

EU Sanctions Policy towards Russia: The Sanctioner-Sanctionee's Game of Thrones

Tatia Dolidze

No. 402 / January 2015

Abstract

Since Russia's annexation of the Crimean peninsula and the start of the conflict in the Donbass region, the EU has introduced three waves of restrictive measures against Russia, which are regularly updated. Having thus expanded from measures targeting individuals to entire sectors, the current EU sanctions policy impacts Russia's financial markets, energy sector and defence industry. On top of this, new bans affect EU investments, services and trade in Crimea and Sevastopol.

While they hurt the Russian economy, the EU sanctions also have a boomerang effect, especially in conjunction with the countersanctions imposed by the Kremlin on EU food imports. In this lose-lose situation, the usefulness of the EU sanctions has been called into doubt, in particular in those EU member states that are the most economically intertwined with Russia.

How successful has the EU been so far in pushing its case with the Kremlin and what moves are left for the two main actors in the sanctioner-sanctionee 'Game of Thrones'? This Working Document offers a SWOT analysis of the EU sanctions policy towards Russia and identifies the Strengths for the EU to cultivate, Weaknesses to minimise, Opportunities to seize and Threats to counteract.

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Tatia Dolidze*

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Introduction

There is a certain political wisdom to George R.R. Martin's *Game of Thrones* that offers pertinent insights into present EU-Russian relations as well. As the EU keeps applying and reinforcing its sanctions against Russia, "*winds of winter*" for the *House Stark* might be coming as a reminder that "*a Lannister always pays his debts*".

Thus with the "*winds of winter*" approaching, it would be sensible to reflect on the strengths to cultivate, weaknesses to minimise, opportunities to seize and threats to counteract – in short, to perform a SWOT analysis – in the overall EU's sanctions agenda towards Russia, if the EU, as the *House Stark*, is to get through the winter afflicting its 'lands'.

1. The sanctioner's [EU] actions

Following Russia's absorption of the Crimean peninsula, the EU has introduced restrictive measures against Russia in three successive stages which have been periodically revised. The most recent regulation (revision), adopted on 18 December 2014 (Council of the EU, 2014a), updated the decision of 23 June 2014 (Council of the EU, 2014b) by mainly prohibiting EU investment, services and trade flows to Crimea and Sevastopol (this latest addition to the existing EU sanctions list¹ can also be seen in the context of the EU non-recognition policy towards the annexed territories rather than that of the EU sanctions policy against Russia as such). Having expanded from the individual to the sectoral level, as diagrammed in Figure 1, the current sanctions policy towards Russia is aimed the following targets:

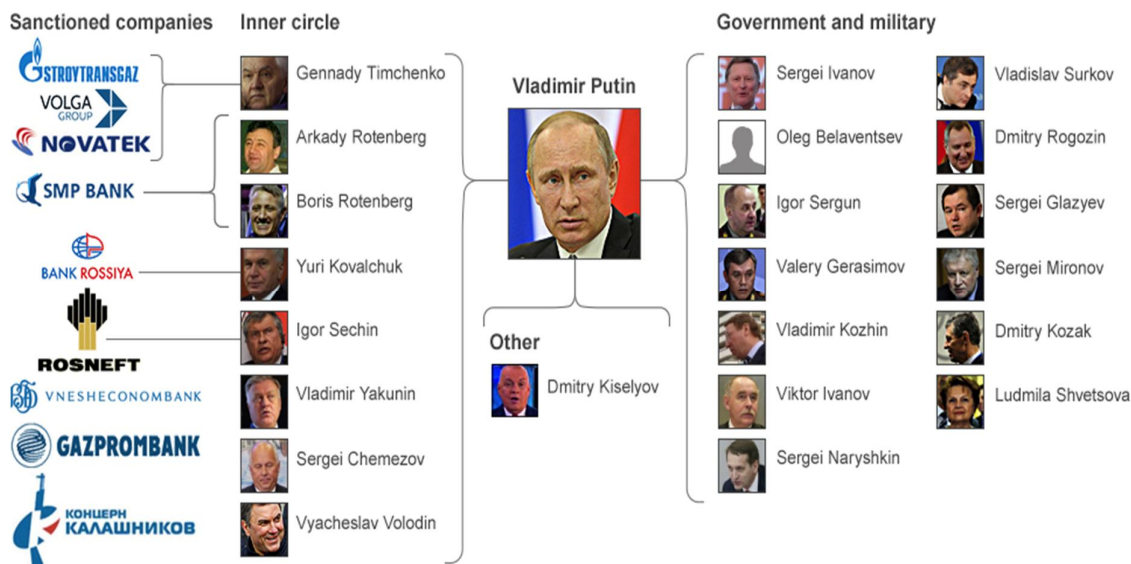
- i) private entities and individuals via visa bans and freezes on assets;
- ii) financial markets by banning long-term EU loans for the five main state-owned banks (Sberbank, VTB, Gazprombank, Vnesheconombank (VEB) and Rosselkhozbank);
- iii) the energy sector through restrictions on Rosneft, Transneft and Gazprom Neft activities; and
- iv) the defence industry by means of blacklisting Russian 'dual-use' (civil and military) technology manufacturers, such as the 'Saiga' producing Kalashnikov rifles.²

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¹ For the timeline of EU's sanction policy updates, see the 'blacklists' released [17 March 2014](#); [21 March 2014](#); [28 April 2014](#); [12 May 2014](#); [25 July 2014](#); [30 July 2014](#); [12 September 2014](#); [28 November 2014](#); [18 December 2014](#)

² For an alternative classification, see Michael Emerson's commentary, "The EU-Ukraine-Russia Sanctions Triangle", CEPS, 13 October 2014 (www.ceps.eu/book/eu-ukraine-russia-sanctions-triangle).

Figure 1. Targets of current sanctions towards Russia



Source: [BBC](#).

