



Toward a New Transatlantic Approach to Russia Sanctions

A Report of the Transatlantic Forum on Russia

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This policy brief is a product of the Center for a New American Security Transatlantic Forum on Russia, an initiative designed to spur coordination between the United States and Europe on Russia-related policy across multiple issue areas. The policy briefs are informed by a series of dialogues with leading experts from both sides of the Atlantic. The analysis and recommendations in the memo reflect areas of agreement between U.S. and European experts. Where there are notable differences in perspective, we highlight those to better enable policymakers to navigate fissures that can hinder coordination. We thank all the experts who contributed to such fruitful dialogue, especially Nigel Gould-Davies, Brian O'Toole, and Maria Shagina.

Introduction

As Russia continues to build its forces on Ukraine's border, the United States and its allies have laid out the economic costs that Russian President Vladimir Putin would face for any further aggression against Ukraine. The Biden administration has stated it is willing to pursue "economic measures that we've refrained from using in the past."¹ In addition, the United States has indicated it is prepared to use export controls on U.S.-origin technologies that are key to Russia's industrial sectors and potentially enact a Russia-focused Foreign Direct Product Rule—a tool that, to date, has only been used against Huawei. It is unclear if such a package is enough to deter Putin, especially if he is intent on pursuing his maximalist objectives—autonomy for parts of eastern Ukraine that would give Russia a veto over Ukrainian foreign policy and closing NATO's door to Ukraine. Nonetheless, implementing such sanctions if Putin further escalates in Ukraine is critical for raising the costs to Putin and for restricting Russia's ability to sustain its aggressive foreign policy over the long term.

Regardless of what happens in Ukraine, however, U.S.-Russia relations are on a new course. The era of working toward a stable and predictable relationship with Russia is over for now. The United States will need a new, more proactive approach—one in which sanctions will be a tool (among many) that Washington should use to deter future Russian attacks on liberal democracies and disrupt Russia's

destabilizing actions, especially the corrupt networks that Moscow uses to spread its influence and sustain its hold on power. This policy brief outlines the current state of play of U.S. and European sanctions policies on Russia and how the United States and Europe can update its sanctions approach in this new era of relations with Russia.

State of Play

Sanctions are a critical pillar of transatlantic policy toward Russia. In 2014, the United States and the European Union imposed sanctions on Russia in response to its illegal annexation of Crimea and occupation of eastern Ukraine. Transatlantic sanctions were an urgent response to an unforeseen crisis, and they were intended to be temporary—a tool to signal that Russia’s actions violated international law and, most importantly, to pressure Moscow to end its military aggression and restore Ukraine’s territorial integrity.

Over the last eight years, it has become clear that transatlantic sanctions against Russia are not a passing phase; they are an expression of a new, more confrontational relationship between Russia and the West. U.S. President Joe Biden’s administration has made it clear that sanctions will continue to play a central role in its approach to Russia. Less than three months after Inauguration Day, the administration issued Executive Order (EO) 14024 (“Blocking Property With Respect To Specified Harmful Foreign Activities of the Government of the Russian Federation”), which greatly expanded its legal framework for sanctions and spelled out those Russian activities that sanctions would be used to address. Amid Russia’s military buildup on Ukraine’s border, sanctions have been front and center in efforts by the United States and its allies to deter a Russian invasion.

Despite the growing prevalence of sanctions in U.S. and EU Russia policy, the efficacy of sanctions is debated. On the one hand, sanctions have contributed to the slowing of Russian economic growth and limited Moscow’s access to components and parts that support its defense industry. Nonetheless, even in the face of sanctions, Moscow has sustained its efforts to erode U.S. and European influence, undermine their democratic institutions, and once again mobilize its military to intimidate and potentially invade Ukraine. Moscow has also adapted to existing sanctions, including by growing domestic industries that are now protected by restrictions from the West. A new policy of import substitution, devised in response to international sanctions, has led it to develop a newly prosperous agriculture sector, overtaking the United States as the largest grain exporter in the world. Russia’s cash reserves are also higher now than at any point in history, despite nearly a decade of sanctions targeting its financial sector. The following factors have likely limited the efficacy of Russia sanctions.

Sanctions have been piecemeal. While sanctions have become a core part of transatlantic policy toward Russia, they lack an overarching strategic framework. Over eight years, they have accumulated in a piecemeal, ad hoc fashion, expanding in response to each incremental action by the Kremlin. In some ways, they have become a kneejerk response—when Moscow does something that the United States or Europe disapproves of, the default response is sanctions. Unfortunately, this has made it even more difficult to employ sanctions in support of a holistic strategy.

