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LESSONS FROM RUSSIA *for the* FUTURE OF SANCTIONS

By Peter E. Harrell

Center for a New American Security

About the Authors

Peter E. Harrell is an Adjunct Senior Fellow at the Center for a New American Security and a Principal at Prospect Global Strategies, LLC.

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Economic Statecraft Series

This policy brief is the second in a CNAS series on the coercive tools of economic statecraft.

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U.S. and European sanctions on Russia mark a significant evolution in the sanctions toolkit. Officials deployed novel types of financial and energy sanctions to create a regime that imposed significant costs on Russia while minimizing collateral impacts on the U.S. and European economies. The U.S. and European decision to create these new tools was driven by the need to take an innovative approach to sanctions against an economy twice the size of the combined gross domestic products (GDPs) of all other countries subject to significant U.S. economic sanctions and on Russian companies that play an important role in global markets. These developments, while tailored to Russia's unique circumstances, hold important lessons for the future of sanctions policy.

This policy brief is the second in a Center for New American Security (CNAS) series on the coercive tools of economic statecraft. The series focuses on recent developments in the use of coercive tools, including financial sanctions, trade embargos, and export controls; analyzes trends; and recommends ways to improve sanctions policy and implementation. This policy brief reviews the development of U.S. and European Union (EU) sanctions on Russia during 2014 and early 2015 and examines the challenges that led policymakers to develop new sanctions tools. It then briefly assesses impacts and the extent to which the sanctions affected Russia's strategy toward Ukraine. Finally, the policy brief draws several lessons from U.S. and EU sanctions on Russia relevant to future sanctions policymaking and offers recommendations for policymakers on ways to improve their ability to target and innovate the sanctions toolkit in the future.

THE INITIAL DEVELOPMENT OF SANCTIONS ON RUSSIA

At the beginning of 2014, few U.S. officials anticipated Russia's annexation of Crimea or escalating intervention in eastern Ukraine. Even as a popular uprising in Kiev grew against then-Ukrainian President Viktor Yanukovych in late 2013 and early 2014, American and European officials viewed the developments as likely to play out principally within Ukraine's borders. Few U.S. and European observers considered the internal domestic events in Ukraine as fundamental to the West's relationship with Russia.

Within days of Yanukovych fleeing Kiev in late February, however, it became clear that Russia was deploying forces into Ukraine's Crimean peninsula, and there were reports of pro-Russian agitation in eastern Ukraine. By the end of the month, officials in Washington and Brussels were scrambling to develop a policy response to Russian aggression, which represented the first time since World War II that one European country used military force to take territory from another.[1]

Sanctions quickly became the principal coercive element of the emerging U.S. and European strategy. Officials had scant interest in taking steps that might risk a direct military confrontation between Russia and the West and saw no practical way to provide Ukraine with sufficient weaponry to win a military battle against Russia. As President Obama said in March 2014, "The situation in Ukraine … does not have easy answers, nor a military solution."[2] But officials also realized that it was essential to impose costs on Russia to deter further aggression and encourage a diplomatic resolution to the escalating crisis.

Initially, U.S. officials drew from a familiar playbook developed with respect to sanctions on Iran that had also been used against the Asad regime in Syria: a series of asset freezes directed at an escalating number of pro-Russian separatists on the ground in Ukraine and their Russian government backers. The first round of U.S. sanctions, announced on March 6, 2014, targeted pro-Russian separatists in Crimea,[3] while a second round of sanctions announced on March 17, as Russia prepared to annex Crimea and pro-Russian violence flared in eastern Ukraine, targeted seven Russian officials for their role in setting Russia's Ukraine policy.[4] The March 17 actions also established a legal framework for broader action, including giving the Treasury Secretary the authority to impose asset freezes on Russian defense companies and on close business allies of Russian President Vladimir Putin.[5] Three days later, on March 20, the Obama administration imposed asset freezes on another 16 Russian government officials; four prominent pro-Kremlin Russian oligarchs; and Bank Rossiya, a small Russian bank that was controlled by Kremlin insiders.[6]

At the same time, U.S. officials were beginning work on options for more aggressive economic sanctions against key sectors of the Russian economy. Executive Order (EO) 13662, which President Obama signed on March 20, gave the Treasury Department a broad legal authority to sanction the Russian energy, banking, mining, and other sectors, but the administration did not immediately move to impose sanctions under the EO.[7] Instead, officials, concerned that Russia was planning to widen its intervention to eastern Ukraine, sought to use the threat of additional sanctions to deter further Russian aggression while using the time available to design a sanctions regime that could address innumerable challenges.