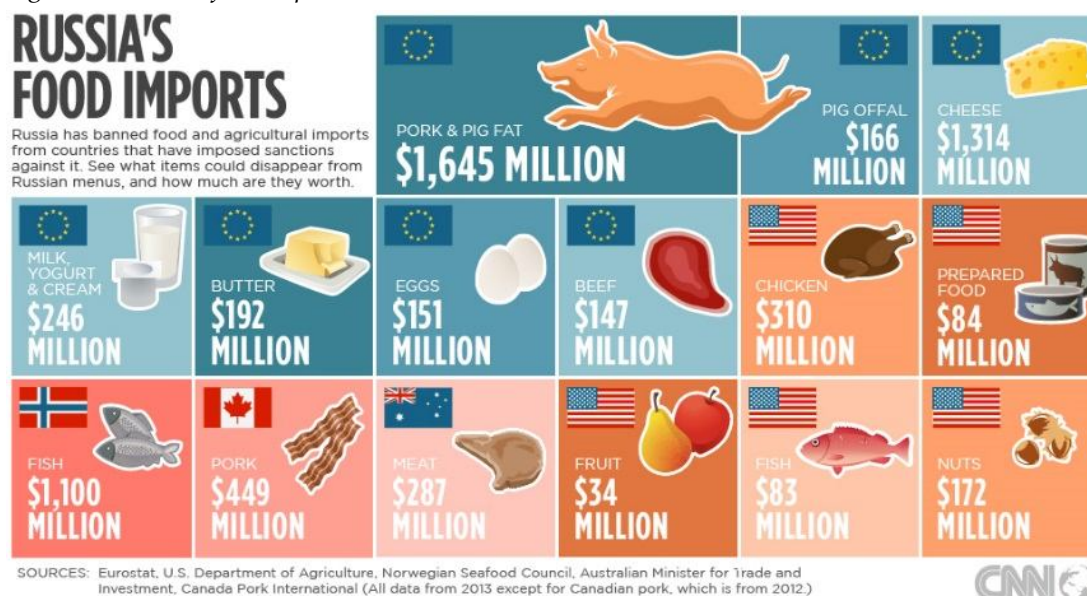
This batch of sanctions in support of the Ukrainian cause is the farthest the EU has gone so far in holding Russia accountable for the deliberate destabilising actions in the neighbouring sovereign countries.

A similar scenario had developed six years ago in Georgia, when Russian troops entered the Georgian breakaway regions of South Ossetia and Abkhazia, but that did not lead the EU to impose sanctions. What is more, the Tagliavini Report commissioned by the Council of the EU (2008), partially even freed Russia from the responsibility for the aggression by assigning first-strike liability to Georgia. By the same token, since the break-up of the Soviet Union, the states of Russia's 'near abroad' have witnessed their constituencies breaking away with the Russian direct or indirect involvement. The frozen/protracted conflicts of Transnistria in Moldova, South Ossetia and Abkhazia in Georgia and to a certain extent also Nagorno-Karabakh between Azerbaijan and Armenia can also be attributed to the Kremlin. In these relatively similar cases, the EU has not been as straightforward as it is in Crimea right now, or as Nicu Popescu suggested – the EU was even “reluctant” to act (Popescu, 2009).

2. The sanctionee's [Russia] counter-actions

On 6 August 2014, in response to the restrictive measures undertaken by the EU (and the US and its allies), the Russian Federation imposed a one-year embargo on the imports of meat, fish, cheese, fruit, vegetables and dairy products not only from the EU and the US, but also from Australia, Canada and Norway (European Commission, 2014a). Prior to the embargo, the EU's agricultural food exports to Russia stood at €11,864 million, accounting for 10% of total EU agri-food world exports (European Commission, 2014b).

Figure 2. Russia's food imports



Source: [CNN](http://www.cnn.com).

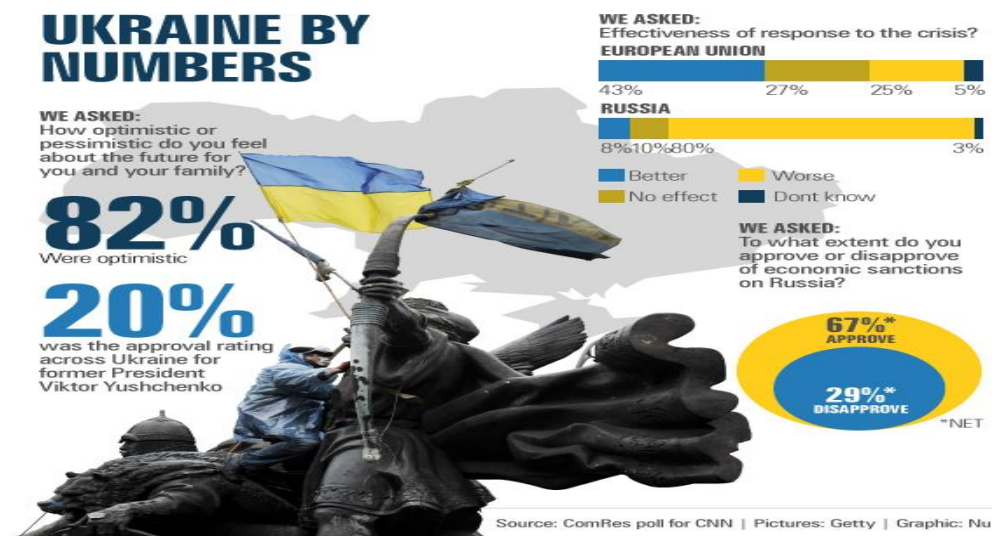
It seems that the EU has already inflicted the maximum damage it can by applying the overarching sanctions policy – the *hard-power* tool or at least the hardest tool of the *soft power* at the EU's disposal. Conversely, the Kremlin's retaliatory options are not limited to the ban on EU agricultural imports [see "Threats"].

3. SWOT analysis of the EU sanctions policy towards Russia

3.1 Strengths

The main strength of the EU's latest set of sanctions against Russia is its wide-ranging sectoral nature as compared to the individually-targeted ones of before, which were still restricting but were also restricted. Even more, the current sanctions are still only at the baseline of level 3 and thus could still be strengthened (as currently being negotiated following [the EU foreign Affairs Council meeting of January 29, 2015](#)). For countries like Moldova, Georgia and Ukraine, which seek the EU's support against the 'big brother', the tougher the EU measures are against Russia, the more convincing is the support. Thus, after EU's extended expressions of disapproval of the Kremlin's actions, the new high-profile sanctions policy carries a more credible political value.

Figure 3. Ukraine by numbers



Source: [CNN](#).

Also economically speaking, individual sanctions could not have brought about similar sectoral fallout that the present western sanctions policy has brought to the Russian economy. The financial sector has already been hit hard by sanctions: Russia is experiencing capital flight, stock prices have gone down, investors have fled the country and the ruble has also depreciated (note also the link with the sharp decline in global oil prices!).