The lack of a unified strategic framework has led to a disjointed policy where current measures aim to accomplish a range of disparate objectives rather than working synergistically toward a common goal. The Biden administration has taken preliminary steps to fix this problem; EO Order 14024 created an omnibus sanctions infrastructure with respect to Russia.² The new EO could theoretically serve as the legal basis for a more streamlined Russia sanctions strategy. However, the Biden administration has yet to follow up on the EO with concrete actions or statements that bring a new strategy to life.

Transatlantic unity survives but is inert. Ever since sanctions were imposed, the Kremlin’s strategy to free itself from their strictures has not been to alter its policy in line with U.S. and European demands, but rather to sow divisions in the transatlantic community. Because EU sanctions require regular

unanimous renewal votes, Moscow has actively attempted to sow division among European states on sanctions policy. For the first few years after 2014, these regular renewal votes were fraught with tension and uncertainty. Fortunately, EU unity—and transatlantic unity—have held.

While this unity has been enough to keep sanctions alive, it has not been sufficiently robust for the United States and Europe to progressively impose stronger sanctions over time. The EU has made minor changes to its sanctions policy, but it has not imposed any robust new sanctions against Russia since the first year of the Ukraine crisis. Although the United States has ratcheted up sanctions—principally through the 2017 Countering America’s Adversaries Through Sanctions Act and in response to the March 2018 Novichok poisoning in Salisbury, England—none of the actions Washington has taken in the last eight years approximate the significance of the initial sectoral sanctions of 2014. The Biden administration has taken important steps to rebuild close relations with Europe. But the most noteworthy Russia sanctions action the Biden administration has taken so far, in April 2021, was unilateral. Until Russia amassed more than 100,000 troops on Ukraine’s border in late 2021, transatlantic discourse on Russia sanctions was dominated by disagreements over the Nord Stream 2 pipeline. Of course, there has been extensive consultation between the United States and Europe amid Russia’s military buildup around Ukraine, but it remains to be seen how such coordination would hold up should Russia escalate in Ukraine.

The objectives of sanctions—and their mechanisms of action—remain unclear. The United States and Europe initially imposed sanctions as a tool to defuse the 2014 Ukraine crisis. Over time, however, sanctions have been imposed in response to concerns over Russia’s alleged use of chemical weapons, human rights abuses, cyber intrusions, actions in Syria, and electoral interference. While it is reasonable for the United States and Europe to seek to alter Moscow’s policy across multiple dimensions, it is not reasonable to expect sanctions to be the silver bullet that achieves all of their aims. Even if policymakers could point to the exact trigger that elicited each new sanction, the effects of sanctions accumulate and Moscow confronts them as a monolith. The result has been a sanctions regime that has lost meaning; it is little surprise that Kremlin officials see no prospect for major sanctions easing in the years to come. Moreover, because existing sanctions do not specify how they can be lifted, there is little incentive for behavior change. The view among many Russian actors is that even if they change certain behaviors the sanctions are not likely to be removed.

In a similar vein, there is no agreement among policymakers about *how* sanctions are most likely to change Kremlin behavior. Some sanctions—such as the so-called “sectoral sanctions” against Russia’s banks, energy companies, and defense firms—are intended to impose pressure on major state-owned enterprises and, in turn, Russia’s economy. Supporters of these sanctions believe that inflicting broad-based macroeconomic pressure on Russia is the best avenue for changing Moscow’s policy. Other sanctions—such as those that target officials or oligarchs considered close to Putin—are intended to disrupt the Kremlin’s inner circle. Supporters of those sanctions believe that sowing divisions among the Moscow elite is the best way to change the Kremlin’s policies. So far, the evidence suggests that sanctions against the oligarchs have only made them more dependent on the Kremlin. To date, the United States and Europe have pursued both approaches half-heartedly, levying modest sectoral sanctions and limited sanctions on oligarchs. Consensus on the most promising mechanism of action would enable Washington and Brussels to advance a more coherent sanctions regime.

Shared Transatlantic Interests and Points of Divergence

The heyday of transatlantic cooperation on Russia sanctions came in 2014–15. In the first year of the Ukraine crisis, the United States and Europe levied sanctions against major Russian state-owned enterprises in the financial services, energy, and defense sectors and targeted sanctions against select individuals in Putin’s inner circle. The sanctions were restrained but impactful, and they were responsible (along with the threat of significant escalation) for persuading Russia to agree to the Minsk protocols aimed at restoring Ukrainian sovereignty and territorial integrity.

