



THE SANCTIONING OF WARFARE

Early lessons from the EU's goeconomic response to Russia's invasion of Ukraine

Kim B. Olsen

TABLE OF CONTENTS

Abstract	5
Introduction:	7
Sanctions and warfare	
The emerging playing field: Russian hybrid military power vs. Western geoeconomic power	8
Scope and aim of the report: drawing early lessons from the sanctions policy cycle	9
The analytical approach taken: exploring the differences between the views of EU 'rear-guard' and 'frontline' states and institutions	11
Background:	14
The EU's use of sanctions as a security policy instrument	
The institutional setting: 'restrictive measures' in the EU's common and foreign security policy	16
The implementation: a task for Member States	17
The trend: developments in the EU's use of sanctions in its geographical neighbourhood	19
The case: the EU's unprecedented sanctions against Russia	20
Planning sanctions:	23
Using economic leverage against military aggression	
The contextual circumstances: building on the EU's 'geoeconomic maturity'	24
The objectives: between incentivising Russia's military retreat and coercing its future strategic capabilities	27
Adopting and implementing sanctions:	31
Balancing aims and challenges	
The adoption process: multilayered and accelerated coordination of decision making	32
The obstacles to implementation: the difficult pathway to sanctions	36
Evaluating sanctions:	40
Understanding intended and unintended results	
The effects: assessing preliminary results in Russia and at home	42
The unintended dynamics: the 'Kaliningrad question' and other second order consequences	46
Looking ahead:	51
Further integrating economic coercion with European security	
Notes	56
Appendix I:	60
Overview of EU sanctions in its southern and eastern neighbourhoods	

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ABSTRACT

In February 2022 the EU was confronted with the acute security threat, flouting of international law and resultant humanitarian crisis at its borders provoked by Russia's military aggression against Ukraine. The EU launched a massive 'geoeconomic' response in the shape of several packages of economic and financial sanctions. This policy report investigates and compares the early lessons learned in different EU institutions and Member States during the first six months of this 'sanctioning of warfare'. Based on an analysis of the opportunities and challenges at various phases of the 'sanctions policy cycle', the report recommends: i) better scenario planning; ii) stronger building of smaller coalitions among pro-sanction Member States; iii) a more coherent integration of trade, defence, and security experts into EU decision-making processes; iv) a more proactive effort to improve national sanctions laws of Member States to support implementation; v) a more prudent strategic application of sanctions rather than as tit for tat responses to tactical military developments; and vi) clearer communication from policymakers about where sanctions hold the potential to trigger unintended economic and security-related consequences.

Introduction: SANCTIONS AND WARFARE



Estonian border with Russia, Narva, Estonia, Baltic States.
Photo: Frauke Scholz, imageBROKER / Alamy Stock Photo

With Russia's invasion into Ukraine in early 2022, large-scale warfare returned to the European continent. This policy report explores the preliminary lessons to be learnt from the attempts of different actors across the European Union (EU) to counter Russian military aggression and obstruct the Russian war machine through the use of economic and financial sanctions.

Focusing on various policy phases that played out in the first six months of this 'sanctioning of warfare', the report shines a light on this unique phase of EU geoeconomic policymaking. It asks what happened when the EU quickly adopted and implemented massive sanctions measures against a major economy in its immediate geographical neighbourhood and with whom it shares close trade ties? What early lessons about the EU sanctions can be identified? And how might such lessons differ across EU institutions and Member States?

THE EMERGING PLAYING FIELD: RUSSIAN HYBRID MILITARY POWER VS. WESTERN GEOECONOMIC POWER

When the Russian Government launched its 'special military operation' in Ukraine on 24 February 2022, just hours after having officially recognised Ukrainian oblasts Luhansk and Donetsk as independent republics, EU institutions and Member States had to act. But they needed to avoid engaging in any direct military confrontation with a major conventional and nuclear military power, and one that had, furthermore, already engaged in 'hybrid' attacks targeting European interests.

In the run-up to the war and during Russia's military escalation, Western leaders had already threatened Moscow with extensive, non-military, retaliation.

Thus it was that, together with like-minded allies, the EU reverted to other means. Economic and financial support as well as the financing of arms deliveries to Ukraine were substantially enhanced. Also, an emerging transcontinental coalition – which besides the EU came to include G7 members Canada, Japan, the United Kingdom, and the United States as well as Australia, Singapore, South Korea, Switzerland, and others – responded to Russia's warfare with an unprecedented wave of economic and financial sanctions.

If we understand 'geoeconomics' to refer to state instrumentalisation of wealth for obtaining foreign and security policy objectives, the EU's response to Russia – and its ally Belarus – was in large part geoeconomic. Economic and financial sanctions came to play a key role alongside other important forms of support that were also provided to Ukraine: direct military donations, training of military personnel, intelligence sharing, and diplomatic support in international organisations and bilateral relations.

In the run-up to the war and during Russia's military escalation, Western leaders had already threatened Moscow with extensive, non-military, retaliation. In late January European Commission President von der Leyen warned that the EU had 'prepared a robust and comprehensive package of financial and economic sanctions'.¹ EU foreign ministers, such as Denmark's Jeppe Kofod, promised 'the most devastating sanctions ever seen'.² In more colourful terms, US senators and President Biden warned Russia of 'the mother of all sanctions' and the 'most severe sanctions that have ever been imposed'.³ And indeed, since large-scale warfare broke out in Ukraine we have witnessed an unprecedented dynamic: between Russian hybrid military power, Western geoeconomic power and, not least, a relentlessly fighting Ukraine, all embedded in an armed conflict whose end is not in sight.

SCOPE AND AIM OF THE REPORT: DRAWING EARLY LESSONS FROM THE SANCTIONS POLICY CYCLE

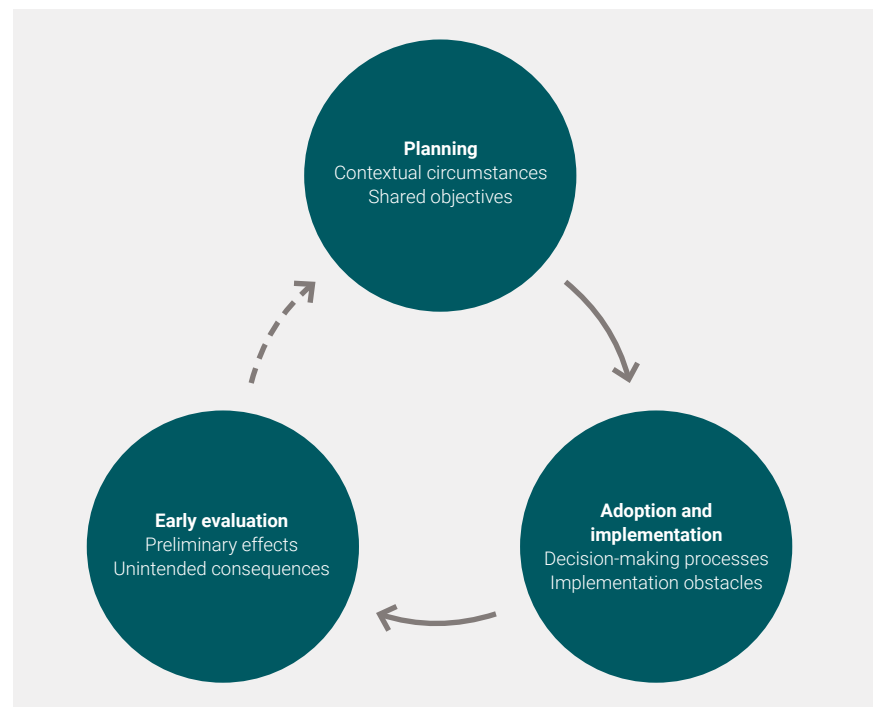
Rather than asking what isolated economic effects sanctions have had on Russian interests, this report explores the lessons learned by EU policymakers when planning, adopting, and evaluating the EU's first seven sanctions packages in the period from February to August 2022. By focusing particularly on the asymmetric effects that the use of the sanctions instrument has on Member States across the EU, the report contrasts various views and experiences from actors situated both geographically close to and distant from the aggressors under sanctions, Russia and Belarus.

To provide some background, the report first introduces the role of sanctions – or 'restrictive measures' – as an integrated security instrument in the EU's common foreign and security policy (CFSP). It situates the scale and scope of the EU's Russia sanctions of 2022 in the context of how the EU has to date employed sanctions against states in its immediate geographical neighbourhood, which reveals how remarkable and unprecedented the EU sanctions policy of 2022 is.

The report then investigates lessons learned from the three main phases of the ‘sanctions policy cycle’⁴ (see figure 1) that unfolded just before and then during the first six months of Russia’s warfare against Ukraine:

- the **planning phase**, starting from autumn 2021, in which the EU – in close co-operation with international partners – started to construct its possible sanctions responses based on existing contextual circumstances and negotiations about shared objectives among Member States
- the **adoption and implementation phase**, between late February and August 2022, in which Member States engaged in various decision-making processes and encountered the first implementation obstacles arising from the multiple sanctions packages
- the **early evaluation phase**, from April to August 2022, in which Member States sought to understand the preliminary effects and first unintended consequences of the sanctions, and how these could possibly inform future sanctions policy planning

Figure 1. The policy cycle of EU sanctions



Based on this analysis, the report proposes six recommendations – two for each phase of the policy planning cycle – that should be taken into consideration by EU policymakers, both during current efforts continuing the present sanctions regime against Russia and in possible future scenarios where the EU again chooses a geoeconomic instrument as a primary response from its security policy toolbox.

THE ANALYTICAL APPROACH TAKEN: EXPLORING THE DIFFERENCES BETWEEN THE VIEWS OF EU ‘REAR-GUARD’ AND ‘FRONTLINE’ STATES AND INSTITUTIONS

Early studies of the war suggested that the economic consequences of Russia’s warfare and the geoeconomic countermeasures taken by the international community would be felt very unevenly by EU Member States.⁵ More recent studies, pointing to asymmetric economic losses, have supported this assumption.⁶ Initial interview data collected for this report likewise suggested that perspectives on and lessons drawn from the EU sanctions policy might vary among EU Member States depending on their geographical proximity to, and historical ties with, Russia.

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While it is still too early to make any conclusive assessments of the sanctions’ long-term effects, the realisation and experience that a collective sanctions sender – in this case the 27 EU Member States – might be experiencing asymmetric political and economic effects of a geoeconomic intervention provides material for this report’s analytical starting point. Based on these insights, the report investigates the EU sanctions policy cycle through an analysis of two distinct groups of EU actors, the ‘rear-guard’, geographically distant from the theatre of war, and the ‘frontliners’, neighbours to sanctioned Russia and Belarus (see box 1).

BOX 1. THE EU IN RELATION TO RUSSIA AND BELARUS: 'REAR-GUARD' AND 'FRONTLINERS'

The **'rear-guard'** refers to EU institutions and Member States that are proactive in forming the EU sanctions policy, while not themselves situated in direct geographical proximity to its targets, Russia and Belarus. This group includes Brussels-based actors from the European Commission and the European External Action Service (EEAS) as well national government and other domestic actors in Denmark, Germany, France, and the Netherlands.

'Frontline(rs)', in contrast, refers to the pro-sanctions central and eastern European Member States situated in close geographical proximity to Russia and Belarus and who, furthermore, share difficult historical ties with post-USSR Russia. These include national government and other domestic actors in Estonia, Latvia, Lithuania, and Poland.