Table 1. Key macroeconomic indicators of the Russian economy

	2014E	2015E		2016E	
		Cheap oil	Base case	Cheap oil	Base case
GDP, % YoY	0.6	(5.0)	0.7	1.4	1.5
Industrial production, % YoY	1.4	(5.7)	1.4	1.6	1.6
Capital investment, % YoY	(3.0)	(21.7)	(2.5)	3.3	4.5
Retail trade, % YoY	1.7	(8.4)	1.8	2.5	2.9
Real incomes, % YoY	0.2	(8.8)	0.2	2.4	2.9
CPI, % YoY	8.2	9.2	6.6	4.8	5.0
Exports, \$ bln	502.6	371.2	473.3	369.4	470.9
Imports, \$ bln	300.5	226.1	293.4	236.9	315.6
CBR reserves (year-end), \$ bln	420.0	400.0	375.0	370.0	348.0
Federal budget surplus, % GDP	0.4	(1.2)	(0.6)	(1.5)	(0.9)
Avg. exchange rate, RUB/\$	36.5	45.9	39.3	46.7	39.7
Avg. Brent price, \$/bbl	104.8	80.0	102.0	80.0	102.0

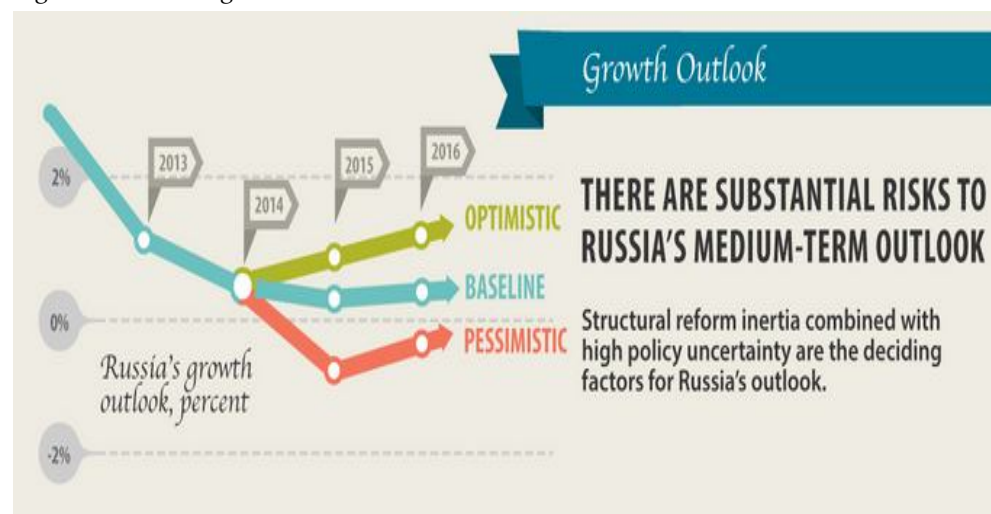
Source: URALSIB estimates

Source: [bne IntelliNews](#).

As suggested by the figures in Table 1, a sharp drop in oil prices with sanctions still in place will lead to recession in 2015. What is more, the ramifications of the trade sanctions are still to come. With the impact of the sanctions expected to become more and more apparent during the next two years, the latest World Bank report on the Russian economy predicted stagnation in its baseline scenario (World Bank, 2014). Even more, the economic situation in Russia is getting closer to the World Bank's pessimistic scenario as Russia seems to be entering the recession phase.

The former Finance Minister Alexei Kudrin argues the “the sanctions that have been imposed are going to have an impact over one, or two years, because they have cut investment opportunities”, foreseeing a 3 to 4% fall if the sanctions are not lifted and the political tensions are not relieved. That is because the imposition of sanctions and geopolitical tensions have resulted in the loss of consumer and investor confidence in an environment of the political uncertainty. In brief, “the economy is close to recession”, as acknowledged by Oleg Zasov, the Director of the Macroeconomic Forecasting at the Russian Ministry of the Economic Development (The Independent, 2014). On the other hand, the sanctions are hurting EU business as well, leading several member states to question their usefulness, while still supporting them (Reuters, 2014a).

Figure 4. Russia's growth outlook



Source: [World Bank](#).

If sanctions policy is nothing but the economic might to exert political pressure, having the world's biggest economy in play is definitely an external 'strong point' for the EU to push its political cause with Russia. As common sense would suggest, the sanctioner is expected to be economically stronger than the sanctionee as it is the former that is supposed to pressure the latter into changing its political behaviour. However, the EU has to ensure it is not politically teased: US Vice President Joe Biden has already claimed that it was the United States that “embarrassed” the EU into sanctions (Biden, 2014). Although this statement took the EU's High Representative Federica Mogherini by surprise (Foreign Affairs Committee, 2014), it is accurate to say that the US was the driving force and then a strong link in the chain of Western sanctions against Russia.

As for the next moves available to the EU, there are two worldwide platforms with both EU and Russian participation that the former could use to pressure the latter into altering its foreign policy behaviour: the World Trade Organization (WTO) and the Society of Worldwide Interbank Financial Telecommunications (SWIFT). Both WTO and SWIFT could indeed present the EU with 'attacking/threatening pieces' in its chess-game with Russia, yet activation of these two bodies might also turn to be very problematic (Economist, 2014) for the EU. The EU has already filed a complaint (DS485) against Russia for violating the tariff commitments the latter had made under the WTO framework (World Trade Organization, 2014a). For the EU, it is its 4th formal complaint against Russia while Russia had also used the WTO platform twice before. The disputes launched by Russia so far have been directed at the

EU's alleged 'Cost Adjustment Methodologies and Certain Anti-Dumping Measures on Imports from Russia' (World Trade Organization, 2014b) and 'Certain Measures Relating to the Energy Sector' (World Trade Organization, 2014c). In brief, this multilateral avenue has already been used or even abused several times by both of the sides and thus using the 'WTO strength' may well prove to be difficult for the EU. As the two-months of official negotiations under the WTO framework are unlikely to be constructive, it will be up to the panel of judges to rule on the dispute.