THE CHALLENGES OF CRAFTING BROADER ECONOMIC SANCTIONS

Moving to design broader economic sanctions on Russia, however, immediately raised significant challenges for U.S. officials. The challenges were even greater for officials in the EU, which American officials viewed as a key partner since the EU's larger trade and investment flows with Russia were perceived as giving Europe greater economic leverage over Russia. As policymakers on both sides of the Atlantic deliberated the policy benefits of imposing more costly economic sanctions, they had to take into account a number of risks, including the toll on the U.S. and European private sector, risks to key markets, and potential legal challenges in Europe.

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First, Russia's sheer economic size forced officials to assess the collateral costs that sanctions on it would impose on U.S. and European companies. Russia's pre-sanctions GDP of $2.1 trillion was twice the size of the combined GDPs of every other country subject to U.S. economic sanctions.[8] Pre-sanctions trade flows between the European Union and Russia amounted to some €369 billion annually, and aggregate EU investment in Russia was nearly €190 billion.[9] U.S. goods trade with Russia, though smaller, still amounted to $40 billion annually.[10]

U.S. officials were also concerned that sanctions could adversely impact key markets. With 7.2 million barrels per day of oil exports, Russia was the second-largest global energy exporter behind only Saudi Arabia, and it provided (and still provides) Europe with roughly a third of its natural gas supplies.[11] Russia was also a significant global financial player, and several of its banks ranked among the world's largest. At the end of 2013, for example, Sberbank, Russia's largest bank, held more assets than Bank of New York Mellon, PNC, or numerous other well-known U.S. banks.[12] With memories of the 2008 financial crisis and the 2011–2012 Eurozone crisis fresh in leaders' minds, American officials wanted to avoid steps that could unintentionally trigger shocks in global financial markets.

A second challenge that confronted U.S. and European policymakers was a wave of sanctions-related litigation in European courts that has constrained the EU's ability to impose asset freezes on individuals and companies. Since the European Court of Justice's ruling in a 2008 case, *Kadi v. Council,* found that people subject to EU sanctions have significant due process rights to challenge asset freezes imposed against them, dozens of individuals and companies around the world have successfully brought suit in European courts.[13] This has made it increasingly difficult for the EU to impose sanctions on individuals and companies who are alleged to be involved in prohibited acts unless there is abundant clear, unclassified evidence linking a sanctioned individual or company to the alleged act. In practical terms, the litigation has required the EU to rely less on sanctions that link specific targets to prohibited acts and to increasingly seek other legal underpinnings for imposing sanctions, such as designating a company based simply on its status as a state-owned entity. Recent case law suggesting that European courts may also have the right to review whether sanctions are sufficiently tailored and proportionate to the alleged offense has also contributed to concern by European officials that EU sanctions are vulnerable to legal challenge.

INNOVATION IN THE SANCTIONS TOOL

Faced with both a clear imperative to impose costs on Russia in response to its aggression and the potential for traditional financial and trade sanctions to have significant costs on western firms, U.S. and European policymakers developed a new set of sanctions tools that managed these challenges. In the financial sector, the solution was an innovative new restriction that prohibited U.S. and European financial institutions from providing new equity or debt of more than 30 days duration to sanctioned Russian banks and prohibited providing new debt of more than 90 days duration to sanctioned Russian energy companies.

