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## The European Union and the Russian Federation – the issue of sanctions

One of the most frequently asked questions about Serbia's foreign policy orientation concerns the relationship between the European Union (EU) and Russia following the outbreak of the Ukraine crisis in 2014 and how this relationship reflects on the position of Serbia in the context of its EU accession process. Namely, under Chapter 31 (common foreign, security and defence policy), Serbia has an obligation to bring its foreign policy in line with the Common Foreign and Security Policy of the EU, which implies joining EU foreign policy declarations and relevant measures arising therefrom. This chapter in Serbia's pre-accession talks with the EU has not been opened yet. Moreover, the EU has not yet delivered the Screening Report despite the fact that both explanatory and bilateral screenings were completed back in June 2014 and September 2014, respectively.

EU's restrictive measures against Russia are mostly coordinated with those imposed by other Western countries outside the EU: the United States, Australia, Canada and New Zealand, as well as with those imposed by other European countries: Norway, Switzerland, Iceland, Montenegro, Albania, Moldova, Georgia and Ukraine. It should be noted, however, that the EU restrictive measures differ in scope from those applied by other countries.

Since the above topics are rather unknown to the Serbian public, this paper seeks to explain the reasons why the EU imposed the restrictive measures against Russia, the nature of those measures and the response of the Russian Federation.

### Why did the EU impose restrictive measures against the Russian Federation?

In late November 2013, the then Ukrainian President, Viktor Yanukovich, decided not to sign the association agreement with the EU (agreement on establishing closer ties with the EU, which did not imply an EU membership perspective), but to turn instead towards a Russian-led Eurasian integration process. This decision sparked protests at Maidan, Kiev's central square, which culminated in February 2014 when Yanukovich and his government were ousted and interim authorities were set up. However, unrest broke out in the eastern regions of Ukraine that were historically oriented towards Russia. In early March Yanukovich asked Russian President Vladimir Putin to intervene with a view to re-establishing rule of law, peace and order.<sup>1</sup> By late February 2014 unrest broke out in Crimea during which troops without insignias took over key Crimean strategic points and set up a pro-Russian government that held a referendum on Crimea's secession from Ukraine on March 16. Two days later, the Russian Federation annexed Crimea and Sevastopol.

1) "Russia: Yanukovich asked Putin to use force to save Ukraine", Reuters, March 4, 2014, Internet (accessed on 9 September 2018), <https://goo.gl/hVsEVt>



At the same time, protests were launched throughout eastern and southern Ukraine, which even escalated into armed conflicts in the Luhansk and Donetsk provinces (together commonly called the 'Donbass'). During these conflicts, the two provinces (i.e. parts thereof controlled by pro-Russian forces) proclaimed independence from Ukraine following the referendums that were held on May 11, 2014.

Western countries did not recognize the results of any of the three referendums and this very fact triggered European Council's initial diplomatic pressure and subsequent restrictive measures targeting Russia over the violence, annexation of Crimea and its involvement in the conflict in Ukraine. The restrictive measures were extended on several occasions and since 2015 their suspension has been made conditional on full implementation of the Minsk Agreement reached in February 2015 (the so-called 'Minsk II' agreement). From time to time, the EU imposes new restrictive measures in case of new developments which are deemed by the EU as not being conducive to the settlement of the situation.

## The nature of EU restrictive measures against the Russian Federation

Measures stemming from EU declarations, which the EU applies against other countries/entities, largely represent the so-called 'smart' restrictive measures that do not target the whole population, but only those whom the EU deems responsible for or in some way involved in the situation for which they are imposed. The EU restrictive measures against the Russian Federation are divided into three main groups: diplomatic measures, restrictive measures against individuals and business entities in the form of asset freeze and travel ban, and restrictions on economic cooperation in some sectors. There is a separate set of measures against Crimea, including Sevastopol (treated as a special region due to the presence of Russia's Black Sea Fleet).

### 1. Diplomatic measures:

a) Regular EU-Russia summits, which used to take place twice a year since 2009 to maintain permanent dialogue on agreed forms of bilateral cooperation, were cancelled. Among other things, talks on visa matters as well as on the new partnership agreement, which was supposed to replace the existing 1994 Agreement on Partnership and Cooperation, were also suspended. Furthermore, EU Member States suspended the practice of regular bilateral meetings with Russia.

b) The practice of G8 meetings with participation of the Russian Federation<sup>2</sup> was suspended. EU Member States have also backed a suspension of talks on Russia's admission to the OECD and the International Energy Agency.