Regarding the SWIFT 'piece', cutting Russia out of SWIFT would mean cutting it off from global financial transactions, in other words, simply crashing the Russian economy. Russia's former finance minister Alexei Kudrin remarked: "If the SWIFT system is cut off after all, this factor alone may cause a GDP contraction by up to 5% during the year since the restriction is imposed" (TASS, 2014a). CNN's Global Public Square staff has rightfully called SWIFT "the nuclear weapon of the sanctions arsenal" (Global Public Square, 2014). This option has already been discussed among the EU leaders and the proposal has even been made by the European Parliament to "consider excluding Russia from the SWIFT system" (European Parliament, 2014). In response, SWIFT published a statement on its website asserting that "SWIFT will not make unilateral decisions to disconnect institutions from its network as a result of political pressure" (SWIFT, 2014). However, as this 'neutral global cooperative company' is based in Brussels and is set up under Belgian law, it might well need to comply with such 'pressure' if the EU decides to 'command' it to do so. Yet, using the swift chess piece can trigger a reciprocal damage. As Russia's former chairman of the Central Bank, Sergei Dubinin explained: "No SWIFT means no money, and no money means no gas" (US-Russia.org, 2014). Russia would have to stop gas deliveries to Europe or the EU would have to pay to Russia in rubles instead of dollars, which – referring back to the previous argument – the US would never allow as it would mean the demise of the petro-dollar.

Be that as it may, the most important aspect of the sanctions foreign policy tool is that it is meant to change foreign policy behaviour rather than to punish. That is to say, the ramifications for the Russian economy cannot be considered as the strength of the sanctions policy if it does not lead to its original political goal. **For the political goals of the economic sanctions to be achieved, they ought to be complemented with democracy support instruments:** facilitating the movement of the ordinary Russian people while still restraining the individuals targeted by the sanctions; funding undergraduate exchange programmes for Russian youth to study in the EU and experience the European way of life; holding information campaigns that counter the Russian information filter; and supporting independent research. These instruments might not yield immediate results, but they surely represent the long-term investments that will pay off once Russian civil society is developed into a strong and well-informed authority.

Revising Russia's eligibility for the EU's external financing instruments aimed at the EU's strategic partners was definitely a step forward in that direction.³ Under the new European Neighbourhood Instrument (ENI) framework, Russia now remains eligible for Cross-Border Cooperation (CBC) and multi-country programmes including Erasmus+ (Council of the EU,

³ For the background note on the EU's external financing instruments, see "External Financing Instruments", European Parliament News, 12 September 2013 (www.europarl.europa.eu/news/en/news-room/content/20131209BKG30301/html/External-financing-instruments).

2014c). Additionally, the bilateral relations are covered by the new Partnership Instrument (PI) which is also directed at promoting academic cooperation (Council of the EU, 2014d).⁴

3.2 Weaknesses

One of the main weaknesses of the EU's sanctions' is the lack of unity within the EU over their usefulness. Explicitly, Hungarian Prime Minister Viktor Orban believes the EU is "shooting itself in the foot" with the sanctions it imposed on Russia (Reuters, 2014b) and accordingly, Hungary does not plan on 'going along'. Quite the reverse, Hungary is strengthening its economic ties with Russia: the two have recently signed a deal to build additional reactor blocks [currently, four Russian reactors are running] at the Paks nuclear plant, plus a €10 billion loan for further construction (Radio Free Europe/Radio Liberty, 2014). Hungary had also made a commitment to the South Stream pipeline project (Euractiv, 2014a) until Russia decided to abandon it (IMR, 2014). Similarly, Slovakian President Robert Fico proclaimed the EU sanctions to be "meaningless and counterproductive" (Reuters, 2014c). Along these lines, Slovakia has boosted economic cooperation with Russia by signing a 15-year Russian oil-supply deal (Sputnik, 2014). The deal was first announced in October 2014 when the Minister of Foreign Affairs of Slovakia Miroslav Lajčák paid Moscow a post-Crimea-annexation visit – a significant diplomatic gesture (Guardian, 2014). The Czech Prime Minister Bohuslav Sobotka used the metaphor '*Iron Curtain*' to express his disagreement with the Russia-EU sanctions war (Reuters, 2014d). Even Poland, historically known for its uncompromising attitude towards Russia, took a softer line. With the change of the prime minister came also the foreign policy change towards the Ukrainian crisis. Poland is switching now to "a pragmatic policy" as stated by the new Prime Minister Ewa Kopacz (Wall Street Journal, 2014a).

Equally, Finnish Prime Minister Alexander Stubb stressed that "Finland in general isn't of the opinion that now is the right time" (Wall Street Journal, 2014b). Given Finland's strong economic ties with Russia "the right time" for the sanctions might even never come (100% of gas and 71% of its oil imports come from Russia (Guardian, 2014); Russia has 9.6% share of total Finnish exports (Finnish Ministry of Finance, 2014); Finland profited from cross-border movements and trade (tourism) with neighbouring Russia, which has now been reduced (Independent, 2014)). As the EU member states that depend on Russia in different economic fields, these countries are trying to take the middle-way position between Brussels and Kremlin, ergo to 'play with two cards' as Finnish PM Alexander Stubb himself put it. Hence, EU member states fail to coordinate their actions towards Russia as their vulnerability levels vary: those economically more engaged with Russia are not willing to sacrifice their socio-economic well-being for an uncertain 'better cause', thus weakening the EU's stance.

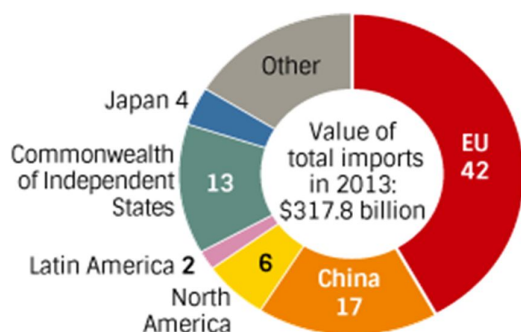
Correspondingly, the lack of solidarity from the candidate countries that practice a more obvious 'Russia-lobbying' should come as no surprise. Specifically, Serbian PM Aleksandar Vučić does not feel any responsibility for the dispute in Ukraine to which its country has not contributed in any way, nor for the measures [sanctions] undertaken by the EU without having consulted Serbia (Euractiv, 2014b). That is to say Serbia is not going to line up behind the EU sanctions against Russia; nor is it planning to go against its own economic interests (food trade with Russia) in solidarity with the counter-sanctioned EU (EUobserver, 2014). Even more, the Minister of Agriculture of Serbia Snezana Bogosavljevic-Boskovic views the Russian ban on European products as "a unique chance Serbia should use if it is able to meet Russia's high

⁴ For more information on scope, objectives and timeframe of the new Partnership Instrument, see "Partnership Instrument – First Multi-annual Indicative Programme for the period 2014-2017", European Commission, 3 July 2014 (http://ec.europa.eu/dgs/fpi/documents/pi_mip_annex_en.pdf).

standards and regulations” (Russia Today, 2014b). The same is true for another EU candidate country, Turkey, which also seems to see an ongoing EU-Russia sanctions war as a window of opportunity. “Amid a deadlock among Russia, Ukraine, EU and USA [...] we will approach even more Russia”, the Turkish Finance Minister Nihat Zeybekci stated (Euractiv, 2014c).

