



SANCTIONS

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The Impact of Sanctions on Russia

By Peter Rutland, Middletown, CT

Abstract

This article provides a concise overview of the sanctions that the Western countries imposed on Russia as a result of its aggression in Ukraine. The sanctions are having a more serious impact than President Vladimir Putin anticipated, but have yet to induce Russia to engage in more cooperative behavior.

An Unexpected Invasion

Vladimir Putin's decision to annex the Crimea in March 2014 caught the international community by surprise. Recognition of national sovereignty and the inviolability of borders are central to the international state system, and since 1991 the Russian Federation (like the Soviet Union before) had been an ardent defender of these principles.

Russia was incensed by the Western recognition of the independence of Kosovo in February 2008, and responded by granting recognition to South Ossetia and Abkhazia in August 2008. Still, Crimea was assumed to be immune to irredentist claims from Russia, not least because Russia had signed the 1994 Budapest Memorandum guaranteeing the territorial integrity of Ukraine, in return for the latter giving up its nuclear weapons.

Putin's action demanded a response. Since military action by the West was off the table, given Russia's nuclear arsenal, economic sanctions were the tool of choice. Sanctions have become an increasingly popular instrument over the past two decades: they apply pressure on intransigent governments without risking the destruction that military action entails.

Their record has been mixed. They are most effective when they are multi-lateral, and they succeed about one third of the time—though skeptics question whether the desired changes in government behavior can be attributed to sanctions alone.¹ Sanctions helped bring about the end of apartheid in South Africa, but have failed to halt the nuclear ambitions of North Korea or Iran. They are a blunt instrument, harming the economies of the countries applying the sanctions along with the target nation. Sometimes they trigger an aggressive response by the offending country, deepening the crisis. Critics argue that sanctions are a demonstrative act that allows leaders to make a moral statement, without actually influencing developments on the ground.

Typically the costs of sanctions are borne by the common people and not the leaders making the decisions. Hence there arose the idea of "smart" sanctions

that impose travel bans and asset freezes on individual members of the elite.² In 2012 the US Congress passed the Magnitsky Act, under which in April 2013 18 named Russian officials were sanctioned for participation in the 2009 death of corporate lawyer Sergei Magnitsky. Russia retaliated against the Magnitsky Act with the "Dima Yakovlev" law banning U.S. adoptions, and a list of 18 Americans sanctioned for involvement in the Guantanamo Bay detention center and the arrest of Russian arms dealer Viktor Bout. The Magnitsky Act was a precedent for the sanctions that were introduced on Russia in the wake of the annexation of Crimea.³

The West Responds to Russian Aggression

Less than a week after President Viktor Yanukovich fled Ukraine on February 22, unidentified pro-Russian gunmen were seizing public buildings in Crimea. Separatist rallies took place in many cities of eastern Ukraine; Russian troops were deployed to the Ukrainian border; and on March 1 the State Duma passed a resolution authorizing the use of Russian troops in Ukraine.

On March 16 Crimeans voted in a hastily organized referendum to join the Russian Federation. The next day the US and EU imposed asset freezes and travel bans on 21 individuals deemed to be directly involved in the occupation of Crimea. Nevertheless on March 18 Putin signed into law a bill adding Crimea to Russia, and delivered a remarkable speech in which he embraced the rhetoric of Russian ethno-nationalism, including ominous language condemning "national traitors."⁴ Two days later President Barack Obama added several more names to the sanctions list, including what one administration official described as "Putin's cronies, his money people," such as Gennady Timchenko, Yuri Kovalchuk, and Arkady and Boris Rotenberg.⁵ The theory was, in

1 Gary Clyde Hufbauer et al (eds.) *Economic Sanctions Reconsidered* (3rd edition) (Washington DC: Peterson institute, 2009), 127.

2 Uri Friedman, "Smart sanctions: a short history," *Foreign Policy*, April 23, 2012. The first individually targeted sanctions were against Haiti in 1993.

3 Emma Gilligan, "Sanctioning Russia: Magnitsky, human rights and the Ukrainian crisis" (forthcoming).

4 "Address by President of the Russian Federation," March 18, 2014. <<http://eng.kremlin.ru/transcripts/6889>>

5 Mark Landler, "Obama steps up Russia sanctions," *New York Times*, March 20, 2014. Kovalchuk's Bank Rossiya was also

President Obama's words, that "we can calibrate our response based on whether Russia chooses to escalate or to de-escalate the situation."⁶ Russia responded by banning nine U.S. officials from visiting Russia, including Senator John McCain, who joked that "I guess this means my spring break in Siberia is off." On March 24, meeting on the sidelines of a nuclear security summit in The Hague, leaders of the G7 group of advanced economies announced that it was suspending Russia's membership (Russia had joined in 1998, making it the G8) and cancelling the summit that was scheduled to meet in Sochi in June 2014.

Fighting broke out in eastern Ukraine in April, culminating in a May 11 referendum in which Donetsk and Lugansk allegedly voted for independence. Unlike in Crimea, Russia did not act on the results of these referenda. Fighting intensified as the summer progressed, though Russia seemed to be signaling that it was interested in a compromise solution.

On April 28 the U.S. added seven more individuals and 17 related companies to the sanctions list.⁷ But with the EU economy stagnating, the powerful Ostauschuss group of German industrialists doing business with Russia urged Chancellor Angela Merkel not to bow to U.S. pressure to introduce broader sanctions.⁸ On July 16 the U.S. moved beyond "smart" sanctions on individuals to introduce "sectoral" sanctions on strategic corporations.⁹ Two energy firms (Rosneft and Novatek) and two banks (Gazprombank and Vneshekonombank) were barred from all but short-term borrowing (more than 30 days) on U.S. markets, and eight Russian arms firms were embargoed.

Then on July 17 separatists shot down Malaysian Airlines Flight 17 en route from Amsterdam to Kuala Lumpur, killing all 298 on board. This atrocity, and Russia's seeming unwillingness to help bring those responsible to justice, caused a groundswell of support for tougher action, particularly in the Netherlands and Germany. On July 25, the EU expanded its sanctions to an additional 15 top Russian government officials and 18 entities

(including organizations active in the separatist regions, and corporations illegally seized by Russian authorities), followed by an additional eight individuals and three entities on July 30.

Putin responded by doubling down: on August 6 he announced counter-sanctions in the form of a one-year ban on imports of fruits and vegetables, dairy products and meat from countries that had imposed sanctions on Russia.¹⁰ Russia is the EU's second biggest food market after the U.S., and EU imports accounted for 25–30 percent of the food consumed in Russia. In 2013 Russia imported \$16 billion of food from the EU and \$1.6 billion from the U.S.¹¹

Meanwhile, many Western companies with long-term commitments in Russia assumed the sanctions would soon blow over. Exxon continued its work with Rosneft in the exploration of the Arctic shelf, under a 2011 partnership agreement. In defiance of pressure from the U.S. government, they started drilling with their West Alpha rig on August 9.¹²

During August intensified attacks by Ukrainian forces were closing in on the rebel-held cities of Donetsk and Lugansk, but increased action by Russian military units (whose presence Moscow either denied or described as "volunteers") forced the Ukrainian government to sign a cease-fire on September 5. The cease-fire brought an end to major military operations but sporadic fighting continued, with the death toll climbing to some 4,700 by the end of the year.

On September 12, 2014, the U.S. and EU imposed additional penalties. The U.S. Treasury barred the banks Sberbank, Bank Moskv, Gazprombank, Rosselkhozbank and VTB, and defense industry conglomerate Rosotec, from raising funds of more than 30 days maturity; for Transneft, Gazpromneft, Novatek and Rosneft the limit was 90 days.¹³ Russian companies will have to refinance about \$130 billion of debt by the end of 2015, and the sanctions will make this a more costly proposition. The EU sanctions also targeted bank credits and weapons manufacturers, and issued an updated list of 24 sanctioned individuals.¹⁴ The more radical option of

embargoed. The day before, March 17, Timchenko had sold his 43% in oil trader Gunvor to his Swedish partner Torbjorn Tornqvist.

6 "Obama's statement on new sanctions against Russia," *New York Times*, March 17, 2014.

7 US Treasury, "Announcement of additional Russian sanctions," April 28, 2014. <<http://www.treasury.gov/press-center/press-releases/Pages/jl2369.aspx>>

8 Matthew Karnitschnig, "German businesses urge halt on sanctions against Russia," *Wall Street Journal*, May 1, 2014.

9 US Treasury, "Announcement of Treasury sanctions on entities within the financial Services and energy sectors of Russia," July 18, 2014. <<http://www.treasury.gov/press-center/press-releases/Pages/jl2572.aspx>>

10 <<http://eng.kremlin.ru/news/22780>>

11 <<http://rt.com/business/178708-russia-europe-food-ban/>>

12 Alan Katz, "Exxon riles US, EU by using sanctions loophole," Bloomberg, September 12, 2014. <<http://www.bloomberg.com/news/2014-09-12/exxon-said-to-rile-u-s-eu-in-using-sanctions-loophole.html>>

13 U.S. Treasury, "Sectoral sanctions identification list," September 12, 2014. <<http://www.treasury.gov/ofac/downloads/ssi/ssi.pdf>> Exxon was later given a deadline of October 10 for finishing sealing the well at the West Alpha rig in the Kara Sea.

14 Official Journal of the European Union, L 271, September 12, 2014. <<http://eur-lex.europa.eu/legal-content/EN/ALL/?uri=OJ:L:2014:271:TOC>>

cutting Russia off from the SWIFT inter-bank clearing system (something that was done to Iran in 2012), was not adopted.

Other countries joined the sanctions regime at various points over the spring and summer—including Australia, Canada, Japan, Norway, Switzerland and Ukraine. However, Turkey, Greece and Cyprus refused to embargo Russia—and as a result they experienced a surge in exports and Russian tourists.

The E.U. sanctions will stay in place for a calendar year, until July 2015. It is an open question whether they will be renewed at that stage. On December 13, 2014 the U.S. Congress passed a bill authorizing \$350 million of military aid for Ukraine and adding more Russian companies to the sanctions list. It also opened the door to third-party sanctions on foreign companies doing business with Russian companies under the embargo.