### 2. Key restrictive measures:

a) Measures against individuals: the EU imposed asset freeze and travel bans against more than 150 persons.<sup>3</sup>

b) Measures against business entities: the EU froze the assets of some 40 companies from the Russian Federation.

c) Economic restrictions against the Russian Federation:

- EU persons and EU-based companies may not trade in financial instruments (bonds, equity, etc.) with a maturity exceeding 30 days that were issued by Russia's leading banks, energy companies, defence industry companies or their directly or indirectly related

2) The G8 was an inter-governmental political forum that used to include members of the G7, the group of seven most industrialized countries in the world (United States, France, Canada, United Kingdom, Germany, Japan and Italy), plus Russia, which was established in 1997. After the suspension of Russia's participation, the G8 was reformatted as G7.

3) See <https://goo.gl/BvhYDV> for a full list of individuals and companies based in the Russian Federation, Crimea and Sevastopol that are subject to the EU restrictive measures.

parties. EU persons and EU-based legal entities are also prohibited from assisting the above entities in issuing such financial instruments, and from extending a loan or credit with a maturity exceeding 30 days;

- Import and export ban for arms and other military equipment and materiel;
- Export ban for dual-use goods and technologies for military use;
- Restricted exports of certain energy-related equipment and technology subject to prior authorization by competent authorities of Member States. The ban on exports of equipment and technology destined for oil prospecting and extraction in the waters deeper than 150 metres or in the offshore area north of the Arctic Circle, and projects that have the potential to produce oil from resources located in shale formations by way of hydraulic fracturing ('fracking'). Provision of services for such projects is also restricted.

d) Measures restricting economic cooperation:

- The European Investment Bank and the European Bank for Reconstruction and Development suspended new financing operations in the Russian Federation;
- EU-Russia bilateral and regional cooperation programmes have been largely suspended, except projects dealing exclusively with cross-border cooperation and civil society.

### 3. Restrictive measures targeting Crimea and Sevastopol

Since the EU does not recognize the referendum and Russia's subsequent annexation of Crimea and Sevastopol, the Council of the EU imposed more rigid economic sanctions against these territories, as follows:

- Prohibition of all imports of goods originating in Crimea and Sevastopol, unless the goods possess Ukrainian certificates;
- EU persons and EU-based companies are prohibited from investing in Crimea and Sevastopol and from financing and providing services to Crimean companies. This prohibition also covers tourism services, in particular European cruise ships cannot call at ports in the Crimean peninsula;
- Prohibition of exports of certain goods and technologies in the energy, telecommunications and transport sectors;
- Prohibition of technical assistance, brokering, construction and engineering services.

Furthermore, restrictive measures were imposed on some individuals and business entities from the two territories.

As evident from the above, the EU did not significantly restrict commercial exports to and imports from Russia (except those to and from Crimea and Sevastopol which are not recognized by the EU as parts of the Russian territory). The sanctions target specific economic sectors (primarily financial, defence and energy sectors), which, *per se*, do not affect the majority of the Russian population. The Council of the EU has a practice of renewing and extending all types of restrictive measures and does so in cycles in case of new developments which are deemed by the EU as likely to adversely affect the situation in Ukraine, i.e. in Crimea and Sevastopol. The last time (prior to compiling this paper) that the restrictive measures against the Russian Federation were renewed was on July 5, 2018 and they are set to stay in force until January 31, 2019, unless renewed.<sup>4</sup>

### Russian Federation's restrictive measures against the EU

The Serbian public largely perceives the EU measures against Russia as similar to those that the UN imposed against the Federal Republic of Yugoslavia in the 1990s. Indeed, Serbian media mostly speak about a significant reduction in trade between the EU and Russia, but the fact is that this is also due to strong counter-sanctions that Russia imposed against the EU.

