



PISM

POLSKI INSTYTUT SPRAW MIĘDZYNARODOWYCH
THE POLISH INSTITUTE OF INTERNATIONAL AFFAIRS

POLICY PAPER

NO. 20 (206), OCTOBER 2021 © PISM

Editors: Sławomir Dębski, Patrycja Sasnal, Wojciech Lorenz

Possible Instruments to Better Operationalise the EU Strategy Towards Russia

Elżbieta Kaca

In light of Russia's aggressive steps against European Union countries and in their neighbourhood, the EU should develop options for action in the event of further hostile activities by the Russian authorities. These may include variants of financial sanctions, including in the energy sector, and restrictions directed against Russian oligarchs linked to the Kremlin. At the same time, the EU should focus its support on Russian civil society, but may work with the Russian authorities on global problems such as health and climate policy if they show a willingness to cooperate.

PISM POLICY PAPER

Since 2014, [the EU's relations with Russia have been steadily worsening because of the Russian authorities' actions towards the Union](#) and its neighbourhood. Russia annexed Crimea and sparked a war in Ukraine's Donbas in 2014. It maintains troops near Ukraine's border regions and in the occupied territories. Through cyberattacks and disinformation activities, Russia has tried to influence the results of elections in various countries (including Germany and France in 2017). Since the outbreak of the COVID-19 pandemic, [it has intensified its organised disinformation campaigns against the Union](#). In response, the EU has limited political relations with Russia, suspended financial assistance besides cross-border programmes, and [used sanctions](#). In 2016, the EU adopted [general strategic assumptions with regard to Russia](#). They involve a compromise combining restrictions with selective cooperation. So far, both sides have only cooperated to a limited extent on climate policy.

Some Member States, including Austria, Cyprus, Greece, Italy, Spain, and France, which led the effort, want to revise this strategy and strengthen cooperation with the Russian authorities, including on the economy and in the Middle East. In June this year, EU leaders debated this issue at the European Council, but they maintained the compromise worked out in 2016 due to the divergent views of the Member States. At the same time, the European Council asked High Representative of the Union for Foreign Affairs and Security Policy Josep Borrell and the European Commission (EC) to prepare proposals for new EU instruments that would make the strategy more effective. This applies also to potential future economic sanctions in the event of further hostile actions by Russia, as well as strengthening aid to Russian society and cooperation with the Russian authorities in the areas of climate and environment, health, and foreign policy (e.g., in the Middle East).

Instruments of Pressure. The most severe restrictions for Russia would be EU financial sanctions related to bank activities given the ties between the Russian financial system and the EU's. The scale of financial transactions is high, as the Union is still Russia's largest trading partner (37.3% of total trade in goods in 2020; 4.8% for the EU) and the country's largest investor (€311.4 billion in 2019). In 2021, EU banks' stakes in Russian financial institutions amounted to \$58 billion (98% of this total is connected to French, Austrian, German, and Dutch banks). The EU could cut off Russian banks from the SWIFT system, a global transactions clearinghouse that uses encrypted communication between financial institutions (it covers around 11,000 banks in 200 countries). The Russian authorities do not have an effective alternative system. At the same time, the EU could prohibit large financial transactions between EU and Russian banks unless the Member States give prior authorisation, for example, related to trade or humanitarian aid. The restrictions should be coordinated with the U.S. extra-territorial financial sanctions used against foreign entities also outside its territory. This would limit the Russians' ability to make transactions through intermediaries in other countries.

The most severe restrictions for Russia would be EU financial sanctions related to bank activities given the ties between the Russian financial system and the EU's.

Such coordinated sanctions would generate large economic losses for Russia, leading to a significant outflow of capital and a decrease in foreign investment. Limiting financial transactions would make foreign economic entities in Russia reduce their activities due to the risk of financial penalties. The reserves of foreign assets in Russian banks would diminish, which could lead to higher inflation, worsening the economic and social situation. Cutting off Russia from SWIFT would force its banks to use much more expensive means of communicating with Western contractors, such as courier services, banks in the Eurasian Union, or the black market. On the EU side, financial sanctions would make trade with Russia more difficult for all Member States. The banks from France, Austria, Germany, and the Netherlands would be the most exposed to losses. The sanctions also would result in Russian retaliatory measures against the Union, probably including restrictions on the activities of EU-based companies in Russia.