Since then, the United States and Europe have failed to muster robust coordinated sanctions to check Russia's additional disruptive and destabilizing actions. Despite sharing core interests, the United States and Europe diverge on Russia sanctions in important ways.

The United States and Europe share an interest in transatlantic cohesion. Neither the United States nor Europe wants to see their vaunted unity on sanctions break. If Putin were to succeed in splitting the transatlantic community, there would be serious security and political repercussions. The United States would likely lose confidence in the EU as a partner and move toward a more unilateral Russia policy, which would be both less effective and less considerate of European interests. Despite the shared desire for cohesion, however, there is a growing sense in Washington that the United States should not water down a response to Russian aggression on account of European inaction. There is significant pressure for the United States to respond firmly to future acts of Russian aggression, including any Russian escalation in Ukraine, even if such actions go beyond what Europeans can agree to. The United States has stated it would use “high impact economic measures [it has] previously refrained from using in the past,” creating credibility risks if Washington fails to follow through.³ Although Washington will work to bring allies along, there is a growing sense that the United States will have to do the heavy lifting on sanctions and that Europe will simply need to refrain from working at cross purposes with Washington.

The United States and Europe share a concern about overreliance on sanctions. While the United States and Europe continue to see utility in sanctions, they are keen to ensure that sanctions are not their only tool in dealing with Russia. For the United States, this concern about an overreliance on sanctions has led the Biden administration to take a more judicious approach to Russia sanctions. This is, in part, a recognition of the limits of sanctions in changing Russian behavior. It is also mindful of sanctions' impact on U.S. business. There has been a growing focus on resilience measures like anti-corruption that can blunt the effects of some disruptive Russian actions. For Europe, it has manifested itself in a more problematic way—inaction. A better way to channel this shared interest would be for the United States and Europe to work together and determine which areas of Russia policy are well suited to sanctions, and which are better suited to other tools of statecraft.

The United States and Europe diverge on the economic ramifications of sanctions. The United States has had a greater appetite than Europe for sectoral sanctions and other measures that damage Russia's economy. It is hardly surprising that, when the Biden administration imposed restrictions on Russian sovereign debt in April 2021, it acted unilaterally. That's because compared to the United States, some EU member states have more economic exposure to Russia in key sectors such as energy, banking, and insurance. EU member states thus tend to be more concerned about economic spillover effects and the ability to maintain sanctions long-term. Europe's concerns have forced transatlantic policymakers to toe a difficult line—on the one hand, maintaining U.S.-EU unity is of paramount importance; on the other hand, the economic worries of individual EU member states set a low bar for the types of sanctions that the United States and Europe can impose in tandem. Some European member states' strong business ties with Russia and correspondingly low appetite for broad-based economic measures are the rate-limiting factor in Western sanctions policy toward Moscow.

Recommendations

Sanctions can and should play a meaningful role in U.S. and European policy toward Russia. But sanctions can also have downsides—if used as a kneejerk reaction to crises, they can become incoherent and even self-defeating. As the transatlantic community prepares for what could be a prolonged confrontation with Russia, it is important for leaders to fashion a sanctions policy that advances broader strategic aims. To impose sanctions first and consider strategy later is to put the cart before the horse; the first step to an effective sanctions policy, therefore, is identifying the objectives that sanctions intend to achieve.

To advance a strategically sound approach to Russia sanctions, the Transatlantic Forum on Russia issues the following recommendations:

1. Continue to enhance coordination and seek unity in high-level strategic objectives—but accept differences in U.S. and European sanctions regimes.

Sanctions are most impactful when the United States and Europe act together. Maintaining alignment on Russia sanctions will require diplomatic processes that enable regular consultations on sanctions options and sharing of sensitive information that can support designations. Such consultations should address both the strategic aims of the sanctions policy and the detailed sanctions measures. To be sure, perfect alignment of transatlantic sanctions policy is impossible, and it is not worth striving for. The United States and Europe should accept that sometimes Washington or Brussels will feel compelled to act unilaterally, and other times they may act in unison yet impose different packages of sanctions. This should not be cause for alarm; it is an unavoidable feature of a coordinated long-term policy. What matters most is that the United States and Europe remain aligned thematically and communicate proactively so that neither side is ever caught by surprise. Critically, they should not allow the perfect to be the enemy of the good. If disagreements on the details of sanctions preclude action entirely, the result will be a policy that is both too slow and too shallow. As a result, transatlantic diplomatic processes on Russia sanctions should be heavy on consultation, but light on formal procedures that could forestall nimble moves. Policymakers should also consider in these deliberations the importance of maintaining a level playing field between U.S. and European economic interests as they consider their options.