Following his initial stance that the EU measures will not be reciprocated, except for diplomatic measures and banning certain Western politicians from entering the Russian territory, on

<sup>4</sup> "Russia: EU prolongs economic sanctions by six months", Council of the EU, July 5, 2018, Internet (accessed on 10 October 2018), <https://goo.gl/Jn4Snb>

August 6, 2014 Russian President Vladimir Putin issued a decree on “Special Economic Measures to Ensure the Security of the Russian Federation” restricting imports of certain goods from the EU and other Western countries. The ban primarily referred to food imports from the EU, which not only created an opportunity for third countries to make up for the lack of EU goods on the Russian market, but also stimulated domestic agricultural production. However, the sanctions imposed by the EU and other Western countries, coupled with plummeting oil prices, have considerably affected the Russian economy and resulted in a drop in Russia’s GDP,<sup>5</sup> foreign exchange reserves and devaluation of the national currency.<sup>6</sup> Although the EU, and particularly some of its member states (including some core member states, like Germany), were also considerably affected by Russia’s restrictive measures, the EU has persisted with its decisions regardless of occasional dissonance from some member states.<sup>7</sup> Analysts disagree about the role of the EU sanctions in the downturn of the Russian economy, stating that it is probably smaller than that of the oil price decline.<sup>8</sup> It also appears that Russia’s counter-sanctions have made the country increasingly rely upon its own resources, which in turn resulted in agricultural production growth. For instance, Russia was the world’s largest wheat exporter in 2017.<sup>9</sup>

## The position of Serbia

The issue of Serbia’s position in this context is particularly interesting as some Serbian officials promoted in 2014 the idea that mutual EU-Russia sanctions were in fact an opportunity for Serbia.<sup>10</sup> In 2014 EU officials openly emphasized and made it very clear that Serbia as an EU partner undergoing the accession process towards full membership of the EU should show solidarity with the EU rather than seek to ‘backfill’ the position on the Russian market that EU member states had lost and thus undermine the political effectiveness of the sanctions.<sup>11</sup> According to unofficial information, Serbia is trying not to undermine the EU sanctions, although growth in exports to Russia has been registered, primarily in agricultural products, but also in other goods. However, the question is how sustainable this level of exports is sustainable in the long run bearing in mind not only Serbia’s political goals, but also the EU-Russia relations. The level of Serbian exports to Russia is certainly the result of the current political situation and it may easily go down if mutual EU-Russia sanctions are lifted.

Moreover, Serbia is one of the countries that the EU keeps inviting to align with EU foreign policy declarations and restrictive measures, including declarations and restrictive measures targeting Russia, Crimea and Sevastopol, which Serbia has failed to do so far. Therefore, in order to acquire a better position with respect to negotiations under Chapter 31, it would be preferable that the ruling political elite in Serbia should start familiarizing its citizens with the facts about the EU-Russian relations, including those about the nature of their mutual restrictive measures.

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5) Russia’s GDP per capita, which stood at USD 16,007 in 2013, dropped to USD 14,125 in 2014, and then to USD 9,329 in 2015 and to USD 8,748 in 2016. GDP per capita recovered only in 2017 when it reached USD 10,743. Source: World Development Indicators database (as at September 21, 2018)

6) For instance, the exchange rate of the Russian ruble against the US dollar was 30 rubles against 1 US dollar in 2013, 75 rubles against 1 US dollar in 2016, while the average exchange rate in 2018 was 65.5 rubles against 1 US dollar. Source: <https://www.marketwatch.com/investing/currency/usdrub>

7) For instance, all sanctions taken together have reduced the EU exports to Russia by 11% (as compared to the pre-2014 level), with Germany, one of the strongest advocates of keeping the existing level of sanctions in place until full implementation of the Minsk II agreement, bearing the largest loss of exports. See: Iikka Korhonen, Heli Simola and Laura Solanko: *Sanctions, counter-sanctions and Russia – Effects on economy*, Bank of Finland, BOFIT Institute for Economies in Transition, Trade and Finance, 2018, p. 100

8) Ibid

9) “Russia is an emerging superpower in food supply”, The Japan Times, September 17, 2017, Internet (accessed on 10 October 2018), <https://goo.gl/TkxwjD>

10) “Šansu imamo, imamo li robu za Ruse?”, B92, August 7, 2014, Internet (accessed on 10 October 2018), <https://goo.gl/w8V25p>

11) “EU candidate Serbia says will not exploit Russian embargo”, Reuters, August 22, 2014, Internet (accessed on 10 October 2018), <https://goo.gl/HNJ3qn>