The sanctions tit-for-tat was a strange kind of limited economic warfare. Each side imposed real costs on each other—and on themselves. But they both stayed away from the elephant in the room—the flow of oil and gas from Russia to Europe. With Russia providing 39 percent of Europe's natural gas in 2013, and with oil and gas covering 50 percent of the Russian budget, it would have been severely disruptive to interrupt that trade. In June Russia did suspend gas deliveries to Ukraine pending resolution of \$3 billion in unpaid bills. This was not an urgent problem since it was summer and demand was low, and Ukraine had ample gas reserves in storage. (Also Poland, Hungary and Slovakia were willing to pump gas to Ukraine.) But winter was coming. After protracted negotiations over the next three months, a deal was struck in Brussels on October 29, under which the EU and IMF will lend Ukraine the money to cover its \$3 billion debt to Gazprom and prepay \$1.5 billion for supplies during the coming winter.¹⁵

The Economic Impact of the Sanctions

On November 24, Finance Minister Anatolii Siluanov estimated that the sanctions would cost the Russian economy \$40 billion over the course of a year—and the falling oil price another \$100 billion.¹⁶ Perhaps more damaging than the sanctions themselves was the general atmosphere of uncertainty created by Putin's seemingly reckless actions in Ukraine, and his reaction to Western sanctions. The market response to the annexation of Crimea was swift, and more immediately damaging

than the official sanctions. Russian share prices plummeted, the ruble fell, interest rates rose and capital flight accelerated, reaching \$130 billion by December (more than double the typical annual outflow).

Germany is Russia's largest trading partner after China. German exports to Russia in August 2014 were 26 percent down on August 2013 (a yearly decline of over \$6 billion).¹⁷ Although Russia only accounts for 3.3 percent of total German exports, the impact was felt in the engineering and auto industries, where Russia is the 4th and 9th largest customer. Russia only accounts for about 1 percent of U.S. exports, so the impact was confined to a small number of companies active in Russia including Boeing, GE (which sold \$1.7 billion of turbines and other equipment in Russia in 2012),¹⁸ and Morgan Stanley, which had to cancel the planned sale of its oil trading division to Rosneft.

The impact of sanctions on Russia's banking sector was buffered in the short term by the state's large cash reserves. Even after spending \$50 billion to slow the pace of ruble depreciation, which slid 25 percent between January and October, Russia still had \$445 billion in reserves.¹⁹ However, the second half of the year saw the global oil price plummet from \$115 a barrel in June to \$60 in December, due to weak demand from China and the refusal of Saudi Arabia to cut supply to keep up the price. The Saudis may have had political goals in mind—wanting to increase the pressure on the Iranian and Russian governments and force them to negotiate over Ukraine and nuclear weapons respectively. But their motives were primarily economic—to retain market share, and to deter further expansion of tight oil and tar sands in North America (which become uneconomic when the oil price falls below \$75 a barrel).

The falling oil price combined with the Western sanctions to put further downward pressure on the ruble. The depreciation accelerated in December, especially after a December 12 report that the Central Bank had accepted \$11 billion in loans to Rosneft as collateral. By December 16 the ruble had lost a further 20 percent of its value, despite the Central Bank hiking the base interest rate to 17 percent.²⁰ In the course of the year the ruble had lost 58 percent of its value, falling from 33 to 70 rubles to the dollar.

15 Charles Oliver, "Russia and Ukraine reach gas deal," *Financial Times*, October 30, 2014. Ukraine agreed to a price of \$378 through December 2014 and \$365 from January to March 2015.

16 Aleksei Kisilev, "Otsenit' usherb or sanktsii i snizhenie tsena nefi' dostachno slozhno" (It is hard to estimate the impact of sanctions and the oil price fall)," *Kommersant*, November 24, 2014.

17 Jeevan Vasagar, "German exports to Russia tumble," *Financial Times*, October 30, 2014.

18 Ted Mann, "GE's Russia plans stall amid Ukraine turmoil," *Wall Street Journal*, March 28, 2014.

19 Ol'ga Kuzminova, "Valyutnye rezervy TsB" (The Central Bank's currency reserves), *Vedomosti*, October 24, 2014. The ruble fell from 33/\$ to 41/\$.

20 Anders Aslund, "The only cure for what plagues Russia," *Financial Times*, December 17, 2014.

Meanwhile, due to the sectoral sanctions Western oil and gas companies started winding down their new exploration projects in Russia, which remain crucially dependent on certain foreign technologies for deep offshore and fracking operations. In a bid to find new partners not subject to the sanctions regime, Rosneft bought the Swiss-based oil services company Weatherford for \$400 million in June, and the next month signed a \$4.2 billion contract for six rigs with Norway's North Atlantic Drilling. In September Putin announced plans to create a national oil services company. Nevertheless, the consultancy IHS CERA estimates that the sanctions, if maintained, could cause a 25 percent drop in Russian oil output by 2025.²¹ Similarly, Lukoil's Vagit Alekperov estimated that 20 percent of output was at risk.²²

The airline sector has also been affected. Aeroflot's low-cost subsidiary Dobrolyot was hit by EU sanctions because it flies to Crimea; it suspended operations after losing leases for its Boeing and Airbus aircraft. The fear that Russia could close its airspace to European and U.S. carriers flying to Asia dented airline stock prices.

The most immediate impact on the Russian public was, ironically, Putin's ban on food imports from the EU. Favorite brands disappeared from the shelves, and Russian customers found themselves buying fruit and vegetables from Macedonia and Iran. Food prices were up 13 percent by the end of the year.²³ Smuggling of European food through Belarus led the Russian government to ban meat imports from Belarus in December, imposing strains on the Eurasian Economic Union (since neither Belarus nor Kazakhstan are subject to the sanctions).

Putin responded by circling the wagons: the state would bail out companies hard-hit by the sanctions. The arrest of billionaire Vladimir Yevtushenkov in September and the reversal of his purchase of the Bashneft oil company (long coveted by Igor Sechin's Rosneft) was another reminder of the vulnerability of Russian businesses to the whims of the Kremlin. The most politically risky step was the State Duma's passage in October of a bill promising compensation to Russian citizens whose assets were frozen by foreign governments, possibly through seizing foreign assets in Russia. It was jokingly called the "Rotenberg law" after long-time Putin associate Arkady Rotenberg, who had \$40 million of assets in Italy frozen.²⁴

21 Jack Farchy, "Russian oil: between a rock and a hard place," *Financial Times*, October 29, 2014.

22 Alexander Panin, "Western sanctions could damage one fifth of Russia's oil production," *Moscow Times*, September 21, 2014.

23 Karina Romanova, "Tseny rastut" (Prices are rising) gazeta.ru, December 13, 2014.

24 Andrew Kramer, "Russia seeks sanctions tit for tat," *New York Times*, October 8, 2014.

The sanctions pushed the Putin administration decisively down the path of an autarchic development strategy. Conservatives argued that the depreciation of the ruble would help to cut imports and made Russian goods more competitive.²⁵ The currency crisis of December was blamed on mismanagement by Central Bank head Elvira Nabiullina—one of the few remaining liberals in the Putin administration.²⁶ As Aleksei Kudrin noted "There are forces in the country who have long wanted isolation, maybe a certain self-sufficiency. Today this has all fallen on fertile ground."²⁷ Conservative economists such as Sergei Glaziev have long been pushing for state-led reindustrialization, with protection against foreign imports and spending oil revenues on infrastructure and new technology.²⁸ Their hour has now come.

For example, Russia is making some serious steps to try to build institutions independent of global financial markets. In March when Visa and MasterCard suspended processing payments at Russia's SMP and Rossiya banks, it was decided to move ahead with creating a National Card Payment System under Russian control. Russia is looking to increase the proportion of its trade with China denominated in rubles and yuan: currently about 8 percent of Russian imports are settled in yuan.²⁹

However, it is not clear whether the Russian state has the institutional capacity, or the deep pockets, to steer the nation's economic development while disengaging from ties with Europe and the U.S. The sanctions came at a time when the Russian economy was already facing severe structural weaknesses.³⁰ Even before the Ukraine crisis, economists were predicting very modest growth this year—less than 2 percent. Russia urgently needs to increase investment to overcome decades of under-spending on infrastructure and new technology. For example, they need a 50 percent, \$6 billion increase in exploratory drilling to maintain current oil output levels.³¹

25 Mikhail Leont'ev, "Istoriya s sanktsiiami dolgo zhit ne budet" (The sanctions story will not last long), *Kommersant.FM*, July 25, 2014. <<http://www.kommersant.ru/doc/2531867>>

26 Mikhail Delyagin, "Grupповое iznasilovanie rublya" [Gang rape of the ruble], *Moskovskii komsomolets*, December 6, 2014.

27 Aleskei Kudrin, *Itar-tass*, July 22, 2014. <<http://itar-tass.com/opinions/interviews/2223>>

28 Sergei Glaz'ev, "Nuzhno opirat'sya na sobstvennye sily" (We must rely on our own strength) *Profil*, May 12, 2014. <http://www.glazev.ru/econom_polit/359/>

29 <<http://www.bloomberg.com/news/2014-09-23/moscow-s-mr-yuan-builds-china-link-as-putin-tilts-east.html>>

30 Vladimir Mau, "V ozhidanii novoi modeli rosta," (Waiting for a new growth model) *Voprosy ekonomiki*, 2, February 2014, 3–42.

31 Petr Tretyakov, "Rossiiskim neftyanikam nado v 1.5 raza uvelichit' burenie" (Russian oil must increase drilling by 50%), *Vedomosti*, October 23, 2014.

The slump in the global oil price puts severe pressure on the Russian federal budget. The latter had planned to break-even in 2014 and 2015 with oil at \$97 and \$100 a barrel respectively; but as of December it was trading at \$60.³² Every \$1 fall in the oil price cuts federal tax revenue by about \$1.4 billion. Maksim Oreshkin, a department head at the finance ministry, estimated that the fall in the price of oil will cost Russia 2 percent of GDP over the next year, and the sanctions another 2 percent.³³ On December 15, the Central Bank forecast a GDP decline of 4.5 percent in 2015 if oil prices remain at \$60 per barrel. Prime Minister Medvedev admitted that the economy was in “crisis.”³⁴

On August 5 the government announced that \$8 billion would be taken from the pension fund to cover budget spending (for the second year running). Deputy economic development minister Sergei Belyakov was fired after criticizing the decision on Facebook.

