Republic of Crimea” by the president of Russia (decree No. 301) on 5 May 2014, and by his actions as “minister of the interior” he has undermined the territorial integrity, sovereignty and unity of Ukraine.



Babakov, Alexander Mikhailovich

State Duma deputy, chairman of the State Duma Commission on Legislative Provisions for Development of the Military-Industrial Complex of the Russian Federation. He is a prominent member of “United Russia” and a businessman with heavy investments in Ukraine and Crimea.



Bakhin, Arkadii Viktorovich

First deputy of the minister of defence.



Belaventsev, Oleg Yevgenyich

Plenipotentiary representative of the president of the Russian Federation to the “Crimean Federal District,” non-permanent member of the Russian Security Council. Responsible for the implementation of the constitutional prerogatives of the Russian head of state on the territory of the annexed Autonomous Republic of Crimea.



Beseda, Sergei Orestovoch

Commander of the Fifth Service of the FSB, the security service of the Russian Federation. As a senior FSB officer, he heads a service responsible for overseeing intelligence operations and international activity.



Bogdanovskiy, Nikolay

Colonel-General, senior official in the Russian armed forces, till June 2014 commander of Central Military District, than deputy head of General Staff of the Armed Forces of the Russian Federation.



- EU
- Switzerland
- Norway
- Australia
- Canada

Bortnikov, Aleksandr Vasilievich

Permanent member of the Security Council of the Russian Federation; director of the FSB). As a member of the Security Council, which provides advice on and coordinates national security affairs, he was involved in shaping the policy of the Russian government threatening the territorial integrity, sovereignty and independence of Ukraine.



- Canada

Bulgakov, Dmitry Vitalievich

General, senior official in the Russian armed forces, Russian deputy minister of defence.



- EU
- U.S.
- Australia
- Canada
- Norway
- Switzerland

Bushmin, Evgeni Viktorovich

Deputy speaker of the Federation Council of the Russian Federation. On 1 March 2014, Bushmin, in the Federation Council, publically supported the deployment of Russian forces to Ukraine.



- EU
- Switzerland
- Norway
- Australia
- Canada

Degtyarev, Mikhail Vladimirovich

Member of the State Duma. On 23 May 2014, he announced the inauguration of the “de facto embassy” of the unrecognised “People’s Republic of Donetsk.” In Moscow, he contributes to undermine or threaten the territorial integrity, sovereignty and independence of Ukraine.



- EU
- Switzerland
- Norway
- Australia
- Canada

Dzhabarov, Vladimir Michailovich

First deputy chairman of the International Affairs Committee of the Federation Council of the Russian Federation. On 1 March 2014, Dzhabarov, on behalf of the International Affairs Committee of the Federation Council, publically supported the Federation Council the deployment of Russian forces to Ukraine.



- EU
- Switzerland
- Norway
- Australia
- Canada

Fradkov, Mikhail Efimovich

Permanent member of the Security Council of the Russian Federation. Director of the foreign intelligence service of the Russian Federation. As a member of the Security Council, which coordinates and provides advice on national security affairs, he was involved in shaping the policy of the Russian government in threatening the territorial integrity, sovereignty and independence of Ukraine.



- EU
- Switzerland
- Japan
- Australia
- Canada
- Norway

Galkin, Aleksandr

Commander of Russia’s Southern Military District, the forces of which are in Crimea; the Black Sea Fleet comes under Galkin’s command; much of the military movement into Crimea has come through the Southern Military District. He is responsible for part of the Russian military presence in Crimea, which is undermining the sovereignty of the Ukraine, and assisted the Crimean authorities in preventing public demonstrations against moves towards a referendum and incorporation into Russia.



- EU
- Switzerland
- Norway
- Australia
- Canada

Gerasimov, Valery Vasilevich

Chief of the general staff of the armed forces of the Russian Federation. First deputy minister of defence of the Russian Federation. Army General. Responsible for the massive deployment of Russian troops along the border with Ukraine, and lack of de-escalation of the situation.



- EU
- U.S.
- Australia
- Canada
- Norway
- Switzerland

Gromov, Alexey Alexeyevich

As first deputy chief of staff of the presidential administration, he is responsible for instructing Russian media outlets to take a line in favour of the separatists in Ukraine and the annexation of Crimea, therefore supporting the destabilisation of eastern Ukraine and the annexation of Crimea.



- EU
- Switzerland
- Norway
- Australia
- Canada

Gryzlov, Boris Vyacheslavovich

Permanent member of the Security Council of the Russian Federation. As a member of the Security Council, which provides advice on and coordinates national security affairs, he was involved in shaping the policy of the Russian government threatening the territorial integrity, sovereignty and independence of Ukraine.



- Canada

Ignatenko, Vitalii Nikitich

First deputy chairman of the Federation Council Committee for Foreign Affairs.



- EU
- Switzerland
- Norway
- Australia
- Canada

Kadyrov, Ramzan Akhmadovitch

President of the Republic of Chechnya. Kadyrov made statements in support of the illegal annexation of Crimea and in support of the armed insurgency in Ukraine. He stated, inter alia, on 14 June 2014 that he “will do anything to help revive Crimea.” In that context, he was awarded decorated for “the liberation of Crimea” by the acting head of the Autonomous Republic of Crimea for the support he provided to the unlawful annexation of Crimea. In addition, on 1 June 2014 he expressed his readiness to send 74,000 Chechen volunteers to Ukraine if requested to do so.



- EU
- Norway

Kalashnikov, Leonid Ivanovich

First deputy chairman of the Committee on Foreign Affairs of the State Duma. On 20 March 2014, he voted in favour of the draft federal constitutional law “on the acceptance into the Russian Federation of the Republic of Crimea and the formation within the Russian Federation of new federal subjects—the Republic of Crimea and the City with Federal Status Sevastopol.”



- EU
- U.S.
- Australia
- Canada
- Norway
- Switzerland

Klishas, Andrei Aleksandrovich

Chairman of the Committee on Constitutional Law of the Federation Council of the Russian Federation. On 1 March 2014 Klishas publicly supported in the Federation Council the deployment of Russian forces to Ukraine. In public statements, Klishas sought to justify a Russian military intervention in Ukraine by claiming that “the Ukrainian president supports the appeal of the Crimean authorities to the president of the Russian Federation on using troops to protect the citizens of Crimea.”



- EU
- Switzerland
- Japan
- Australia
- Canada
- Norway

Kovatidi, Olga Fedorovna

Member of the Russian Federation Council from the annexed Autonomous Republic of Crimea.