However the EU sanctions policy ‘chain’ is not only made of ‘weak links’ and even several third countries contribute to its strengthening. As stated in two of the 15 October 2014 Council press releases, FYROM, Iceland, Albania (EU candidate countries), Liechtenstein, Norway (EFTA countries) and EEA members along with Ukraine and Georgia aligned themselves with the EU sanctions policy (Decisions 2014/658/CFS (Council of the EU, 2014e) and 2014/659/CFSP (Council of the EU, 2014f)). Switzerland also signed on with the EU’s latest sanctions package against Russia by updating its previous ordonnance on the matter (Swiss Federal Administration, 2014). Yet, in its sanctions war with Russia, it is important for the EU not only to secure alignment with its own sanctions, but also to ensure that the third countries share the EU’s burden of the Russian counter-sanctions as well. Viz. “the European Union expects third and candidate countries to refrain from measures which are aimed at exploiting new trading opportunities from the introduction of these measures [Russian ban on European agricultural products]” (as communicated in the 3332nd Foreign Affairs Council meeting press release, para 11 on Ukraine). That is because third-countries covertly or openly replacing European food on the Russian market turn the ‘lose-lose’ sanctions war into a ‘win-lose’ one (relatively speaking) in Russia’s favour. An alternative interpretation is that the warning might simply be an ‘invitation’ to express solidarity with the European Union. There have already been some cases of third countries opportunistically stepping in. In Latin America, e.g. Ecuador, Brazil, Chile and Argentina have begun exporting more meat and dairy products to Russia; Pakistan is substituting Australian lamb on the Russian market; Iran mostly with its fruits and vegetables. Other potential exporters include Sri Lanka; Uruguay...

Figure 5. Where Russia gets its imports (%)



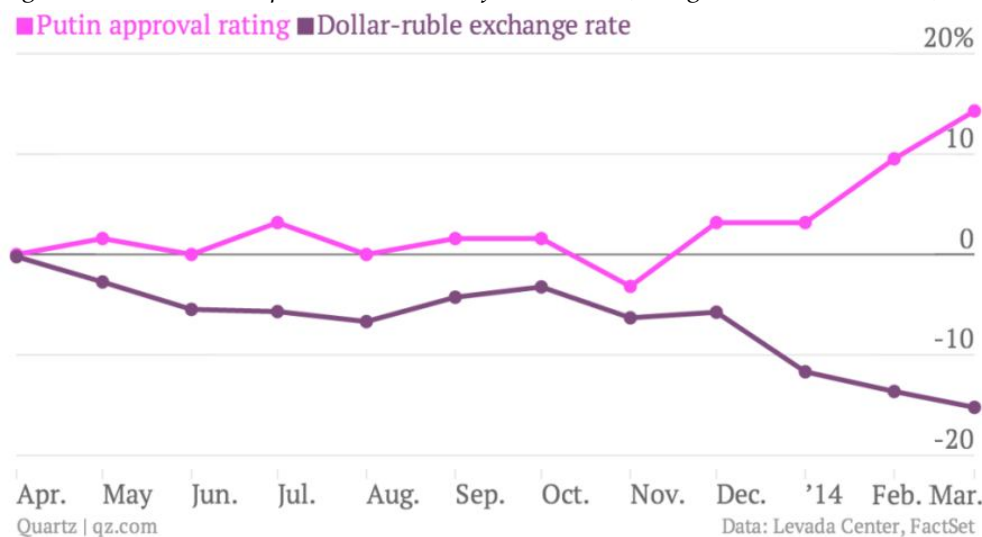
Source: [Nikkei Asian Review](#).

Even some EU companies have been secretly supplying Russia with the banned European products, benefiting not only Russian consumers, but also the transit country and the EU ‘smugglers’. Notwithstanding the profit at the societal level (European products available [relatively speaking] on the Russian market = less societal concern over the Russian ban = more support of the Kremlin policies), the Kremlin still seems determined to demonstrate it actually means what it does or says. Russia’s veterinary and phytosanitary surveillance service *Rosselkhoz nadzor* has reported the doubling of Belarus seafood imports from Norway (Undercurrent News, 2014) along with the substantial increase of dairy imports from Lithuania and Poland (TASS, 2014b) or Dutch, German and Polish meat “made in Brazil”

(Interfax-Ukraine, 2014). Consequently, Russia has faulted Belarus (TASS, 2014c) for the 'grey' trade and the two now have on-going misunderstandings over the 'transit' of European products via Russia. (There have been some claims that Belarus (in response) has reinstated customs control at the Russian border (TASS, 2014d), which the former later denied (BELTA, 2014)). The most illustrious Belarussian 'grey' trade example, widely commented on in social media (LiveLeak, 2014), involved "made in Belarus" seafood being sold in Russia (*nota bene*: Belarus has no access to the sea) allegedly through Norway (one of the EU sanctions-aligned states). Other countries accused of 'smuggling' by Russia include Kazakhstan, Montenegro and Bosnia (see ItarTass). Thus, the main weaknesses in the current EU sanctions policy discussed above can be summed up as a lack of unity within and a lack of solidarity from the outside.

Moreover, as the Kremlin turned the agricultural sector into a strategic one – i.e. by sacrificing the socio-economic well-being of its citizens for geopolitical ambitions – one would expect that to have turned public opinion against Putin. Yet, it seems that the 'unfair' western sanctions have had the perverse effect of increasing Putin's popularity – from the beginning of the Ukraine crisis in November 2013 to the present, his ratings have risen from an ever-low to an ever-high point.