The Political Impact of the Sanctions

As Clifford Gaddy and Barry Ickes note,³⁵ even though the sanctions may inflict pain on the Russian economy, they are unlikely to bring about a change in Putin’s political course. Putin’s grip on power is not so fragile for us to expect the Russian president to buckle any time soon. His strategy in response to the 2011–12 protest movement of shifting from “tightening the screws” on the opposition to “tightening the belts” of the Russian people seems to have struck a popular chord. After the Western reprisals, Putin’s approval rating soared to new heights, reaching 88 percent in October—up from 69 percent in February 2014, before the crisis began.³⁶

It is hard to image any circumstances under which Putin would revoke the annexation of Crimea. In that sense, the initial Western sanctions were primarily aimed at deterring future aggression. Unfortunately they also failed in that regard, since Russia moved ahead with covert and then increasingly overt support for separatists in Donbas and Lugansk. It is possible that the sanctions did help deter Putin from annexing Donetsk and

Lugansk, although other factors weighed in his decision—notably, fear of getting bogged down in a protracted guerrilla war, which would have been deeply unpopular with the Russian public.

Some Russians believe that the real purpose of the sanctions is to bring about regime change in Russia—arguing that the U.S. has given up on trying to find a *modus vivendi* with Putin, and is bent on orchestrating a color revolution in Moscow. While that is far-fetched, it is true that many U.S. policy makers are looking forward to dealing with a Russia without Putin. While some analysts believe that the contradictions of the Putin regime will bring about its downfall in two to five years,³⁷ realistically, Putin seems politically impregnable for the foreseeable future.³⁸

The Western sanctions inadvertently played into the anti-Western, conservative nationalist narrative which the Russian president embraced in the wake of the anti-Putin protests in the winter of 2011–12.³⁹ Putin can point to the sanctions as evidence of the Western desire to punish and weaken Russia. He told the Valdai Club in October, referring to “Our American friends,” that “They are trying to hurt us through these sanctions, block our development and push us into political, economic and cultural isolation, force us into backwardness in other words. But let me stress that Russia is not going to get all worked up, get offended or come begging at anyone’s door.”⁴⁰

The sanctions were also taken as proof of the wisdom of Putin’s policy of “nationalizing” the elite by barring senior officials from holding foreign bank accounts. Russian politicians took pride in being included on the sanctions list. For example, Putin’s Chief of Staff Sergei Ivanov told the head of Gazprombank Andrei Akimov that “until your name is on the sanctions list you cannot consider yourself part of our country’s elite.”⁴¹ The sanctions make it less likely that any powerful figure would challenge Putin, since they remove the option of emigrating to Europe, and makes them more dependent

32 Carol Matlack, “Will cheap oil choke the Russian economy?,” *Bloomberg*, October 13, 2014. <<http://www.businessweek.com/articles/2014-10-13/oil-prices-are-hurting-russias-economy>>

33 Georgii Peremitin, “V Minfine otsenili ushcherb Rossii ot sanktsii” (The Finance Ministry estimates the cost of sanctions for Russia), *RBK*, September 24, 2014. <<http://top.rbc.ru/politics/25/09/2014/951207.shtml>>

34 Anastasya Bashkatova, “Dmitrii Medvedev ne stesnaetsya ispol’zovat’ slovo ‘krizis’” (Dmitrii Medvedev is not afraid to use the word ‘crisis’), *Nezavisimaya gazeta*, December 11, 2014.

35 Cliff Gaddy and Barry Ickes, “Can sanctions stop Putin?” *Brookings Institution*, June 2, 2014.

36 <<http://www.levada.ru/29-10-2014/oktyabrskie-reitingi-odobreniya-i-doveriya>>

37 Peter Rutland, “How much longer can Putin’s system last?,” *Moscow Times*, October 27, 2014.

38 Mikhail Rostovskii, “Teflonovyi Putin” (Teflon Putin), *Moskovskii komsomolets*, December 16, 2014.

39 Ilya Yablokov, “Pussy Riot as agent provocateur: conspiracy theories and the media construction of nation in Putin’s Russia,” *Nationalities Papers*, 42: 4, September 2014, 622–636; Vasilii Kashin, “Kak zapad spas Putin” (How the West saved Putin), *Vedomosti*, 24 November 2014

40 Vladimir Putin, speech at meeting of Valdai International Discussion Club, October 24, 2014. <<http://eng.kremlin.ru/transcripts/23137>>

41 Evgeniya Milova, “S pozdravetel’noi notoi” (With a welcoming note) *Kommersant*, September 15, 2014. <<http://kommersant.ru/doc/2567304>>

on state support for their businesses to survive. Aleksandr Morozov writes that “personalized sanctions create a hard form of loyalty: people have no alternative but to support any future actions of the leader.”⁴²

Perhaps the main beneficiary of the sanctions regime is China. “The downturn in relations with the West may mean Russia’s ‘turn to the east’ is no longer an opportunity but a necessity.”⁴³ Although China abstained in the UN vote condemning the Crimean annexation, rather than support Russia, the Chinese leaders are happy to step up trade with Russia. After more than a decade of negotiations, on May 21 China signed a \$400 billion, 30-year deal to buy natural gas from Russia. The price is not yet known, but was widely assumed to be unfavorable to Russia. Russia’s eastern “pivot” has added fuel to Russian strategists who warn against increasing dependency on China.⁴⁴ The Russian public seems accepting of the turn to Asia: in September 2014, 44 percent rated relations with China as good or friendly, and 35 percent as normal.⁴⁵ In the same survey, however, 66 percent said they thought it was time for Russia to repair its relations with the West.

An Interim Conclusion

If Putin was assuming that the sanctions were a passing fad, and that the Western powers did not have the stomach to stand up to his aggression, he was mistaken. But if the Western leaders assumed that Putin would respond to carefully calibrated incentives for cooperation, they were also mistaken.

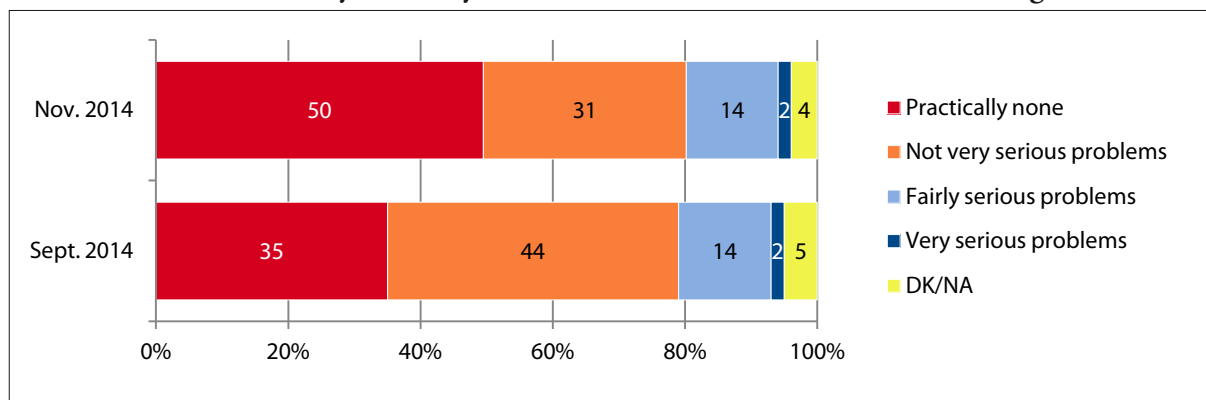
The economic crisis which hit Russia in December 2014 massively increased the pressure on Putin to strike a deal over eastern Ukraine. However, the U.S. and EU are likely to insist on a full restoration of the sovereignty of the Ukrainian government over Donetsk and Lugansk as a minimum condition for the lifting of sanctions, and it is not clear that Putin is willing to accept such a humiliating step-down. The U.S. may even hold out for renunciation of the annexation of Crimea—something which Putin would not contemplate.

If that is the case, then the current sanctions may be in place for some time, and the Russian economy faces a very difficult year.

About the Author

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Poll: Has Your Family Had Any Problems Due To the Western Sanctions Against Russia?



Source: representative opinion poll by Levada Center, 14–17 November 2014, *N* = 1,600, <<http://www.levada.ru/28-11-2014/vliyanie-sanktsii-na-potreblenie>>

42 Aleksandr Morozov, “Novoe obshchestvo Putina kak evropeiskii proekt” (Putin’s new society as a European project), russ.ru, November 2, 2014. <<http://russ.ru/Mirovaya-povestka/Novoe-obshchestvo-Putina-kak-evropeiskij-proekt>>

43 Mikhail Losev. “Nefritovym kursom” (Jade exchange), RBC Daily, September 21, 2014. <<http://www.rbcdaily.ru/magazine/trends/562949992295539>>

44 Andrei Lipskii interview with Vyacheslav Inozemtsev, “Rossiya ischet, pod kogo zalezhat” (Russia is looking for someone to crawl behind), *Novaya gazeta*, October 18, 2014.

45 Levada Center, “Russia and the world,” October 10, 2014. <<http://www.levada.ru/eng/russia-and-world>>

Russia's Food Embargo

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Abstract

Russia imposed an embargo on food imports from countries that participate in sanctions against it. Import substitution from domestic producers and other countries will lessen the impact on Russian consumers.

Russia's Food Embargo

On 6 August President Vladimir Putin issued Decree no. 560 that stated that Russia would take special economic measures to protect its national security. The decree banned importation of food from Western nations that had imposed sanctions on Russia.¹ A day later, the Russian government issued Resolution no. 778 that specified commodities that would be banned.² The ban includes beef, pork, fruit and vegetables, poultry, fish, cheese, milk and dairy products from the European Union, United States, Australia, Canada and Norway. On 19 August, the Ministry of Agriculture submitted modifications to the list of prohibited products, exempting certain products from the banned list. Among the items were seed for potatoes, peas, hybrid corn, onion, protein and protein mixture concentrates, food additives and lactose-free dairy products, and young salmon or trout less than two years of age.³ Two days later, the government issued Resolution 835 that allows members of the WTO who are not participating in sanctions to export meat to Russia up to the quota level established by Russia.⁴ In mid-October the ban was expanded to include various kinds of animal fat and meat byproducts.

The import ban is to be in effect for one year, although Prime Minister Medvedev held out the possibility of ending the embargo if sanctions are lifted. Under the radar is the fact that Russia was already limiting food imports from certain countries even before the August ban was announced (Table 1).