- EU
- U.S.
- Australia
- Canada
- Norway
- Switzerland

Kozak, Dmitry Nikolayevich

Deputy prime minister. Responsible for overseeing the integration of the annexed Autonomous Republic of Crimea into the Russian Federation.



- EU
- Australia
- Norway
- Switzerland
- Japan

Kozitsyn, Nikolay

Commander of Cossack forces. Responsible for commanding separatists in eastern Ukraine fighting against Ukrainian government forces.



- EU
- Australia
- Norway
- Switzerland

Kulikov, Valery Vladimirovich

Deputy commander of the Black Sea Fleet. Rear Admiral. Responsible for commanding Russian forces that have occupied Ukrainian sovereign territory.



- EU
- Norway

Lebedev, Oleg Vladimirovich

First Deputy Chairman of the Committee on Relations with CIS Countries, Eurasian Integration and Links with Compatriots of the State Duma. On 20 March 2014 he voted in favour of the draft Federal Constitutional Law “on the acceptance into the Russian Federation of the Republic of Crimea and the formation within the Russian Federation of new federal subjects—the Republic of Crimea and the City of Federal Status Sevastopol.”



- EU
- Norway

Lebedev, Igor Vladimirovich

Deputy speaker, State Duma. On 20 March 2014, he voted in favour of the draft Federal Constitutional Law “on the acceptance into the Russian Federation of the Republic of Crimea and the formation within the Russian Federation of new federal subjects—the Republic of Crimea and the City of Federal Status Sevastopol.”



Levichev, Nikolai Vladimirovich

Deputy Speaker, State Duma. On 20 March 2014, he voted in favour of the draft Federal Constitutional Law “on the acceptance into the Russian Federation of the Republic of Crimea and the formation within the Russian Federation of new federal subjects—the Republic of Crimea and the City with Federal Status Sevastopol.”



Margelov, Mikhail Vitalevich

Chairman of the Federation Council Committee for Foreign Affairs.



Matviyenko, Valentina Ivanova

Speaker of the Federation Council. On 1 March 2014, publically supported in the Federation Council the deployment of Russian forces to Ukraine.



Melnikov, Ivan Ivanovich

First deputy speaker, State Duma. On 20 March 2014, he voted in favour of the draft Federal Constitutional Law “on the acceptance into the Russian Federation of the Republic of Crimea and the formation within the Russian Federation of new federal subjects—the Republic of Crimea and the City with Federal Status Sevastopol.”



Mironov, Sergei Mikhailovich

Member of the Council of the State Duma. Leader of Fair Russia faction in the Duma of the Russian Federation. Initiator of the bill allowing the Russian Federation to admit in its composition, under the pretext of protecting Russian citizens, territories of a foreign country without the consent of that country or international treaty.



Mizulina, Elena Borisovna

Originator and co-sponsor of recent legislative proposals in Russia that would have allowed regions of other countries to join Russia without their central authorities’ prior agreement.



Morov (Murov), Evgeniy Alekseevich

Director of federal protective service of the Russian Federation which protects and provide means of communication for Russian VIP. Army General, former KGB officer.



Naryshkin, Sergei Evgenevich

Speaker of the State Duma. Publically supported the deployment of Russian forces to Ukraine. Publically supported the Russia-Crimea reunification treaty and the related federal constitutional law.



Naumets, Aleksey Vasilevich

Major-General in the Russian Army. He is the commander of the 76th airborne division, which has been involved in the Russian military presence on the territory of Ukraine, notably during the illegal annexation of Crimea.



Neverov, Sergei Ivanovich

Deputy chairman of State Duma, member of United Russia. Responsible for initiating legislation to integrate the annexed Autonomous Republic of Crimea into the Russian Federation.



Nikitin, Vladimir Stepanovich

First deputy chairman of the Committee on Relations with CIS Countries, Eurasian Integration and Links with Compatriots of the State Duma. On 20 March 2014, he voted in favour of the draft Federal Constitutional Law “on the acceptance into the Russian Federation of the Republic of Crimea and the formation within the Russian Federation of new federal subjects—the Republic of Crimea and the City with Federal Status Sevastopol.”



Nurgaliev, Rashid Gumarovich

Permanent member and deputy secretary of the Security Council of the Russian Federation. As a member of the Security Council, which provides advice on and coordinates national security affairs, he was involved in shaping the policy of the Russian government threatening the territorial integrity, sovereignty and independence of Ukraine.



Ozerov, Viktor Alekseevich

Chairman of the Security and Defence Committee of the Federation Council of the Russian Federation. On 1 March 2014, Ozerov, on behalf of the Security and Defence Committee of the Federation Council, publicly supported in the Federation Council the deployment of Russian forces to Ukraine.



Panteleev, Oleg Evgenevich

First deputy chairman of the Committee on Parliamentary Issues. On 1 March 2014, in the Federation Council, Panteleev publicly supported the deployment of Russian forces to Ukraine.



Patrushev, Nikolai Platonovich

Permanent member and secretary of the Security Council of the Russian Federation. As a member of the Security Council, which provides advice on and coordinates national security affairs, he was involved in shaping the policy of the Russian government threatening the territorial integrity, sovereignty and independence of Ukraine.



Pligin, Vladimir Nikolaevich

Chair of the Duma Constitutional Law Committee. Responsible for facilitating the adoption of legislation on the annexation of Crimea and Sevastopol into the Russian Federation.



Pushkov, Aleksei Konstantinovich

Chairman of State Duma Committee on International Affairs.



Rogozin, Dmitry Olegovich

Deputy prime minister of the Russian Federation. Publically called for the annexation of Crimea.



Ryzhkov, Nikolai Ivanovich

Member of the Committee for Federal Issues, Regional Politics and the North of the Federation Council of the Russian Federation. On 1 March 2014, in the Federation Council, Ryzhkov publically supported the deployment of Russian forces to Ukraine.



Sadovenko, Yuriy Eduardovich

Lieutenant-General, senior official in the Russian armed forces.



Salyukov, Oleg Leonidovich

Colonel-General, senior official in the Russian Armed Forces.



Sergun, Igor Dmitrievich

Director of GRU (Main Intelligence Directorate). Deputy chief of the general staff of the armed forces of the Russian Federation, Lieutenant-General. Responsible for the activity of GRU officers in eastern Ukraine.



