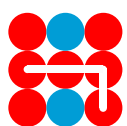


Sanctions against Russia: The West needs a grand strategy



Hybrid CoE Strategic Analyses address timely questions concerning hybrid threats and can serve as an opening for a theme that requires further research. They aim to identify gaps in knowledge and understanding, explain processes behind a phenomenon, and highlight trends and future challenges.

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Hybrid CoE's mission is to strengthen its Participating States' security by providing expertise and training for countering hybrid threats, and by enhancing EU-NATO cooperation in this respect. The Centre is an autonomous hub for practitioners and experts, located in Helsinki, Finland.

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Sanctions against Russia: The West needs a grand strategy

Russia has been under Western sanctions since 2014, following the annexation of Crimea and the destabilization of eastern Ukraine. Moscow's unprovoked invasion of Ukraine on 24 February 2022 triggered a barrage of new sanctions with massive consequences. This Hybrid CoE Strategic Analysis examines the successes and pitfalls of sanctions on Russia and presents conclusions on how to maximize the use of sanctions and their impact – as deterrence and coercion – against Moscow.

Key principles of applying sanctions

As a foreign policy tool, sanctions are best defined as the introduction of economic penalties aimed at a state or other entity for the purpose of altering its behaviour.¹ Possible sanction options include an arms embargo, financial restrictions, an embargo on certain exports and imports, a ban on dual-use goods, asset freezes, and travel bans. The art of applying sanctions – a foreign policy tool – rests on key principles that are valid regardless of the context. Evidence shows that sanctions are most effective as a deterrent: the threat of sanctions is more effective than their actual imposition. The effectiveness of sanctions is best measured against their objectives, and the latter are multifaceted. Sanction goals range from sending a signal to the target state, constraining a country's actions, or forcing a behavioural change. The effectiveness of sanctions depends on their multilateralization: the more countries join restrictive measures, the stronger the impact. Sanctions tend to work over a long period of time and demonstrate cumulative effects.

Even if they are lifted, their effect continues for several years thereafter.²

In addition, the context and the actor-specific characteristics are of significance when imposing sanctions. Assessing the target's interests and rationale as well as evaluating its key vulnerabilities are important when designing sanctions. Understanding what drives a particular target is a starting point for calibrating the sanction response. In the Russian context, this means acknowledging that Moscow's worldviews are incompatible with those of the West. Russia's pursuit of privileged interests in its neighbourhood is at odds with the nature of security in Europe. Its claims of exceptionalism and its quest for entitlement at the expense of other countries' national interests make dialogue and cooperation of limited use.³

The threat of sanctions is more effective than their actual imposition.

1 See <https://www.brookings.edu/testimonies/economic-sanctions/>. Unless otherwise indicated, all links were last accessed on 16 May 2022.

2 See https://www.iss.europa.eu/sites/default/files/EUISSFiles/Report_25_EU_Sanctions.pdf.

3 Keir Giles, 'What deters Russia', Chatham House, September 2021, <https://www.chathamhouse.org/2021/09/what-deters-russia>.

Sanctions on Russia

After 2014

After the annexation of Crimea, the West imposed economic sanctions on Russia, aimed at increasing the costs of Moscow's actions to undermine Ukraine's territorial integrity and sovereignty. The sanctions targeted strategic sectors of the Russian economy, depriving Russian banks, energy and defence companies of access to securities, dual-use technology and financial services, as well as targeting numerous individuals involved in the conflict. While the sanctions were significant and caught Russia by surprise, the measures had only partial success. At best, the sanctions constrained Russia's actions on the ground. There is evidence to suggest that the tightening of the financial sanctions played a role in constraining Russia's appetite for extending hostilities beyond the ceasefire line and occupying Mariupol.⁴ Even if sanctions and the threats thereof did not succeed in coercing Russia to change its behaviour, they were successful in freezing the military conflict around the demarcation line agreed in September 2014.

A combination of factors explains the partial success of the 2014 sanctions. First, the packages of sanctions were implemented belatedly, months after Russia's hostile actions (the annexation of Crimea in March 2014 and the Illovaysk escalation in July 2015) occurred. Such reactionary sanction responses failed to establish Western credibility and maximize the deterring effect. A lack of resolve and a delayed reac-

tion to Russia's actions arguably incentivized the Kremlin to double down on its course of actions. Second, the announced sanctions were moderate and incremental, failing to match the level of Russia's transgressions. From July 2014 until recently, the EU did not ramp up the sanctions pressure and did not expand its sectoral sanctions, allowing Russia to adapt and minimize the impact of the measures. The West's unwillingness to bear the costs of sanctions and the overwhelming desire to find a diplomatic solution resulted in low-intensity sanctions, with their effectiveness diminishing every year.⁵ In the last few years prior to February 2022, the West largely resorted to customary visa bans and asset freezes on Russian individuals unable to alter the Kremlin's decision-making. The routinization of sanctions, combined with expanding economic cooperation with Russia (e.g. the construction of the controversial Nord Stream 2 pipeline) arguably emboldened Moscow, tilting Russia's cost calculus towards more risk-prone behaviour.