Russia's Food Trade War

In a politicized move that struck at an iconic symbol of American culture, in July 2014 McDonald's came into

the crosshairs of Russia's agency responsible for food safety inspections (Rossel'khoznadzor). Originally, in April 2014 some nationalist Russian politicians called for all outlets in the country to be closed after McDonald's closed its restaurants in Crimea following the annexation by Russia in March. In July, McDonald's, which operates 438 restaurants throughout Russia, was charged with health and sanitation violations for its Caesar wrap sandwiches. In addition, Rossel'khoznadzor questioned the stated nutritional value of McDonald's shakes and ice cream. Rossel'khoznadzor also challenged the advertised energy value of cheeseburgers, fish sandwiches, and chicken burgers. McDonald's responded by saying that it had not received any complaints and uses methodologies approved by Rossel'khoznadzor. On 26 August a Moscow court ordered that the McDonald's located on Manezh square—at the foot of the Kremlin—be closed for 90 days due to sanitary violations. By the end of August, 12 McDonald's had been closed nationwide including three in Moscow, and more than 100 inspections were underway in the regions. In mid-September, McDonald's announced the temporary closure of 22 restaurants in Russia for modernization, and also removed two salads from its menu. In early October, Russian prosecutors announced that they were opening an investigation into the Ronald McDonald House Charities on suspicion of money laundering.

Russia's food trade war is also directed at Ukraine. Putin's vision to create a free trade zone with Ukraine as a partner in the new Eurasian Economic Union (EEU) is gone. Instead, there is a clear intent to punish Ukraine by banning the importation of certain food products into Russia. On 25 July, Rossel'khoznadzor banned the importation of milk from Ukraine, effective 28 July. The same day, Ukraine banned the importation of pork and pork products from Russia. Russia retaliated by banning plant products from Ukraine carried in hand luggage, luggage, or by mail. On 27 July, Russia announced a ban on all dairy products from Ukraine, beginning 4 August. On 29 July, Russia added juice, including children's juice drinks, to the list of banned items from Ukraine. On 19 August Rossel'khoznadzor banned the export of food products from Ukraine into the Crimea, effective 1 January 2015. The list includes milk, meat, eggs, and canned meat and milk. Russia also banned the import

1 "Ukaz o primenenii otdel'nykh spetsial'nykh ekonomicheskikh mer v tselya obespecheniya bezopasnosti Rossiyskoy Federatsii," 6 August 2014, <www.kremlin.ru>.

2 Postanovlenie ot 7 Avgusta 2014 no. 778, "O merakh po realizatsii Ukaza Prezidenta Rossiyskoy Federatsii ot 6 Avgusta 2014 no. 560," 7 August 2014, <<http://government.ru>>.

3 Postanovlenie ot 20 Avgusta 2014 no. 830, "O vnesenii izmeneniy v postanovlenie Pravitel'stva Rossiyskoy Federatsii ot 7 Avgusta 2014 g. no. 778," 20 August 2014, <<http://government.ru>>.

4 "O dopolnitel'nykh merakh po regulirovaniyu importa myasa rogatogo i myasa domashney pitsy," 21 August 2014, <<http://government.ru>>.

of confectionaries from Ukraine effective 5 September. In October, all exports of plant products from Ukraine into Russia were banned.

Moldova is also targeted. Moldova has a pro-Russian separatist breakaway region, Trans-Dniester. The situation is complicated by the fact that the country faces elections in November that will determine whether it stays on its pro-Western course or pursue a course that is friendlier to Moscow. In early July, meat exports from Moldova into Russia were restricted, and in October meat exports from Moldova were banned. Previously, in July, fruit exports had been banned. Moldova depends heavily on its trade with Russia. Fruit is its largest export, and 90 percent of its apples were sold to Russia before the ban. The lost revenue from apples alone is expected to reach \$50 million. Moldova is one of Europe's poorest countries. The average monthly salary is only \$300 (225 euros) and 30 percent of its GDP comes from remittances sent home by the 600,000 Moldovans who work abroad (15 percent of the total population).

Russian Food Imports

Although the Western press reports that Russia imports 40 percent of its food, this is a misleading statistic because Russia is basically self-sufficient in basic food commodities except for meat, meat products, and milk, which are high-cost commodities (Table 2). In 2013, Russia imported \$17.2 billion of food from the countries targeted by the ban, of which \$9.2 billion was in the affected categories.

Roughly 10 percent of EU agricultural exports go to Russia, worth around 11 billion euros (\$14.7 billion) per year according to the European Commission. Russia is also a major purchaser of American poultry meat, importing about \$300 million recently. The food ban is expected to cost EU farmers as much as 6 billion euro. In the wake of the food ban, the European Commission met to discuss the impact on small farmers in the EU. Some European leaders criticized the sanctions as creating too great a cost for their countries. Poland asked the US to buy its apples that no longer can be sold to Russia. It is estimated that 9.5 million farmers in the EU will be affected by the ban.

Overall, Russia imported food valued at more than \$43 billion in 2013 (Table 3), a statistic that only includes food that passed through customs, but does not include food that was carried into Russia for personal consumption. Putin's decree of 6 August does not forbid Russians to travel abroad and bring back foreign food for personal consumption, a threshold that was not defined and led to some people testing the upward limit in the early weeks after the ban.

Responses to the Food Embargo

During the past 20 years Russia has developed its own food industry. Many processed products that appear to Russian consumers to be imports are actually made in Russia. The food ban will benefit Russian food companies by limiting alternative choices and by familiarizing the Russian consumer with domestic brand names. Moreover, the government has increased financial support for agricultural producers by R87 billion in 2014 to spur domestic production and to help them cope with the embargo. *Russian* Agriculture Minister Nikolai Fedorov also suggested that production subsidies for poultry meat and pork be extended to 2018, instead of ending in 2015 as originally planned. On 13 August, Prime Minister Medvedev instructed the Ministry of Agriculture to develop "a new strategy for the development of agriculture," so that Russia can end its dependence on imports. In late August the government announced the transfer of R239 billion to the bank VTB and the agricultural bank (Rossel'khozbank). In the case of the agricultural bank, the purpose is to ensure adequate capital reserves and sufficient funds for lending to food producers. In early October Medvedev signed instructions to work out a "road map" for substituting imports with domestic production. Later that same month the draft of the new version of the government's program to support agriculture prioritizes animal husbandry and private farming.

There are some banned imports that Russian agriculture cannot easily replace. Russia cannot, for example, simply plant apple trees to replace Polish apples in one year. The same is true for beef and dairy cattle, both of which continue to have depressed livestock numbers compared to the early 1990s. Consumer products most affected by the food ban are high-end edibles that cater to the upper-middle class and above, products such as Norwegian smoked salmon, French, cheese, or Italian processed meats. For basic food commodities, replacements are relatively easy. A number of countries have indicated a willingness to increase food exports to Russia in order to compensate for banned products from the US and EU. Specifically, Argentina and Brazil have indicated a willingness to supply beef, and the day after Putin's decree Rossel'khoz nadzor approved the export of beef from 90 meat processing plants in Brazil. Chile is ready to sell more salmon to Russia, replacing the losses from Norway. Ecuador is ready to sell more shellfish to Russia. Belarus said it is willing to increase the export of cheese, milk, and other dairy products; and has said it can replace Polish apples and Dutch potatoes. Central Asian nations are ready to provide fruits and vegetables. Turkey, which in 2013 sold \$1.7 billion worth of food to Russia, predicts that the value of food exports

may double. China, which does not support US-backed sanctions against Russia, indicated a readiness to “fully” meet Russian demand for fruits and vegetables. Likewise, Armenia expressed an interest to increase its food exports as well.

Embargoes and bans typically give rise to an underground economy. There are reports of an emerging black market whereby banned products from the West are being transported into Russia from Belarus or Kazakhstan. Russian officials have promised to be vigilant, but exporters have indicated that for small quantities it is easy to change the country of origin in the paperwork and to replace labels. Russian media has joked that Muscovites will see supplies of oysters and shrimp from landlocked Belarus.

How Much will Russian Consumers Suffer?

The impact of the embargo has the potential to be significant, the real question is on whom. Food products constitute about 37 percent of Russia’s “consumer basket.” Compared to developed nations, food costs are a large portion of household budgets in Russia. For all households nationwide, about one-third of the family budget goes toward the purchase of food. Families with children under 16 spend a little less. The amount spent on food, however, varies greatly depending on household income. According to official statistics, the poorest families spend more than 42 percent of their budget on food, whereas households in the upper 10 percent income bracket spend only 15 percent. Urban households spend a much smaller percentage on food than rural families.

Middle class Russian consumers may be squeezed in several ways. Following the introduction of the third round of sanctions, the ruble fell against the dollar and euro, thereby making foreign travel and the purchase of foreign foodstuffs more expensive for Russians who go abroad. In late September the Ministry of Economic Development predicted that food inflation would reach 12–13 percent by the end of 2014, up from its previous estimate of 6–7 percent. Consumer interest rates

rose after the Central Bank raised rates in early August. These factors will reduce purchasing power and disposable income for Russia’s middle class. The cohort that will be most severely affected are the 16 million Russians who live below the poverty line; 28 percent of whom are children aged 15 or less.

In mid-August, the government announced the formation of a commission to monitor retail food prices. The government produced a list of 40 food categories including meat, dairy products, bread, fruits and vegetables. Retailers have to report the quantity and price of these goods on a daily basis. The Ministry of Agriculture monitors food prices on a weekly basis and publishes that information on its website (mcx.ru). Moreover, in late August the chairman of the Consumers Union in the city of Moscow announced that it would create an online database of retail prices that would allow consumers to compare prices for individual products or a basket of commodities. Food stores would have to agree to provide price data, but doing so would permit consumers to find stores with the cheapest prices. In late September, Putin called on governors to monitor food prices in their regions.

There has also been some discussion of introducing price controls. Russia tried price freezes before. In 2007 and 2008 the government negotiated price ceilings with producers and retailers to freeze the cost of basic goods such as bread, milk, eggs, vegetable oil as prices for these products started rising. The strategy did not work. Over the following months, price rises for the targeted categories outstripped overall food price inflation. For now the government is monitoring food prices. Toward the end of September Prime Minister Medvedev said that total price controls are not being contemplated.

Food trade wars seldom generate many winners. The main costs to Russian consumers are a bump in inflation and more limited choice for high-end products. Widespread hunger or malnutrition is unlikely to result from the food embargo, a return to long Soviet-era food lines is also doubtful.