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All other transactions, including short-term lending such as overnight lending, trade-related transactions, and dollar-clearing, remained permitted. The United States implemented the sanctions through a new mechanism, the Sectoral Sanctions Identification

(SSI) list, managed by the Treasury Department's Office of Foreign Assets Control (OFAC). The first sanctions imposed under this authority were announced on July 16, 2014.[14] The launch of the SSI list marked the first time the United States deployed the sophisticated financial sanctions architecture it developed since the early 2000s, other than to impose asset freezes or prohibitions on foreign banks opening correspondent accounts there.

The SSI list grew out of detailed analysis of Russian financial vulnerabilities conducted not only by sanctions experts at OFAC and the State Department, but also by economists and financial experts from across the Treasury Department and U.S. government. While the Russian government had sustainable levels of sovereign debt and significant sovereign reserves, Russian businesses – particularly large businesses in the financial and energy sectors – were heavily dependent on financing from the United States and Europe. Total outstanding Russian debt (including both corporate and sovereign debt) in July 2014 amounted to more than $730 billion,[15] and it was estimated that Russian companies would need tens of billions of dollars in external financing in 2014 and some $120 billion in external financing in 2015 just to "roll over" existing debt.[16]

Restricting lending to large Russian companies would force the companies to meet debt repayment obligations either by dramatically curtailing spending within Russia, causing adverse economic conditions within Russia, or by turning to the Russian government for financing, which would put increasing fiscal strains on the Russian government. The effect on the Russian economy would grow over time as existing Russian debts came due and companies found themselves unable to roll them over. Since the vast majority of transactions would continue to be permitted, debt sanctions would minimize the impact of the financial sanctions on trade flows with Russia, ensure that Russian companies could repay existing debts, and minimize the risk of unexpected impacts in financial markets.

It was important to officials on both sides of the Atlantic that U.S. and European sanctions be broadly aligned, a goal that was largely met at a strategic level. There were, however, some differences between the European and American approaches that reflected the different policy and legal realities on the two sides of the Atlantic. The United States initially launched the SSI list on July 16, 2014, in response to Russia sending significant quantities of weapons to separatists in eastern Ukraine, but Europe only joined in imposing sanctions on the Russian financial sector on July 30 after pro-Russian separatists had used a Russian antiaircraft system to shoot down a civilian Malaysian Airlines jet.

Even after both Washington and Brussels decided to move forward with sanctions on Russia's financial and energy sectors, differences remained. For example, Europe initially covered a larger share of the Russian banking sector, imposing restrictions on all "major" state-owned banks "having an explicit mandate to promote competitiveness of the Russian economy, its diversification, and encouragement of investment,"[17] while the United States covered several named institutions. Practically speaking, this meant that Europe covered Sberbank, Russia's largest bank, while the United States did not.[18] Conversely, Europe's sanctions initially covered only capital markets lending to Russia, not bank lending, which was important to several continental European banks.[19]

European and American policymakers closed several of these gaps as part of a round of sanctions implemented on September 12, 2014, with the United States adding Sberbank to the SSI list and European sanctions covering bank lending to sanctioned Russian companies.[20] Unlike American sanctions, however, European sanctions contained

– and continue to contain – broad exclusions for preexisting contracts and financing related to European exports to Russia, even to sanctioned banks.[21]

U.S. and European policymakers were focused not only on the Russian financial sector: They developed sanctions targeting Russia's energy and defense sectors as well. With respect to Russia's energy sector, officials were cautious about sanctions' impact on Russia's current energy production, given its significance in global energy markets, and European officials were wary of taking steps that could impact natural gas flows from Russia to the EU. However, officials assessed that in order to maintain oil production over time, Russia needed to develop unconventional oil resources, particularly in the Arctic and in shale formations. To develop these resources, Russia was importing U.S. and European technology and had signed joint ventures with western firms, providing U.S. and EU policymakers with potential leverage. Targeting the unconventional sector offered a way to impact Russia's energy development over time without disrupting near or mid-term energy production.