In 2022

Striking the right balance between clearly communicating the West's boundaries and preserving a certain degree of strategic ambiguity is crucial for the deterring effect of sanctions. In contrast to 2014, in 2022 the West was quick to clearly communicate what the consequences of Russia's invasion of Ukraine would be, soon after Russia amassed about 100,000 troops on the Ukrainian border. Furthermore, the West

4 Stanislav Secieru, 'Have EU Sanctions Changed Russia's Behaviour in Ukraine?', in Iana Dreyer and José Luengo-Cabrera (eds), *On Target? EU Sanctions as Security Policy Tools*, Report No. 25 (Paris: European Union Institute for Security Studies, 2015).

5 Edward Hunter Christie, 'The Design and Impact of Western Economic Sanctions against Russia', *The RUSI Journal*, 161:3 (2016): 52–64.

communicated early enough about the costs of sanctions to domestic audiences to prevent a backlash against restrictive measures. This provided wiggle room for the political elites to impose higher costs.

Although the allies threatened to impose the high-impact sanctions early enough, the threats of sanctions failed to work as a deterrent. Arguably, Russia did not deem the threats credible, or Moscow considered that the signalled costs were not high enough. The lesson to be learned from this episode is how to establish and adjust red lines: Articulating thresholds should be part of the sender's internal deliberations, while the sender should coherently and consistently communicate the consequences of transgressing boundaries to the target. A more pre-emptive application of sanctions, when Russia was continuing the military build-up despite the threats, could arguably have been more effective in deterring the Kremlin. Waiting for Russia to invade before imposing sanctions put the West in a disadvantaged position of reacting to the target's hostile actions. The failure to show agility and shift red lines backwards instead of forwards forced Western sanctions to counteract coercion, which is historically much harder to do.⁶ An early deployment of sanctions would also have bought valuable time for the effects of the measures to fully unfold.

In response to Russia's invasion of Ukraine in February 2022, the West introduced sweeping sanctions. With high-level coordination, the West targeted Russia's financial, defence, aerospace and energy sectors, as well as individuals close to the Kremlin. In the space of

Waiting for Russia to invade before imposing sanctions put the West in a disadvantaged position of reacting to the target's hostile actions.

a month, Russia became the world's most sanctioned country, surpassing Iran and North Korea. Unlike in 2014, the West stepped up its appetite for hard-hitting measures and its willingness to bear the costs. The US abandoned an incremental approach and began to pursue the strategy of 'start high, stay high'. In the past, the West's piecemeal measures were perceived by Moscow as a lack of resolve and an opportunity to exploit pan-European and transatlantic divisions. The new approach aimed to avoid these pitfalls. In an unprecedented move, several non-systemic banks were disconnected from SWIFT, the messaging system for global transactions. Russia's largest financial institutions such as Sberbank, VTB and Alfa Bank were placed on the full blocking sanctions lists in the US and the UK. More than 1,000 Russian individuals were targeted across all jurisdictions.

A ban on the export of dual-use items and luxury goods was imposed. The main shock came from freezing more than half of Russia's central bank foreign reserves. The measure was not discussed in public and caught the Russian elites by surprise. It added an element of uncalculated risks that Moscow had not factored into its

6 Statistically, coercion is effective in about 10% of sanction cases. Constraining and signalling is effective in 27% of cases – Data from the Targeted Sanctions Consortium Database, IHEID. See <https://www.graduateinstitute.ch/research-centres/global-governance-centre/targeted-sanctions-initiative>.

'Fortress Russia' strategy, a conservative fiscal and monetary policy aimed at accruing ample international reserves to blunt any impact of sanctions. As sanctions 'bite' hardest when they are unanticipated, the freeze on the central bank's assets was an example of a purposefully controlled escalation that was instrumental in inflicting uncalculated costs.

The sweeping measures were strengthened by a broad sanctioning coalition. Seeking to revive the transatlantic relations, the US coordinated with Europe on an unprecedented scale. The Biden administration conducted over 180 consultations with allies, bringing on board countries that rarely join non-UN sanctions: Taiwan, South Korea, and Japan. Ensuring a broad sanctioning coalition was key in introducing export controls and applying the so-called Foreign Direct Product Rule (FDPR) to Russia's defence, aerospace and maritime sectors. With the FDPR, the prohibitions on exports of microchips and semiconductors of US origin became all-encompassing. The alignment of Asian partners helped to minimize sanction circumvention through the loopholes across different jurisdictions or through non-aligned parties.

However, even though Russia crossed the tripwire and launched a full-scale assault on its neighbour, Western allies followed the pattern of articulating new sanction threats against Russia's potential crossing of new red lines. After the invasion of Ukraine, the EU conditioned the imposition of energy sanctions on Russia's use of chemical and biological weapons or on severe casualties among the civilian population. With this approach, the West has disad-

vantaged itself by being one step behind Russia's hostile actions.

Issues with the conditionality of sanctions

Establishing conditionality is crucial for maximizing the potential of sanctions, as they are a bargaining instrument to extract concessions. Both the 2014 and the 2022 sanction packages faced problems with their conditionality mechanism.