PISM POLICY PAPER

In the field of energy, while the EU cannot embargo gas and oil given the Member States' dependence on Russian energy resources, it may enact financial sanctions on them.

In the field of energy, while the EU cannot embargo gas and oil given the Member States' dependence on Russian energy resources, it may enact financial sanctions on them. Such restrictions would aim to weaken the position of Russian state-owned companies in the oil and gas sector, [which comprise a significant source of income for the Russian government and the oligarchs associated with them](#). Oil and gas exports accounted for 28% of Russia's budget revenue in 2020, while almost two-thirds of the volume goes to the EU. So far, the Union has only targeted a few companies in the oil sector with financial sanctions. The EU, in coordination with the U.S., could ban long-term loans and the purchase of bonds issued by major Russian companies in the gas and oil sector. In 2020, Gazprom sold eurobonds in separate auctions worth, respectively, \$4.4 billion and \$2 billion, and the vast majority of them was acquired by entities from the U.S., EU, and UK. The EU along with American and British authorities could also ban insurance services to Russian companies. In addition, Germany should present specific proposals of how to implement [its agreement from July this year with the U.S. on Nord Stream 2 \(NS2\)](#), which provides for possible restrictions on the export of Russian energy resources to Germany and the EU, among other measures. Since EU sanctions on energy would risk limiting Russia's gas supplies to some Member States, Germany should indicate ways to strengthen the solidarity mechanisms developed after the 2009 gas crisis.

The EU can work out a list of oligarchs closely tied to President Vladimir Putin, [their family members involved in concealing their financial resources, which enables avoiding sanctions, as well as their companies](#). The Union could impose individual sanctions on these people, including an EU entry ban and an asset freeze, and ban European Union entities from delivering financial transactions and loans involving the targets' companies. Such sanctions, although they are unlikely to impact Russia's foreign policy, would be a symbolic blow to Putin and would reduce the wealth of the elites. There are already 177 people and 48 entities on EU sanctions lists, but the vast majority of them are officials, parliamentarians, and military leaders responsible for the annexation of Crimea and destabilisation activities in Ukraine. Only a few of them are oligarchs from Putin's closest circle, such as Arkady Rotenberg (who receives earnings from state investments, including NS2), or Yuri Kovalchuk and Nikolai Shamalov, the largest shareholders of Rossiya Bank, considered to be the personal bank of senior state officials. The EU can use Ukraine's list, adopted in June 2021, which is the most comprehensive sanctions list of oligarchs in Putin's inner circle and companies owned by them (538 people and 540 entities, 55 financial institutions).

Beyond sanctions, the EU should strengthen its support for Russian society given the widening scale of repression. During the protests in 2021 against the imprisonment of opposition leader Alexei Navalny, the Russian authorities detained several thousand people, including many journalists, and criminal cases are pending against at least 120 people. The authorities are initiating campaigns to stigmatise NGOs, particularly the "foreign agent" law, made harsher in 2020, which induces sentences of activists and media personnel to financial penalties and up to five years' imprisonment for any opposition political activity. The EU can add to the monitoring of lawsuits by Union delegation employees' and Member State embassies (which on average observe 5-7 trials per year through direct or remote participation). In coordination with the Member States, the EU also could more frequently raise cases and demand concessions from the Russian authorities regarding human rights by using diplomatic channels and publicising its claims on social media (Twitter, Facebook, Telegram). Such actions led, for example, to the withdrawal of charges against women's rights defender Valentina Cherevatenko in 2017. The Union could consider an increase in assistance to human rights defenders and independent journalists under the European Instrument for Democracy and Human Rights or the European Endowment for Democracy. It could also launch

Beyond sanctions, the EU should strengthen its support for Russian society given the widening scale of repression.