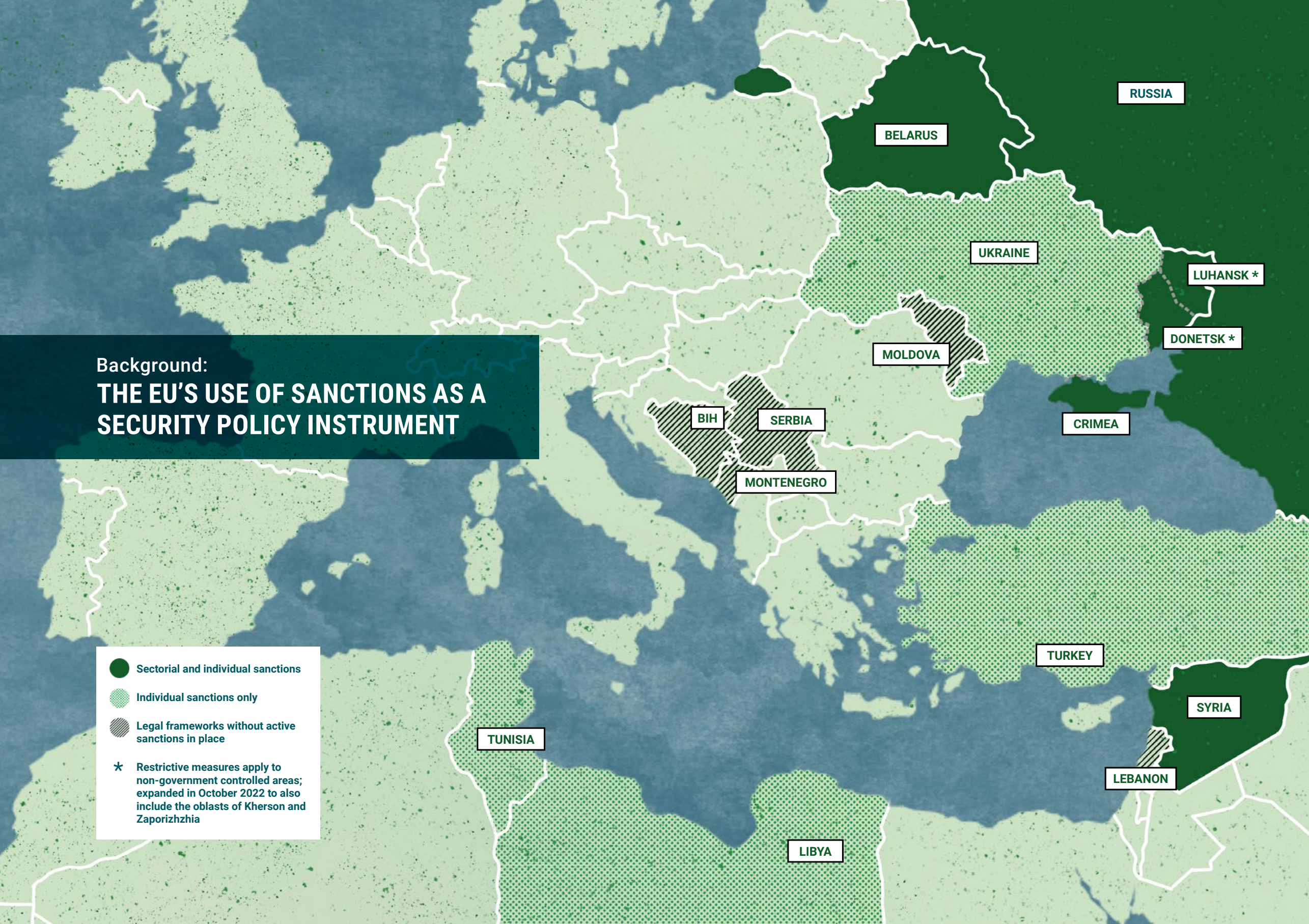
The report's analytical approach aligns with a contemporary development in the field of diplomacy studies, whereby scholars have argued for the merits of investigating the distinct practices and perspectives of diplomatic actors situated both away from and/or close to a given conflict or policy incident.⁷ According to this view, the perception of diplomatic practitioners engaged in a given international situation might vary according to their degree of direct exposure to the subject matter. While commonly used to reveal variations between experiences within a diplomatic service or an international organisation, this report employs the rear-guard/frontline distinction as a guiding prism through which to view various perceptions across the EU of what the merits and drawbacks are of using sanctions as a security instrument in response to military warfare.

Methodologically, the report draws on qualitative data from 70 expert interviews conducted by the author between April and September 2022 in Berlin, Brussels, Copenhagen, the Hague, Paris, Riga, Tallinn, Vilnius, and Warsaw. Interlocutors included decision-makers, diplomats and civil servants from EU institutions, ministries, customs authorities, central banks, and financial intelligence units as well as business representatives, journalists and academics with expertise and practical knowledge of the design and implementation of EU sanctions and security policies towards Russia. By documenting and analysing observations and lessons before

such insights have been able to fall under the analytical clarity of hindsight, this policy report seeks to provide early evidence for understanding the immediate dynamics that might unfold when major powers decide to engage in international conflicts through the means of geoeconomics.

Background:
**THE EU'S USE OF SANCTIONS AS A
SECURITY POLICY INSTRUMENT**

- Sectorial and individual sanctions
- Individual sanctions only
- Legal frameworks without active sanctions in place
- * Restrictive measures apply to non-government controlled areas; expanded in October 2022 to also include the oblasts of Kherson and Zaporizhzhia



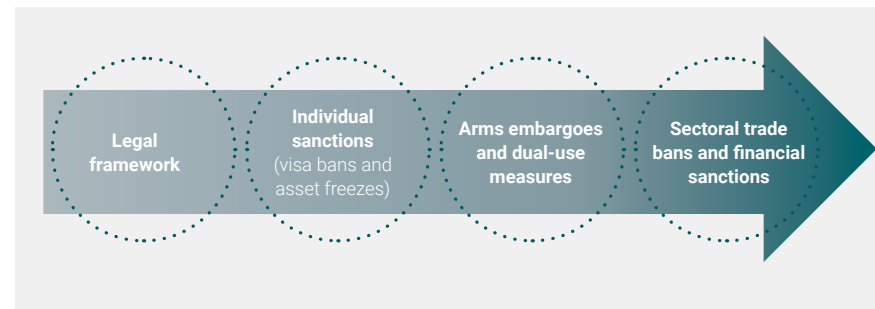
The EU's use of economic and financial sanctions has existed in its current form since the adoption of the Maastricht Treaty in 1993 although the sanction instrument has since undergone substantial political and legal developments. This section introduces the institutional specificities of the adoption and implementation of sanctions and contextualises the EU's 2022 sanctions measures against Russia to demonstrate their uniqueness in terms of scale and scope.

THE INSTITUTIONAL SETTING: 'RESTRICTIVE MEASURES' IN THE EU'S COMMON AND FOREIGN SECURITY POLICY

Institutionally, sanctions are known in EU parlance as 'restrictive measures', adopted as part of the EU's common foreign and security policy (CFSP). They can take different forms in terms of their targets, severity and reach. Scholars have argued that the various EU sanctions measures can be ordered into 'escalation stages' (see figure 2).⁸ At its mildest level, the EU can establish a legal framework for sanctions without activating it. Further escalatory steps can then include sanctions against listed individuals or entities (travel and visa bans to and/or asset freezes in the EU), against the trade of arms and dual-use goods, or against specific economic and financial sectors (restrictions of trade, finance, investments, communication, transportation, etc.) Many EU sanctions regimes consist of a mix of these different options.

Given that sanctions are part of the EU's common foreign and security policy, on which Member States hold the final say, they are adopted based on unanimous decisions by all 27 EU Member States (cf. Art. 29, Treaty of the European Union). However, while some sanctions measures (entry bans and arms embargoes) are

Figure 2. The 'escalation stages' of EU restrictive measures



Source: Portela, C., 'Sanctions, conflict and democratic backsliding', EUISS brief, 2022/6, accessed on 31 October 2022, <https://www.iss.europa.eu/content/sanctions-conflict-and-democratic-backsliding>

matters of national sovereignty and are thus implemented directly by Member States, measures that interfere in the freedoms linked to the EU's internal market (such as asset freezes and sectoral sanctions) can only be implemented when supplemented with a legal act in the form of an EU Council regulation (cf. Art. 215, Treaty on the Functioning of the European Union).⁹ Most sanctions regimes include so-called 'sunset clauses', meaning that they have to be reviewed and unanimously re-adopted by the Council, normally at six-monthly or annual intervals.

These legal specificities have a direct bearing on how sanctions are formally adopted in the EU system.¹⁰ While the processes for the adoption of a Council decision and a regulation vary slightly, they are generally adopted in parallel. The overall procedure can hence be summarised as follows (see also figure 3): the political guidance for targeting a specific state with sanctions often originates from deliberations between heads of states and governments in the European Council. Sanctions then are formally negotiated based on proposals by the High Representative of the Union for Foreign Affairs and Security Policy (HRVP) – who heads the European External Action Service (EEAS) – and/or the Commission. Initial consultations then take place among Member States in the relevant geographical working group(s) and afterwards among legal experts in the so-called RELEX group. When Member States have (largely) agreed on a specific set of restrictive measures, the proposal is transferred for final consultation at ambassador-level in COREPER II. It is ultimately adopted in the Council of Ministers, commonly by foreign ministers in the Foreign Affairs Council (FAC) format, and the European Parliament is subsequently informed (in case of a Council regulation).

In practical terms, sanctions proposals are also discussed informally in close contact between the EEAS, the Commission and Member States, which often generates valuable information: either suggestions on specific individuals or entities to be listed, or information about economic sectors in the targeted state, particularly in cases where a specific Member State's national interests might be at play.

THE IMPLEMENTATION: A TASK FOR MEMBER STATES

When it comes to their actual implementation, EU sanctions have a further peculiar trait, which will also play a key role in this report: while unanimously designed and adopted at the EU-level, sanctions are enforced at the national level. The responsibility of enforcing the instrument thereby lies with each EU Member State, with each of

**Figure 3. The adoption process of CFSP restrictive measures
(Council decisions and regulations)**



them bound to designate a number of responsible ‘national competent authorities’ to perform this task. But the types and numbers of domestic actors involved across EU Member States is heavily scattered: while some Member States only nominate one or two national competent authorities (Croatia, Cyprus, Finland, Germany, Greece, Italy, and Malta), others have nominated more than ten (Denmark, Latvia, Lithuania, Romania, and Sweden).¹¹

In addition to these institutional variations, intra-authority cooperation at the domestic level also varies widely between Member States. This is not least because EU Member States have uneven practical experience of sanctions implementation. Even if EU sanctions are jointly adopted, they will always have asymmetric effects at the Member State-level. Most importantly, Member States with high levels of

exposure to the individuals, entities, or economic and financial sectors targeted by EU sanctions, will normally find themselves more heavily involved with implementation tasks. As will be discussed below, such discrepancies meant that Member States were prepared to very differing degrees when they were faced with the task of translating the large and rapidly expanding EU sanctions regime against Russia into effective practice.