Meanwhile, the transatlantic partners should initiate discussions about how best to reduce some EU member states' reliance on Russia. The difference between the United States' and some EU member states' exposure to Russia is a limiting factor in sanctions alignment. The United States and Europe should develop a clear view of what those economic links are and engage in a strategic and concerted effort to find ways in which the United States can help Europe address the economic connections with Russia.

2. Use sanctions for deterrence, including to defend against Russia's sustained attacks on elections.

In the near term, prospects for a grand bargain with Russia—in which Moscow makes major policy concessions in exchange for sanctions relief—are highly unlikely. Accumulating sanctions pressure against Russia with the intention of striking a major diplomatic deal, therefore, is not a likely recipe for success in the coming years. Instead, the United States and Europe should focus on using the threat of *new* sanctions to affect Russia's policy on a forward-looking basis. In other words, they should seek to leverage sanctions for deterrence.

As Russia massed troops along its border with Ukraine in late 2021, the Biden administration did just that. The United States held multiple senior-level and technical dialogues with European allies to assemble a package of sanctions that could be levied if Putin ordered a military offensive against Ukraine. Meanwhile, the Biden administration signaled publicly and through diplomatic channels that it would impose sanctions on Russia if it invaded Ukraine. A senior Biden administration official went so far as to say that these measures would inflict "significant and severe economic harm on the Russian economy."⁴

Only time will tell whether this threat of sanctions will deter Russia from attacking Ukraine. But the episode provides a model for sanctions-based deterrence that the United States and Europe should apply to other areas of their relations with Russia as well.

The Biden administration and its European allies should build on this model and identify approaches to deter other forms of Russia's destabilizing actions. Most immediately, the transatlantic partners should work jointly to deter Russian attacks on democratic institutions where sanctions policy can be one

important tool. So far, the United States and Europe have failed to mount a cohesive response to Russia's sustained attacks on democracy—attacks that will continue unless the transatlantic partners respond. As a first step, the United States and Europe must align on triggers, or “red lines,” that would elicit new sanctions. Second, they must agree on the types of sanctions they would be prepared to impose if Russia crosses those red lines and then take the bureaucratic steps necessary so that those sanctions could be rolled out on short notice. Third, they must agree on a process for determining whether Russia has indeed crossed those red lines. Finally, they must communicate those red lines to Moscow—either through public declarations or high-level diplomatic channels. One approach would be for Washington and Brussels to issue an analogue to NATO's Article 5, stating that specific forms of interference in any U.S. or EU democratic election would result in strong multilateral sanctions.

Establishing a threshold that would trigger transatlantic sanctions does not signal that the United States and Europe deem all Russian actions falling short of that threshold to be acceptable. Instead, the transatlantic partners must start somewhere, and sanctions should be applied to confront the most egregious Russian actions, while also developing other tools and approaches to address Russian actions below the established threshold. Importantly, the United States and Europe must be prepared to impose sanctions that are significantly stronger than those currently in place if Moscow crosses their red lines. It is only the threat of *meaningful* new sanctions—a term that would need to be defined and agreed upon among allies—that could potentially achieve deterrence.

3. Use sanctions for disruption, with a near-term focus on disrupting corrupt Russian networks.

Sanctions tend to be thought of as a tool to change behavior. In such a formulation, the threat of new sanctions—or the prospect of sanctions relief—causes a government to alter its policy, although such an approach has limitations as described above. Sanctions can also serve a more direct purpose: disrupting the destabilizing activities that a government is perpetrating. For instance, sanctions against North Korea don't just seek to persuade Pyongyang to constrain its nuclear program; they seek to complicate North Korea's efforts to obtain the equipment and materials it needs to develop its nuclear arsenal.

The United States and Europe should use sanctions in a similar manner against Russia's disruptive and destabilizing activities, including corruption, disinformation, and cybercrime. The Biden administration had early success in this regard when it imposed sanctions on a Russian-based cryptocurrency exchange over its alleged role in facilitating illegal payments from ransomware attacks.