Shamanov, Vladimir

Commander of the Russian airborne troops, Colonel-General. In his senior position holds responsibility for the deployment of Russian airborne forces to Crimea.



Shvetsova, Ludmila Ivanovna

Deputy chairman of State Duma, member of the United Russia party. Responsible for initiating legislation to integrate the annexed Autonomous Republic of Crimea into the Russian Federation.



Sidorov, Anatoliy Alekseevich

Commander of Russia's Western Military District, units of which are deployed in Crimea. He is responsible for part of the Russian military presence in Crimea, which is undermining the sovereignty of Ukraine, and assisted the Crimean authorities in preventing public demonstrations against moves towards a referendum and incorporation into Russia.



Slutski, Leonid Eduardovich

Chairman of the Commonwealth of Independent States (CIS) Committee of the State Duma of the Russian Federation (member of the LDPR). Actively supporting the use of Russian Armed Forces in Ukraine and the annexation of Crimea.



Timchenko, Gennadiy

Businessman, founder of Volga Group, created to manage Timchenko's assets.



Totoonov, Aleksandr Borisovich

Member of the Committee on Culture, Science, and Information of the Federation Council of the Russian Federation. On 1 March 2014, in the Federation Council, Totoonov publically supported the deployment of Russian forces to Ukraine.



Travkin, Valerii Yuriovich

Officer of GRU (Main Intelligence Directorate) of the general staff of the armed forces of the Russian Federation.



Vasilyev, Vladimir Abdualiyevich

Deputy speaker of the State Duma. On 20 March 2014, he voted in favour of the draft Federal Constitutional Law "on the acceptance into the Russian Federation of the Republic of Crimea and the formation within the Russian Federation of new federal subjects—the Republic of Crimea and the City with Federal Status Sevastopol."



Vitko, Aleksandr Viktorovich

Commander of the Black Sea Fleet, Vice-Admiral. Responsible for commanding Russian forces that have occupied Ukrainian sovereign territory.



Vodolatsky, Viktor Petrovich

Chairman ("ataman") of the Union of the Russian and Foreign Cossack Forces and deputy of the State Duma. He supported the annexation of Crimea and admitted that Russian Cossacks were actively engaged in the Ukrainian conflict on the side of the Moscow-backed separatists. On 20 March 2014, he voted in favour of the draft Federal Constitutional Law "on the acceptance into the Russian Federation of the Republic of Crimea and the formation within the Russian Federation of new federal subjects—the Republic of Crimea and the City with Federal Status Sevastopol."



Vorobiov, Yuri Leonidovich

Deputy speaker of the Federation Council of the Russian Federation. On 1 March 2014, in the Federation Council, Vorobiov publically supported the deployment of Russian forces to Ukraine. He subsequently voted in favour of the related decree.



- EU
- U.S.
- Australia
- Canada
- Norway

Zheleznyak, Sergei Vladimirovich

Deputy speaker of the State Duma of the Russian Federation. Actively supporting the use of Russian armed forces in Ukraine and the annexation of Crimea. He personally led the demonstration in support of the use of Russian armed forces in Ukraine.



- EU
- Norway
- Australia
- Canada

Zhirinovskiy, Vladimir Volfovich

Member of the Council of the State Duma; leader of the Liberal Democratic Party of Russia. He actively supported the use of Russian armed forces in Ukraine and the annexation of Crimea.



- EU
- Norway

Zhurova, Svetlana Sergeevna

First deputy chairman of the Committee on Foreign Affairs, State Duma. On 20 March 2014, he voted in favour of the draft Federal Constitutional Law “on the acceptance into the Russian Federation of the Republic of Crimea and the formation within the Russian Federation of new federal subjects—the Republic of Crimea and the City with Federal Status Sevastopol.”

Section 3. Putin’s Administration and Aides



- EU
- U.S.
- Norway

Chemezov, Sergey Viktorovich

Sergei Chemezov is one of Putin’s known close associates. Both were KGB officers posted in Dresden and he is a member of the Supreme Council of United Russia. He chairs the Rostec conglomerate, the leading Russian state-controlled defence and industrial manufacturing corporation. Due to a decision by the Russian government, Technopromexport, a subsidiary of Rostec, is planning to build energy plants in Crimea, thereby supporting its integration into the Russian Federation. Furthermore, Rosoboronexport, a subsidiary of Rostec, has supported the integration of Crimean defence companies into Russia’s defence industry, thereby consolidating the illegal annexation of Crimea into the Russian Federation.



- U.S.
- Australia
- Canada

Fursenko, Andrei

Aide to and acquaintance of the president Putin, member of co-operative society Lake (ozero). Co-operative society Lake brings together influential acquaintances of Russian president. Since 2004 till 2012 Minister of Education, since 2012 Putin’s aide.



- EU
- U.S.
- Australia
- Canada
- Norway
- Switzerland

Glazyev, Sergey

Politician and economist, since 2012 Putin’s aide on coordination of government agencies for establishing customs union of Belarus, Kazakhstan and Russia. Publicly called for the annexation of Crimea.



U.S.
Australia
Canada

Ivanov, Sergei

Chief of staff of the presidential executive office. Former deputy prime minister and minister of defence KGB officer in Leningrad, Putin's acquaintance.



U.S.
Australia
Canada

Ivanov, Victor Petrovich

Director of the federal drug control service of the Russian Federation (FSKN), a member of the Security Council of Russia, a former officer of the KGB in Leningrad, a veteran of the war in Afghanistan, a former member and Chairman of the Board of Directors of concern Almaz-Antei and Aeroflot, one of Putin's closest associates.



EU
Switzerland
Norway

Kiselyov, Dmitry Konstantinovich

Appointed by presidential decree on 9 December 2013 as head of the Russian federal state news agency "Rossiya Segodnya." Central figure of government propaganda supporting the deployment of Russian forces to Ukraine.



EU
U.S.
Australia
Canada
Norway
Switzerland

Kovalchuk, Yuriy Valentinovich

Kovalchuk is a long-time acquaintance of Putin. He is a co-founder of the co-operative society Lake (ozero), a cooperative society bringing together an influential group of individuals around Putin. He benefits from his links with Russian decision-makers. He is the chairman and largest shareholder of Bank Rossiya, of which he owned around 38% in 2013, and which is considered the personal bank of senior officials of the Russian Federation. Since the illegal annexation of Crimea, Bank Rossiya has opened branches across Crimea and Sevastopol, thereby consolidating their integration into the Russian Federation. Furthermore, Bank Rossiya has important stakes in the National Media Group, which in turn controls television stations that actively support the Russian government's policies of destabilisation of Ukraine.