Figure 6. Economic and political indicators from Russia (change versus March 2013)



Source: [Quartz](#).

The current state of affairs suggests that even with the rising food prices because of Kremlin's retaliatory ban on Western imports, Russian society is prepared to accept sacrifices. According to polls conducted by the Yuri Levada Analytical Center based in Moscow in August 2014, 72% of Russians approve the Kremlin's retaliatory sanctions (Sputnik, 2014b). In this context, it seems that sanctioning, as a foreign policy tool against Russia, is weak in that it might cause what it is trying to prevent: Russian jingoism.

This time, however, the Russian 'empire state of mind' might not last. Living standards of the Russian population are going down (JRL, 2015), as revenues drop due to the 25% decline in the price of oil. This may further lead to the exhaustion of the Russian state's Welfare Fund to cushion the fall of the ruble and eventually, to the electorate's resentment of Putin's politics. Therefore, Putin can be seen as torn between delivering two of his main 2012 electoral

promises: increased social spending and Russia's increased political power. Subsequently, Russian economic expert Sergei Guriev expects Putin to intensify both his propaganda campaign and domestic repression (Financial Times, 2014a). As for Putin's external actions, Carl Bildt argues: "Revisionism might turn into outright revanchism as the Kremlin seeks to counter-balance internal weakness with demonstrations of external strength." Thus, it will require some effort on Putin's part before the Russian people further prioritise geopolitical drives over living standards.

Yet, short-lived or not, Russian nationalist sentiment is still strong, as shown in Tables A1 and A2 of the Annex. Thus, the EU has to further encourage Russian citizens' to change their attitude towards Putin's politics rather than simply counting on the Russian 'siege mentality' (The Jamestown Foundation, 2014) to disappear overnight. It is even less likely to happen as the fact of Russia being punished for the Ukrainian cause is negatively affecting the image of the EU in the eyes of ordinary Russians (RBTH, 2014). When asked about the reasons behind the intense western reaction to the Crimean crisis, 58% of the Levada respondents see it as an example of the west's hostile attitude towards Russia and the desire to seize the moment to put pressure on the Kremlin (see Table A1 in the Annex). In view of that, 71% of Russians believe that the objective of western sanctions is to weaken and humiliate Russia (see Table A2 in the Annex). It further has to be noted that the percentage of the Russian population considering Western sanctions as aimed primarily at the officials responsible for Russia's policy towards Ukraine has decreased (42% in May 2014 to 30% in September 2014). According to the Levada Center, more and more Russians began to perceive sanctions as measures directed against themselves (see Table A3), i.e. the population (27% in May 2014 vs 41% in September 2014). For Russian citizens there seems to be no difference between sanctions against the Russian leadership, Russian business companies or the population per se (see Table 3 in the Annex). Thus, the EU must make sure that Russian society discerns this difference before the ill-disposed attitude towards EU can be expected to change. It could best be done through some kind of a "public outreach campaign" advocated by Clara Portela in her study of the EU's use of targeted sanctions (Portela, 2014).

3.3 Opportunities

The fact of the EU and US jointly flexing their economic muscles against Russia was evaluated above as a 'strength' of the EU sanctions policy. The argument still holds, but the US is not economically as intertwined with Russia as the EU is (the US accounts for a 4% share against the EU's 40% share of Russia's imports). Thus, the vulnerability levels of the two are different, requiring different strategies to even them out. That is why Europe needs to develop a fully-fledged strategy of its own as it cannot allow itself to simply follow suit. The 'US-designed' EU policy towards Russia is rendering Europe excessively vulnerable to a Russian whiplash effect. Therefore, the EU should make sure that while coordinating its sanctions policy with that of the United States, it is still 'allowed' to act alone and develops its 'own way' with Russia. Also because there is a possibility that the EU might not only be 'let' but also 'left' alone as the US becomes more and more entrenched in the fight against the Islamic State and thus less and less engaged in Ukraine. Director of ECFR, Mark Leonard, offers a comparable example from a very recent political history: "We had sanctions after Georgia was attacked by Russia and they were removed because the Obama administration wanted to reset its policy towards Russia without Russia having met any of the criteria that needed to be met in order to lift them. And I think it's not that difficult to imagine something like this happening again if a future American administration is dealing with IS or Iran where it needs Russia to help it." (DW, 2014) Hence, the US engagement can also be seen as an 'opportunity' - an additional impetus

for the EU to develop an independent EU Common Defence and Security policy. As an alternative, another opportune scenario might also develop: The EU and NATO may well intensify Euro-Atlantic cooperation. In this case, the Ukraine crisis could serve as a *'three-eyed raven'*, thereby putting the EU on a path to deepened transatlantic integration (*Game of Thrones* imagery).

As for market-related matters, to every challenge there is also an opportunity and the Russian embargo on European agricultural products – as an externality of the EU sanctions policy – could also qualify as such. The EU might want to consider seeking out for those opportunities, reorienting itself towards new markets which in the end could prove to be stable and certainly more reliable than that of Russia (mostly in Asia, the Middle East and North Africa). There are also ongoing trade negotiations with Canada and the US (EurActiv, 2014d). Turning 'negative' into 'positive', the Russian embargo could be used as an 'opportunity' for opening up new doors to local products (European Commission, 2014c), while also positively contributing to the upheaval of the sanitary and phytosanitary levels in the countries with which the SPS barriers are currently blocking EU trade. The same holds true for the energy sector, where the tense EU-Russia relationship serves as a stimulus for EU countries to unite on energy policy and to seek to further reduce their dependency on Russian supplies.