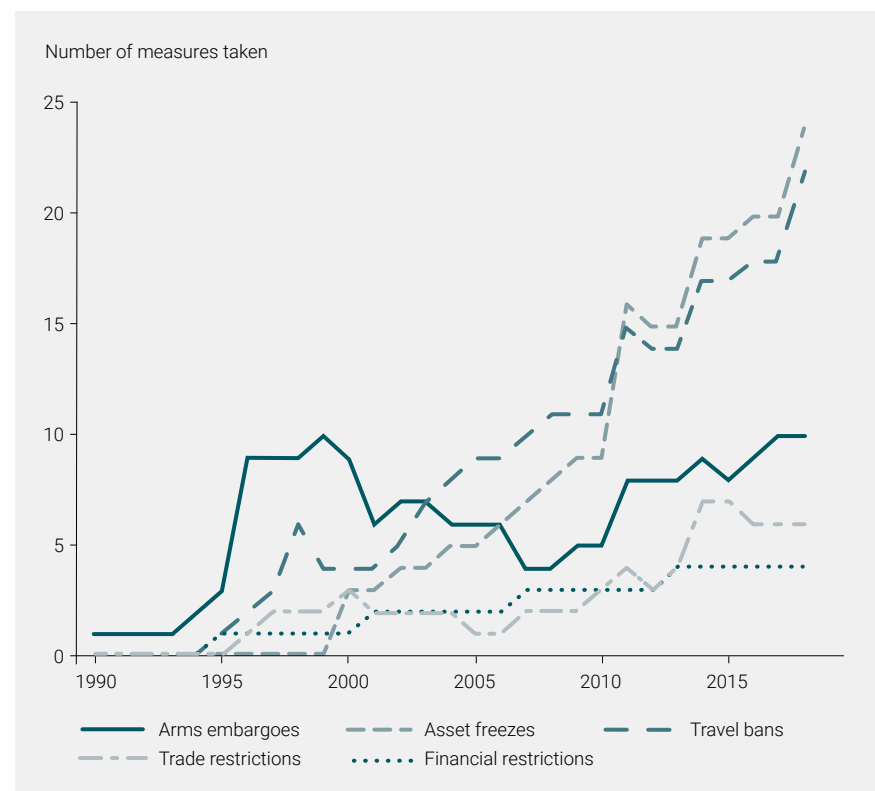
THE TREND: DEVELOPMENTS IN THE EU’S USE OF SANCTIONS IN ITS GEOGRAPHICAL NEIGHBOURHOOD

Today, the EU manages a record number of more than 40 autonomous sanctions regimes, some of which are ‘passive’ legal frameworks that currently do not include any specific measures. Each ‘active’ sanctions regime is composed of different forms of individual and sectoral measures. The EU’s use of most of such measures has risen steeply over the past decades (figure 4).¹²

For the objective of this report, it is further relevant to examine another development: a general trend whereby the EU has increased its use of sanctions against states in its immediate geographical sphere. Of the currently more than 33 states targeted with EU sanctions, 12 are found in or close to the EU’s southern and eastern neighbourhood (see map on pp. 14–15; for a full list, see Appendix I).

It is, moreover, important to note that in the past decade the EU has been increasing its use of sectoral sanctions – the most severe form of restrictive measures. This trend runs counter to the EU’s own joint ‘basic sanctions principles’ set out in 2004, with which EU Member States agreed to prioritise ‘smart’, i.e. individually targeted, sanctions over sectoral ones.¹³ The importance of avoiding ‘indiscriminate’ sanctions measures was confirmed in EU guidelines a few years ago.¹⁴ However, the rise in use of sectoral sanctions has particularly happened in cases where EU Member States have sought to respond to deteriorating situations in which human rights violations and governmental oppression of democratic forces have been coupled with either direct or indirect security threats in its direct neighbourhood. Such has been the case with the armed conflict in Syria (2011–) and with the hybrid threat emanating from Belarus’s ‘kidnapping’ of an intra-EU passenger plane and the instrumentalisation of refugees and migrants to put pressure on the EU’s eastern borders (2021–).

Figure 4. Developments in the EU's use of restrictive measures



Source: Giumelli, F., Hoffmann, F., & Książczaková, A. (2021) 'The when, what, where and why of European Union sanctions', *European Security* 30(1): 16.

THE CASE: THE EU'S UNPRECEDENTED SANCTIONS AGAINST RUSSIA

The EU's sanctioning of Russia both confirms a more general trend towards usage of individual and sectoral measures against states in its geographical neighbourhood and stands out as a unique case of using sanctions as an instrument of security policy against an external aggressor of a sovereign state in the EU neighbourhood.

Already in 2014, EU Member States had adopted a series of individual and sectoral sanctions in response to Russia's annexation of Crimea in violation of international law and the territorial destabilisation of Luhansk and Donetsk. But contrary to the sanctions of 2022, the sanctions of 2014 were largely limited to restricting Russian access to EU capital markets as well as trade in military and 'dual-use' equipment and components destined for the Russian energy and oil sector.

Compared to previous sanctions regimes targeted at countries in the EU's immediate geographical neighbourhood, the restrictive measures against Russia therefore differ in at least two ways. First, unlike the sanctions against Syria and Belarus, the EU adopted sanctions not because of domestic developments inside the targeted country, but due to Russia's violent undermining of another state's territorial sovereignty. Second, the economic importance of Russia – a G20 member – as a trading partner of the EU before the use of sectoral measures (EU's 5th largest trade partner in 2021 representing 5.8% of EU goods trade) significantly overshadows that of Belarus (44th/0.3% in 2019) and Syria (50th/0.2% in 2011).¹⁵ Added to this is the EU's significant energy dependency on the import of Russian fossil fuels; the EU has never before directed such comprehensive sanctions measures against a vital trading partner.

The first seven EU sanctions packages against Russia of 2022 – which have been applied cumulatively under five different EU sanctions regimes (four targeted at developments in Ukraine, one targeted specifically at Russia; see Appendix I) – thereby stand out as being among the most comprehensive that the EU has ever introduced. Besides directing entry bans and asset freezes against individuals, companies, and other legal entities responsible for undermining Ukraine's territorial integrity, sovereignty, and independence, EU Member States have agreed on a series of sectoral measures designed to undermine Russia's political, economic, and military interests (table 1). Many sectoral sanctions have also been applied against various non-Government-controlled areas in Ukraine (including Donetsk and Luhansk as well as, since October 2022, Zaporizhzhia and Kherson) and Russia's ally Belarus.

Table 1. Key examples of restrictive EU measures against Russia and non-Government-controlled areas in Ukraine, sanctions packages 1–7

INDIVIDUAL MEASURES 1212 individuals and 108 entities	SECTORAL MEASURES	
Entry bans Bans on entering the EU	Export control Arms and 'dual-use' goods, luxury goods, high-end technology and components to be used in oil refining, energy industry, transportation, aviation and space, and maritime navigation	Financial measures Restricted access to EU capital markets, finance and investment bans, 'de-SWIFTing' and transactions bans against several Russian banks and the Russian Central Bank
Asset freezes Freezes of material and financial assets and the prohibition of trade with and in the EU	Import embargoes Including oil, coal, gold, steel, wood, fish, seafood, and liquor	Transportation and media Closure of EU aviation space, airports, and ports, entry bans for road transport operators as well as the suspension of broadcasting activities of five state-influenced Russian media outlets



Planning sanctions:
**USING ECONOMIC LEVERAGE AGAINST
MILITARY AGGRESSION**

US President Joe Biden, walks with European Council President Charles Michel, March 24, 2022 in Brussels, Belgium.
Photo: White House Photo / Alamy Stock Photo

The EU's sanctions response was both fostered through a close transatlantic coordination and built on existing European experience of applying geoeconomic instruments, not least against Russia and Belarus. In the planning phase, frontline states emerged as the most forceful proponents of targeting both aggressors with as many measures as possible – even if such action would entail substantial costs at home. While rear-guard actors actively supported and advanced the comprehensive planning and transatlantic coordination, they also expressed various levels of concern about playing all their 'sanctions cards' at once in the conflict's early stages. This put a question mark over the EU Member States' ability to forge consensus around a joint set of objectives to guide a key part of their security response to Russia's military aggression.

THE CONTEXTUAL CIRCUMSTANCES: BUILDING ON THE EU'S 'GEOECONOMIC MATURITY'

THE CONTEXTUAL CIRCUMSTANCES

- The Russia sanctions were designed at a time where the EU was growing in 'maturity' in the geoeconomic field.
- Existing EU measures predetermined the focus on sanctions as a key security instrument.
- The required unanimity for adopting restrictive measures meant the sanctions tool was well placed to portray the EU as a unitary security actor.
- The EU's immediate room for primarily geoeconomic responses to Russia's warfare was wider than NATO's military options.
- From the end of 2021 on the EU had no option to walk away from sanctions as a key security instrument – the political space for discussing medium-term scenarios for possible Russian retaliation measures was limited.

The environment within which EU institutions and Member States planned and designed their first seven sanctions packages against Russia was marked by several contextual circumstances. One of these was what observers, particularly in the EU institutions, refer to as the EU's growing 'maturity' at applying geoeconomic leverage in its foreign and security policymaking. In this view, it is not only the EU's increased use of the sanctions instrument itself that has made EU institutions and Member States more sensitive and capable of analysing the intersections between economic

levers and power politics; it is also that the EU has been subject to a broader learning phase of instrumentalising the EU's geoeconomic capacities and interdependencies in its strategic thinking.¹⁶

One emblematic example was the announcement of Commission President Ursula von der Leyen at the beginning of her mandate in 2019, when she proclaimed her aspiration to form a 'geopolitical Commission'.¹⁷ A key element hereof was the aim to enhance the strategic and ends-oriented use of geoeconomic measures and dependencies that are at the EU's disposal, both inside and outside CFSP structures. Besides presenting ideas for improving the institutional capacities to ensure a stronger implementation and enforcement of CFSP sanctions,¹⁸ such ambitions are also reflected in other recent geoeconomic initiatives. One is the currently negotiated 'anti-coercion instrument' (ACI), aimed at countering possible acts of economic coercion by third states against the EU or individual Member States.¹⁹ Another is the EU's new framework for screening foreign direct investment (FDI), operational from October 2020, which sets out minimum core requirements of Member States in terms of considering security implications of foreign investments.²⁰ Both instruments are, not least, to be seen in the context of a growing discomfort about China's rising geoeconomic clout vis-à-vis the EU.

The preparatory transatlantic sanctions coordination fell on a fertile ground ready to be further cultivated.

Focusing more specifically on the sanctions instrument, another key contextual circumstance has been the nature of the relationship between the EU and Russia. Observers across the EU agree that the existing sanctions regimes against both Russia and the non-Government-controlled areas of Ukraine (2014–) as well as Belarus (2020–) made it both politically and legally easier to expand already crafted sanctions measures. At the same time, the existing sanctions pre-determined the EU's main focus of its response to Russia's aggression and Belarus' complicity herein. In other words, the pre-established Russia-targeted sanctions regimes already enforced by the EU – but also deployed by the United States, the United Kingdom, Canada, and others – meant that the planning phase did not begin from scratch. The preparatory transatlantic sanctions coordination fell on a fertile ground ready to be further cultivated. This was not least critical in the weeks before Russia's invasion, where Western leaders clearly signalled to Moscow that further sanctions measures would be invoked should Russia expand its military build-up into Ukrainian

territory. In the EU's frontline states this was understood as a clear signal to proactively plan for hitherto unthinkable sanctions measures against a major, neighbouring economy.