U.S.
Australia
Canada

Kozhin, Vladimir Igorevich

Since May 2014 Putin's aide for military-technical cooperation, previously head of the presidential office of real estate management.



EU
U.S.
Australia
Canada
Norway

Rotenberg, Arkady Romanovich

Rotenberg is a long-time acquaintance of Putin and his former judo sparring partner. He developed his fortune during Putin's tenure. He has been favoured by Russian decision-makers in the award of important contracts by the Russian state or by state-owned enterprises. His companies were notably awarded several highly lucrative contracts for the preparations of the Sochi Olympic Games. Stroygazmontazh co-founder, construction of gas pipelines and electricity grids company and SMP Bank (Severnij Morskoj Put). He is a major shareholder of Giprottransmost, a company that has received a public procurement contract from a Russian state-owned company, to conduct a feasibility study into the construction of a bridge from Russia to the illegally annexed Autonomous Republic of Crimea, therefore consolidating its integration into

the Russian Federation, which in turn further undermines the territorial integrity of Ukraine.



Rotenberg, Boris

Putin's old friend, Stroygazmontaz co-founder, construction of gas pipelines and power grids company, and the Bank of SMP (Severnij Morskoj Put), president of the football club Dynamo Moscow.



Sechin, Igor

Putin's advisor, member of former security services lobby, former officer of GRU



Shamalov, Nikolay Terentievich

Shamalov is a long-time acquaintance of Putin. He is a co-founder of the co-operative society Lake (ozero), a cooperative society bringing together an influential group of individuals around Putin. He benefits from his links with Russian decision-makers. He is the second largest shareholder of Bank Rossiya, of which he owned around 10% in 2013, and which is considered the personal bank of senior officials of the Russian Federation. Since the illegal annexation of Crimea, Bank Rossiya has opened branches across Crimea and Sevastopol, thereby consolidating their integration into the Russian Federation. Furthermore, Bank Rossiya has important stakes in the National Media Group, which in turn controls television stations that actively support the Russian government's policies of destabilisation of Ukraine.



Shchegolev, Igor

Since 2012 advisor to the president of the Russian Federation. Earlier minister responsible for communication and mass-media.



Surkov, Vladislav Yurievich

Aide to the president of the Russian Federation. Considered to be main Kremlin ideologist. He was an organiser of the process in Crimea by which local Crimean communities were mobilised to stage actions undermining the Ukrainian authorities in Crimea.



Ushakov, Yury Viktorovich Ushakov

Diplomat, since 2012, Putin's foreign policy advisor.



Volodin, Vyacheslav Viktorovich

First deputy chief of staff of the presidential administration of Russia. Responsible for overseeing the political integration of the annexed Ukrainian region of Crimea into the Russian Federation.



Yakunin, Vladimir

President of OJSC Russian Railways. Member of co-operative society Lake (ozero)

ANNEX 2.

LIST OF ENTITIES UNDER SANCTIONS

Section 1. Banks and Financial Entities

- ★ **Canada**
Bank of Moscow
- ★ **U.S.** **Australia** **Canada**
Bank Rossiya
- ★ **Canada**
ExpoBank
- ★ **Canada**
GazpromBank
- ★ **U.S.** **Australia** **Canada**
Investcapitalbank
- ★ **Canada**
RosEnergobank
- ★ **Canada**
Russian Agricultural Bank (Rosselkhozbank)
- ★ **EU** **Australia** **Canada** **Norway**
Russian National Commercial Bank
- ★ **U.S.**
Sberbank Rossii
- ★ **U.S.** **Australia** **Canada**
SMP Bank (Severny Morskoy Put Bank)

- ★ U.S. Canada
Sobinbank
- ★ U.S. Canada
Stroytransgaz Investcapitalbank
- ★ Canada
Vnesheconombank (VEB)
- ★ Canada
VTB Bank
- ★ U.S. Canada
Zest Leasing

Section 2. Companies

- ★ Canada
Abros
- ★ EU U.S. Australia Canada Norway Switzerland
Almaz-Antey
- ★ U.S. Australia Canada
Aquanika
- ★ EU Australia Canada Norway Switzerland
Azov Distillery Plant (Crimean enterprise)
- ★ U.S. Canada
Bazalt (Federal State Unitary Enterprise State Research and Production Enterprise)
- ★ EU U.S. Japan Australia Norway
Chernomorneftegaz
- ★ EU Canada Norway Switzerland
Dobrolet
- ★ U.S.
Dolgoprudny Research Production
- ★ EU U.S. Japan Australia Canada Norway Switzerland
Feodosia Oil Product Supply Company
- ★ U.S. Canada
Instrument Design Bureau KBP
- ★ U.S.
Izhevskiy Mashinostroitel'Nyi Zavod
- ★ U.S. Canada
Kalashnikov

- ★ U.S.
Kalinin Machine Plant
- ★ EU Canada Norway
Kerch Commercial Sea Port (state enterprise)
- ★ EU Australia Canada Norway
Kerch Ferry (state enterprise)
- ★ EU Australia Canada Norway
Magarach, of the National Institute of Wine (state enterprise)
- ★ U.S. Canada
Mashinostroyeniya Military Industrial Consortium
- ★ EU Australia Canada Norway
Massandra National Association of Producers (state concern)
- ★ U.S.
Mytishchinski Mashinostroitelny Zavod
- ★ EU Australia Canada Norway
Nizhnaya Oreanda resort
- ★ Canada
Novatek
- ★ EU Australia Canada Norway
Novy Svet sparkling wine producer (state enterprise)
- ★ U.S. Canada
Radio-Electronic Technologies
- ★ U.S.
Rostec
- ★ U.S. Australia
Russkoye Vremya
- ★ U.S. Canada
Sakhatrans
- ★ EU Australia Canada Norway
Sevastopol Commercial Seaport (state enterprise)
- ★ U.S. Canada
Sozvezdie
- ★ U.S. Australia Canada
Stroygazmontazh (whole group)
- ★ U.S. Australia Canada
Stroytransgaz (whole group)
- ★ U.S.
Tikhomirov Scientific Research Institute of Instrument Design
- ★ U.S. Australia
Transoil

- ★ U.S. Canada
United Shipbuilding Corporation
- ★ UE U.S. Australia Canada Norway
Universal-Avia (whole group) (state enterprise)
- ★ U.S.
Uralvagonzavod
- ★ U.S. Australia Canada
Volga Group