On July 30, 2014, the United States and EU prohibited the export of certain high-end technology used for Arctic, deepwater, and shale oil development to Russia.[22] While this prohibited the export of goods from both jurisdictions, it did not immediately prevent U.S. or European companies from continuing to participate in such projects using goods already stockpiled in Russia or exported from third countries. Then, in September of that year, both the EU and the United States banned the provision of services to projects in the Russian unconventional energy sector, effectively completely prohibiting their companies from engaging in such projects.[23] (Europe, however, contained exclusions for work under preexisting agreements between European and Russian energy companies).

With respect to Russia's defense sector, officials in Washington and Brussels took a more conventional approach to sanctions. The United States has imposed asset freezes on 14 Russian defense companies and imposed restrictions on the export of dual-use goods to the Russian defense sector.[24] Europe has also restricted the export of these goods to the sector.[25]

DIRECT ECONOMIC CONSEQUENCES: INTENDED AND UNINTENDED

In many respects, U.S. and European sanctions on Russia played out as policymakers expected in terms of costs on the Russian economy. In particular, the SSI list restrictions have had the intended impact on Russia's external borrowing, forcing large Russian corporations to seek emergency funding from the Russian government and drawing down Russia's sovereign reserves.[26] The sanctions were also a principal cause of the Russian Central Bank's decision to spend more than $97 billion defending the value of the ruble during 2014.[27] Energy experts predict that if sanctions remain in place, the prohibitions on involvement in Russia's Arctic, deepwater, and shale projects have significant potential to impact Russia's energy profile over time.[28]

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There have, however, also been unintended impacts of the sanctions on non-Russian businesses operating in Russia. At a project level, U.S. and European financial sanctions have had several unintended – though in the minds of some policymakers, fortuitous – economic impacts, including with respect to the energy sector. For example, the financial sanctions on Novatek, a Russian energy company, have created complications for financing the Yamal liquefied natural gas (LNG) project even though LNG projects are not directly covered by the energy sector sanctions.[29] Press reports indicate that the Sakhalin II LNG project in far eastern Russia may also suffer delays as a result of the financial sanctions.[30] At a macroeconomic level, the sanctions combined with the plunge in global oil prices in the second half of 2014 and put greater than expected macroeconomic pressure on Russia. Many U.S. policymakers see this additional economic pressure serving American policy interests given that Russia has continued its intervention in eastern Ukraine.

The energy sector sanctions also created unanticipated complications for smaller U.S. and European companies that do not have direct business in Russia but sell goods and services to larger U.S. and European energy companies that do. U.S. officials also did not fully anticipate the difficulties that the automated compliance software used by banks and multinational companies for sanctions compliance would have adapting to the SSI list, which created significant unintended compliance costs for banks in the United States and Europe.[31] Anecdotal reports from industry suggest that banks have had to expend significant resources developing new, often labor-intensive compliance systems to comply with the SSI list sanctions. While these impacts have not fundamentally altered the way the sanctions have played out, they do illustrate the challenges of calibrating sanctions, given the imperfect information available to government officials and the complexity of international business.

WERE SANCTIONS AN EFFECTIVE DETERRENT?

One of the common criticisms of U.S. and European sanctions on Russia is that while they succeeded in imposing economic costs on Russia, they failed to prevent Putin from consolidating control in Crimea and eastern Ukraine. U.S. and European officials repeatedly threatened sanctions in an effort to deter Russian aggression, the critics argue, but neither the threat of sanctions nor the imposition of sanctions had a material impact on Putin's strategy.[32]

It is too early to give a definitive answer to the question of whether sanctions affected Putin's Ukraine strategy, but the preliminary record appears to be mixed. Russia does appear to have made tactical adjustments to its strategy at different points during the crisis to minimize the odds of sanctions being imposed. For example, faced with repeated threats by European and U.S. leaders that Russian efforts to undermine Ukraine's democratic elections in May 2014 would trigger broad economic sanctions, Russia did generally allow the elections to go forward without interference, except in areas then under de facto control by pro-Russian separatists.[33] Although the threat of sanctions did not deter Russia from pouring hundreds of tanks and other weapons into Ukraine in July and August 2014, the imposition of sanctions that September and the threat of sanctions escalation may have been one factor in convincing Russia to support elements of a ceasefire agreement among Ukraine, Russia, and the separatists on September 19, 2014. And after Russia again escalated the violence in eastern Ukraine in early 2015, the threat of broader sanctions may have helped deter Russia from moving forward and seizing the strategic city of Mariupol in February.