In February 2015, the sanction package designed and imposed in 2014 was conditioned on full compliance with the Minsk II agreement, designed to bring peace in the Donbas region after Russia annexed Crimea. The agreement was brokered by Germany and France and entailed a package of measures, including a ceasefire, the withdrawal of all heavy weaponry, and a constitutional reform in Ukraine. However, the flawed and hastily signed document served to aggravate the tensions rather than alleviate them.

The 2022 sanctions have lacked a conditionality mechanism and a clear endgame as a whole. The sanctions have largely been used as a punitive instrument to match the level of Russian atrocities in Ukraine. There is no agreement in the West on what the sanctions should be linked to. At the moment, their aim is to inflict greater pain on the Russian economy and to erode Russia's ability to finance the war. US Defence Secretary Lloyd Austin defined the US objective as curtailing Russia's powers and weakening its ability to repeat its aggression in Ukraine. France and Germany, meanwhile, have still not abandoned hopes of peace

negotiations. Disagreements over the conditionality of sanctions pervade the expert level too: some argue that the measures should be conditioned on a negotiated settlement or a cease-fire; others warn of the dangers of a recurring Russian invasion, and advocate the full and unconditional withdrawal of Russian troops from Ukraine. The absence of an agreement on a political endgame makes it hard to design an effective sanctions strategy, while imposing sanctions for the sake of inflicting pain can strengthen the “rally-around-the-flag” effect among the Russian population and weaken the opposition to the regime.

Conclusions

Sanctions are a long-term instrument with cumulative effects. They should form part of a larger strategy, as they are most effective when used in combination with other instruments of economic statecraft. A “whole-of-government” approach is conducive to coherent cross-government coordination, effective implementation and robust enforcement. In addition, an honest self-assessment of vulnerabilities is crucial for the sender in order to understand its own weaknesses, which a hostile actor can exploit and target in retaliation. The ability to impose sanctions emanates from domestic resilience.

The invasion of Ukraine prompted the West to pivot away from standalone sanctions and deploy a broad application of economic statecraft, ranging from stricter anti-money laundering regulations and robust foreign investment screening to tighter export controls. The UK introduced the new Economic Crime Bill

to tackle money laundering, enhance sanction enforcement and strengthen unexplained wealth orders. The US launched a task force for seizing and freezing assets of wealthy Russian oligarchs. The EU accelerated the belated diversification of its energy policy and strengthened its foreign investment screening mechanisms. With these developments, **the West embarked on a strategy of minimizing domestic vulnerabilities and building resilience at home.**⁷ This became particularly pronounced in the energy sphere: After working to diversify suppliers and alternative energy sources, the EU is now ready to trigger an oil embargo on Russia. Germany updated its energy security act, which allows the government to put critical infrastructure under state stewardship when energy security is endangered. The update has marked a major turn in Germany’s strategic thinking and contrasts with the previous policy whereby Russian state-owned companies Gazprom and Rosneft were allowed to acquire controlling stakes in Germany’s energy infrastructure, such as underground gas storage facilities and oil refineries.

Authoritarian actors like Russia rarely play by the rules. They frequently probe red lines and apply hybrid threat measures which lend them plausible deniability. Thus, **the West needs to remain agile in the face of new challenges and prepare sanction packages for different scenarios ahead of time.**

Adapting the conditionality of sanctions vis-à-vis the target’s behavioural changes is an important part of strategic culture. Shifting red lines forward results in a reactive sanctions policy which deprives the sender of its

7 See <https://warontherocks.com/2021/12/toward-a-trans-atlantic-strategy-on-russia-sanctions/>.

first-mover advantage. Instead, **the West should resort from time to time to a pre-emptive escalation to showcase its unwavering resolve, to constrain Russia's actions, and shape the country's future behaviour.** It is easier to bear the costs of deterrence and neutralize threats before they emerge, as opposed to dealing with the fallout of post factum consequences. In the Russian context, this means avoiding chasing Moscow's red lines with incremental sanctions. While the severity of sanctions should be matched with the level of transgressions, it is important to acknowledge that not all red lines can be suitably countered with sanctions alone. In the case of Russia's threat to deploy chemical weapons or launch a nuclear attack, military statecraft should be deployed on a par with economic statecraft.

While sanctions can certainly exert a severe economic impact, transitioning from impact to effectiveness is the trickiest part of the sanctions mechanism. **Working through different**

scenarios under which sanction impact can be transformed into sanction effectiveness, and working out what the main hindrances are, can provide the sender with a sense of control and the foresight needed for adjusting the pressure. Many factors need to be in place in order for sanctions to achieve their objective and to duly become effective. **Firstly, there must be domestic resilience-building; strategic communication about the costs; the appropriate scope of sanctions; as well as multilateralization of the sanctions effort, and credible conditionality.** To ensure robust enforcement, building communication with the private sector responsible for compliance is key. **Secondly, analyzing how the target adapts to restrictive measures is crucial for closing any loopholes and tightening the screws. Finally, examining the ways in which third actors can be instrumental in mitigating the impact of sanctions is important to prevent the easing of pressure.**

Author

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