Observers across the EU highlight the different contextual circumstances of the various instruments at the EU's disposal as it sought to fulfil ambitions of acting as a joint security actor. Such differences are evident in observers' comparisons between the two major instruments invoked by the EU: i.e., the financing of military support to Ukraine through the European Peace Facility (EPF) and the economic coercion targeted at Russia through CFSP sanctions. Although the numerous augmentations of the EPF's annual budget for 2022 (from originally EUR 500m in January 2022 to EUR 2.5bn in July 2022) were decided unanimously in the EU Council, the fund's aim remained to reimburse Member States' bilateral lethal and non-lethal military support to Ukraine. But the uneven levels of capabilities and willingness among Member States to actually deliver such military support – most vividly exemplified in the consistent critique, particularly by frontline states, of the German Government's hesitant approach to the delivery of heavy arms – itself portrayed an imbalance in the Member States common stance on the issue. Any use of CFSP sanctions, on the other hand, required a Council decision based on a unanimous vote among Member States. And even if some restrictive measures would only be activated after intense and difficult negotiations, and although some provisions would come to include significant exemptions for specific Member States, the overall impression of EU unity remained: the very use of such sanctions translated into a firm signal of an EU capable of confronting Russia as a unitary security actor.

Such cost–benefit calculations were also affected by the EU–NATO relationship and the respective roles of the two organisations in addressing the evolving security situation at their eastern border. NATO's role as a military alliance meant that allies, particularly in the immediate aftermath of the Russian invasion, concentrated on measures that would limit the risk of further military escalation with Russia and strengthen its eastern flank. With its access to 'softer' instruments in both the civilian and the civilian–military realm, the EU's room for active engagements against Russia was ultimately perceived as significantly wider than NATO's.

At the same time this also meant that the EU, already at the end of 2021, placed itself in a position where it had no option of walking away from the sanctions tool should Russia advance its military aggression. As explained by several observers from both rear-guard and frontline, this dynamic is well-known in other fields of security policy

measures: once a security actor has threatened to use an instrument in case a 'red line' is crossed, any retreat from this position is perceived as weak. Sanctions, however, might be even harder to retreat from than military measures because their possible costs and risks in terms of human lives and economic resources lost would not be immediately felt by the sender.

In other words, the imposition of sanctions seems relatively 'cost limited' at the time of decision taking, largely because their concrete negative economic effects on the sender might be difficult to predict. This pledge before the event, however, also resulted in a very narrow political space for discussing scenarios for how the sanctions' use could trigger retaliations from Russia, both within and beyond the field of economic coercion. As will be discussed below, this lack of articulated scenario-planning reduced the EU's credibility as a sanctioning actor well-prepared for possible Russian countermeasures.

THE OBJECTIVES: BETWEEN INCENTIVISING RUSSIA'S MILITARY RETREAT AND COERCING ITS FUTURE STRATEGIC CAPABILITIES

THE OBJECTIVES

- At an early stage of the conflict, EU policymakers attempted to set out joint guiding principles and overall objectives for their sanctions policy against Russia.
- These yardsticks were, however, insufficient for reaching a detailed and resilient intra-EU consensus about the strategic reasoning behind and approach to the use of sanctions.
- Clear disagreements stand out between rear-guards, mostly favouring a 'step-by-step' approach, and frontliners, mostly arguing for a 'big bang' approach.
- The intra-EU disagreement remains: should sanctions be used to incentivise Russia's military withdrawal from Ukrainian territory or (also) to materially deprive Russia from any future options to again launch an assault against a neighbouring country?

From an early stage of the conflict, EU policymakers articulated two guiding principles for the EU sanctions design: that the restrictive measures should ultimately hurt Russia more than the EU and that the EU should be able to sustain them over time.²¹ Furthermore, the Commission formulated three overall objectives for the sanctions'

intended effects: to cripple the Kremlin's ability to finance the war; to impose clear economic and political costs on Russia's political elite responsible for the invasion; and to diminish Russia's economic base.²² But apart from the first objective, entailing an implicit causality between the Russian state's revenue and its ability to finance its warfare, the stated reasoning behind the EU sanctions did not answer the key strategic question of what their ultimate goal is.

Observers at both the rear-guard and on the frontlines agree that this ambiguity was soon used by Member States to provide cover for an unresolved disagreement about the strategic reasoning and end goal of the EU's massive unleashing of sanctions. Some underline that the quick and forceful use of restrictive measures proved the EU's mature understanding of Russia's interests and weaknesses. In this view, mostly expressed from the rear-guard, CFSP sanctions to economically coerce Russia were an important, but not a self-standing, instrument that was applied alongside other measures. These included the massive budgetary expansion of the EPF as well as the expanded use of development funds to support Ukraine's state finances. Practitioners working in or close to EU institutions particularly highlight sanctions as an important part of the EU's 'holistic' countering of Russian aggression. In this view, the use of sanctions and other geoeconomic tools was flanked by other interventions carried out by Member State ministers with responsibilities outside the traditional field of foreign and security policy, such as justice and home affairs, transport, agriculture, and finance and economics. Measures in these fields were also decided with a view to targeting Russian interests.

Others, mostly rear-guard and frontline sanctions experts at national government level, express critical opinions about what they see as the EU's 'unstructured' and 'non-strategic' application of sanctions and other instruments across various policy fields. According to some observers this did not lead to a joint, cross-EU understanding of which pressure points and incentives Moscow would ultimately react to, but rather to a self-fulfilling, 'more the merrier' dynamic. Such debates on tactical pressure points and incentive structures were tightly linked to more fundamental disagreements about the overall strategic objectives behind the EU's sanctions' use. From an early stage on, EU institutions and Member States disagreed on whether to apply a 'step-by-step' or a 'big bang' approach.

The 'step-by-step', which found most resonance among the rear-guard, focused on the incentive effects and reciprocal value of the sanctions. While agreeing that it would be necessary to 'shock' Russia with massive sanction measures immediately after its military aggression, it would be in the EU's interest to 'save' some potential

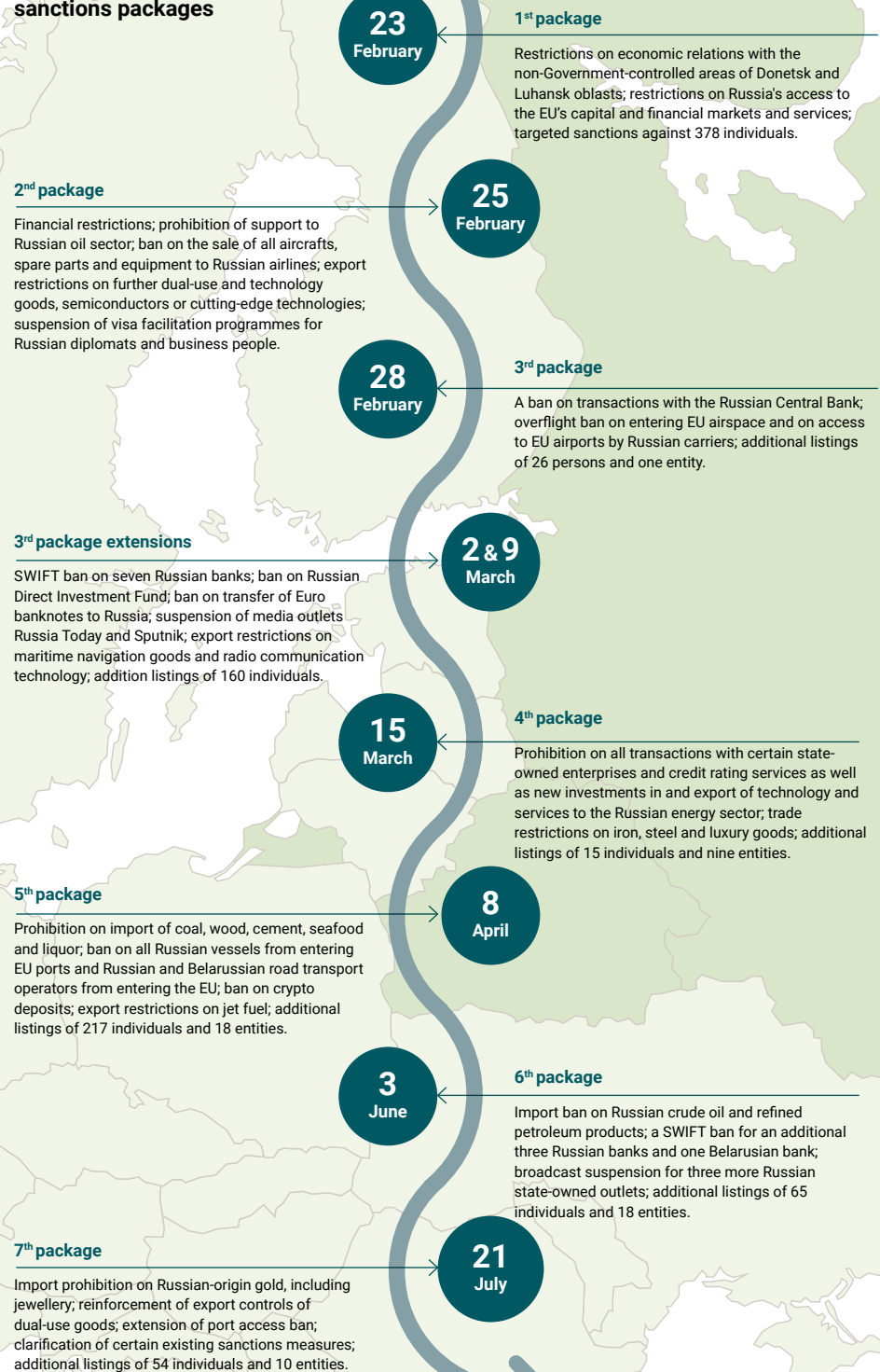
sanctions measures in order to maintain the option to use them in response to future Russian military movements and actions. In this view, mostly found among the rear-guard, it was for example seen as important that the EU still had measures to hand to respond to the horrendous Russian atrocities against Ukrainian civilians in Butcha and Irpin. In Butcha alone, in March 2022 the Russian armed forces killed over 450 local civilians. Applying a reciprocal sanctions approach would, in this step-by-step view, underscore that EU sanctions are formally designed to induce behavioural change on the part of the targeted aggressor.

This ambiguity was soon used by Member States to provide cover for an unresolved disagreement about the strategic reasoning and end goal of the EU's massive unleashing of sanctions.

In contrast to this, frontline state practitioners argued for the need to 'frontload' all EU sanctions measures. According to this view, the Russian military aims in Ukraine had been clear from the outset. At the latest a few weeks into the warfare, it should have been obvious that no economic incentives – positive or negative – would ultimately affect or change Moscow's behaviour. Responding to Russian acts of aggression in reciprocal terms would therefore be a miscalculated sanctions objective. Rather than applying sanctions measures tactically in a tit-for-tat dynamic, the EU should 'go all in' to maximise the economic pressure on Moscow at the earliest moment possible. The logic of this objective was not solely to incentivise Russia to withdraw its military operation from Ukraine, but also to help ensure that Russia will not be capable of launching another military attack against a neighbouring state in any foreseeable future.

In essence, despite the EU's undeniable success at creating both momentum and consensus around a series of heavy sanctions packages, there is a looming intra-EU disagreement over the sanctions' ultimate objective that can be boiled down to two views: either to incentivise Russia to withdraw its military from Ukrainian territory or (also) to materially deprive Russia of any future options to again launch an assault against a neighbouring country. As will be discussed in the report's final chapter, while such strategic disagreements did not overshadow the joint efforts of Member States at establishing the sanctions packages, they might come to play a critical role when sanctions measures are to be confirmed and possibly amended over the coming months and years.