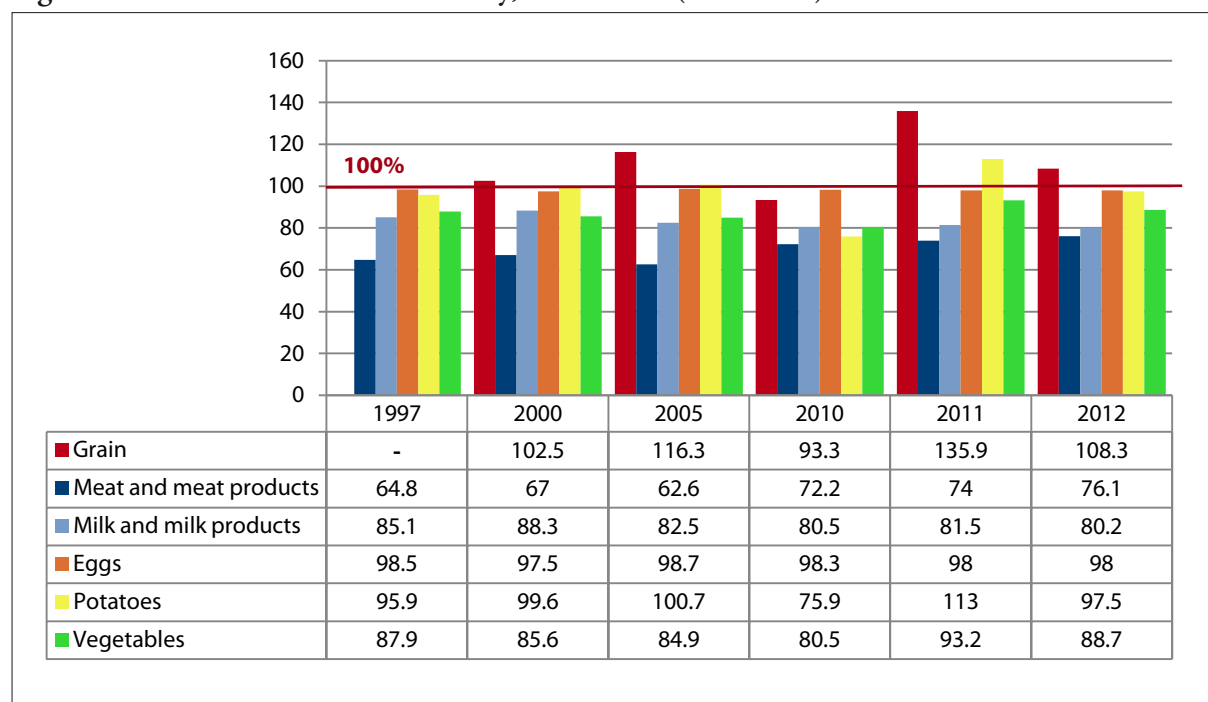
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Table 1: Food Bans or Limitations on Food Imports by Russia in 2014

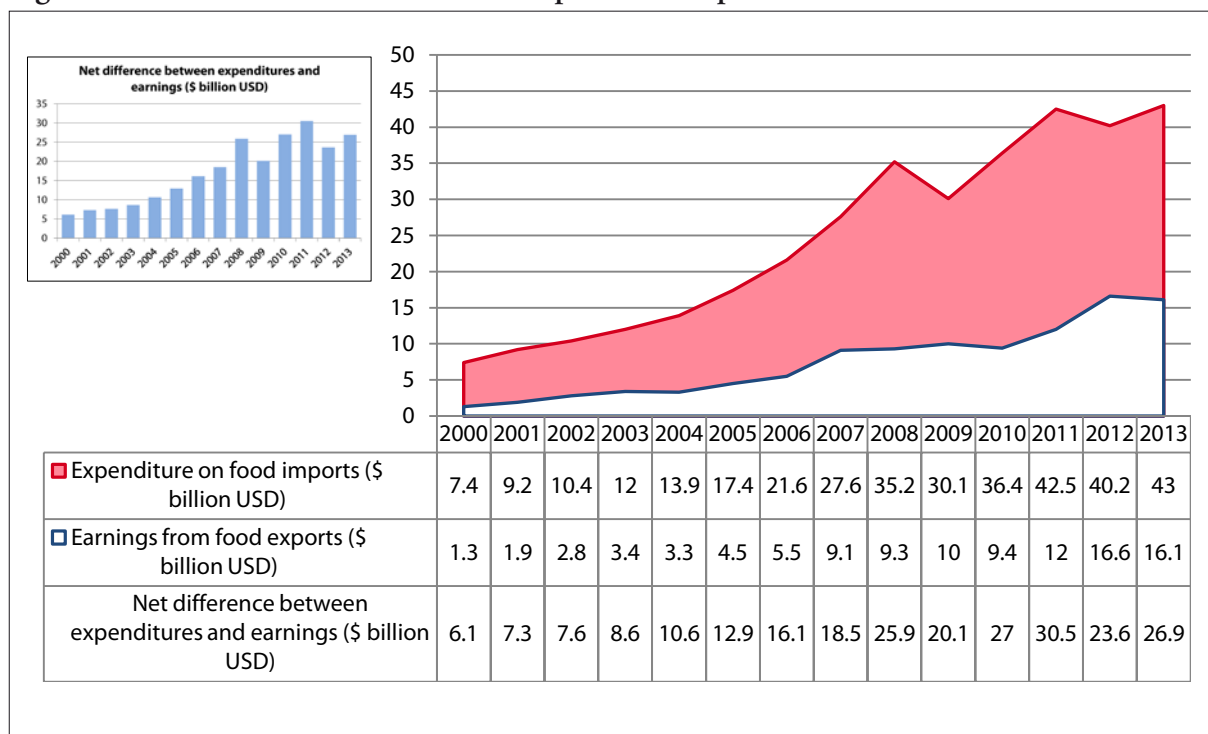
Country (alphabetical order)	Month	Food product
Australia	March	Beef
Austria	May	Beef, milk
California	April	90 day ban on poultry
EU	January	Pork
EU	August	Fruit and vegetables
Hungary	May	Meat, Milk
Latvia	April	Pork meat products
Latvia	May	Pork and pork products
Lithuania	January	Pork
Moldova	July	Fruit, limits on meat
Poland	April	Pork meat products
Poland	August	Fruits and vegetables
Ukraine	March	Animal husbandry products if Ukraine leaves CIS
Ukraine	June	Potatoes, pork
Ukraine	July	Dairy products, juice
United States	August	All food products

Figure 1: Russia's Food Self-Sufficiency, 1997–2012 (In Percent)



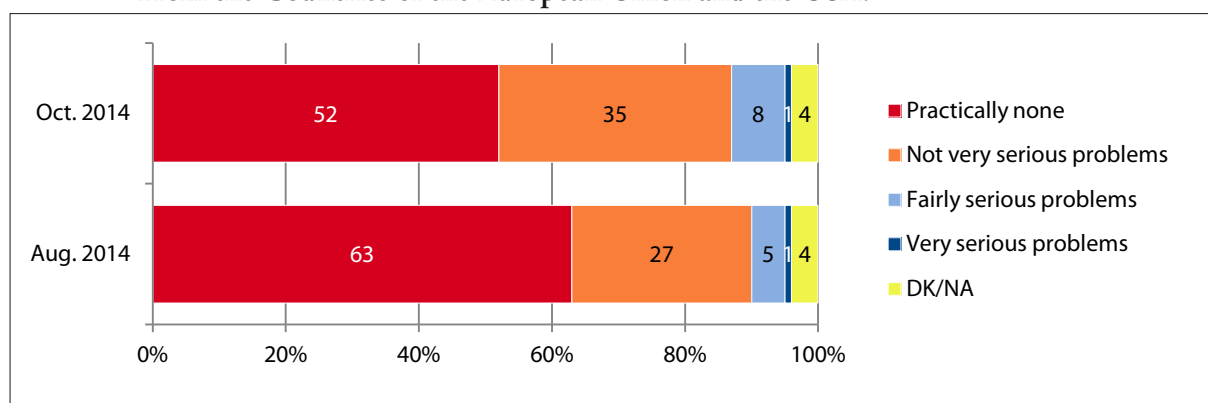
Sources: Ministry of Agriculture; Rosstat.

Figure 2: Dollar Value of Russia’s Food Imports and Exports, 2000–2013



Sources: Ministry of Agriculture; Rosstat; author’s calculations.

Poll: Have You Had Any Problems Feeding Your Family Due To the Ban on Food Imports From the Countries of the European Union and the USA?



Source: representative opinion poll by Levada Center, 24–27 October 2014, N = 1,630, <<http://www.levada.ru/11-11-2014/kontrsanktsii-problemy-i-posledstviya>>

Russian Economic Sanctions as Carrots and Sticks in the Near Abroad

By Randall Newnham, Reading, PA, USA

Abstract

Many observers have noted Russia's increasing economic assertiveness in the former Soviet space, especially its ability to control oil and gas supplies—as it is now doing in threatening Ukraine with a “cold winter.” As this piece will show, though, Russia's influence in the near abroad includes many other instruments, all of which must be considered to gain a true sense of Moscow's expanding reach in the region. This economic power is rooted in the Soviet period, but has been carefully expanded under President Vladimir Putin. This article will outline some of the types of economic linkage Russia employs and give examples of their effects. Like its “masked warfare” in the security realm, Moscow has sometimes been able to hide its true intentions, concealing sanctions as “routine business decisions” or “bureaucratic measures.” Yet these sanctions and incentives have played a key role in expanding Russia's reach around its borders.

All Roads Lead to Moscow

Russia's economic influence in what it considers the “near abroad” is rooted in the region's shared Soviet heritage. Since Russia was the largest unit of the USSR, it seemed that “all roads led to Moscow.” The smaller republics needed Russia far more than Russia needed them. This dynamic still helps Russia to dominate the regional economy today.

For example, Russia had a central place in the USSR's energy network. It supplied most of the oil and natural gas used by the other republics, as well as some of their electricity. Even republics which had oil and gas could only ship their products into Russia, not to foreign markets. In industry, other republics often produced only part of a complex product, depending on Russian factories to supply most components. Even if production was located in a smaller republic, the ultimate purchaser would likely be in Russia. Similarly, in agriculture Russia was central; for example, republics might specialize in cotton farming (Central Asia) or wine production (Georgia). Most of their production was, again, destined for Russia—and of little interest to foreign countries. Finally, the same could be said for labor migration. Even in the Tsarist period workers from the Caucasus and Central Asia moved to Russia to find work. This continued in the Soviet era.

In the 1990s, though, this dependence fell greatly. The newly independent republics tried to build ties to the outside world, and thought they could defy Moscow with impunity. There were several reasons for this. First, with the Russian economy in free fall, Moscow found it hard to credibly threaten economic sanctions. If Russia cut trade ties with a recalcitrant partner, it would lose income—and any income was crucial in the lean Yeltsin years. Second, the rock-bottom price of oil and gas during these years blunted Russia's largest potential weapon. Third, economic decline limited Russian economic incentives. Russia could hardly offer loans when

it was bankrupt, and access to its weak import market seemed a small incentive. Finally, and perhaps most importantly, under Gorbachev and Yeltsin what the Russians call the “power vertical” had broken down. Most of the economy was privatized, and the new owners naturally put profit ahead of state interests. Even the remaining state-owned firms, like Gazprom, seemed to act like private firms. This was the “era of the oligarchs,” and the Kremlin seemed powerless to control the economy.

