



U.S. Sanctions on Russia

Andrzej Dąbrowski, Agnieszka Legucka

The U.S. Congress has extended sanctions on Russia, accused of interfering with the American elections in 2016. In doing so, Congress also sought to limit President Donald Trump's ability to abolish them. The Russian Foreign Ministry later ordered 755 American diplomats to leave the territory of the Russian Federation. This unintended effect of the new sanctions sets the stage for a new round of disputes between the U.S. and some European countries, including views of the planned Nord Stream 2 (NS2) pipeline project.

On 25 July, the U.S. House of Representatives on a 419–3 vote, and two days later, the Senate on a 98–2 vote, overwhelmingly adopted a bill placing further sanctions on Russia and Russian individuals. It limits the president from independently blocking or curtailing existing restrictions on Russia and obliges the president to cooperate with Congress on this matter. The bill describes Russia as one of the “aggressive states that violate the safety of their neighbours.” The document cites Russia’s violation of the territorial integrity and sovereignty of Ukraine, as well as its interference in elections in the U.S. and in other countries. The bill awaits Trump’s signature, but the White House spokeswoman said a few days ago that Trump will sign it into law.

Internal Context. The sanctions bill is the result of U.S. internal political conditions and shows that Congress is willing to take the initiative regarding sanctions. It comes amid ongoing allegations about Russian interference in the 2016 U.S. presidential election and the need to punish the Russian authorities for doing so. The bill also reflects Congress’ lack of confidence in the president’s circle, accused of having dubious contact with various Russians, and even in Trump himself, who is facing wide criticism about obstructing investigations into the matter. Thus far, the only formal U.S. actions against Russia for interference in the elections had come from measures taken under President Barack Obama, specifically the expulsion of Russian diplomats and seizure of two Russian-owned sites in the U.S.¹ Such joint legislative majorities are rare in the U.S. these days, given the nearly even split between the major parties. With most Democrats and Republicans in Congress united on this issue, it may show a lack of confidence in the president.

Among other things, the bill tightens sanctions on Russia’s energy sector, affecting both U.S. and foreign companies that make significant investments in oil and gas projects in Russia. It includes pipelines that are used to export Russian natural gas, especially the Nord Stream 2 project, specifically mentioned in the bill. Once the bill becomes law, the U.S. administration can impose a penalty on a foreign entity doing business with Russia contrary to the sanctions. The sanctions vary depending on the value of Russian shares in the project (minimum of 33%) and the amount of foreign investment (over \$5 million in 12 months or a one-off \$1 million). The sanctions can therefore encompass companies from around the world who work with Russia on such projects (based on the principle of the extraterritoriality of sanctions). In addition, the

¹ M.A. Piotrowski, “Intelligence Reports on Russian Interference in the U.S. Presidential Election,” *PISM Bulletin*, no. 8 (948), 24 January 2017.

availability of U.S. loans for Russian investors will be shortened to 14 days. However, none of these steps can be taken directly by Congress, instead by a decision of the president or the Department of the Treasury.

Consequences for U.S.-Russian Relations. The hopes of the Russian authorities that relations with the United States would improve after Trump took office have not materialised. Russia had hoped that the U.S. would recognise it as an equal partner on the international scene and that it had special interests in the post-Soviet area. It expected the U.S. under Trump to abolish the sanctions, include Russia in the coalition fighting terrorism, and lessen its presence in Europe. The new sanctions are a blow to Russia's prestige, in part because the bill puts it on par with Iran and North Korea and provides for the possibility of additional sanctions.

Russia's ability to respond to the U.S. actions is limited. On 28 July, the Russian Foreign Ministry issued a statement in which it challenged the legality of the restrictions, accusing the United States of unfair practices in world trade. It also noted that as of 1 September, the number of U.S. diplomats allowed in the country will be reduced to 455 (the same as the allowed number of Russian diplomats in the U.S.). In addition, the Americans are obliged to turn over warehouses in Moscow and residences in nearby Serebryany Bor by 1 August. A few days earlier, members of Russia's Federation Council discussed a response, and among the ideas was discontinuing cooperation with NASA.

Consequences for Transatlantic Relations. Until now, the U.S. and EU have consulted each other on sanctions on Russia, which strengthened their significance (Australia, Japan, Canada, Norway, and Switzerland also joined the sanctions regime). This had been an expression of transatlantic unity regarding respecting international law and the inviolability of borders in Europe. The imposition of the sanctions also has been intended to support Ukraine in stopping Russian military intervention on its territory. The first reaction of the foreign ministers of Germany and Austria regarding the Senate's proposed bill, though, was very sharp, rating the document as a threat to the energy security of Europe. After changes, the new version of the bill contained a provision requiring the president cooperate with the European allies in imposing the restrictions.

On Nord Stream 2, several financially-engaged European companies—Engie (France), OMV (Austria), Shell (UK and Netherlands), Uniper and Wintershall (Germany)—are lobbying against the sanctions. Their concerns are focused on the penalties on companies. The decision by the U.S. Treasury on 20 July to apply a \$2 million fine on ExxonMobil served as a warning. The Treasury said the company did not comply with the 2014 sanctions and in fact concluded an agreement with Russian state-owned Rosneft, signed by Igor Sechin, who is specifically sanctioned by the U.S.

The spokesperson for the German Foreign Ministry argued that it is unacceptable for the U.S. government and Congress, under the pretext of sanctions, to pursue industrial policy that favours U.S. energy companies (mainly the sale of gas to Europe). Despite accepting several amendments to dispel such fears, German Foreign Minister Sigmar Gabriel has stated that he opposes the bill.

Although the European Commission explicitly recognises that the NS2 project is incompatible with the political goals of the Energy Union, it faces pressure from the German, French, Austrian, British, and Dutch governments.

Conclusions. The sanctions bill introduces a significant hardening of U.S. policy towards Russia. First, it codifies existing executive presidential orders (Obama) concerning the U.S. stance on Russia's annexation of Crimea and interference in the 2016 U.S. presidential elections. The president has been able to alleviate or tighten the restrictions as needed, but the current bill imposes the obligation to consult any changes in the sanctions with at least one chamber of Congress, limiting one of the president's tools in the conduct of foreign policy towards Russia.

Russia's response to the U.S. sanctions has been limited to diplomatic retaliation. At the same time, the Russian authorities are portraying themselves as being victimised just like the European companies by the American sanctions. They count on criticism of the sanctions interfering with U.S. relations with certain countries in Europe. Russia will continue to foster anti-American sentiment in its push for the construction of NS2, portraying it as a European project that America wants to interfere with unlawfully, when in fact the project undermines EU energy security and threatens European cohesion. The division on the issue among the Member States is highlighted by discussions on the negotiating mandate for the European Commission to settle the legal status of the gas pipeline. A draft mandate presented by the Commission at the end of June met with the support of only 13 of the 28 EU states. The new U.S. sanctions on Russia, prepared in response to Russian interference in the presidential campaign and Russia's aggression against Ukraine, should not affect the perception of Russian energy projects, including the controversial idea of Nord Stream 2.