On the other hand, sanctions have yet to dissuade Russia from its strategic objective of steadily escalating its support for separatists and consolidating the territory under pro-Russian control in eastern Ukraine. In some respects Russia appears to be engaging in a cyclical strategy of escalating its intervention just below the point where it expects further sanctions to be imposed, or to a point where it expects any sanctions imposed will be manageable, and then tactically de-escalating the situation or launching a new peace negotiation to avoid sanctions actually being implemented. It remains to be seen whether the continued impact of sanctions on the Russian economy in 2015 will convince Russia to support a more durable de-escalation in eastern Ukraine.

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In many ways, the mixed results of sanctions in changing Russia's strategic calculus to date should be expected. Other recent experiences with economically significant sanctions, particularly the one with Iran starting in the late 2000s, suggest that it can take years for sanctions to change a government's strategic calculus. Initially governments tend to respond to sanctions by threatening perseverance, seeking to adjust domestically to minimize sanctions' impact, and soliciting new trading and economic partners. As the costs mount over time, governments become more willing to negotiate.

Of course, the impact on Russia's strategic calculus is not the only measure of whether sanctions have succeeded. The United States and its allies have a profound interest in signaling internationally that the use of force to change borders is unacceptable, and that countries that use force to change borders will face significant economic costs. The very real costs that sanctions have imposed on Russia may serve as a deterrent to other countries in the future, even if the sanctions have yet to convince Russia to de-escalate in eastern Ukraine. Sanctions may also impact the Russian defense sector over time: Even though they do not yet appear to have forced Russia to reduce military spending,[34] they have opened a debate over defense spending in Russia and impaired the nation's ability to acquire certain high-tech equipment for its defense sector.[35]

LESSONS FOR DEVELOPING SANCTIONS TOOLS IN THE FUTURE

Policymakers and the private sector can draw several lessons from the Russian sanctions experience for the future. First, the success of the SSI list in putting significant macroeconomic and fiscal pressure on Russia while minimizing collateral costs to the United States and Europe demonstrates the value of sanctions policymakers' ability to draw on subject matter experts who can provide rigorous, granular analysis of target countries and industries. The SSI list resulted from collaboration between sanctions experts in the Treasury Department's Office of Foreign Assets Control and its Office of International Affairs, which is staffed by economists and market experts and was assigned to study Russia's economic and financial system in detail. Without the input of financial subject matter experts who had not always played as significant a role in sanctions policy, the U.S. government would likely not have identified a prohibition on external debt as an important potential pressure point. Likewise, in developing an energy sanction targeted at only certain kinds of energy production, sanctions policymakers drew on the expertise of energy experts at the Department of Energy and across the U.S. government.

The SSI list also demonstrates the value of innovation in sanctions. It gives policymakers a potential model to apply in a future case where the United States and its allies want to impose sanctions on a large, externally indebted country – and has affirmatively shown that it is possible to sanction a large, globally connected economy.

More broadly, the concept of the SSI list opens up new avenues to target country- and corporate-specific vulnerabilities in the future. For example, policymakers could use the precedent of the SSI list to develop sanctions programs that target only other kinds of financial transactions, or, which like the limited energy sanctions, target only specific kinds of services provided by a defined category of target companies.

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The kind of sanctions imposed by the SSI list are not only applicable to sanctions targeting countries; they also open an avenue for officials to impose them on individual companies in cases where diplomatic or economic concerns would make traditional asset-freezing sanctions difficult. To give one potential example, in April 2015, the Obama administration established a new program that authorizes sanctions against computer hackers who steal American trade secrets and attack American network infrastructure.[36] In the future, the U.S. government could use an SSI-like debt sanction to impose costs on a large foreign company that had benefited from stolen American trade secrets without incurring the economic or diplomatic blowback that an asset freeze could trigger.