In the Putin era, all of these conditions have changed dramatically, and Russia's economic power in the “near abroad” has surged. Dramatic growth has given Russia the ability to offer loans and has made access to its market a lucrative incentive.¹ With its new wealth has come the ability to casually impose sanctions, even if they also impose costs on Russia. Oil and gas prices have surged, which allows Moscow to cut off a few troublesome customers and still reap revenue far higher than in the Yeltsin years. And of course the “power vertical” has been imposed firmly on the economy, allowing the Kremlin to enforce sanctions much more easily. There has been some renationalization, notably in the oil and gas sector. However, just as importantly, the private sector has been cowed to accept state priorities, even at the cost of profits. Defiant companies may now face such measures as tax investigations, claims of environmental damage and food safety inspections, any of which can shut a firm down as effectively as outright confiscation. Thus few businesses will protest when the Kremlin imposes costly sanctions—or offers costly economic incentives—in the “near abroad.”

¹ There is a huge gap between Russia's economy and those of its smaller neighbors. In 2013 the Russian GNP was estimated at about \$2.1 trillion, which is 12 times larger than Ukraine's GNP (\$175 billion), 132 times larger than Georgia's (\$16 billion), and 264 times larger than Moldova's (\$8 billion) (source: CIA World Factbook).

Oil and Gas Leverage

Both policy analysts and scholars quickly noted that energy has become the Kremlin's strongest economic lever. Natural gas is an especially powerful weapon; unlike oil, it can generally be delivered only through fixed pipelines, giving a supplier a natural monopoly; and as noted above, in the USSR, Russia controlled the key pipelines.

Under President Putin, Russia's gas power has been exploited ruthlessly. Many of the former Soviet republics—including the Baltic states, Belarus, Ukraine and Armenia—are totally dependent on Russian gas. The current Ukrainian crisis has been a particularly dramatic example, with Kiev facing a total gas boycott since June 2014. Earlier there were embargoes in the winters of 2006 and 2009. Georgia, in 2006, was hit with an even more dramatic cutoff. Its natural gas pipelines were simply blown up, an action which the Kremlin attributed to Chechen rebels—although most observers suspected the Russians themselves. However, Russia has discovered that more refined methods can be just as effective. Most notably, Russia has practiced a careful system of political pricing of gas. Customers who support Russia receive dramatic discounts. Belarus, Armenia, Ukraine under the pro-Russian Presidents Kuchma and Yanukovich, and the Kremlin's client quasi-states of South Ossetia, Abkhazia, and Transnistria all have received massive gas subsidies. Sometimes these are nakedly linked to a specific political concession. For example, when Yanukovich took office in 2010 and agreed to extend Russia's lease on naval bases in the Crimea, he was rewarded with a 25 percent rebate on natural gas. At the same time, customers seen as anti-Russian—such as Georgia, the Baltic states, Moldova, and Ukraine under Presidents Yushchenko and Poroshenko—face punitive price increases. For example, in 2004 at the end of President Kuchma's reign, Ukraine paid roughly \$50 per thousand cubic meters (TCM) for gas. In 2014 the Kremlin demanded almost \$500 per TCM—a ten-fold increase in ten years. Furthermore, Russia has discovered it can also impose political debt arrangements. Compliant states are allowed to buy gas with generous credit terms—low interest, delayed payments, even debt forgiveness in some cases. Opponents, on the other hand, must pay debts quickly, with high interest rates, and are even asked for cash payment in advance—as is now being demanded of Ukraine. The beauty of these methods is that, in contrast to gas embargoes, they are vastly profitable for Russia. Thus the Kremlin can simultaneously weaken opponents and strengthen itself.

Even the former Soviet republics which produce gas and oil have felt Russian pressure. Initially they all had no other outlet for their production than through Rus-

sia. In the lenient Yeltsin years they were sometimes allowed to use Russian pipelines for a modest transit fee; for example, in the 1990s Ukraine could purchase cut-rate Turkmen gas to supplement imports from Russia. This practice was quickly ended under Putin. Russia became a ruthless monopsony buyer, putting it in the enviable position of being able to resell some countries' gas for a 400 or 500 percent profit. Naturally, this gave the Kremlin great influence. The targeted states have tried to find other outlets, often over Russian protests. Azerbaijan, for example, now has a pipeline to the West via Turkey and Georgia, while Turkmen gas can flow east to China.

Moscow's energy measures have often been camouflaged as "business decisions." Massive price increases are disguised as efforts to reach "market prices." Yet this is transparently false. Anti-Russian states are hit with increases which are vastly higher than those imposed on "normal" customers. To cite but one case: Gazprom currently demands far more from Ukraine than from the much wealthier states in the EU. Subsidized states, meanwhile, are granted absurdly low prices—and other favors. For example, Gazprom has spent heavily to build pipelines into the tiny, poor enclave of South Ossetia to support rebel groups there. This investment makes no economic sense, but has clear political logic.

Trade Leverage

While Russia's energy leverage has generated large headlines, non-specialists have sometimes failed to note the Kremlin's extensive trade leverage. Yet this, too, has been a powerful source of both economic sticks and carrots.

As with energy, Russia's client states are rewarded with generous trade deals. Their uncompetitive products are bought by Russia, giving them access to a lucrative market. This method has been practiced by hegemonic states for many years. As Hirschman notes in his classic study of Nazi economic policy, for example, in the 1930s Hitler's Germany cemented its ties to states such as Romania and Hungary through generous, long-term deals to buy their exports.² Russia has followed the same model. For example, in periods of amity between Russia and Ukraine, Moscow happily bought outmoded locomotives from Luhansk and elderly Antonov transport planes made in Kiev, just as it continues to buy tractors from Minsk and cotton from Central Asia. Such purchases not only provide immediate economic incentives; they foster longer-term dependency, keeping alive outdated Soviet-era economic ties and creating powerful constituencies supporting continued bonds with Russia.

2 Hirschman, Albert 1945. *National Power and the Structure of Foreign Trade*. Berkeley: University of California Press.

This could be seen most recently in the Donbass uprising, where a major motivation of the rebels was to maintain jobs by keeping Russian-linked enterprises in business.

Naturally, these trade ties are also easily used for negative linkage. The slightest foreign policy defiance can easily be punished through temporary “transportation delays” or “food safety issues” which cost the target state dearly. For example, when Lithuania hosted the November 2013 summit at which Ukraine, Georgia and Moldova were to sign EU Association Agreements, Moscow began a boycott of Lithuanian dairy products. Poland, a frequent critic of the Kremlin, was soon told its fruit was unwanted—an embargo eventually extended to the whole EU. Georgia had experienced similar treatment since 2004, when its then-president Mikhail Saakashvili began a series of disputes with Moscow. Georgia had long shipped most of its mineral water and wine to Moscow. Now, though, it was told its products were contaminated with chemicals and could not be sold. This embargo lasted until Saakashvili left office in 2013, and since then has been carefully ratcheted up or down depending on the behavior of his successor. As the EU has now discovered, perishable food products are a particularly good area for sudden Russian embargoes, since it is almost impossible to find alternate markets for Norwegian seafood or Greek fruit before they rot.

Finance and Investments

Under Putin, Russia was able to pay off its heavy debts to outside lenders and amass a large war chest from oil and gas sales. This wealth has enabled the country to use loans as an inducement in the “near abroad.” For example, after Ukrainian President Yanukovich backed away from the EU, he was quickly rewarded by the Kremlin with the promise of \$15 billion in loans. In the end, only the first \$3 billion tranche was paid out before he was overthrown. In addition to outright government largesse, Moscow can also rely on a host of state-owned corporations to step forward with generous investment checks in friendly countries. In many cases such investments also create platforms for further Russian influence. For example, Rosneft and Gazprom have been working to buy up pipeline infrastructure and refineries in the “near abroad.” This would clearly allow Russia to increase its already large energy leverage.

As in the other areas discussed here, such economic incentives can swiftly become sanctions if a country turns against the Kremlin. Moscow has made it clear that property rights have little meaning in today’s Russia. The classic case of the dismantling of Yukos Oil is always instructive. Yet here too, as in other areas, Russian officials have become more refined. For example, they have worked for years to effectively nationalize Western oil

holdings in Russia. Shell held a large stake in an offshore project near Sakhalin Island; it was harassed with “environmental complaints” and other legal hurdles until it sold to a Russian concern—at which time the obstacles suddenly vanished. Similarly, BP was harassed for years until it agreed to sell its 50 percent stake in the BP/TNK joint venture. When the West began to sanction Russia over the Ukrainian crisis, several McDonald’s restaurants were suddenly closed for “food safety” reasons. And if a stronger signal is called for, foreign assets may simply be seized. Ukrainian President Poroshenko, known as the “chocolate king,” saw his candy factory in Russia suddenly shuttered. And most recently, the Duma has been considering a law which would allow the government to seize some assets from any country which sanctions Russians as “compensation.”

Migration Control

Yet another area which has often escaped notice from commentators is Russia’s potential to control migration from ex-Soviet republics. Here too, compliant states can be rewarded and defiant ones punished. States which favor Moscow see their nationals permitted to enter Russia easily, work there with few obstacles, and send money home without problems. Yet when politics intervenes, migrants suddenly face hurdles. For example, Ukraine has historically had millions of its citizens working in Russia. One weapon that Moscow reportedly used to induce President Yanukovich to refuse to sign an EU Association Agreement was the threat of expelling these workers. Similarly, Georgia faced years of harassment of its workers in Russia when President Saakashvili began to defy the Kremlin. Some Georgians were simply rounded up, thrown onto military planes, and flown back to Tbilisi. Many more faced threats at workplaces, threats to expel their children from school, threats to deny visas, and threats to cut off remittances back to Georgia. Since payments from migrants in Russia make up a major portion of Georgia’s GNP—as is the case for many poor states in the near abroad—such threats are a potent sanction.

