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Punishing Putin: EU Sanctions Are More than Paper Tigers

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Sanctions by the European Union (EU) against Russia are in place since March 2014, but no political agreement between Brussels and Moscow is in sight. This raises the question of whether or not the supranational organization is capable to force Russia and other offenders of the liberal world order through costly measures to respect human rights, the territorial integrity of other nations, the non-proliferation regime or other international norms. Our research shows that claims about the limited effectiveness of the EU sanctions against President Putin’s entourage are exaggerated and that coercive measures by Brussels are often much more than just paper tigers. Serious analyses of the EU sanctions regime do in our view not only have to ask whether the goals have been reached, but also have to explore the counterfactual of what would have happened without the economic pressure.

Sanctions are coercive measures that a “sender”, typically a nation state or an international organization, employs against a “target”. The EU, the United States and the United Nations – to name the most important senders – rely on this political instrument as a reaction to a perceived misbehavior by a government or political group, including terrorist organizations such as the Islamic State. Sanction episodes typically start with a threat to curtail the economic interactions. If the target does not change its behavior, senders have to decide whether words shall become deeds and whether the coercive measures shall really be imposed. The logic of economic sanctions is similar to the one of deterrence: imposing costs that make the initial choice more expensive are supposed to encourage the target to forego a certain action or to revoke a policy. The means through which a sender tries to weaken a target vary widely, ranging from complete economic embargoes over export or import restrictions to financial and “smart” (targeted) sanctions against political elites.

As sanctions also incur costs on the economy of the sender, business lobbyists often try to influence their government to refrain from the imposition of sanctions or at least to water the measures down as much as possible. These demands are especially important in the EU where the imposition of sanctions requires the unanimous consent of the member states. It is in light of these considerable decision-making costs surprising that the EU has become the most frequent autonomous sender after the United States since the end of the Cold War.

The EU started to gradually impose restrictive economic measures in response to Russia’s annexation of Crimea and its destabilization of Ukraine in March 2014. Despite the Minsk agreement of February 2015, the conflict in the Donetsk and Lugansk oblasts has still not been fully settled. The main goal of the EU sanctions against Russia is the complete implementation of the Minsk agreement.

The imposed EU sanctions against Russia can be divided into three categories: first, targeted sanctions against certain Russian individuals and entities, including travel restrictions and asset-freezes. Second, trade restrictions for certain sensitive technologies and services that can be used for oil production and exploration as well as arms and dual-use goods for military use. Third, financial sanctions which limit the access to EU primary and secondary capital markets for certain Russian banks and companies.

Are the EU sanctions against Russia unsuccessful?

The sanctions against Russia were ineffective if we use the attainment of the official goal (implementation of the Minsk agreement) as a benchmark. There are several reasons why the Russian leadership did not change its course regarding Ukraine so far – and why many sanction demands remain unanswered.

First, the sanctions against Russia were not as strong as they could and probably should have been. In 2012, the Western powers decided to ban Iranian financial institutions from employing the SWIFT interbank system. A similar move in the early phase of the sanction process would have brought havoc to the Russian industry and might have increased the pressure from Russian business elites on Putin and his political allies to withdraw their support from the rebel troops in eastern Ukraine. Within our company survey on the impact of EU sanctions against Russia on European companies and their adjustment strategies, several German business leaders voiced the suspicion that the European financial industry lobbied the Western governments intensively before the sanctions were imposed and strengthened.

Second, the political leadership in the targeted country often enjoys a “rally round the flag” effect once an outside power threatens or imposes economic sanctions. Being together the target of sanctions from abroad can induce an ideological solidarity between the government and the civil society. The popularity gain that President Putin obtained in the wake of the sanctions of the Western powers against his regime probably even offset the negative consequences that the falling oil price, the weak Ruble and the Western sanctions could have had for his regime.

A third factor that undermines the effectiveness of economic sanction are the adjustments that the target and sender economy can make at least in the long term. Multinationals have for instance invested in the production facilities in Russia and Putin has tried to strengthen the ties between China and Russia. Furthermore, economically powerful third states can boycott sanctioning efforts by substituting sanctioned areas.

Still, we contend that the sanctions of the European Union against Russia were not a complete failure so far. One indication for this assessment are the frequent attempts by the Russian leadership to split the Western alliance and to establish ties to Eastern European governments with an autocratic bent. The wish to get rid of the sanctions has to do with the dire state of the Russian economy. The sanctions certainly contributed to these economic troubles.

Sanctions success – alternative views

To analyze the effectiveness of sanctions, we also have to think what would have happened without a relatively fierce reaction by the EU. It is not far-fetched to believe that larger parts of Ukraine would now be under the control of the thugs and Mafiosi that currently call the shots on the Crimea and in Donetsk and Lugansk oblasts with the silent backing of the Kremlin if EU sanctions against Russia were not in place.

Our comparative analysis of the success of EU-led sanctions is in line with this modest optimism. Although some failed sanctions have enjoyed great media attention, there are a number of cases in which the target gave in or in which it did not further the escalation. The Russian case fits into the latter category, as does the tough stance of the EU against Iran after 2008 which contributed decisively to the concessions that the government in Teheran finally made with regard to its nuclear policy in exchange for an easing and suspension of the sanctions. The International Atomic Energy Agency confirms that Iran meets its commitments under the nuclear agreement. Moreover, there are several less prominent cases of successful EU sanctions: for example, solely by threatening aid cuts in August and September 2013, the European Union was able to make Croatia reverse a legal change, the so-called “lex Perkovic”, which would have restricted the European Arrest Warrant.

In our studies, we show that the EU faces a higher threshold to agree on a common sanctions policy and to eventually impose restrictive economic measures. However, in case the member states overcome the difficulties at the imposition stage and show sufficient resolve to impose costs on the target while carrying the own economic burdens associated with these measures, the EU is an actor which is powerful enough to induce a policy change in the target country.

Sanctions should also not be treated as an all-or-nothing policy which has failed in case the goal is not entirely reached. Even though a full acquiescence by Putin is very unlikely as he would lose face and appear as weak if he gave in completely to the sanction demands, the EU measures are another chip on the bargaining table which increase the range of possible negotiated outcomes. Gradually releasing the sanctions can be an offer for a partial acquiescence by Putin such that both sides can solve the conflict without losing face – an outcome which we might observe at some point in the future if the current President is able to hold on to power and the riches it has created for him for much longer.

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