Second, U.S. and European policymakers will need to continue to adapt to the reality that sanctions litigation will constrain Europe's use of targeted sanctions in the future and will continue to push Europe toward greater reliance on status-based sanctions or other bans that simply target entire sectors of a particular country's economy.[37] The EU has begun to make procedural reforms to strengthen targeted sanctions in the face of legal attack, including establishing procedures for the European Court of Justice to review lower-level classified documents and efforts by EU institutions and individual European governments to compile more robust documentation when proposing sanctions.[38]

These reforms, however, are unlikely to adequately address the challenges posed by litigation against individual targeted sanctions. Several lines of European case law suggest that European judges will hold sanctions designations to a high standard of review and are likely to require detailed evidence documenting that a sanctioned individual or company engaged in prohibited conduct. Even if European judges were granted full access to underlying highly classified documents, they would continue to apply rigorous scrutiny to decisions to target individuals for sanctions.[39] These legal constraints will likely continue to drive EU sanctions policymakers toward sectoral-type sanctions that, given the nature of European law, are subject to less judicial scrutiny. Given rising European judicial scrutiny, European and American sanctions officials need to ensure that they are considering ways to minimize EU legal risks from initial stages of sanctions development.

Third, sanctions officials in the United States and Europe need a more effective feedback loop with the private sector. Officials on both sides of the Atlantic consulted with private businesses throughout 2014 in an extensive but ad hoc manner, which provided valuable information that helped tailor sanctions to minimize the collateral costs on U.S. and European firms. However, these consultations failed to identify in advance either the full impact that the financial sanctions would have on Russian energy projects that policymakers did not intend to target directly, or the compliance challenges that banks and other companies would face in implementing the SSI list.

RECOMMENDATIONS

The lessons of sanctions on Russia lead to several recommendations for American and European policymakers. First, U.S. and European officials should continue to increase their investment in analytic capacity that lets them identify and target specific vulnerabilities. The Treasury Department's intelligence office, the Office of Intelligence and Analysis, has historically developed significant expertise in tracking individual financial transactions and identifying the financial nodes of rogue actors. However, sanctions policymakers have not historically invested as heavily in economic or markets analysis or specific industry expertise, which would be essential to developing future tools similar to the SSI list.

Second, U.S. sanctions officials should develop more regularized feedback mechanisms for engagement with the private sector. Although sanctions officials are unlikely to provide significant details about planned sanctions before their release, periodic formal industry consultations about sanctions would provide a useful venue to identify problems and make adjustments in the future. The Commerce Department's Bureau of Industry and Security, for example, has technical advisory committees that advise it on industry trends and challenges with respect to export controls. These could provide a possible model for sanctions policymakers.

Third, the private sector will need to adapt to the possibility of further innovation in sanctions. It is clear that current screening and compliance technology is not providing efficient and cost-effective solutions for identifying prohibited transactions. Companies should work to build compliance solutions that are able to more effectively identify certain kinds of transactions, and OFAC and other U.S. regulators should support such efforts.

The experience of sanctioning Russia illustrates that innovations are an important part of ensuring that sanctions will be effective in helping to address the range of threats against which officials will likely want to deploy them.

Sanctions will almost certainly remain a principal tool of U.S. foreign policy in the coming years as American officials continue to seek coercive measures short of military force to address foreign threats. The experience of sanctioning Russia illustrates that innovations are an important part of ensuring that sanctions will be effective in helping to address the range of threats against which officials will likely want to deploy them. For policymakers to develop additional innovative tools over time, however, and for industry to be able to comply with a changing regulatory regime, policymakers must institutionalize some of the practices developed during the Russian experience and work with the private sector to mitigate unintended costs.