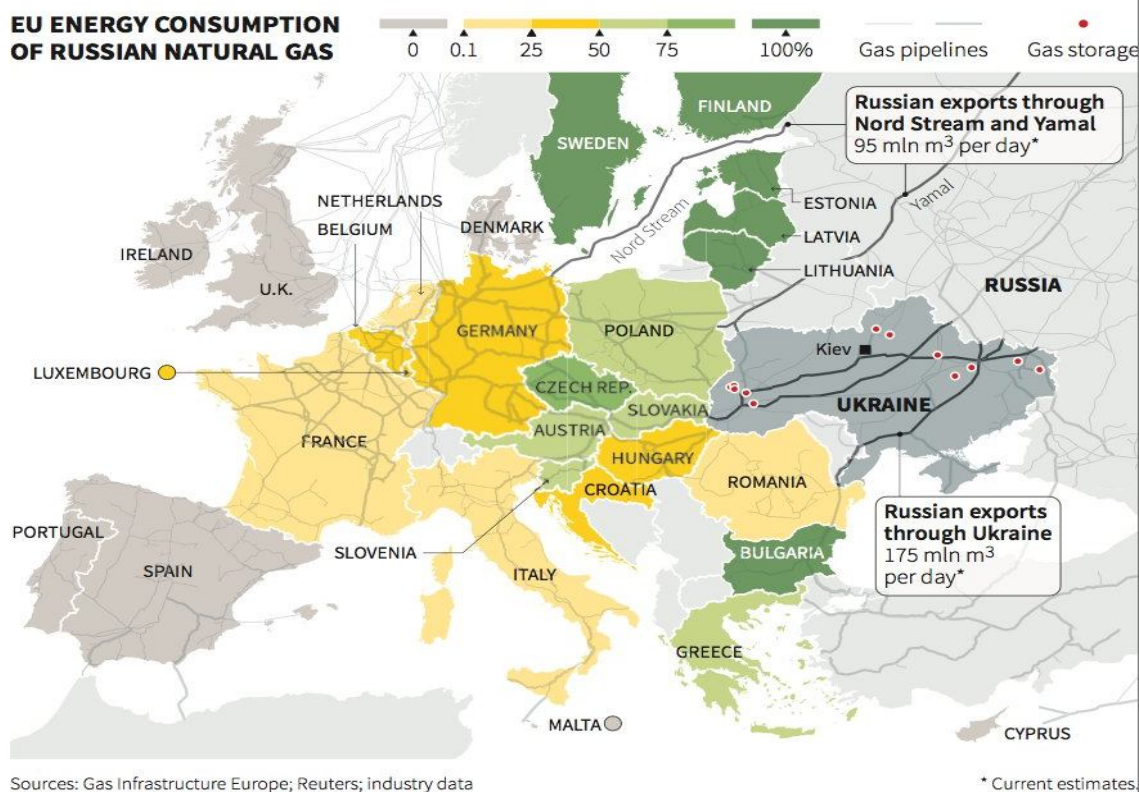
4. Threats

The *'winds of winter'* are coming and the EU remains in constant vigilance with one-third of its natural gas demand still being met by Russia, which can always decide to cut the supply off. Accordingly, even if the EU of today stands firm on its decision to maintain the restrictive measures towards Russia, Brussels might still need to reconsider its position at the next EU sanctions policy review purportedly to take place in the early 2015. The energy security threat is imminent and real, while alternative sources are still a future prospect.

In the long run, the EU expects Iran – which holds the world's second largest gas reserves after Russia – to serve the European Union as an alternative energy supplier (Interfax, 2014) (EurActiv, 2014e). However, at this time, Iran cannot be 'of help' to the EU as the country itself is in need of large pipeline infrastructure while also suffering from Western sanctions. According to a report by the EP's DG of External Policies (European Parliament, DG External Policies, 2014), "Iran does not constitute a credible alternative energy supplier in the short term, but in a long-term perspective it is a promising country. The high potential for gas production, domestic energy sector reforms that are under way and ongoing normalisation of its relationship with the West make Iran a credible alternative to Russia".

Figure 7. EU imports of Russian gas

Russia is Europe's biggest gas supplier, providing about a quarter of continental demand. A third of gas is exported through Ukraine.



In view of that prognosis, the construction of Iran's long-advocated Persian pipeline and the lifting of EU sanctions on Iran are likely to soon become a reality. Accordingly, on the one hand, "Iran's interest to deliver gas to Europe is very big. Parts of Iran's economic and political elite as well as Western companies are preparing for an end of the sanctions," as Frank Umbach, energy research director at King's College London stated (Reuters, 2014e). On the other hand, however, the Iranian President Hassan Rouhani is not very excited about the idea of going 'against' Russia (Natural Gas Europe, 2014). Even more - Iran has recently (August 2014) signed an "oil-for-goods/foods deal" worth of \$20 billion with Russia (New York Times, 2014). Taking everything into account, it seems like Tehran is double-dealing: cooperating both with Russia and the EU in *favour of them* as well as *at their expense*. Thus, if Iranian gas is a Plan B for European Union Energy Security, it is definitely not a secure plan, especially given that Iran's production capabilities right now are not such as to expect EU gas supply resumption from Iran in case of its stoppage from Russia. The same is true for Norway - the second most important gas supplier for the EU after Russia. Norway's Energy Minister Tord Lien reported to the EU the incapacity of the Norwegian energy system to deliver more this winter (World Bulletin, 2014).

Yet, how likely is the Russian gas boycott of the EU energy market? Putin claims to have no such intentions, unless Ukraine, as a solution to the stoppage of gas supply by Russia in mid-June 2014, begins to draw off the transit gas destined for Europe (Russia Today, 2014c). This assertion is quite credible considering the EU-Russia reciprocal economic supply-demand dependency (especially given the present Russian economic state of affairs), but mostly

because energy is the political lever in Russia's hands that is much more efficient as a threatening instrument rather than post-factum.⁵ However, that does not leave Europe on the safe side, as one never knows with Putin. The unpredictable policy/decision-making is how Kremlin compensates for the state's weaknesses. Besides, in 'redeeming its honour' Russia could go far beyond the sanctions war, with the Eastern Partnership (EaP) countries being used as chess pieces in a larger EU-Russia Game of Thrones (recent examples: Russo-Abkhazian pact on Alliance and Strategic Partnership (Dolidze, 2014) and the interruption of coal deliveries to Ukraine... (Oilprice.com, 2014)).