Timeline of the adoption of the EU's seven first sanctions packages



Adopting and implementing sanctions: BALANCING AIMS AND CHALLENGES

As it became evident to EU policymakers in February 2022 that Russia was definitely going to move troops and military material into Ukraine, the sanctions threat – which had originally been put forward as a deterrent against a Russian invasion – immediately became a security instrument in force. Thereby, the negotiation environment also shifted into an adoption phase dominated by enormous political and time pressures. Furthermore, the burdensome task of implementing the largest, and most rapidly evolving EU sanctions regime ever, affected EU Member States unequally, not least depending on the type of sanctions in question: banning the physical entry and freezing the financial assets of Russian individuals proved very different to enforcing prohibitions on imports and exports of physical goods into the EU. Frontline states – having tightly integrated cargo and trade infrastructures with Russia and Belarus – in many cases had different experiences and assessments of the process than did Member States less physically integrated with the sanctioned targets.

THE ADOPTION PROCESS: MULTILAYERED AND ACCELERATED COORDINATION OF DECISION MAKING

THE ADOPTION PROCESS

- Faced with the Russian warfare, the political pressure on EU governments to 'do something' was immense – in the first month after the Russian invasion, Member States were therefore ready to accept almost any sanctions measure proposed.
- The initial confidentiality of sanctions negotiations derailed after the Russian invasion commenced – it remained limited with Member States actively using media leaks to enhance pressure on each other.
- The Commission took and maintained an unusually leading role in the adoption process, which was further enhanced by its coordination efforts with G7 interlocutors at all levels.
- Normal negotiation procedures in technical working groups were circumvented to enhance efficiency and reduce the risk of 'watering down' attempts by Member States.
- Possibly relevant security experts, such as EU ambassadors responsible for foreign and security policy, were less involved in the deliberations.

Faced with the emerging horrors of large-scale warfare in its immediate neighbourhood, the political pressure on EU policymakers to 'do something' and show a tangible determination ('we mean business') was immense in the first days and weeks after the Russian military escalation. This pressure was palpable both among heads of state and governments in the European Council and among foreign ministers in the Foreign Affairs Council. Both formats convened four times in February and March 2022, underlining the urgency of the evolving situation. In the words of one rear-guard diplomat, it was hoped that unleashing substantial sanctions would 'significantly widen the EU's political room for manoeuvre in the short term'.

The immense political pressure furthermore meant that in the first month after the Russian invasion, Member States would accept almost any sanctions measures proposed. This was particularly the case for the adoption of the first two sanction packages, which had been negotiated and coordinated in deep confidentiality with the United States in the weeks before the Russian invasion. According to one rear-guard diplomat, in the period from late February to early April, 'hawkish' frontline governments would send 'their wildest sanctions dreams' to the Commission, who

would then, more often than not, include them directly into the proposed sanctions package. Opposition or doubts from rear-guard actors about specific measures were, effectively, brushed aside – such as, for example, German concerns about abruptly excluding Russian banks from the SWIFT system because of the possible negative consequences for EU economic operators and creditors still active on the Russian market.

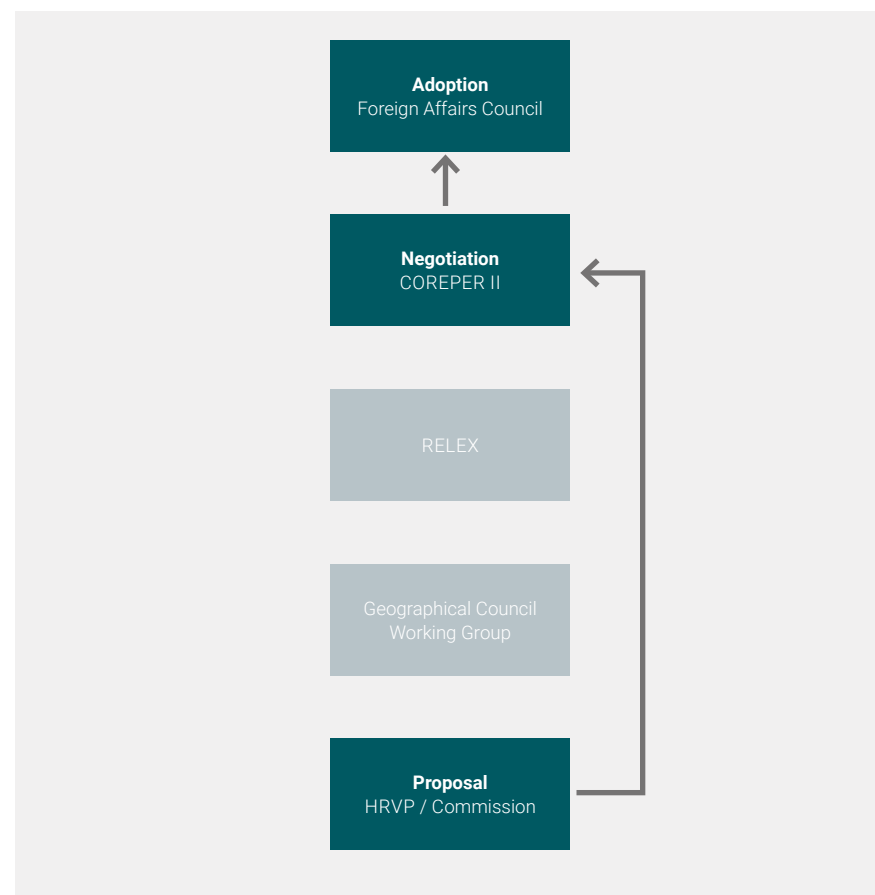
With the notable exception of proposed sanctions on the import of energy products (i.e., natural gas, oil/petroleum products, and coal), the first months after the Russian invasion constituted a period of 'self-fulfilling prophecies': once a proposal was tabled, little room was allowed for critical conversations about whether a specific measure should be applied, but rather discussions focused on when and how a proposed measure would be adopted. Leaks to media outlets of tabled proposals, such as specific individual listings or export control measures, would put further pressure on those expressing reservations at the negotiating table. Frontline diplomats affirm that the tactic of sharing early sanctions proposals with media representatives was a deliberate one. Unlike other more traditional fields of security policy, the confidentiality of EU sanctions negotiations hence remained limited.

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In what observers generally recognise as an attempt to uphold confidentiality in the early adoption phase, marked by a hectic political atmosphere, Member States accepted – and mostly supported – a more proactive and central role of the Commission throughout the whole adoption process as only a few trusted civil servants in the Commission, who generally 'kept their cards close to their chests', were part of these informal deliberations. As a result of this von der Leyen's cabinet emerged as the only actor with an overview of the 'negotiation landscape', which gave an unprecedented weight to the Commission over Member State representatives – particularly when compared to traditional CFSP decision-making processes.

In the face of the perceived time pressure, and concerned about the risk of giving Member States any unwarranted opportunity to voice respective national interests with a view to watering down the tabled sanctions proposals, the Commission hence advanced a negotiation process whereby it would send new draft packages directly to COREPER II, effectively circumventing normal deliberations at working group levels (figure 5). Proposals would, for example, be sent to Member States in the morning hours, calling for a COREPER II meeting on the same afternoon. Based on preliminary negotiations among ambassadors, a new proposal would be tabled, a few hours later, for final agreement. A brief written procedure would secure its formal adoption at the ministers' level, meaning that the legal acts could be published in the 'Official Journal of the European Union' shortly thereafter. Formal processes that would traditionally take several weeks were concluded within a day.

Figure 5. Informally modified adoption process of CFSP restrictive measures against Russia



The Commission's emerging key role was further enhanced by its early coordination efforts with third state interlocutors at all levels. Although sectoral sanctions measures are formally to be proposed by the HRVP or the Commission, transatlantic coordination deliberations have traditionally been a task for large Member States such as Germany, France and – pre-Brexit – the United Kingdom. Results of such coordination efforts would then subsequently be communicated to other EU institutions and Member States, feeding directly into the planning and adoption phases. The Commission's enhanced transatlantic coordination role in late 2021 and early 2022, consequently meant that some Member States – particularly those with more limited capacities for collecting and comparing informal information from Brussels-based interlocutors – were more in the dark than others about proposed measures right up until the moment when new sanctions proposals were tabled by the Commission.

Formal processes that would traditionally take several weeks were concluded within a day.

Some observers, particularly from the rear-guard, further problematise not only the unique process that centralised decision-making at the COREPER II-level, but also that EU ambassadors responsible for foreign and security policy are generally little involved in sanctions deliberations. Contrary to other CFSP instruments – such as statements, political conclusions, negotiation mandates etc. – which are solely political or diplomatic in nature, the decision-making process behind restrictive measures does not formally involve the Political and Security Committee (PSC). While PSC ambassadors are normally responsible for drafting EU foreign and security policy positions and coordinating CFSP matters with the EU's military structures, such as the Political-Military Group (PMG), the PSC plays no formal role in the legal decision-making process that is required for most sanctions adoptions. As will be discussed, the efficiency of the informally modified adoption procedure came at the cost of precluding broader expertise on possible security-related risks or potential unintended consequences.

In sum, while it is generally acknowledged that the adoption process led to unusual forms of cooperation and institutional ownership, observers draw different lessons from these institutional developments. While rear-guard representatives generally express concerns that the institutional balance in a key CFSP matter might have shifted irreversibly ('Member States have ceded way to the Commission for good'),

frontline representatives, particularly from the Baltic states, evaluate the Commission's stronger engagement positively, not least in terms of providing a 'bulwark' against the domination of larger Member States' interest in the sanctions design process. In any case, such different views demonstrate that the new institutional realities within the CFSP, forged by the Russia crisis, need to be openly addressed and evaluated, both between EU institutions and among Member States in the Council.

THE OBSTACLES TO IMPLEMENTATION: THE DIFFICULT PATHWAY TO SANCTIONS

THE OBSTACLES TO IMPLEMENTATION

- Across the EU, few national authorities were fully prepared for the massive implementation task but, mostly, learned to navigate the new reality as it unfolded.
- With public and private actors needing help to decipher the practical implications of the sanctions measures, the Commission enhanced its technical guidance to previously unseen levels.
- Several frontline states had to create new 'sanctions laws' to better define responsibilities and decision processes among the many implementing authorities.
- Frontline customs authorities were soon faced with two major challenges of checking the major trade flows: dual-use qualities and circumvention through third states.
- Given the sheer numbers of sanctioned Russian individuals and entities, the market actors and financial intelligence units (FIUs) responsible for monitoring asset freezes and ownership structures were often overburdened.
- Some frontline states experienced particular security risks of frozen Russian assets – such as the enforced storage of explosive fertilisers in an Estonian port.

Any policy implementation will eventually face obstacles. However, in the case of the unprecedented Russia sanctions, EU institutions and Member States were faced with an unusual burden, catching some actors wrong-footed. Implementation difficulties struck differently across the EU according to the sanctions in question (asset freezes, trading of goods, financial services, etc.) A key lesson for both the rear-guard and the frontliners was that national authorities were rarely fully prepared for the implementation task and on the whole learned to navigate the new reality as it unfolded.

