

A questioning of the effectiveness of the European Union's sanctions against Russia

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Abstract

The current paper investigates the negative consequences of the EU's economic sanctions on Russia. We tend to talk only about the effectiveness of the sanctions implemented by the European Union and the decline of the Russian economy. This paper aims to specifically uncover three distinct sources of the counterproductive consequences: the direct costs associated with the sanction, the indirect cost associated with the rearrangement of transactions, and the long-term geopolitical risks associated with sustained conflict. The paper explores these three consequences with several specific cases and examples of interdependence of countries, counter-sanctions implemented by Russia and costly adaptations made by the EU. By diagnosing these consequences, the paper aims to contribute to a more comprehensive understanding of the multifaceted impact of the EU's economic sanctions on Russia and inform policy decisions regarding future sanctions implementation and international relations between the two entities. Additionally, it seeks to highlight the need for a nuanced approach in assessing the effectiveness and potential unintended consequences of economic sanctions, emphasizing the importance of considering both short-term economic effects and long-term geopolitical implications. Ultimately, the paper aims to foster informed discussions and debates surrounding the use of economic sanctions as a tool of foreign policy, promoting evidence-based decision-making and the pursuit of mutually beneficial outcomes.

Introduction

A little more than a year after the beginning of the war in Ukraine, European countries are beginning to feel the economic effects of the war in a significant way even though they are not part of the original conflict. This war has changed the geopolitics and economy of Europe mainly in a very short time. All countries are mobilized in different ways and the European Union has acted and implemented massive sanctions against Russia. These sanctions are in addition to the measures already imposed on Russia since 2014 following the annexation of Crimea. The purpose of the economic sanctions is to impose heavy consequences on Russia for its actions and to effectively counter Russia's ability to continue aggression.

But, can the economics means of retaliation implemented against Russia have counterproductive effects on European countries? Has the European economy been weakened with these sanctions?

Three distinct sources of these consequences appear: the direct costs associated with the sanction, the indirect cost associated with the rearrangement of transactions, and the long-term geopolitical risks associated with sustained conflict.

Economic but also financial rupture are caused by the war in Ukraine. The sanctions have led the Russians to reduce their interdependence with the West, which involves a relative de-dollarization (actually started in 2014), carried out with the help of the Chinese (and others: India, Saudi Arabia, Brazil ...). It is a question of setting up alternative circuits, which are not yet totally efficient but which will certainly increase in power in the coming years or decades.

This paper will also stress the inflationary effect of sanctions: EU countries are buying their energy elsewhere (gas arriving by American liquefied natural gas tankers...) at a much higher price, in a context where the increase in the volume of money is already significant (quantitative easing policy since the subprime crisis, aggravated by the Covid-19 pandemic...). This

multifactorial inflation is leading to the consideration of austerity policies that we were no longer used to. Germany, which is paying a high price in terms of energy for the break with Russia, is now advocating a return to budgetary orthodoxy and austerity, and no longer wants to finance the debt of its neighbors: we can already see that the Franco-German couple is in trouble, so to speak. In short, the idea is to show that sanctions could generate effects on many scales, including on a geopolitical level.

Session 1

Direct costs associated with the sanctions: a reduction of interdependencies between the EU and Russia

First of all, Europe has deprived itself of products it now lacks, such as gas, petrol and sunflower oil. According to Philippe Chalmin, the real shock is that of energy. Before the war, Europe imported 40% of its gas from Russia. As early as March 2022, Qatar announced that it would not be able to compensate in the short term for gas demand from Europe (Article dated March 14, 2022 in the newspaper "Info du Jour" Ukraine l'effet boomerang des sanctions russes). Another interesting example is that of rubber, which receives relatively little media coverage compared to Russian gas. Russia is one of the world's leading suppliers of rubber. The supply of many industries is therefore blocked by Western sanctions. Alternative sources from the USA, Norway or Qatar can only partially replace them.

Moreover, Ukraine and Russia accounted for 50% and 25% respectively of the world's sunflower oil exports. As a result of the war, sunflower oil supplies were severely disrupted in Europe, particularly in France. In Belgium, Colruyt, the country's largest supermarket chain, introduced rationing in March 2022: no more than two bottles of oil and two packets of flour per checkout (in Le Soir newspaper).