PISM POLICY PAPER

a special programme to subsidise the development of the activities of local NGOs and media (through e.g. operating grants), including the implementation of smaller projects by them in the fields of education, social affairs, health, and the environment. As the [Russian authorities increase their control over the internet in Russia](#), the EU should support emerging online media and safety projects.

Areas of Potential Cooperation. Regardless of the current sanctions policy, the EU still can cooperate with the Russian authorities on global problems of interest, if Russia is willing to work together. With COVID-19 remaining a high risk—only 33% of Russia’s residents have received at least one dose of the vaccine—the EU can collaborate on health policy. It could support vaccination efforts by co-

Regardless of the current sanctions policy, the EU still can cooperate with the Russian authorities on global problems of interest, if Russia is willing to work together.

financing public health projects under the 8 Interreg cross-border programmes, including Kaliningrad (e.g., cooperation between medics and hospitals).

As the EU aspires to play a leading role in shaping global climate policy, it may seek to involve Russia in its initiatives ahead of the next climate summits. Russia signed the Paris climate agreement in 2019 and is involved in the international forum in this field; however, [the EU cannot count on a real ecological](#)

[transformation of the country](#) given its reliance on traditional fossil fuels, both in the economy through extraction and as an important source of income for the elites. The Russian authorities’ target for reducing CO₂ emissions is set at a level they are already accomplishing, and the share of renewable energy in electricity production in 2020 was only 0.3%.

The possibilities for cooperation in the Middle East and North Africa are negligible, as Russia competes with the Member States in diplomatic relations, the armaments industry, and energy and extraction of mineral resources. Although the Russian authorities have engaged in negotiations on resolving the conflicts in Syria and Libya, their goals are different than the Union’s in the settlement of those conflicts. For Russia, the most important issue is to ensure political influence in these countries and to develop energy and military cooperation. In Syria, a Russian military operation launched in 2015 with the cooperation of Bashar al-Assad maintained and strengthened his position. This enabled the restoration and expansion of Russian military bases in the country, allowing it to widen its field of military operations in the Mediterranean region. Russian private military companies operate in Libya, including the Wagner Group, and Russia maintains contacts with all Libyan political forces to increase its presence in the energy and military sectors. EU cooperation with Russia is possible in the negotiations to restore the 2015 EU nuclear deal with Iran in the “P5+1” (“E3+3”) format (Russia, China, France, UK, U.S., Germany), but the settlement depends mainly on the positions of the U.S. and Iran.

Perspectives. The EU must be ready for an intensification of Russia’s confrontational policy, as its authorities consistently strive to weaken the Union, over which they have no formal influence. It cannot be ruled out that Russia could undertake further aggressive actions towards Ukraine as it has become less dependent on gas transport through that country. For the EU, possible economic sanctions would be the main tool of influence on the Russian authorities, allowing at least to limit their aggressive actions. For the EU, it would be relatively easiest to impose sanctions against the oligarchs. It would be much more difficult to work out a Member State consensus on restrictions in the fields of energy and financial sanctions in the banking sector because of the potential economic losses on the Member State side. The group of countries supporting the introduction of new sanctions in the event of further Russian hostile actions would probably include Poland, Romania, the Baltic states, and Sweden. Opponents would include

The EU must be ready for an intensification of Russia’s confrontational policy, as its authorities consistently strive to weaken the Union, over which they have no formal influence.

PISM POLICY PAPER

the group of countries for which Russia is not a direct security threat and which seek economic and/or foreign policy cooperation with Russia, such as France, Austria, the Netherlands, Greece, Cyprus, Italy, Spain, and Portugal. Germany, which is interested in limiting Russia's revisionist policy but also in developing trade contacts with the country, probably would take an intermediate position.

In light of the Member States' divergent views of EU relations with Russia, the High Representative and the EC probably will present compromise proposals. To better assess the possibilities of EU action, they could consult the services of the Council of the EU, the European Parliament, and expert communities from the Member States, the UK, and the U.S. The prospects of EU cooperation with the U.S. and [UK](#) are good, as Russia's destabilising potential is still a challenge in their foreign policies.