At the EU-level, the quick adoption of numerous and very comprehensive sanctions decisions and regulations – formulated in the technical jargon of EU law – enhanced the need for ensuring proper legal guidance from the EU institutions to economic operators, businesses and national authorities. After the first weeks of implementation, where it became increasingly clear that domestic actors would need help to decipher the practical implications of the sanctions measures, the Commission created unprecedented amounts of FAQs, legal guidance, and relevant technical explanations. This proactive, hands-on, approach from the Commission was a novelty: in implementation phases of previous sanctions regimes EU institutions had been criticised for providing little additional explanatory documentation, leaving public and private actors with uncertainties and, more problematically, space for interpretations of the relevant legal acts that could lead to counter-productive behaviour and, ultimately, cases of (unintended) sanctions violations.²³

In several frontline states, unpreparedness was also found at the legal level. Several domestic judicial frameworks for sanctions implementation turned out to be inadequate to cope such a large extent of restrictive measures to be implemented at once. In both Latvia and Lithuania, 'sanctions laws' had to be rapidly amended to better define responsibilities and decision processes among the many authorities who came to be involved in different aspects of the implementation task. For example, the existing Latvian legal framework did not sufficiently authorise domestic institutions to grant Latvian economic operators exemptions from certain sanctions provisions, even if this would be permitted under the EU legal acts in place. In hindsight, such legal amendments would have been more effective had they been concluded before the Russian invasion. But the political demand for such changes had been low: neither the 2014 Russia sanctions and the early Belarus sanctions, which had been very targeted and hence limited in scope, nor the more encompassing EU sanctions regimes against Syria and Iran, with which the Baltic states had only negligible trade relations, had put these countries face-to-face with an implementation challenge on the scale of that of 2022. In other words, it was only when they became frontline states of sanctioned targets that the need to modernise relevant legal frameworks became evident.

The enforcement of trade-related sanctions at land corridors and ports would become a particular burden for Member States neighbouring Russia and Belarus. Customs authorities in frontline states were soon faced with the demand to significantly scale-up human resources and switch their overall working objective from 'trade facilitation' to 'sanctions enforcement'. Two major aspects of customs controls proved to be particularly complicated:

First, the burden of checking whether a particular good has dual-use qualities. Unlike goods that are restricted for import or export through standardised codes, the so-called 'Combined Nomenclature' (CN), dual-use goods are not subject to similar classification. Their dual-use capacities are determined on a case-by-case basis. Frontline authorities here experienced a concerning uptick of cases involving companies from the EU's rear-guard, e.g. Germany, France, and Italy, that would file their customs clearances in the Baltic states. While not illegal, frontline customs authorities became concerned that such changing export practices are aimed at causing disturbances to standard procedures and hence could be a fig leaf for malign behaviour and attempts at subversion, particularly of dual-use sanctions.






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A second, and closely related, aspect concerned the customs control over false origins or destinations for sanctioned goods in third countries. Customs authorities, both in EU institutions (such as DG TAXUD) and frontline states vest great confidence in the algorithms of the EU customs tariff system TARIC, which helps to 'flag' unusual trade patterns or behaviour, both in terms of imports from and exports to Russia and Belarus. But since such 'flags', in the most severe cases, need to be followed up with demanding and time-consuming physical checks of the cargo in question, frontline states soon experienced enormous queues of trucks at the few border customs crossings still open to Russia and Belarus. This also impeded the flow of non-sanctioned trade, effectively causing negative economic effects beyond the intended sanctions provisions.

The enforcement of financial sanctions against listed Russian individuals and entities soon became another obstacle, one that largely impacted frontliners and rear guards equally. EU sanctions not only demanded the freezing of assets inside the EU but also prohibited any funds or assets being made available for listed individuals or entities. Given the large numbers of listed Russian individuals and entities, and because of the typically inscrutable ownership structures of international businesses, both market actors and financial intelligence units (FIUs) responsible for monitoring possible sanctions violations were often overburdened with the task. In some countries, e.g. Germany, relevant legislation and new agencies also had to be created to ensure a comprehensive and effective enforcement of asset freezes.²⁴ Added to this, observers report cases in which FIUs across Member States could not agree on interpretations of when a specific entity's ownership structure should be sanctionable or not. In the view of frontline practitioners, some rear-guard authorities would often apply less rigorous interpretations. This intra-European disagreement on how strictly the sanctions measures should be interpreted led to frustration among both FIUs and private financial institutions, proving the point that uneven sanctions enforcement across the EU remains a pertinent issue.

Although the implementation of financial sanctions became a challenge for all Member States, existing trading structures put some frontline states in particular difficulties. Both the Estonian Port of Muuga in Tallinn and the Latvian Port of Riga, for example, experienced large amounts of fertilisers – owned or handled by companies with ties to sanctioned Russian oligarchs – getting 'frozen' in their storage facilities. In Muuga, this included 12,000 tons of ammonium nitrate, similar to the fertiliser material that had caused the massive 2020 explosions in the Port of Beirut. Estonian authorities have probed the possibility of permitting the fertilisers to be sold due to environmental concerns. The security risks behind such asset freezes stand in stark contrast to the less dangerous, albeit often legally complicated, task for rear-guard EU Member States to confiscate Russian-owned yachts and properties. It serves as an example of how sudden halts to value chains and trading routes leave public authorities with unforeseen – and sometimes burdensome – responsibilities.

Evaluating sanctions:
UNDERSTANDING INTENDED AND UNINTENDED RESULTS

-  Capitals
-  Key cargo ports
-  LNG terminal
-  Road custom crossings
-  Railway through Suwalki Gap



Early attempts to evaluate the political and economic effects of the Russia sanctions proved no easy task. Actors across the EU drew different conclusions about their effectiveness and viability. At the same time, discussions emerged about the negative effects on different EU Member States. Although felt in many parts of the EU, frontline states experienced particular difficulties in specific economic sectors, not least those related to existing trade infrastructure with their two major neighbours, Russia and Belarus. Some serious unintended effects of the EU sanctions policy emerged, which became particularly visible in Lithuania and with the high-scale confrontation with Russia over the sanctioning of Kaliningrad.

THE EFFECTS: ASSESSING PRELIMINARY RESULTS IN RUSSIA AND AT HOME

THE EFFECTS

- Initial assessments of the sanctions' effects on Russia's economy gave no clear picture – frontline states argued that credible sanctions should have included complete import bans on Russian fossil fuels.
- Frontline states had already experienced negative effects from ceasing economic relations with Russia before 2022 – but specific sectors and industries were negatively affected still further.
- There was general consensus among frontline and rear-guard actors that the effects of individual sanctions will predominantly remain symbolic.
- A staunch belief among frontline states that, in the political long-term, sanctions can have the effect of catalysing a governance collapse in Russia.
- Rear-guard states criticised a decreasing focus on the possible negative humanitarian effects of sanctions while frontline states argued that concern for reducing the effects of sanctions on the general Russian population should be of less importance.

The economic effects and collateral damage caused by sanctions have traditionally been difficult to measure and hard to predict – and sanctioning of a major economy and the EU's largest neighbour has proven no exception. Various economic assessments of the sanctions' effects on Russia have shown a murky picture: while

some attest to a significant contraction of the Russian economy – and predict this to continue in the medium and long term – others highlight Russia's surprising resilience to the coercive pressure.²⁵

Reflecting further on Western attempts to discourage Russia's military advances through sanctions threats, frontline observers tend to evaluate the effects of such forms of geoeconomic deterrence with some scepticism. Strongly minted statements from early 2022 and onwards, particularly made by US lawmakers and government officials, helped to demarcate the Western partners' position, but also raised expectations which – in the end – would not be fulfilled. Although it is generally acknowledged that the sanctions response of the EU and its partners has been significant, the announced 'mother of all sanctions' should, in the view of frontline states, have included a full embargo on the aggressor's main revenue sources in the form of fossil energy resources to be credible. Not least due to heavy opposition from energy-dependent Member States, spearheaded by Hungary, such imports from Russia were either not restricted (gas) – or only partially and/or with some delay (oil/coal).

In the words of one diplomat, the implementation of sanctions would only succeed through the 'Daft Punk' method: sanctions need to be 'harder, better, faster, stronger'.

In the first six months of the EU's extended sanctions against Russia the general uncertainty about their effectiveness and economic impact gave rise to greater frustration among the EU's rear-guard than at its frontline. Citing widespread support in civil society and the private sector for keeping up sanctions pressure on Russia, frontline observers generally interpret any indication of Russian economic resilience as evidence for the need to further increase the EU's coercive measures. In their view, the Russian economy would 'bleed out' over time if the sanctions pressure was upheld and amplified. In the words of one diplomat, the implementation of sanctions would only succeed through the 'Daft Punk' method: sanctions need to be 'harder, better, faster, stronger'.²⁶ Such medium- to long-term patience was more challenged among the EU's rear-guard, where public opinion – particularly in Hungary and the Czech Republic, but also in Germany and France – would soon become more critical towards the strategic reasoning behind, and hence the viability of, the EU's sanctions policy.

The widespread public support in frontline states for a strict sanctions approach is generally perceived to be fed by three conditions: First, deep-rooted concern and – for older generations – lived experience of Russian acts of military aggression and occupation, only ending after the collapse of the USSR in 1991. A strong sanctions posture is not only seen as a rational security measure, but also as a moral and emotional stance that symbolises the holding of ranks in opposition to an external aggressor. Second, an acknowledgment that decoupling from economic interdependencies with Russia should have been a strategic aim for the EU since the beginning of the 21st century. The Baltic states and Poland largely initiated such economic decoupling processes after the Russian banking crisis in the late 1990s and accelerated it further after Russia’s military involvement in Georgia (2008–) and Ukraine (2014–).²⁷ And thirdly, although frontline states are engaged in the diversification of their energy sources away from dependency on Russian fossil fuels to different degrees, all frontline states have, as a result, already experienced monetary costs and energy insecurities in previous decades.²⁸ In other words, frontline states, albeit to varying degrees, had already experienced the negative economic and social effects of lowering trade, financial, and energy relations with Russia before 2022. Therefore, the measure of empathy with rear-guard states still subject to structural vulnerabilities to the Russian economy and energy resources, was limited among many frontline observers: ‘it is not up to us to pay for the miscalculation of others’.

Belief in the effect of individual sanctions as drivers of domestic pressure on the government in Moscow diminished across the EU after a few months of implementation.

At the same time, all frontline states were still, in early 2022, subject to a range of sector-based trade dependencies on their neighbours Russia and Belarus, meaning that specific economic sectors – particularly in the fields of transport, energy-dependent industries, and infrastructure – experienced negative economic effects due to the EU sanctions policy. A few country-specific examples emphasise the point (box 2).

BOX 2. EFFECTS OF SANCTIONS ON INFRASTRUCTURE AND THE TRANSPORT SECTOR IN FRONTLINE COUNTRIES

With **Estonia’s** high dependency on the import of, mostly unsophisticated, Russian products that are difficult to diversify without significant premiums – such as metal, timber, oil/fuel, etc. – observers forecast the additional direct and indirect costs from the sanctions policy for the Estonian economy at 10%. Estonia’s north-east, where a major proportion of its significant Russophone minority lives, is particularly negatively impacted. One example is the port of Sillamäe, located 25 km from the Russian border, where turnover has been significantly reduced.

In **Latvia**, state authorities estimate that businesses providing 30–35% of the state’s tax revenue (approx. 172,000 employees) are involved in, affected by, or connected to trade with Russia, Belarus and Ukraine – a total of 4,000 companies of whom 700 are involved in such trade with more than 50% of their activities. Transport companies and hubs are among the most affected; the port of Ventspils, a trading hub for chemicals, has faced a 50% reduction of activity.