What is more, Russia has already started developing an alternative money transfer system to SWIFT (Financial Tribune, 2014), which is expected to be launched in spring 2015 (Russia Today, 2014d). If successful (The Sovereign Inversor Daily, 2014), it would negatively affect the world financial system by dividing it into two separate schemes, making it less transparent and accountable and more vulnerable to terrorist attacks... Numerous countries would then opportunistically join the Russian venture of de-dollarisation. By the same token, the recent China-Russia gas deal, apart from being significant in that it opens up Russian energy supplies to China and by extension to Asia, also manifests the beginning of the death of the US petrodollar (GlobalResearch, 2015). The payments will be made in domestic currencies (Huffington Post, 2014), which is meant to strengthen the ruble and the yuan while dethroning the dollar as the world reserve currency. Against this background, "it's a fact that the Russians can turn the US economy upside down", as world-renown gold expert Jim Sinclair instructs (Global Economic Warfare, 2014). That is when the EU ought to avoid being dragged down with US all along. With the forthcoming "*winds of winter*", the EU might need to remind itself that it is purchasing gas from Russia in dollars. Thus, in case there are no more dollars in use for deals with Russia, the EU would have to pay Russia in its national currency against the US interests, plausibly complicating the EU-US relations.

5. Concluding remarks

On the whole, as shown in the matrix in Figure 8 below, the SWOT analysis revealed that apart from the unambiguous 'weaknesses', there are many weaknesses also in the 'strengths' and 'opportunities' of the EU's sanctions policy towards Russia. At the same time, the threats are also there, without the EU having actual remedies to counter them.

⁵ For an up-to-date analysis, see Owen Matthews, "Putin's 'Last and Best Weapon' Against Europe: Gas", *Newsweek*, 24 September 2014 (www.newsweek.com/2014/10/03/putins-last-and-best-weapon-against-europe-gas-272652.html).

Figure 8. SWOT analysis of EU sanctions policy towards Russia



The EU's sanctions policy towards Russia is still in need of restructuring despite its wide-ranging nature identified as a 'strength'. That is because the policy is left on its own without a far-reaching strategic direction while **sanctions policy should be applied in support of the broader strategy rather than being the strategy per se**. Therefore, it is important for the EU to find a balance between hard- and soft-power tools, **which so far has been a 'weak link' in the EU policy towards Russia**. When diplomatic dealings with the government do not work, society-targeted soft-power tools, if applied alongside the hard power, could reinforce the desired political effects of economic sanctions. Russia's citizens as targets in this context are especially significant as the Kremlin-targeted restrictive measures affected their pockets as well. That is when **it is also imperative for the EU to be scrupulous in communicating unpopular decisions to the Russian audience (see 'Weaknesses')**. Having a **fully-fledged strategy** would also allow the coordination with the US without concerns over political **'bullying'** (Financial Times, 2014b) **from their side**. That could also be identified as an opportunity for the EU to work together with the US in a more self-regulating manner. Still, other opportunities identified in the course of the analysis are more responsive than naturally so. That is, they arise from the EU's capacity to bypass the precincts set by Russia in the

agricultural market or energy sector while not presenting ways for the EU to realise its original political goal of altering the Kremlin's behaviour.

It thus seems that the EU is in an inferior position when playing 'chess' with Russia. As a consequence, the EU may well have to concentrate on its 'defending/protecting pieces' (energy supply diversification, market reorientation, building up an EU CFSP, etc.) rather than 'attacking/threatening' ones (SWIFT, WTO, prolonged sanctions, etc.) that can result in complications for the EU itself (see "Strengths"). Otherwise, with the forthcoming '*winds of winter*', the EU might also try to avoid any Russian 'attack move' (energy, further destabilising EU's eastern neighbourhood, etc.) by removing the 'check' (sanctions).

All things considered, the sanctionee-sanctioner's Game of Thrones seems to be a zero-sum game of chess between Russia and the EU. Russia is 'in check' through the EU sanctions but still capable of 'checkmating' the EU in view of its energy leverage. The EU is put more in a 'stalemate' than 'in check' by Russian countersanctions. There is still a chance for the EU to legally retaliate against Russia in case the WTO procedure runs its course, puts Russia at fault and compensation to the EU is not forthcoming... Yet if this multilateral framework does not deliver in terms of inducing Russia to alter its 'moves', then the only option left for the EU would be to draw the game to avoid losing. In this case, the EU will already have made its last 'legal move' by only filing a complaint against Russia in the WTO. All the more as "the Russian view of modern warfare is based on the idea that the main battle-space is the mind" as recently suggested in a remarkable study by National Defense Academy of Latvia.⁶ In other words, threats coming from Russia, apart from being unpredictable (see 'Threats'), are not even that straightforward anymore. If an 'index of retaliation' existed, Russia would probably rank at the highest level: Russia is a nuclear power and, stagnating or not, its economy is still the 8th largest in the world (Rabobank, 2014). In other words, Russia's retaliatory options are theoretically unlimited or limited to a highly unpredictable extent and manner.

⁶ For an informed inquiry into Russia's present-day warfare style, see Jānis Bērziņš, "Russia's New Generation Warfare in Ukraine: Implications for Latvian Defense Policy", National Defence Academy of Latvia, Center for Security and Strategic Research, April 2014 (www.naa.mil.lv/~media/NAA/AZPC/Publikacijas/PP%2002-2014.ashx).

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Annex

Table A1. What do you think better explains the Western reaction to the events in Crimea and the East of Ukraine?

Hostile attitude towards Russia, the desire to seize the moment to put pressure on Russia	58
As the condemnation of annexation of foreign territory, in violation of international law	13
Lack of understanding of the real situation in Ukraine	18
Difficult to answer	10

Translation: Tatia Dolidze (author).

Source: Levada Center, Moscow (<http://www.levada.ru/02-09-2014/prisoedinenie-kryma-k-rossii>).

Table A2. What do you think is the objective of Western sanctions against Russia?

To weaken and humiliate Russia	71
To re-establish the geopolitical balance of power	18
To stop the war, destruction and death of people in the East of Ukraine	4
Difficult to answer	8

Translation: Tatia Dolidze (author).

Source: Levada Center, Moscow (<http://www.levada.ru/30-09-2014/sanktsii-i-kontr-sanktsii>).

Table A3. Against whom do you think are the current western sanctions directed?

	May.14	Jun.14	Sep.14
Against the wider part of the Russian population	27	31	41
Only against the narrow circle of people responsible for the Russian policy towards Ukraine	42	35	30
The leadership of the West does not reflect on the extent to which their sanctions affect the wider population of Russia	19	22	21
Difficult to answer	13	12	8

Translation: Tatia Dolidze (author).

Source: Levada Center, Moscow (<http://www.levada.ru/16-10-2014/sanktsii-protiv-rossii-i-kontr-sanktsii>).



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