Section 3. Self-Declared “States” Administrations and Militaries

- ★ EU Australia Canada Norway Switzerland
Army of the Southeast
- ★ EU Australia Canada Norway Switzerland
Donbass People’s Militia
- ★ EU Canada Norway Switzerland
Federal State of Novorossiya
- ★ EU Australia Canada Norway Switzerland
International Union of Public Associations “Great Don Army”
- ★ EU Australia Canada Norway Switzerland
Luhansk Guard
- ★ EU U.S. Australia Canada Norway Switzerland
People’s Republic of Donetsk
- ★ EU U.S. Australia Canada Norway Switzerland
People’s Republic of Luhansk
- ★ EU Canada Norway Switzerland
Sobol
- ★ EU Australia Canada Norway Switzerland
Vostok Battalion

ANNEX 3. LIST OF ENTITIES UNDER FINANCIAL SANCTIONS



Section 1. Banks

- ★ U.S. Canada
Bank of Moscow
- ★ EU U.S. Canada Norway Switzerland
Gazprombank
- ★ Australia
Invest Capital Bank
- ★ EU U.S. Canada Norway Switzerland
Rosselkhozbank (Selskokhozyaistvenny Bank)
- ★ EU U.S. Canada Norway Switzerland
Sberbank
- ★ U.S. Australia Canada Norway Switzerland
VEB (Vnesheconombank)
- ★ U.S. Australia Canada Norway Switzerland
VTB Bank

Section 2. Companies

★ EU U.S. Norway
Gazprom and Gazprom Neft

★ U.S.
Lukoil

★ U.S. Canada
Novafininvest (Novatek)

★ EU Norway
Oboronprom

★ EU U.S. Japan Norway
Rosneft

★ U.S.
Rostec

★ EU U.S. Norway
Transneft

★ EU Norway
United Aircraft Corporation

★ EU Norway
Uralvagonzavod

ANNEX 4. DUAL-USE TECHNOLOGIES RESTRICTIONS



Section 1. List of Russian Entities under EU and Norwegian Dual-use Technology Trade Restrictions

Almaz Antey	(state-owned enterprise; arms, ammunition, research)
Bazalt	(state-owned enterprise, production of machinery for the production of arms and ammunition)
Chemcomposite	(materials for civil and military purposes)
Kalashnikov	(small arms)
Sirius	(optoelectronics for civil and military purposes)
Stankoinstrument	(mechanical engineering for civil and military purposes)
Technologii Mashinostroenia	(ammunition)
Tula Arms Plant	(weapons systems)
Wysokototschnye Kompleksi	(anti-aircraft and anti-tank systems)

Section 2. List of Russian Entities under U.S. Dual-use Technology Trade Restrictions

Abris	Presumption of denial	77 FR 61256, 10/9/12.
Abris-KEY	Presumption of denial	77 FR 61256, 10/9/12.
Abris-Technology	Presumption of denial	77 FR 61256, 10/9/12.

Aleksander Cheremshin	Presumption of denial	77 FR 61256, 10/9/12.
Aleksander Kuznetsov	Presumption of denial	77 FR 61256, 10/9/12.
Aleksey Markov	Presumption of denial	77 FR 61256, 10/9/12.
Alex Pikhtin	Presumption of denial	77 FR 61256, 10/9/12.
Alexander Georgievich	Presumption of denial	77 FR 61256, 10/9/12.
Alexander Kuznetsov	Presumption of denial	77 FR 61256, 10/9/12.
Alexander V. Brindyuk	Presumption of denial	77 FR 61256, 10/9/12.
Alexander Vedyashkin	Presumption of denial	77 FR 61256, 10/9/12.
Alexey Ivanov Zhuravlev	Presumption of denial	77 FR 61256, 10/9/12.
Alexey Kulakov	Presumption of denial	77 FR 61256, 10/9/12.
Alexey Polynkov	Presumption of denial	77 FR 61256, 10/9/12.
All-Russian Scientific Research Institute of Experimental Physics	Case by case basis	62 FR 35334, 6/30/97 66 FR 24267, 5/14/01 75 FR 78883, 12/17/10 76 FR 30000, 5/24/11.
All-Russian Scientific Research Institute of Technical Physics	Case by case basis	62 FR 35334, 6/30/97, 66 FR 24267, 5/14/01, 75 FR 78883, 12/17/10, 76 FR 30000, 5/24/11.
Anastasya Arkhipova	Presumption of denial	77 FR 61256, 10/9/12.
Andrey Gruzdev	Presumption of denial	77 FR 61256, 10/9/12.
Andrey V. Gromadskih	Presumption of denial	77 FR 61256, 10/9/12.
Andrey Vladimirovich Saponchik	Presumption of denial	77 FR 61256, 10/9/12.
Anna V. Libets	Presumption of denial	77 FR 61256, 10/9/12.
Anton Khramov	Presumption of denial	77 FR 61256, 10/9/12.
Anton Lebedev	Presumption of denial	77 FR 61256, 10/9/12.
Anton Yurevich Alekseyev	Presumption of denial	77 FR 61256, 10/9/12.
APEX	Presumption of denial	77 FR 61256, 10/9/12.
APEX St. Petersburg	Presumption of denial	77 FR 61256, 10/9/12.
APEX Yekaterinburg	Presumption of denial	77 FR 61256, 10/9/12.
Aquanika	Presumption of denial	79 FR 24561, 5/1/14.
Arsenal	Presumption of denial	77 FR 61256, 10/9/12.
Atrilor	Presumption of denial	77 FR 61256, 10/9/12.
Avia Group LLC	Presumption of denial	79 FR 24561, 5/1/14.
Avia Group Nord LLC	Presumption of denial	79 FR 24561, 5/1/14.
Aviton	Presumption of denial	77 FR 61256, 10/9/12.
Best Komp	Presumption of denial	77 FR 61256, 10/9/12.
Bitreit	Presumption of denial	77 FR 61256, 10/9/12.
CJSC Zest	Presumption of denial	79 FR 24561, 5/1/14.
Denis A Kizha	Presumption of denial	77 FR 61256, 10/9/12.
DM Link	Presumption of denial	77 FR 61256, 10/9/12.
Dmitri Ezhov	Presumption of denial	77 FR 61256, 10/9/12.
Dmitriy Averichev	Presumption of denial	77 FR 61256, 10/9/12.
Dmitriy Moroz	Presumption of denial	77 FR 61256, 10/9/12.