For **Lithuania**, the Russian market was a key destination for export of goods from other EU countries in particular, amounting to more than EUR 4bn in 2020. The Lithuanian transport sector has been highly dependent on trade with Russia and Belarus; the port of Klaipėda traditionally served as a key hub for Belarussian fertilisers, meaning that a third of its traded goods used to be of Belarussian origin.

In terms of political effects, a lack of confidence developed across the EU. Observers soon came to realise that any sanctions engagement will potentially only pay off in the longer run. Belief in the effect of individual sanctions as drivers of domestic pressure on the government in Moscow diminished across the EU after a few months of implementation. Most sanctions experts, both rear-guard and frontline, have come to the conclusion that the effect of individual measures against Russians who support the war will remain largely symbolic.

Unsurprisingly, the staunchest believers in the causal effects of sectoral measures are found among the frontline states, where observers remain steadfast in underlining that the conglomerate of international sectoral sanctions will play a key role in an eventual governance collapse in Russia. Yet many, both at the frontline and in the rear-guard, continue to question whether the EU’s political unanimity behind the sanctions policy will last for the period that it needs to if the restrictive measures are to unleash their potential political and economic impact.

Broader humanitarian effects of financial and economic sanctions have traditionally been a matter of heated political debate, e.g. in the context of sanctions targeted at Iraq (1990s), Afghanistan and Iran (2000s), and Syria (2010s). Humanitarian exemptions, such as excluding the sanctioning of vital civilian goods such as food and medicines were also part of the earliest sanctions deliberations before the Russian invasion. Some rear-guard observers complain that this humanitarian focus has decreased significantly in light of Russia's escalating and brutal military endeavours. Contrarily, for many frontline observers an overt focus on reducing negative impacts on the broader Russian population is seen as futile and misguided. The first months of warfare have, in this view, demonstrated that Europe is no longer just confronted with 'Putin's War' but with 'Russia's War', i.e. the widespread public support in Russia for the military aggression against Ukraine has justified that sanctions impact negatively not only on the regime in Moscow, but also on Russian society as such. In other words, the intra-European dissonance over the objectives of the sanctions has a direct bearing on the (moral) assessments of their effects.

THE UNINTENDED DYNAMICS: THE 'KALININGRAD QUESTION' AND OTHER SECOND ORDER CONSEQUENCES

THE UNINTENDED DYNAMICS

- The high frequency and speed of sanctions implementation left little time for practitioners to monitor and evaluate possible inadvertent effects – observers call it 'sanctioning in a tunnel'.
- The quickly deteriorating process around the 'Kaliningrad question' – where Russia reacted with undisclosed threats in response to initial indications of a widespan ban on the transit of persons and freight – demonstrated how the EU's attempt at the 'sanctioning of warfare' also risks bringing warfare closer to its own frontlines.
- The process bears testimony to a lack of integration between geoeconomic and military structures, both within the EU and between the EU and NATO.
- European companies would soon cut ties with and start to sell assets held in Russia, even if the business practices in question were not prohibited by the EU sanctions measures.
- Financial 'de-risking' of banks particularly had pervasive effects for frontline states with high levels of person- or business-related integration in border regions.

Sanctions experts across the EU affirm that the abhorrent news from the battlefields in Ukraine, and the pressure for the EU to respond with new sanctions, did not allow sufficient time to evaluate how one sanctions package played out in real life before the next sanctions package was already adopted. The scope and speed of the EU's Russia sanctions therefore not only challenged implementation actors, but also came to form part of, or even initiate, unintended dynamics and second-order consequences that had – in all probability – not been foreseen by decision-makers at the time of sanctions adoption. This not only put enormous pressure on those practitioners in EU institutions and Member States responsible for drafting consecutive packages at a high frequency, but also reduced their capacity to monitor the effects and inadvertent results that followed from the EU's unleashing of such substantial financial and trade restrictions in a short time span. In the words of one rear-guard diplomat, 'we were constantly sanctioning in a tunnel'.

Seen from the isolated perspective of security policy, critical sanctions developments particularly came to unfold around the handling of the Kaliningrad oblast, an exclave of the Russian Federation situated between Lithuania and Poland on the Baltic Sea. The question of how to guarantee transit of persons and freight between Belarus and Kaliningrad through the so-called 'Suwalki Gap' (between Lithuania and Poland) had already been a key negotiation point between the EU and Russia in the lead-up to the EU accession of ten new members (most of which also joined NATO at around the same time), including Lithuania and Poland in 2004. Given that Kaliningrad's land borders would in future be encircled by EU and NATO territory, an EU–Russia agreement of 2002 regulated the transit via road and rail, the latter running through Lithuanian territory.²⁹ This physical connection would soon move centre stage in the looming conflict. In June 2022, the Lithuanian State Railway informed the Governor of Kaliningrad that it would enforce provisions of the EU's fourth sanctions packages (adopted on 15 March), banning the overland railway transit from Russia and Belarus of sanctioned goods. Together with the enforcement, in July, of the fifth sanctions package (adopted on 8 April), this affected the transit of wood, concrete, cement, metal, coal, alcohol, certain industrial chemicals, and advanced technology.

Already after Lithuania's first announcement, the Russian Government stated that without a reversal of the transit ban, 'Russia reserves the right to take actions to protect its national interests'.³⁰ Further Russian statements alluded to possible military retaliation against Lithuania, demonstrating how the EU's attempt at the 'sanctioning of warfare' bore the risk of bringing actual warfare to its own frontline borders. Such unconcealed threats became an issue for NATO as well: while Lithuania maintained that it was simply implementing joint EU sanctions provisions

and refuted any attempt by Russia to make the dispute a bilateral Russo–Lithuanian issue, EU rear-guard actors – including the EEAS – publicly signalled that they would ‘double check’ the matter.³¹ Lithuania’s hard stance was ultimately toned down through backchannel interventions by the US, uninterested in making the Kaliningrad question a geopolitical contestation point in an already tense situation. The issue was finally resolved through a technical intervention by the Commission, who on 13 July published an updated guidance to Member States, essentially confirming that rail transits to Kaliningrad should not be prohibited, although only in volumes that do not exceed the averages of the previous three years.³²

The unanticipated process that unfolded in June and July 2022 carries some lessons, not least for the resolution of defence-related consequences of geoeconomic instruments. Why did the sensitive ‘Kaliningrad question’ become entangled with the EU’s sanctions response to Russia in the first place? Observers across the EU affirm that possible security issues relating to the Suwalki Gap were not raised as ‘red flags’ during the adoption processes preparing for the fourth and fifth sanctions packages. Although such claims are disputed, some speculate that the Lithuanian delegation intentionally did not raise the issue as such concerns could negatively hamper the key objective of frontline states, i.e. to harm Russia economically to the greatest extent possible. Others ponder whether the issue was simply ‘forgotten’ in the hasty attempt to setting up unprecedented sanctions measures in record time and that trade experts from the Commission did not have security-related issues at the top of their minds. In any case, the process testifies to a lack of integration between the EU’s geoeconomic and its security- and military-related structures, both within the EU’s own institutional setup as well as between the EU and NATO.

The unanticipated process that unfolded in June and July 2022 carries some lessons, not least for the resolution of defence-related consequences of geoeconomic instruments.

At the non-governmental level, sanctions responses from EU market actors, consumers, and market operators triggered certain ‘snowball effects’, which proved hard to control and navigate for public and private actors alike. One key example was the widespread business and consumer boycotts of goods produced or sold in Russia. In the first week after the invasion many European companies would cut ties with and start to sell assets held in Russia, even if the business practices in question were not prohibited by the EU sanctions measures. Some businesses would engage

in outright ‘over-compliance’, severing Russian business relations to reduce any exposure to possible sanctions measures. Others acted on moral imperatives. Observers agree that the strong focus by EU policymakers on sanctions as a key security instrument, if anything, further spurred the private sector perception of the need to reduce operations that would create revenue for Russian economic actors and, ultimately, the Russian state. Observers from both the rear-guard and the frontline note how these dynamics impacted unevenly across the EU, with consumers in the Baltic and north-western Member States being particularly demanding when it came to clear responses from their domestic businesses.

Over-compliance in the context of sanctions policies is a particularly well-described phenomenon in the financial world, where banks and financial institutions reduce their exposure to possible prohibitions.³³ Such forms of ‘de-risking’ happened across the EU – but had particularly pervasive effects in frontline states with high levels of person- or business-related integration in border regions. Quick decisions by Baltic banks to halt most money transfers to and from Russia came to pose problems for individuals and companies still dependent on financial integration with Russia. For example, for Russian businesses operating in the state-sponsored industrial parks in Estonia’s northeast; for the sizable Estonian community living in Saint Petersburg; for individuals of Latvia’s Russian minority in and around the largely Russophone city of Daugavpils; and for the state-owned Lithuanian Railway providing services in the Suwalki Gap for Russian and Belarussian operators. While modest in numerical terms, Estonian and Latvian Government observers in particular recognise that possible tensions arising from the rapid financial decoupling with Russia could lead to anti-government and pro-Russian sentiments among Russophone minorities, many of whom already live in the countries’ least wealthy regions. A further deterioration of the living conditions in these regions could therefore, in the view of policymakers in frontline national governments, entail a further unintended security issue of their own. It thereby exemplifies how joint EU sanction measures might affect local communities in EU Member States in significant, if often unintended, ways.



Looking ahead: **FURTHER INTEGRATING ECONOMIC COERCION WITH EUROPEAN SECURITY**

RECOMMENDATIONS

1. Policymakers' assessments of the contextual circumstances should include scenario planning for any potential 'tit-for-tat' dynamic that could arise with the target of sanctions – both inside and outside the geoeconomic field.
2. Pro-sanctions EU Member States should focus on fostering smaller coalitions that stand fully behind joint sets of sanctions objectives.
3. Decision-making processes in times of a security crisis should better integrate experts on trade, security, and defence policies from various parts of the EU system.
4. Member states should proactively improve national sanction laws and 'feedback loops' to mitigate future implementation obstacles.
5. Sanctions work through long-term, strategic effects and should not be implemented reactively as reciprocal answers to tactical developments on the battlefield.
6. Policymakers should communicate more clearly about any significant risks sanctions may hold of unleashing unintended dynamics.

Presenting a final verdict on the overall success of the EU's sanctions policy after only six months would be futile. The real effects of sanctions can only be meaningfully judged in the longer term, particularly when they come in the form of major market interventions. Therefore, the present report's findings should not be read as arguments for or against using sanctions as a security tool, but rather as propositions for how to improve the EU's use of economic coercion where it intersects with European foreign, security, and defence policy objectives.

Based on the lessons drawn from each of the three investigated policy cycle phases, the report concludes with six recommendations that policymakers can take into consideration when aiming at advancing EU economic coercion policy where it intersects with European security in the future, both in and beyond the context of Russia.

PLANNING SANCTIONS

1. Policymakers' assessments of the contextual circumstances should include scenario planning for any potential 'tit-for-tat' dynamic that could arise with the target of sanctions – both inside and outside the geoeconomic field. It is a general aim of EU sanctions policies to invoke a 'behavioural change' in the targeted individuals, entities, or states. But sometimes sanction targets retaliate, themselves becoming a sender of sanctions or other security-related counter-measures. With Russia, the EU experienced how the geoeconomic targeting of another major economy led to just such a 'tit-for-tat' dynamic, especially where the target itself had the capability to respond with the weaponisation of various forms of inter-dependencies. Policymakers should continuously recognise own vulnerabilities and situate the use of sanctions within a dynamic of possible conflict escalation. This is especially crucial in cases where vulnerabilities will impact negatively on EU Member States in asymmetrical ways. For example, rather than emphasising that Russia's cessation of gas deliveries to Europe are not a result of EU sanctions – because gas deliveries have not been included in the EU sanctions packages – policymakers should recognise that a major use of sanctions heightens the risk of repercussions from the sanctions target, both inside and outside the geoeconomic playing field. Partly disclosing such thinking would not be a sign of weakness but rather would prove that EU policymakers engage in contingency and scenario planning that takes the wider public on board.