Sanctions designed to disrupt Russian corruption should be a primary focus of near-term efforts. Malign Russian actors' abuse of the Western financial system, its rule of law, and reliable asset markets is widely recognized, yet the response of Western governments remains timid. Ample evidence—and opportunity—exists on which a concerted and coordinated Western campaign to drive out Russian illicit finance could be based. Given the extent to which the financial services industry responds to sanctions designations, the United States and its international partners should turn their financial power against those individuals and companies abusing the Western financial system to support their corrupt and destabilizing ambitions.

In addition to sanctions, the U.S. government should consider other financial tools, such as Treasury Department-issued advisories, that call out entities like virtual private network, webhosting, and digital service providers. These providers enable money laundering and other political interference schemes and financial tools beyond sanctions would prevent financial services companies from engaging with these players. Such measures may not change these individuals' and firms' behavior, but they can make it more difficult and costly for them to achieve their goals. The Transatlantic Forum on Russia has a separate memo identifying additional recommendations for advancing anti-corruption efforts.

4. Sanction additional Russian oligarchs and their family members.

The key to using sanctions to disrupt Russia's corrupt networks will be expanding the already extensive U.S. sanctions on Russian officials to include additional Russian oligarchs who enable and assist Putin's abuse of power and the corruption his system runs on. Similar measures should be pursued in the European Union. Such measures are needed to deny corrupt Russian officials access to the U.S. and European economies and financial systems. Washington, for its part, should increase its use of the Global Magnitsky sanctions regime, as well as the "7031(c)" authority, which denies visas to corrupt actors abroad.

Washington, the U.K., and Brussels should also move to expand the types of individuals they target to include the family members and affiliates of the oligarchs. While punishing children for the actions of their parents is not appropriate in every instance, in many cases the children and spouses of the oligarchs are benefitting and actively engaging in corruption. Applying pressure against family members by preventing the children and spouses of the primary individuals from shopping or attending universities in the West would increase the pressure of such sanctions by leveraging their impact on family relationships. While such sanctions are unlikely to change the Kremlin's calculus in the near term, they play an important role in reducing the West's enablement of the corruption and repression so evident in Putin's Russia.

5. Clarify which sanctions are on the table for negotiations—and which aren't.

While a grand bargain with Moscow is not practical, there may be opportunities for more limited diplomatic deals between the United States, Europe, and Russia. Some of these deals may merit temporary or lasting relief from certain sanctions that are currently in place. For instance, if Moscow were to take measurable steps to implement the Minsk agreements, the United States and Europe should be prepared to offer some degree of real sanctions relief.

For such an offer of relief to be credible, however, the United States and Europe must first align on which sanctions they're willing to relax. Some sanctions—such as those on Russia's defense sector—possess a broad strategic rationale that is unlikely to change in the coming years. Even if Russia were to implement the Minsk agreements, it is not in U.S. or European interests to aid and abet the development of Russia's military-industrial complex. This is not true of all sanctions, and U.S. and European officials should take the time to scope a package of relief that they could present to Moscow in a future diplomatic negotiation.

6. Continue to implement non-sanctions tools that blunt the effects of Russia's disruptive actions.

The transatlantic partners understand that sanctions alone are unlikely to change the Kremlin's calculus. Sanctions, therefore, should also be supplemented by other economic measures that could affect the Kremlin's calculations going forward—or at least lessen the impact of Russian actions, especially the corruption that enables the Putin regime. For example, the Committee on Foreign Investment in the United States vets all foreign investments, but there is some evidence that more robust screening of the national security implications of Russian investments in the United States and EU would be desirable. Moreover, export control regulations on both sides of the Atlantic need to be updated to account for shifts in the global technology landscape, including emerging and disruptive technologies and their impact on human rights.⁵ Similarly, targeting money laundering—the state of Delaware in the U.S. financial system and the British Virgin Islands and Cayman Islands in the U.K. financial system are major channels for the conduit of illicit Russian finance—would also be an excellent start.⁶

Conclusion

Sanctions will remain an important part of U.S. and EU Russia policy. This memo, based on consultations with experts on both sides of the Atlantic, offers recommendations for how to make those sanctions more effective. Sanctions designed for deterrence, including to deter Russia's ongoing assault on democratic institutions, and for disruption of Russia's destabilizing actions should be prioritized. Such sanctions clearly have their limits, and it will be difficult, if not impossible, to change Kremlin behavior while Putin is in power. That is why it is critical for the United States and Europe to simultaneously prioritize enhancing their own resilience to mitigate the effect of Russia's actions.

Endnotes

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