Dmitriy Rakhimov	Presumption of denial	77 FR 61256, 10/9/12.
Dmitriy V. Lukhanin	Presumption of denial	77 FR 61256, 10/9/12.
Dmitry Andreev	Presumption of denial	77 FR 61256, 10/9/12.
Dmitry Kochanov	Presumption of denial	77 FR 61256, 10/9/12.
Dmitry M. Rodov	Presumption of denial	77 FR 61256, 10/9/12.
Dmitry Shegurov	Presumption of denial	77 FR 61256, 10/9/12.
Electrotehnika LLC	Presumption of denial	77 FR 61256, 10/9/12.
Elena Kuznetsova	Presumption of denial	77 FR 61256, 10/9/12.
Elizaveta Krapivina	Presumption of denial	77 FR 61256, 10/9/12.
Evgeni Viktorovich	Presumption of denial	77 FR 61256, 10/9/12.
Bazalt (Federal State Unitary Enterprise State Research and Production Enterprise)	Presumption of denial	79 FR 42455, 7/22/14.
Forward Electronics	Presumption of denial	77 FR 61256, 10/9/12.
Hermann Derkach	Presumption of denial	77 FR 61256, 10/9/12.
Igor Samusev	Presumption of denial	77 FR 61256, 10/9/12.
Incorporated Electronics Systems	Presumption of denial	77 FR 61256, 10/9/12.
Ivan Komarov	Presumption of denial	77 FR 61256, 10/9/12.
Ivan Zubarev	Presumption of denial	77 FR 61256, 10/9/12.
Sozvezdie joint stock company	Presumption of denial	79 FR 42455, 7/22/14.
Military-Industrial Corporation Mashinostroyeniya joint stock company	Presumption of denial	79 FR 42455, 7/22/14.
Almaz-Antey joint stock company	Presumption of denial	79 FR 42455, 7/22/14.
Radio-Electronic Technologies joint stock company	Presumption of denial	79 FR 42455, 7/22/14.
Kalashnikov	Presumption of denial	79 FR 42455, 7/22/14.
Kirill A. Stekhovskiy	Presumption of denial	77 FR 61256, 10/9/12.
Kirill Drozdov	Presumption of denial	77 FR 61256, 10/9/12.
Kirill Pechorin Starodvorsky	Presumption of denial	77 FR 61256, 10/9/12.
Konstruktorskoe Byuro Priborostroeniya Otkrytoe Aktsionerное Obshchestvo	Presumption of denial	79 FR 42455, 7/22/14.
Lyudmila V. Talyanova	Presumption of denial	77 FR 61256, 10/9/12.
Magnetar	Presumption of denial	77 FR 61256, 10/9/12.
Mariya Lomova	Presumption of denial	77 FR 61256, 10/9/12.
Mark Gofman	Presumption of denial	77 FR 61256, 10/9/12.
Maxim Yevgenevich Ivakin	Presumption of denial	77 FR 61256, 10/9/12.
MaxiTechGroup	Presumption of denial	77 FR 61256, 10/9/12.
Megel	Presumption of denial	77 FR 61256, 10/9/12.
Mekom	Presumption of denial	77 FR 61256, 10/9/12.
Melkom	Presumption of denial	77 FR 61256, 10/9/12.
MicroComponent	Presumption of denial	77 FR 61256, 10/9/12.
MIG Engineering	Presumption of denial	77 FR 61256, 10/9/12.
Mikhail Davidovich	Presumption of denial	77 FR 61256, 10/9/12.

Mikhail Karpushin	Presumption of denial	77 FR 61256, 10/9/12.
Mikhail Vinogradov	Presumption of denial	77 FR 61256, 10/9/12.
Neva Electronica	Presumption of denial	77 FR 61256, 10/9/12.
Nikolai Bragin	Presumption of denial	77 FR 61256, 10/9/12.
Nova Technologies	Presumption of denial	77 FR 61256, 10/9/12.
Oksana Timohina	Presumption of denial	77 FR 61256, 10/9/12.
Oleg Koshkin	Presumption of denial	77 FR 61256, 10/9/12.
Oleg Kunilov	Presumption of denial	77 FR 61256, 10/9/12.
Olga Naumova	Presumption of denial	77 FR 61256, 10/9/12.
Olga Pakhmutova	Presumption of denial	77 FR 61256, 10/9/12.
Olga Petrovna Kuznetsova	Presumption of denial	77 FR 61256, 10/9/12.
Olga Ruzmanova	Presumption of denial	77 FR 61256, 10/9/2012.
Olga V. Bobrikova	Presumption of denial	77 FR 61256, 10/9/12.
Pavel Grishanovich	Presumption of denial	77 FR 61256, 10/9/12.
St. Petersburg Electronic Company (PEC)	Presumption of denial	77 FR 61256, 10/9/12.
St. Petersburg Electronic Company Warehouse	Presumption of denial	77 FR 61256, 10/9/12.
ProExCom	Presumption of denial	77 FR 61256, 10/9/12.
Radel Ltd.	Presumption of denial	77 FR 61256, 10/9/12.
Ramil Yarulloviich Magzhanov	Presumption of denial	77 FR 61256, 10/9/12.
Ravil Mukminovich Bagautdinov	Presumption of denial	77 FR 61256, 10/9/12.
RCM Group	Presumption of denial	77 FR 61256, 10/9/12.
Roman Eliseev	Presumption of denial	77 FR 61256, 10/9/12.
Sakhatrans	Presumption of denial	79 FR 24561, 5/1/14.
Saransk Electronic Company	Presumption of denial	77 FR 61256, 10/9/12.
SCTB Engineering	Presumption of denial	77 FR 61256, 10/9/12.
Sergei Evgenevich Klinov	Presumption of denial	77 FR 61256, 10/9/12.
Sergei G. Yuropov	Presumption of denial	77 FR 61256, 10/9/12.
Sergey Koynov	Presumption of denial	77 FR 61256, 10/9/12.
Sergey Nikolayevich Sanaev	Presumption of denial	77 FR 61256, 10/9/12.
Specelkom	Presumption of denial	77 FR 61256, 10/9/12.
SpekElectronGroup	Presumption of denial	77 FR 61256, 10/9/12.
Stanislav Berezovets	Presumption of denial	77 FR 61256, 10/9/12.
Stanislav Bolt	Presumption of denial	77 FR 61256, 10/9/12.
Stanislav Orelsky	Presumption of denial	77 FR 61256, 10/9/12.
Stroygazmontazh	Presumption of denial	79 FR 24561, 5/1/14.
Stroytransgaz Group	Presumption of denial	79 FR 24561, 5/1/14.
Stroytransgaz	Presumption of denial	79 FR 24461, 5/1/14.
Stroytransgaz	Presumption of denial	79 FR 24561, 5/1/14.
Stroytransgaz-M	Presumption of denial	79 FR 24561, 5/1/14.
Systema VP	Presumption of denial	77 FR 61256, 10/9/12.