2. Pro-sanctions EU Member States should focus on fostering smaller coalitions that stand fully behind joint sets of sanctions objectives. Despite diverging views on the need for completely rupturing economic ties with Russia, EU members succeeded in quickly agreeing on numerous sanctions measures. This success notwithstanding, Member States should remain committed to forging consensus around the ultimate aims of their joint deployment of sanctions. If this cannot be reached among all 27 Member States, pro-sanctions Member States should not be too wary of allowing country-specific concessions to sanctions-sceptical Member States, but only if these, in turn, commit to upholding the EU's formal unanimity over time. Even if such concessions might 'weaken' and slightly reduce the overall economic effect of the sanctions policy and portray the EU as less of a unified actor than at the beginning of Russia's aggression, such short-term drawbacks will be minimal compared to the long-term political and economic risks that an ultimate disruption of the sanctions regime would entail. The primary aim of a pro-sanctions coalition – that should include both frontline and rear-guard states – should be to find a political equilibrium within the Council that will remain unwavering in the long term. Considerations of this nature are not least necessary when recognising that key elements of the EU Russia sanctions have to be renewed every six months – with the next time upcoming in January 2023.

ADOPTING AND IMPLEMENTING SANCTIONS

3. Decision-making processes at times of a security crisis should better integrate experts on trade, security, and defence policies from various parts of the EU system. The EU demonstrated – and valued – quick and effective adoption of the series of sanctions packages. The informal institutional innovation that centred sanctions consultations at the COREPER II level was therefore a pragmatic and understandable move. However, cases such as the 'Kaliningrad issue' pertinently illustrate the need to enhance the role of security and defence experts in crisis consultations. EU sanctions are, in essence, for their most part legal acts that regulate the EU's internal market. But economic and financial considerations, vulnerability assessments, and impact analyses cannot stand alone. When the EU responds to military warfare with geoeconomic measures, hasty negotiations among trade and energy experts should not come at the cost of excluding expertise on scenario forecasting and risk assessment in the field of security and defence. Therefore, in cases where decision-making procedures are short-circuited to the COREPER II-level, it should as a minimum be mandatory to include PSC ambassadors and representatives of the political-military group in consultations. Furthermore, collaboration between various council formations – such as FAC, FAC Defence, FAC Trade, and the council of Transport, Telecommunications and Energy (TTE) – could be enhanced through the calling of operational 'jumbo meetings' to take stock across involved policy fields, while keeping the looming bureaucratic burdens of such exercises to a minimum.

4. Member states should proactively improve national sanctions laws and ‘feedback loops’ to mitigate future implementation obstacles. Both before and after the commencement of Russia’s invasion of Ukraine, frontline states proved to be the most vocal proponents of strong sanctions measures. At the same time, given their land borders with Russia and Belarus, they also became the most exposed to implementing the wide-spanning trade restrictions. Nonetheless, they were not always prepared, either in terms of legal framework conditions or in terms of human resources. Just as the use of military power requires careful planning, the use of economic power also hinges on the assurance of suitable conditions and resources. Many obstacles to sanctions implementation could have been mitigated had Member States, both frontline and rear-guard, ensured that updated national legal sanctions frameworks were in place at an earlier stage. This lesson should serve as an incentive for all Member States to proactively ensure that their national legal frameworks for implementing and enforcing large-scale sanctions regimes are adequate. Furthermore, the EU must continue to improve information-sharing, both between Member State authorities and with Brussels-based institutions about possible implementation difficulties. Such ‘feedback loops’ help to ensure that Member States harmonise their implementation and enforcement approaches to the largest extent possible.

EVALUATING SANCTIONS

5. Sanctions work through long-term, strategic effects and should not be implemented reactively as reciprocal answers to tactical developments on the battlefield. Isolating the economic effects of sanctions is a murky business, both in the long term and particularly in the short term. A few weeks into the conflict EU policymakers and diplomats came to realise that neither the threat of sanctions, nor the actual deployment of sanctions, would ultimately change Moscow’s immediate military behaviour. But this realisation of the limitations of sanctions as a short-term measure did not always translate into practice in terms of public communication: sanctions packages would often be politically framed as being adopted in ‘response’ to specific instances of Russian military aggression. This was for example the case when the EU responded to the Russian atrocities in Bucha with its fifth sanctions package. Situating sanctions in the logic of reciprocity is understandable from a political perspective but runs the risk of signalling false promises to the public about the sanctions’ effects in terms of deterring the target from repeating a similar behaviour. Knowing that effects of sanctions predominantly play out in the long term, policymakers should consistently ensure that they are applied in order to obtain strategic, long-term objectives – and resist the political urge to describe sanctions as direct responses to tactical, short-term developments on the ground. The escalatory potential of EU sanctions should, rather, be used proactively to underpin clearly formulated political demands to the aggressor under sanctions. If the aggressor fails to meet certain demands, the sanctions pressure can be continuously escalated, always with a view to enhancing a strategic, and not a

tactical, pressure – the latter of which can better be done using military means of deterrence and arms deliveries. A clearly formulated ‘escalatory ladder’ might also help to encourage steps for de-escalation at a later stage of the conflict.

6. Policymakers should communicate more clearly about any significant risks sanctions may hold of unleashing unintended dynamics. Across the EU, the political decision to rely heavily on the geoeconomic ‘weaponisation’ of commodities and value chains to respond to Russia’s military aggression has resulted in disruptive economic effects that are yet to be understood – including inside the EU itself. At time of writing, on the threshold of winter 2022, Europe has most prominently experienced a historical uptick in energy prices, not least due to Russian countermeasures of halting gas supplies. Other, wider, unwanted repercussions are also evident: EU governments’ search for alternative energy sources to Russian natural gas have already resulted in the re-intensified use of coal plants (e.g. in Austria, Denmark, Germany, Greece, Poland, the Netherlands) or oil-shale extraction (e.g. in Estonia), with negative consequences for EU ambitions for a more carbon-neutral energy production. While this subject matter demands research of its own, it is yet another example of the uncontrollable dynamics that placing sanctions on global commodities and value-chains – for whatever political reason – might unleash, both in the short and long term. This should not be an argument against using sanctions but rather serve to make policymakers cautious about ramifications that cannot be predicted. Policymakers should therefore publicly convey the fact that the use of sanctions can entail widespread economic repercussions that sometimes cannot be controlled or foreseen.

Not least in situations where the EU may again decide to use its sanctions weapon, possibly targeting even larger economies such as China in reaction to growing disputes over Taiwan, institutions and governments should communicate the possible risks and economic consequences as clearly and at the earliest stage as possible. The cross-European public legitimacy of the EU sanctions instrument can only be upheld through honest political communication about scenarios that European citizens – unable to make such comprehensive cost predictions and risk assessments – eventually will experience themselves.

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APPENDIX I: OVERVIEW OF EU SANCTIONS IN ITS SOUTHERN AND EASTERN NEIGHBOURHOODS

Target	Starting date	Reason	Measures
Belarus	August 2020 (significant expansion from February 2022)	The Belarusian Government's fraud in parliamentary elections and undue pressure on opposition and critics; its instrumentalisation of people at the border with the EU; as well as support for Russia's invasion of Ukraine.	183 individuals and 26 entities are subject to entry bans and asset freezes. Ban on Belarusian use of EU airspace; export ban on weapons, 'dual-use' products and telecommunications equipment; import ban on petroleum products, potash, tobacco, wood, cement, iron, steel and rubber; restriction of financial activities with Belarusian banks.
Bosnia-Herzegovina	March 2011	Individuals who undermine the integrity of the country and threaten the security situation or undermine the Dayton and Paris Agreements.	Currently, no listings of individuals or entities.
Lebanon	December 2020	Individuals who undermine the country's democracy and the rule of law.	Currently, no listings of individuals or entities.
Libya (two different sanctions regimes)	1 November 1993 2 February 2011	<ol style="list-style-type: none"> Implementation of the 1992 UN arms embargo. Individuals who commit serious human rights abuses, including sexual and gender-based violence. 	<p>Protection against Libyan claims against European companies regarding compensation in relation to the enforcement of the arms embargo.</p> <p>17 individuals are subject to entry bans; 21 individuals and 19 entities are subject to asset freezes.</p>
Moldova	February 2003	Individuals in the region of Transnistria who undermine the integrity of Moldova or advocate for the closure of schools using the Latin script.	Currently, no listings of individuals or entities.
Montenegro	July 1994	Prohibition from fulfilling any legal and financial requirements in relation to contracts and transactions, the fulfilment of which may be affected by the no longer existing UN sanctions regime against Montenegro.	Currently, no restrictive measures in place.

Target	Starting date	Reason	Measures
Russia	July 2014 (significant expansion from February 2022)	Russia's destabilising behaviour in Ukraine.	<p>For individual listings see sanctions regimes versus Ukraine.</p> <p>Limited access to EU capital markets; restriction of transactions with the Central Bank of Russia and certain Russian banks; investment ban, including in the energy sector; ban on imports of coal, iron, steel, gold, wood, cement, seafood, and spirits; export bans on weapons, military and dual-use products, the oil refining sector and the aviation, maritime and aerospace industries and luxury goods; closure of EU airspace and ports; entry ban for road transport companies; suspension of certain Russian media in the EU.</p>
Serbia	July 1994	Prohibition from fulfilling any legal and financial requirements in relation to contracts and transactions, the fulfilment of which may be affected by the no longer existing UN sanctions regime against Serbia.	Currently, no restrictive measures in place.
Syria	May 2013 (replacement of weapons embargo from May 2011)	Widespread and systematic human rights violations, massacres, kidnappings, and atrocities committed by the Syrian regime and its supporters, as well as its use of chemical weapons and attacks on Syria's cultural heritage.	292 individuals and 70 entities are subject to entry bans and asset freezes. Ban on the import of oil; certain investment restrictions; freezing the assets of the Syrian Central Bank in the EU; export restrictions on equipment and technology that can be used for internal repression, as well as equipment and technology for monitoring or intercepting internet or telephone communications.
Tunisia	January 2011	Individuals who have unlawfully appropriated Tunisian state funds.	43 individuals are subject to asset freezes.
Turkey	October 2019	Individuals responsible for illegal drilling activities in the Eastern Mediterranean.	Two individuals are subject to asset freezes.
Ukraine (four different sanctions regimes)	1-3 March 2014 (significant expansion from February 2022) 4 February 2022	<ol style="list-style-type: none"> The undermining of the territorial integrity of Ukraine. Misappropriation of Ukrainian state funds. The illegal annexation of Crimea and Sevastopol. The unlawful declaration of independence of the Oblasts Donetsk and Luhansk. 	<p>1212 individuals and 108 entities are subject to entry bans and asset freezes.</p> <p>Import bans on goods and export bans on certain goods apply to the mentioned areas including restrictions on trade and investment in certain economic sectors and a ban on tourism.</p>

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