The EU has imposed a number of import and export restrictions on Russia. This means that these countries cannot sell certain products to Russia (export restrictions). Since June 4, 2022, the EU has been prohibited from supplying accounting and auditing services to Russia, either directly or indirectly. Europe has also stopped supplying certain products to Russia. But in the end, many companies are returning to Russia because they need their market. According to the March 2023 article "Guerre en Ukraine: un an après, ces entreprises françaises qui maintiennent leur activité en Russie" in L'Express, while Leroy Merlin announced this week that it intends to sell all its stores in Russia, some 70 French companies are still doing business in the country led by Vladimir Putin. Since the collapse of the USSR in the early 1990s, France has become the second-largest foreign investor in Russia. According to the Swiss university study "Less than Nine Percent of Western Firms Have Divested from Russia", there are now 70 French subsidiaries left in the country. The European Union and the French government have banned companies in strategic sectors such as arms and energy from continuing to operate in Russia, but others are still allowed to do so. That's why tennis equipment manufacturer Babolat and lingerie brand Etam hide behind this legal framework to continue operating in Russia. Companies such as Auchan, Bonduelle and Lactalis claim to remain in Russia to feed the population.

Finally, Russia's trade counter-sanctions have had really bad effects on Europe. For instance, the Russian government has adopted a list of "unfriendly states" - which includes Europe and the United States- at which Russian inhabitants and companies will be able to repay their debts in rubles. This currency has lost 45% of its value since the start of the war.

To conclude this section 1, we can say that it was difficult for Europe to foresee and counterbalance the negative effects of the sanctions it had itself imposed. Russia and the rest of Europe were highly interdependent in terms of energy, industry and food security, for example.

Session 2

The indirect costs associated with the rearrangement of transactions

One of the indirect effects of wars in general is higher prices and inflation. This is linked in particular to the economic and geopolitical conditions prevailing during armed conflicts. Wars generally cause major problems in supply chains (destruction of roads and infrastructure) and production. As a result, the cost of these products rises with their scarcity.

What's more, governments can impose taxes or trade restrictions during periods of war (as Europe has done, as we saw in section 1), which can lead to higher prices for imported products.

One year after the war, the Banque de France reported a 0.6% fall in French purchasing power. According to INSEE, food prices will have risen by 13% by 2022, and petroleum product prices by 16%. In an interview with the newspaper Les Echos in March 2022, Catherine McGregor, CEO of Engie, warns that "without Russian gas, we would enter an extreme scenario" and that it would result in "an unprecedented price shock".

More specifically, it was necessary to go and find the missing products in alternative countries, finding new ways of sourcing them, which generates additional costs. According to Tobias Korn and Henry Stemmler, "importers reacting to supply disruptions resulting from conflict increase imports from other countries at peace". First, the war in Ukraine has brought back a kind of triangular trade. Saudi Arabia and India have increased their imports of crude oil from Russia, which they then transform into fuel. Once transformed, European countries buy from them. Russian oil is therefore sold to Europe via India, avoiding the sanctions imposed. Europe is the world's leading importer of titanium. Aeronautics companies in countries such as Spain, Germany and France (with Airbus) rely most heavily on Ukraine and Russia. VSMPO-Avisma (a Russian titanium company) holds 25-30% of the world titanium market. But there

might be other suppliers, mainly in China, Kazakhstan, Japan and India. On a very small scale, the "Aubert et Duval" plant in the Puy-de-Dôme region is the only one in Europe to produce recycled titanium alloys for the aeronautics industry, which could be a sector of the future.

Finally, by restricting European exports to Russia, imposing sanctions and helping Ukraine, and opposing Russia globally, Russia has found alternatives and new allies.

Political scientist and Asia specialist Alice Ekman speaks of bimonialization, evoking an incompatibility between the two types of globalization currently on offer: the American or Western model and the Chinese model. Since the start of the war in Ukraine, there has been a clear rapprochement between the Russian and Chinese governments. On March 22, 2023, Chinese and Russian leaders Xi Jinping and Vladimir Putin celebrated their "strategic partnership" against the West at a three-day summit. It's important to understand that this is far from reality. Alice Ekman says that the world is in danger of splitting into two "world-economies" which could become increasingly independent of each other, like two ecosystems cohabiting without much interrelationship between them. We're a long way from that, but this economic and financial decoupling could echo a kind of civilizational decoupling.