FOOTNOTES

1. On March 20, 2014, President Obama said, "The basic principles that govern relations between nations in Europe and around the world must be upheld in the 21st century. That includes respect for sovereignty and territorial integrity – the notion that nations do not simply redraw borders, or make decisions at the expense of their neighbors simply because they are larger or more powerful." The White House, Office of the Press Secretary, "Statement by the President on Ukraine," The White House, Washington, DC, March 20, 2014, https://www.whitehouse.gov/the-press-office/2014/03/20/statement-president-ukraine.

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8. For the purposes of this policy brief, other countries subject to significant U.S. sanctions at the end of 2013 were Iran ($369 billion GDP), Sudan ($67 billion GDP), Syria ($64.7 billion GDP), Cuba ($72 billion GDP), Myanmar ($65 billion GDP), North Korea ($28 billion GDP), Libya ($74.2 billion), and Somalia ($2.4 billion GDP). GDP estimates are based on exchange rates and reflect the most recent information available from either the World Bank or the CIA World Factbook.

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29. See, e.g., Brian Spegele and Andrew Peaple, "Total Taps Chinese Banks to Fund Russian Project," *The Wall Street Journal*, March 23, 2015, http://www.wsj.com/articles/total-seeks-10-billion-to-15-billion-in-chinese-financing-for-russian-project-1427093833.

30. Olesya Astakhova and Denis Pinchuk, "Rosneft's Sakhalin LNG plant delayed for at least two years – sources," Reuters, April 7, 2015, http://www.reuters.com/article/2015/04/07/us-russia-crisis-lng-idUSKBN0MY0XK20150407.

31. Joel Schectman, "Russian Sanctions Foil Automated Compliance," *The Wall Street Journal*, November 25, 2014, http://blogs.wsj.com/riskandcompliance/2014/11/25/russian-sanctions-foil-automated-compliance.

32. During 2014 and 2015, U.S. and European leaders repeatedly sought to use the threat of sanctions as a deterrent to Russian intervention in eastern Ukraine. For example, when signing EO 13622, which established the initial legal authorities for sanctions on Russia's energy, banking, and other sectors, administration officials made clear that the intent of the EO was not to immediately impose such sanctions but rather to signal that if Russia escalated the situation further, it would face greater costs. U.S. and European officials made similar threats in May, August, and September of 2014, and again in February 2015.

33. For example, at a joint press conference on May 2, 2014, both President Barack Obama and German Chancellor Angela Merkel threatened Russia with broader economic sanctions if Russia destabilized the Ukrainian elections. See, e.g., Scott Wilson and David Nakamura, "Obama, Merkel: Russia Faces Tougher Sanctions if Ukraine's Elections Are Disrupted," *The Washington Post*, May 2, 2014, http://www.washingtonpost.com/politics/obama-merkel-russia-faces-tougher-sanctions-if-ukraine-election-is-disrupted/2014/05/02/47c2c368-d1fe-11e3-9e25-188ebe1fa93b_story.html.

34. Vladimir Isachenkov, "Russia continues massive military modernization despite economic woes," Associated Press, February 4, 2015, http://www.businessinsider.com/russia-continues-massive-military-modernization-despite-economic-woes-2015-2.

35. Lidia Kelly, "Finance Minister warns Russia can't afford military spending plan," October 7, 2014, Reuters, http://www.reuters.com/article/2014/10/07/us-russia-economy-spending-defence-idUSKCN0HW1H420141007.

36. Executive Order 13694 of April 2, 2015, Blocking the Property of Certain Persons Engaging in Significant Malicious Cyber-Enabled Activities, *Code of Federal Regulations,* (2015): 18077–18079, http://www.gpo.gov/fdsys/pkg/FR-2015-04-02/pdf/2015-07788.pdf.

37. There is a certain irony in this development, given that concern about the unintended humanitarian consequences of broad sanctions like those used against Iraq in the 1990s was a significant driver of the development of targeted sanctions.

38. Author's interview with Michael Bishop, European Union Council Legal Service, March 24, 2015.

39. Ibid.

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Center for a New American Security
1152 15th Street, NW
Suite 950
Washington, DC 20005

TEL 202.457.9400
FAX 202.457.9401
EMAIL info@cnas.org
www.cnas.org

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