Growing Russian Influence

Overall, it is clear that Moscow’s economic grip in the “near abroad” has become much stronger in recent years—culminating in the current project for a Eurasian Union. Its influence reaches across many spheres of economic activity. And it can play out in either overt or subtle tactics, such as “food safety inspections,” “routine visa checks,” and “tax enforcement measures.” These tactics can be seen as the economic equivalent of the “masked warfare” strategy which Russia has pursued in Crimea and the Donbass. Like those military measures, the

Kremlin's economic strategy often maintains a thread-bare cover of legality or ambiguity, at least until firmer,

more open measures are needed. Yet the message sent is clear: compliance is rewarded, defiance is punished.

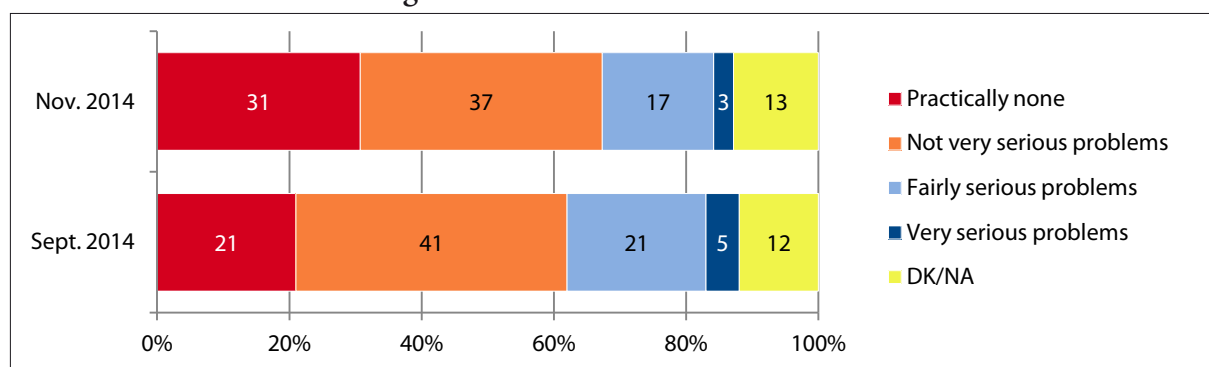
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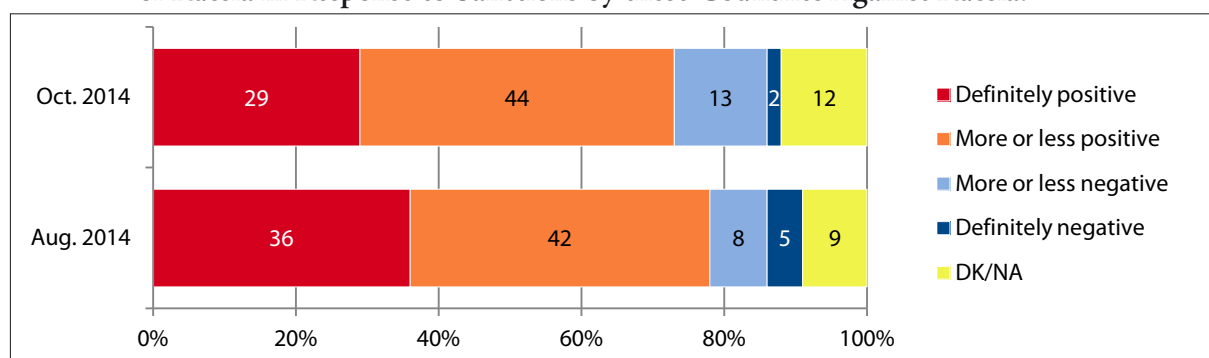
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Poll: What Do You Think, Could Your Family Have Problems in the Future Due to the Western Sanctions Against Russia?



Source: representative opinion poll by Levada Center, 14–17 November 2014, $N = 1,600$, <<http://www.levada.ru/28-11-2014/vliyanie-sanktsii-na-potreblenie>>

Poll: How Do You Feel About the Introduction of a Ban on the Import of Food and Agricultural Products from Countries of the European Union and the USA by the Leadership of Russia in Response to Sanctions by these Countries Against Russia?



Source: representative opinion poll by Levada Center, 24–27 October 2014, $N = 1,630$, <<http://www.levada.ru/11-11-2014/kontrsanktsii-problemy-i-posledstviya>>

Humanitarian Migration from Ukraine

By Olga Gulina, Berlin

Abstract

This article provides a statistical overview of the refugees fleeing the fighting in eastern Ukraine.

Escaping to Safety

Ukraine's civilians are being forced to move out of the conflict-stricken area and seek shelter in other areas of Ukraine or in neighboring countries. The humanitarian catastrophe in Ukraine is gaining steam, which causes serious concern among the world community.

According to UNHCR data, between January and July 2014, over 4,106 Ukrainians requested asylum in the European Union, compared to 903 applications in the 2013. Most Ukrainian applications for asylum were in Poland (1,082), Germany (556) and Sweden (500). In addition, Belarus received 380 Ukrainian applications for asylum.¹ Additionally many Ukrainians have moved to Russia. According to the Russian Federal Migration Service (FMS), in the period from April 1 through August 30, 2014, about 820,000 citizens of Ukraine moved into Russia. They submitted the following applications to the Federal Migration Service:

- about 130,000 Ukrainian citizens applied for temporary asylum or refugee status;
- more than 78,000 Ukrainian citizens applied for temporary residence permits;
- more than 33,000 Ukrainian citizens applied for Russian citizenship;
- more than 22,000 Ukrainian citizens applied for residence permits;
- more than 12,000 Ukrainian citizens applied to the State Program of Support for the Voluntary Return to the Russian Federation of Compatriots Residing Abroad.

Shouldering the bulk of the humanitarian burden related to the accommodation of involuntary migrants from Ukraine, Russia amended its migration legislation and granted them a special legal status.

The April 2014 amendments made to Law 376-FZ² introduced certain restrictions on the entry of migrants from the CIS countries. Foreigners from visa-free countries without a work permit or temporary residence permit could technically stay only “90 days in and 90 days out” over 180 days in Russia. Previous regulations stated that persons entering Russia from a visa-free country

could stay 90 days and after 90 days should leave the territory of the Russian Federation. Since January 1, 2014 the violation of the “90 out of 180 days rule” led to legal consequences, such as a fine with or without deportation or refusal of entry into Russia within three years (Art. 27.1.12 Law 114-FZ³). In contrast to these regulations, the citizens of Ukraine may stay on the territory of the Russian Federation for 270 days within one year.⁴

Now the inhabitants of the Ukraine coming to Russia have the following options for legalizing themselves:

1. Obtaining the status of refugee;
2. Obtaining temporary asylum on the territory of the Russian Federation;
3. Obtaining a labor permit for work activities.

The last option—buying a labor permit—does not enjoy popularity among Ukrainians who were forced to leave their country. First, a permit costs 1,216 Rubles (\$30) per month and it should be paid in advance. Second, labor activities are restricted mainly to entrepreneurship and working in a private household. Furthermore, a work permit can be repeatedly extended, but no more than for one year from the date it was first purchased. The most popular options among Ukrainian citizens coming into Russia are applying for temporary asylum on the territory of the Russian Federation or obtaining refugee status.

Refugee Status

According to Article 1 of the Federal Law “On Refugees,” a refugee is: “a person who, owing to well-founded fear of being persecuted for reasons of race, religion, nationality, membership of particular social group or political opinion, is outside the country of his nationality and is unable or, owing to such fear, is unwilling to avail himself of the protection of that country; or who, not having a nationality and being outside the country of his former habitual residence as a result of such events, is unable or, owing to such fear, is unwilling to return to it”.⁵

To receive refugee status, the applicant must submit the relevant application to a local office of the Federal

1 Number of displaced inside Ukraine more than doubles since early August to 260,000, <<http://www.unhcr.org/540590ae9.html>>.

2 Law 376-FZ On Amendments into the Migration Bills, in: <http://www.consultant.ru/document/cons_doc_LAW_156010/>

3 Federal Law 114-FZ “On the Procedure for Exiting and Entering the Russian Federation.”

4 The memo for Ukrainian citizens who were forced to leave the territory of Ukraine, <http://www.fms.gov.ru/foreign_national/novisas/index_ukr.php>

5 Art. 1 Federal Law Nr 4528-1 On Refugees of February 19, 1993.

Migration Service. The applications are reviewed on their merits within 3–6 months after the day when the applicant receives the confirmation that his/her refugee status application is being reviewed. The refugee status is granted for a period of up to three years, which can be extended if circumstances under which the applicant has been granted the status continue. The applicant is issued a refugee identification document. Russian passports are not issued to persons who are granted refugee status.

A person who has been granted refugee status and his/her accompanying family members are entitled to:

1. The provision of interpreter services and the information about the rules for obtaining the refugee status, their rights and obligations according to Article 8 of the Law on Refugees, and other necessary information;
2. receive assistance in providing transportation of their persons and luggage to their place of residence as determined by the Government of the Russian Federation;
3. food and the use of public services at the temporary accommodation center in the manner determined by the Government of the Russian Federation;
4. protection by the Ministry of Internal Affairs at the temporary accommodation to ensure the safety of such persons;
5. a one-time allowance for every family member according to the rules and in the amount set by the Russian government, however no less than 100 Rubles;
6. an authorization for placement in the temporary accommodation center for refugees from the local government agency in charge of migration control;
7. healthcare services and medication;
8. job placement assistance at a professional training establishment;
9. right to employment on the territory of Russian Federation without work authorization after receiving refugee status.⁶

Irrespective of the guaranteed rights and freedoms, obtaining refugee status does not enjoy popularity among Ukrainians due to the complex bureaucratic procedures involved. Refugee status is issued only rarely. According to Federal Migration Service (FMS) data, fewer than 7% of applicants receive refugee status.⁷

Temporary Asylum

Temporary Asylum on the territory of the Russian Federation is an opportunity for a foreign citizen or state-

less person to stay temporarily on the territory of the Russian Federation in accordance with Article 12 of the Law on Refugees. In addition, on August 1, 2014 the Russian Government adopted the Provisional Simplified Rules for Granting Temporary Asylum in Russia to Ukrainian Citizens.⁸ According to the rules, the applicant and members of his family submit their application for temporary asylum to the local office of the FMS. The application can be submitted personally or via one of the multifunctional centers of federal and municipal services.

The applicant and the accompanying family members must:

- a) be fingerprinted at a territorial office of the FMS in the area where they stay;
- b) have a health check at the authorized medical center within 10 days.

Before granting temporary asylum, the territorial office of the FMS:

- checks the information about the applicant and his/her accompanied family members using the relevant databases of the Federal Migration Service and Ministry of the Interior, in order to verify the information on the application;
- for record keeping purposes, sends to the territorial office of the Federal Security Service the information about the applicant and his/her accompanied family members no later than on the working day following the day when the application was received.