Timur Nikoleavich Edigeev	Presumption of denial	77 FR 61256, 10/9/12.
Transoil	Presumption of denial	79 FR 24561, 5/1/14.
Uralvagonzavod	Presumption of denial	79 FR 42455, 7/22/14.
Vadim Shuletskiy	Presumption of denial	77 FR 61256, 10/9/12.
Valentina Mazalova	Presumption of denial	77 FR 61256, 10/9/12.
Video Logic	Presumption of denial	77 FR 61256, 10/9/12.
Viktor Bokovoi	Presumption of denial	77 FR 61256, 10/9/12.
Vitaliy Nagorniy	Presumption of denial	77 FR 61256, 10/9/12.
Vladimir Davidenko	Presumption of denial	77 FR 61256, 10/9/12.
Vladimir Safronov	Presumption of denial	77 FR 61256, 10/9/12.
Vladimir Viktorovich Lavrov	Presumption of denial	77 FR 61256, 10/9/12.
Vladislav A. Sokolov	Presumption of denial	77 FR 61256, 10/9/12.
Volga Group	Presumption of denial	79 FR 24561, 5/1/14.
Vyacheslav Y. Shillin	Presumption of denial	77 FR 61256, 10/9/12.
Yekaterina Parfenova	Presumption of denial	77 FR 61256, 10/9/12.
Yevgeniy L. Biryukov	Presumption of denial	77 FR 61256, 10/9/12.
Yuliya L. Molkova-Poluh	Presumption of denial	77 FR 61256, 10/9/12.
Yuri A. Krashennnikov	Presumption of denial	77 FR 61256, 10/9/12.
Yuri Savin	Presumption of denial	77 FR 61256, 10/9/12.
Yuriy Vasilyevich Kuzminov	Presumption of denial	77 R 61256, 10/9/12.

ANNEX 5. DEEP OIL AND GAS EXPLORATION RESTRICTIONS



Section 1. List of Types of Products under EU Deep Water Oil Exploration Restrictions

CN code	Description
7304 11 00	Line pipe of a kind used for oil or gas pipelines, seamless, of stainless steel
7304 19 10	Line pipe of a kind used for oil or gas pipelines, seamless, of iron or steel, of an external diameter not exceeding 168.3 mm (excl. products of stainless steel or of cast iron)
7304 19 30	Line pipe of a kind used for oil or gas pipelines, seamless, of iron or steel, of an external diameter exceeding 168.3 mm but not exceeding 406.4 mm (excl. products of stainless steel or of cast iron)
7304 19 90	Line pipe of a kind used for oil or gas pipelines, seamless, of iron or steel, of an external diameter exceeding 406.4 mm (excl. products of stainless steel or of cast iron)
7304 22 00	Drill pipe, seamless, of stainless steel, of a kind used in drilling for oil or gas
7304 23 00	Drill pipe, seamless, of a kind used in drilling for oil or gas, of iron or steel (excl. products of stainless steel or of cast iron)
7304 29 10	Casing and tubing of a kind used for drilling for oil or gas, seamless, of iron or steel, of an external diameter not exceeding 168.3 mm (excl. products of cast iron)
7304 29 30	Casing and tubing of a kind used for drilling for oil or gas, seamless, of iron or steel, of an external diameter exceeding 168.3 mm, but not exceeding 406.4 mm (excl. products of cast iron)
7304 29 90	Casing and tubing of a kind used for drilling for oil or gas, seamless, of iron or steel, of an external diameter exceeding 406.4 mm (excl. products of cast iron)
7305 11 00	Line pipe of a kind used for oil or gas pipelines, having circular cross-sections and an external diameter of exceeding 406.4 mm, of iron or steel, longitudinally submerged arc welded
7305 12 00	Line pipe of a kind used for oil or gas pipelines, having circular cross-sections and an external diameter of exceeding 406.4 mm, of iron or steel, longitudinally arc welded (excl. products longitudinally submerged arc welded)
7305 19 00	Line pipe of a kind used for oil or gas pipelines, having circular cross-sections and an external diameter of exceeding 406.4 mm, of flat-rolled products of iron or steel (excl. products longitudinally arc welded)

7305 20 00	Casing of a kind used in drilling for oil or gas, having circular cross-sections and an external diameter of exceeding 406.4 mm, of flat-rolled products of iron or steel
7306 11	Line pipe of a kind used for oil or gas pipelines, welded, of flat-rolled products of stainless steel, of an external diameter of not exceeding 406.4 mm
7306 19	Line pipe of a kind used for oil or gas pipelines, welded, of flat-rolled products of iron or steel, of an external diameter of not exceeding 406.4 mm (excl. products of stainless steel or of cast iron)
7306 21 00	Casing and tubing of a kind used in drilling for oil or gas, welded, of flat-rolled products of stainless steel, of an external diameter of not exceeding 406.4 mm
7306 29 00	Casing and tubing of a kind used in drilling for oil or gas, welded, of flat-rolled products of iron or steel, of an external diameter of not exceeding 406.4 mm (excl. products of stainless steel or of cast iron)
8207 13 00	Rock-drilling or earth-boring tools, interchangeable, with working parts of sintered metal carbides or cermets
8207 19 10	Rock-drilling or earth-boring tools, interchangeable, with working parts of diamond or agglomerated diamond
8413 50	Reciprocating positive displacement pumps for liquids, power-driven (excl. those of subheading 8413 11 and 8413 19, fuel, lubricating or cooling medium pumps for internal combustion piston engine and concrete pumps)
8413 60	Rotary positive displacement pumps for liquids, power-driven (excl. those of subheading 8413 11 and 8413 19 and fuel, lubricating or cooling medium pumps for internal combustion piston engine)
8413 82 00	Liquid elevators (excl. pumps)
8413 92 00	Parts of liquid elevators, not elsewhere specified (n.e.s.)
8430 49 00	Boring or sinking machinery for boring earth or extracting minerals or ores, not self-propelled and not hydraulic (excl. tunnelling machinery and hand-operated tools)
ex 8431 39 00	Parts of machinery of heading 8428, n.e.s.
ex 8431 43 00	Parts for boring or sinking machinery of subheading 8430 41 or 8430 49, n.e.s.
ex 8431 49	Parts of machinery of heading 8426, 8429 and 8430, n.e.s.
8705 20 00	Mobile drilling derricks
8905 20 00	Floating or submersible drilling or production platforms
8905 90 10	Sea-going light vessels, fire-floats, floating cranes and other vessels, the navigability of which is subsidiary to their main function (excl. dredgers, floating or submersible drilling or production platforms; fishing vessels and warships)