If non-Western countries have fewer foreign exchange reserves in dollars or euros, they will no longer invest in the West or finance the debts of European states. Moreover, Moscow and the Chinese government have joined forces to reduce dependence on the dollar and establish cooperation between their financial systems. These policies take many forms, including agreements to settle more trade in local currencies rather than dollars. In 2023, Russia reduced its dollar holdings by 20% (an unprecedented asset diversification policy).

However, not everyone agrees with these analyses: political scientists such as Bruno Tertrais consider that the sanctions have achieved their objective, that the Russians will lose out in the end, and that de-dollarization will not take place.

The European Union, for its part, must quickly define a clear strategy. But unlike the United States and China, the Union is divided. The continent seems to be caught out by the ongoing global fragmentation.

Session 3

The long-term geopolitical risks associated with sustained conflict (towards a new Cold War in which Europe would only be a very secondary actor?)

We have seen in the previous two sections that the sanctions put in place by Europe are having a negative impact on Europe itself, and are increasingly driving a wedge between the West and Russia. This war has major geopolitical implications and is reorganizing the world. By refusing to sell some of its products or to buy from Russia, Europe has pushed Russia to find new allies and markets. According to BBC News "Will Africa become Kiev's ally at Moscow's expense?» a total of 141 of the 193 UN member states condemned Russia in July 2022, with African countries accounting for around half of those abstaining or not voting. Moreover, "the vote to expel Russia from the Human Rights Council on April 7, 2022 was even more symbolic". 9 countries voted against, the majority of African countries abstained or did not vote, and only 8 African countries supported the decision. In the Sahel countries (Mauritania, Mali, Burkina Faso, Niger, Chad, Sudan), Russia is trying to increase its influence, particularly after the military coups in Mali and Burkina Faso. Russia has offered them the help of its private military companies and arms.

On the agricultural front, by refusing to buy grain from Russia, the latter has further developed its market in Africa. Almost 30% of African imports to Russia are wheat and cereals.

Another geopolitical impact concerns global tourism. By May 2022, tourists in Eastern European countries were becoming rarer, and the global tourism recovery was threatened. The potential loss to the economy was estimated at over 13 billion euros for the year 2022, according to TourMag. Before the pandemic, Russian spending on international travel reached 33.50 billion euros. With Russia and Ukraine accounting for 4% of international tourist arrivals in Europe, the importance of these two markets is considerable for neighboring countries. "Coming from Russia today is expensive, extremely expensive, and takes much longer," says Sveta Azur (May 2023), originally from Central Asia and a tour guide in Nice. Travelers now have to stop off in Istanbul, Belgrade, Yerevan, Podgorica or Dubai if they want to reach the European Union, so only the wealthiest come to Europe.

World War III or Cold War 2.0? Paul Poast argues that, looking ahead, historians will be able to say that this was not just the beginning of the invasion of Ukrainian territory by Russian troops, but also the start of the Third World War.

On the other hand, Russia's invasion of Ukraine has revived the debate about the existence of a new Cold War. Since 2014, Ukraine has often been perceived as the scene of confrontations between Russians and Westerners, who will seek to merge it into their respective camps, reminiscent of the conflicting Cold War in the second half of the 20th century between the United States and the Soviet Union around the two ideological and military blocs. On September 30, 2022, Putin's speech on the annexation of Ukrainian territories to Russia took the form of an attack on the "collective West", portrayed as manipulators, colonialists and slave-owners. Putin has for years opposed what he sees as a unipolar world led by the United States, and favors a multipolar world in which Russia is a superpower and will be recognized.

Conclusion

In this article, we've looked at the direct, indirect and long-term effects of sanctions against Russia on Europe. This raises the question of whether these sanctions were really worthwhile, or whether they are simply weakening Europe. We mustn't overlook the far-reaching effects of sanctions on the Russian economy, which is undergoing a recession (even if it's less severe than Europe thought). Political scientists like Bruno Tertrais consider that the sanctions have achieved their objective, that the Russians will lose out in the end and that de-dollarization will not take place.

The West/Rest of the world division is not for the moment, which also explains the caution of China, which does not openly support Russia.

To conclude this paper, “halfway between the coercion of military hard power and the influence of cultural soft power, the strategy of sanctions is the main means available to the Union today to establish a strategic balance of power” (Cyrille Bret - Jacques Delors Institute).

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