The decision on granting temporary asylum is made by the FMS's territorial office where the application was submitted within 3 days after the submission of the application. When the decision to grant temporary asylum is made, the FMS territorial office in the area where the applicant actually stays issues to him, within 24 hours, the temporary asylum authorization. According to the Simplified Rules for Granting Temporary Asylum, the temporary asylum authorization can be issued only when the applicant and his/her accompanying family members submit the medical clearance card required from Ukrainian citizens and others who permanently reside in Ukraine and arrived to Russia in search of temporary asylum. However, the FMS's territorial office often issued the asylum authorization without required medical clearance procedure.

Temporary asylum is granted for a period of up to one year, which can be extended for one more year an indefinite number of times pursuant to the decision of

6 Art. 6 Federal Law Nr 4528-1 On Refugees of February 19, 1993.

7 Official web-page of the FMS, <<http://www.fms.gov.ru/about/statistics/data/>>

8 The Provisional Simplified Rules for Granting Temporary Asylum in Russia to Ukrainian Citizens dated August 1, 2014. The Decree of Government of Russian Federation Nr. 690 of July 22, 2014. in: <<http://government.ru/docs/13927/>>

the appropriate local FMS office following the written application (Art. 12 of Law on Refugees). When a Ukrainian citizen is granted temporary asylum, (s)he remains a Ukrainian citizen. At any moment (s)he may relinquish the status granted, receive the national passport of Ukraine and re-gain the status of a person temporarily staying in Russia. Although there is one strong disadvantage—a person without the temporary asylum status may not be employed on the territory of Russia.

The Current Situation in Some Regions of the Russian Federation

Russia's areas bordering Ukraine carry most of the burden from the influx of humanitarian migrants. However, neither the regional authorities nor the official statistical bureaus could provide complete, uniform and demographically based information on newcomers from Ukraine. It seems that a large number of Ukrainians coming to Russia are women and children. According to the Ministry of Health figures of August 2014, among 70,084 humanitarian migrants who sought medical check-ups and care were 26,656 children, 2,496 pregnant women, and 458 injured persons. On the territory of Russia, migrants gave birth to 399 children⁹ (see Table 1 on p. 21).

The regions accepting humanitarian migration from Ukraine bear significant costs associated with the financing mandated by the federal government. The regions' expenses will be partially compensated by the federal center. The Russian government issued an order "On Distribution of Interregional Budget Transfers for Temporary Accommodation of Persons Who Involuntarily Left Ukraine."¹⁰ The order provides financial assistance in the amount of 366 million rubles to the 40 territorial entities of the Russian Federation welcoming humanitarian migrants from Ukraine: Rostov region gets 111 million rubles out of the federal finance assistance; Voronezh region—43 million rubles; Belgorodskaya region—37 million rubles; and the city of Sevastopol—21.5 million rubles. Regions accepting fewer refugees received less support. Despite the aid, such migration is a burden on regions' budgets, because regions had to spend money that had been budgeted for.

9 Official web-page of the Ministry of Health of the Russian Federation, <<http://www.rosminzdrav.ru/news/2014/06/27/1902-zamestitel-ministra-igor-kagramanyan-provel-videoselektor-noe-soveshanie-s-regionami-po-voprosu-meditsinskogo-obespecheniya-bezhentsev-s-yugo-vostoka-ukrainy>>

10 Decision of the Government of the Russian Federation Nr. 1463-r of August 4, 2014, <http://government.ru/dep_news/14135>

The Current Situation in Ukraine

Ukraine also assists residents of Eastern Ukraine forced to move from the occupied areas and areas of the anti-terror operation (ATO). The state agencies in charge are challenged by the complexities of calculating the costs of the tasks and organizing and coordinating the assistance to the internally displaced persons (IDPs) because there is no central registration system.

In October 2014, the Ukrainian Parliament passed Law on the Rights and Freedoms of Internally Displaced Person to protect people displaced by the conflict. This law gives IDPs a specific set of rights—protection against discrimination, forcible return and assistance in voluntary returns. It also simplifies access to different social and economic services, especially residence registration (which is a requirement for accessing banking services and registering a business) and unemployment benefits. Furthermore, the law obliges the government to start developing a policy on integrating internally displaced persons, which is expected to lead to better long-term planning for these individuals.

Meanwhile, in June 2014 the Ukrainian parliament adopted Law 4998-1 On the Internally Displayed Persons' Rights and Freedoms. 298 deputies of Verkhovna Rada voted for it.¹¹ According to this law, the IDPs include persons who lived in Crimea and the city of Sevastopol prior to March 18, 2014 or in the areas of the anti-terror operation prior to its beginning. The status of involuntary migrant may be granted upon the submission of an identity document that confirms Ukrainian citizenship or an identification document of a foreign national or a stateless person, and whenever necessary—of other documents corroborating that the holder lived on the temporarily occupied territories or in the ATO area.

Besides, the involuntary migrants [IMs] are entitled to allowances for themselves and every accompanied family member in the amount set by Ukraine's cabinet of ministers. IMs also have the right to freely choose an area where to move and stay within the territory of Ukraine. When they are unable to freely choose an area in the Ukraine where they would live, IMs may stay in provisional accommodation centers for IMs and receive medical, social and other services in these centers as provided for by the law.

On September 2, 2014 the UNHCR estimated that approximately 260,000 people were displaced internally on the territory of Ukraine.¹² The State Emergency

11 Stenogramma plenarnogo zasidannya. 19 Chervnya 2014, <<http://portal.rada.gov.ua/meeting/stenogr/show/5641.html>>

12 Number of displaced inside Ukraine more than doubles since early August to 260,000, <<http://www.unhcr.org/540590ae9.html>>

Service of Ukraine calculated that most of the burden associated with the provision of accommodations and other vital services for IDPs is shouldered by Donetskaya, Kharkovskaya and Poltavskaya oblasts, and Kiev.¹³

The most difficult situation in the Donetsk region (72,495 IDPs); the city of Kiev (26,808 IDPs), Zaporozhye (22,823 IDPs); the city of Dnipropetrovsk (20,186 IDPs); the city of Kharkov (16,868 IDPs); the city of Luhansk (15,087 IDPs); the city of Odessa (12,572 IDPs), Poltava (9,582 IDPs); the city of Kiev (7,019 IDPs) and the city of Lemberg (5,693 IDPs). The smallest amount of IDPs settled in the city of Ternopil (1,111), Volyn (1,120), Rivne (1,267) and the Transcarpathian Ukraine (1,403). In Volyn Oblast, 17,213 Ukrainian citizens were relocated from the Republic of Crimea and the city of Sevastopol to other Ukrainian regions, including 4,801 children and 1,243 handicapped persons and senior citizens. 218,731 persons have been relocated from the ATO areas to other regions of Ukraine, including 70,946 children, 30,376 handicapped persons and senior citizens (including 72,432 IDPs relocated within Donetskaya Province). In total, 235,944 persons have been placed in other regions, including 75,747 children and 31,619 handicapped persons and senior citizens.

Ukraine's cabinet of ministers issued Directive 11.6.2014¹⁴, which governs social security issues pertaining to Ukrainian citizens who relocate from the occupied or ATO areas. The regional state offices in charge of IDPs together with other government agen-

cies search for residential placements, organize health-care services and issue passports.

The political crisis in Ukraine led to a massive humanitarian migration both within and out of Ukraine. However, nobody has clear and sufficient data on the amount of humanitarian migrants and their demographic characteristics; nobody can explain their motivations in choosing a destination in the search of greater safety. The controversial data on migrants coming from Ukraine to Russia among federal and regional authorities comes against the background of a serious skepticism toward official statistics. Besides, the absence of IDP registration in Ukraine and the lack of data seriously complicate counting the IDPs within Ukraine and beyond its territory and providing assistance to them. Nowadays there is only one thing that we can be certain about the Ukrainian citizens who have entered Russia: a) they more often apply for temporary asylum on the territory of Russia due to the simplified procedure changed by Law of August 1, 2014; b) the majority of Ukrainian citizens coming to Russia are interested in returning to Ukraine and perceive the opportunities on the territory of Russia as temporary; c) despite the financial aid announced by the federal government of Russia, the humanitarian migration from Ukraine became a significant burden on some of the regions, which lack the financial funds and administrative instruments to control the situation.

About the Author

Olga Gulina is founder of the Russian Institute on Migration Policy (RUSMPI) based in Berlin, Germany. She is a frequent commentator on Russian and European Union migration law and its implementation. She has researched and published extensively on issues related to migration policy and law in the EU and CIS countries.

13 <<http://volyn.mns.gov.ua/news/1745.html>> 4.9.2014

14 <http://online.zakon.kz/Document/?doc_id=31572927>

Table 1: Refugees from Ukraine in Russia by Oblast and by Type of Residency Permit

Region	work permit	work permit	temporary residency permit	constantly residency permit	temporary asylum/ refugee status*	admission into citizenship of Russia	applications in a frame of the State Program of Support to Voluntary Return to Russia	Children under 18	Total
Krasnodarsky Region [<i>Krai</i>]**	5,447	6,962	4,769	848	7,476	640	-	13,000	44,000
Rostovskaya Province [<i>Oblast</i>]***	2,426	2,080	3,136	480		482	-		53,278
Yaroslavs-kaya Province [<i>Oblast</i>]****	1,028	1,710	860	136	2,251/43	89	206	-	12,951
Republic of Bashkortostan*****	-	109	376	-	1,504	-	-	130	415
Ivanovskaya Province [<i>Oblast</i>]*****								690	3705

* Some regions of Russia do not divide the application for temporary asylum and for refugee status.

** Information on citizens of Ukraine who were forced to leave its territory in Krasnodarskiy kraj, <<http://www.ufmskrn.ru/site2/news/67150/>> (1.10.2014)

*** Information on citizens of Ukraine who were forced to leave its territory in Rostovskaya oblast, <http://www.fms-rostov.ru/ne_5116865/> (1.10.2014)

**** Information on citizens of Ukraine who were forced to leave its territory in Yaroslavl oblast, <<http://www.ufmsyar.ru/press-tsentr/867/>> (1.10.2014)

***** Information on citizens of Ukraine who were forced to leave its territory in the Republic of Bashkortostan, <<http://www.fmsrb.ru/default.aspx?newsid=791>> (1.9.2014)

***** The Ombudsman's Office in Ivanovo oblast.

ABOUT THE RUSSIAN ANALYTICAL DIGEST

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