Section 2. Russian Energy Companies Covered by Restrictions in Technology Transfer

Gazprom
Gazprom Neft
Lukoil
Rosneft
Surgutneftegas

Section 3. Russian Industry Sector Sanction List

7304110000	Line pipe of a kind used for oil or gas pipelines, seamless, of stainless steel
7304191020	Line pipe of a kind used for oil or gas pipelines, seamless, of iron (non-cast) or non-alloy steel, with an outside diameter not exceeding 114.3 mm
7304191050	Line pipe for oil or gas pipelines, seamless, iron (non-cast) or non-alloy steel, with outside diameter over 114.3 mm but not over 406.4 mm
7304191080	Line pipe of a kind used for oil or gas pipelines, seamless, of iron (non-cast) or non-alloy steel, with an outside diameter exceeding 406.4 mm
7304195020	Line pipe of a kind used for oil or gas pipelines, seamless, of other alloy steel, not stainless, with an outside diameter not exceeding 114.3 mm
7304195050	Line pipe, used for oil or gas pipelines, seamless, of other alloy steel, not stainless, with an outside diameter more than 114.3 mm, but less than 406.4 mm
7304195080	Line pipe of a kind used for oil or gas pipelines, seamless, of alloy steel, not stainless, with an outside diameter exceeding 406.4 mm
7304220000	Oil well drill pipe, of stainless steel
7304233000	Oil well drill pipe, of iron or non-alloy steel
7304236000	Oil well drill pipe, of alloy steel other than stainless steel
7304241000	Oil well casing of stainless steel
7304246000	Oil well casing of stainless steel
7304291055	Oil well casing of iron or non-alloy steel
7304293155	Oil well casing of other alloy steel not stainless
7304295000	Oil well tubing of iron or non-alloy steel
7304296100	Oil well tubing of other alloy steel other than stainless steel
7305111000	Line pipe for oil or gas, longitudinally submerged arc welded, external diameter more than 406.4 mm, circular cross-sections, of iron or non-alloy steel
7305115000	Line pipe for oil/gas pipelines, longitudinally submerged arc welded with external diameter over 406.4 mm, of alloy steel, with circular cross-section
7305121000	Line pipe for oil or gas, other longitudinally welded, external diameter more than 406.4 mm, circular cross-section, iron or non-alloy steel
7305125000	Line pipe for oil or gas pipelines, longitudinally welded with external diameter more than 406.4 mm, of alloy steel, with circular cross section
7305191000	Line pipe for oil or gas other than longitudinally welded, external diameter more than 406.4 mm, circular cross-section, iron or non-alloy steel
7305195000	Line pipe for oil or gas pipelines, with external diameter more than 406.4 mm, of alloy steel, circular cross section, welded/riveted, nesoi
7305203000	Casing, oil or gas drilling, other than seamless, circular cross-section, external diameter over 406.4 mm, iron or non-alloy steel
7305207000	Casing, oil or gas drilling, other than seamless, circular cross-section, external diameter over 406.4 mm, alloy steel
7306110000	Line pipe for oil or gas not seamless nesoi, of stainless steel
7306191000	Line pipe for oil or gas not seamless nesoi, of iron or non-alloy steel
7306195000	Line pipe for oil or gas not seamless nesoi, of alloy steel other than stainless steel
7311000000	Containers for compressed or liquefied gas of iron or steel
7613000000	Aluminum containers for compressed or liquefied gas
8207130000	Rock drilling or earth boring tools with working part of cermets, and parts thereof

8207191030	Percussion rock drill bits, core bits and reamers, of base metal, and parts thereof
8207192030	Rotary rock drill bits, core bits and reamers of base metal, and parts thereof
8207195030	Rock drilling or earth boring tools of base metals, nesoi, and parts thereof
8413500010	Oil well and oil field pumps, reciprocating positive displacement
8413600050	Oil well and oil field pumps, rotary positive displacement
8413820000	Liquid elevators
8413920000	Parts of liquid elevators
8421398020	Electrostatic precipitators, industrial gas cleaning equipment
8421398030	Industrial gas cleaning equipment, nesoi
8421398040	Gas separation equipment
8430494000	Offshore oil and natural gas drilling and production platforms
8430498010	Boring or sinking machinery, rotary, for oil well and gas field drilling
8430498020	Boring or sinking machinery for oil well and gas field drilling, nesoi
8431390050	Parts suitable for use solely or principally with the oil and gas field machinery of headings 8425 to 8430
8431434000	Offshore oil and natural gas drilling and production platform parts, of subheading 8430.41 or 8430.49
8431438010	Parts of oil and gas field machinery of subheading 8430.49 except parts of offshore drilling and production platforms
8431438090	Parts of boring or sinking machinery of subheading 8430.41 or 8430.49, nesoi
8479899850	Oil and gas field wire line and downhole equipment
8705200000	Mobile drilling derricks
8708998175	Parts and accessories, for motor vehicles of heading 8705.20, nesoi
8905200000	Floating or submersible drilling or production platforms

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Sanctions have so far been the most effective instrument of Western influence on Russia's policy towards Ukraine, stopping the Kremlin from making a greater military incursion in the country. Restrictions were imposed against more than one hundred members of the Russian political and business elite, as well as dozens of Russian enterprises and banks. The annexation of Crimea and war in eastern Ukraine transformed assumptions about Russia, from a strategic partner, especially in energy, into a strategic challenge, mainly for regional security. Should Russia persist in challenging the principles of European cooperative order in Ukraine, by resuming fighting and taking over new towns and villages, the West will have to scale-up sanctions significantly. At the same time, the West should elaborate precise benchmarks against which to measure any potential Russian cooperative behaviour in Ukraine, before deciding to suspend or cancel sanctions.



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