

REPORT

№ 65 / 2021

Sanctions Against Russia: A Look into 2021



Ivan Timofeev

RUSSIAN INTERNATIONAL AFFAIRS COUNCIL

MOSCOW 2021

Russian International Affairs Council

Author:

Ivan Timofeev, Ph.D. in Political Science

Editors:

Yulia Timofeeva; Vladimir Morozov; Lora Chkoniya

Timofeev, Ivan

Sanctions Against Russia: A Look into 2021: Report 65/2021 / [I. N. Timofeev]; Russian International Affairs Council (RIAC). – Moscow: RIAC NPMP, 2021. – 24 p. – The names of authors are listed on reverse of title page. ISBN 978-5-6044862-8-3

The report analyses the application of foreign sanctions against Russian citizens, companies and economy sectors. It also considers global trends in the use of sanctions and restrictive measures against Russia within individual areas (the “Ukrainian package,” sanctions against pipeline projects, “cyber sanctions,” etc.). The report is based on Sanctions Event Database compiled by the Russian International Affairs Council. It contains data for 2020 into early 2021.

The views and opinions of authors expressed herein do not necessarily state or reflect those of RIAC.

The full text is published on RIAC’s website. You can download the report or leave a comment via this direct link: russiancouncil.ru/en/report65

Table of Contents

Introduction	4
Report Methodology	5
Sanctions Policy: Global Trends	6
Sanctions against Russia	10
Ukrainian Sanctions Package	11
Sanctions against Nord Stream 2	13
Election Interference and Cybersecurity	14
Human Rights, WMD Non-Proliferation and the Navalny Case	15
Other Sanctions Regimes: China, Venezuela, Libya and Syria	18
Key Conclusions	20
About the Author	22

Introduction

By 2021, the impact of foreign restrictive measures (sanctions) on Russia had developed a double nature. Their influence on macroeconomic indicators has been relatively low.¹ The COVID-19 pandemic, the global economic slump, the drop in oil prices and related factors had a far greater impact on the Russian economy compared to the restrictive measures imposed by foreign states. In the past year, not a single backbone enterprise or sector in Russia has fallen under blocking financial sanctions. There was not a single sanction event that could have produced serious macroeconomic consequences.

On the other hand, sanctions remain a serious political risk for specific enterprises and businesses. They affect business ties with foreign and contractual partners, and hinder access to foreign markets and capital, as well as individual goods, services and technologies. Blocking sanctions and trade restrictions against companies could inflict serious financial or reputational damage for their owners and managers. Businesses that are geared towards exports or depend on foreign suppliers are particularly vulnerable. The risks also include measures that initiating countries use to enforce national sanctions regimes. These measures include administrative fines and criminal prosecution.

In other words, the relatively low impact that sanctions have on macroeconomic stability goes hand in hand with high risks for individual enterprises or projects. Controlling sanctions risks remains a top priority for company management. This is particularly relevant for the financial, energy, shipbuilding and aircraft sectors, as well as for the military-industrial complex and any sector that is directly or indirectly connected with technologies, dual-purpose industrial goods, etc. Additionally, sanctions risks are relevant for companies working in sanctions-affected jurisdictions, such as Iran, North Korea, Syria, Venezuela, etc.

The purpose of the present report is to analyse and assess the key components of the sanctions risks faced by Russian businesses within the overall global trends of applying restrictive measures. The report is based on data on the principal sanctions events in 2020 to early 2021. It is intended for owners and managers of Russian companies, as well as for their foreign partners and investors. The report should be of particular interest to those Russian government agencies that are involved in counteracting foreign sanctions and have been charged with applying retaliatory special economic measures.

¹ Back in 2019, an IMF report stated that the "weight" of sanctions in slowing down Russia's economic growth was merely 0.2%. Oil prices, fiscal policies, financial and monetary factors played a far greater role. See: International Monetary Fund European Department, 'Russian Federation Staff Report', 02.08.2019 // International Monetary Fund. 02.08.2019. URL: <https://www.imf.org/en/Publications/CR/Issues/2019/08/01/Russian-Federation-2019-Article-IV-Consultation-Press-Release-Staff-Report-48549>

Report Methodology

In 2020, the Russian International Affairs Council (RIAC) launched a project to compile a new database on sanctions policies (the “Sanctions Events Database,” SED).

An individual sanctions event constitutes a single unit of analysis. These events include imposing, lifting or prolonging sanctions; granting exemptions from sanctions regimes, including humanitarian exemptions; declarations on the need to use or lift sanctions; acceding to sanctions imposed by other states, etc.

The database records the following parameters: the initiating country or international organisation; the agency or institution that acts as the immediate source of an event (there may be several such institutions); the targeted country or functional subject (for instance, human rights, non-proliferation, terrorism, etc.) of the event (there may also be several such countries or issues); the issue that serves as the grounds for imposing sanctions; the nature of sanctions imposed (blocking sanctions, trade sanctions, visa sanctions, etc.); and the law or regulatory act that serves as grounds for making the decisions. All these variables have a nominal scale or an equal correlations scale. These scales cannot be ordered, yet they do allow us to identify typical characteristics of events and assess their attribute-based distribution.

The database also lists the number of natural persons, legal entities, aircraft and marine vessels hit by sanctions. The assessment of an event constitutes an important variable. The assessment is developed by using an ordinal scale, where “1” means that the event is positive for the targeted country, its organisations or citizens connected with the subject of the sanctions. Such events include lifting or mitigating sanctions, granting humanitarian or other exemptions, acquittals or court judgments on lifting sanctions. Conversely, “-1” signifies a negative event: imposing or tightening sanctions, prolonging sanctions, launching criminal or administrative proceedings, imposing fines, etc. Finally, “0” signifies an event that produces no immediate harm or benefit. Such events include declarations, statements, draft laws (but not laws themselves), recommendations, etc. Such events have the potential to produce positive or negative results, but they do not themselves constitute such results.

These events are ranged by date. The information is derived from event reports by official government agencies, companies, international organisations and any other institutions connected with a given event. Naturally, the SED cannot claim to fully cover all possible events. It does, however, cover those events that are set down in specific documents and reflect political decisions, actions, or the stance of initiating and targeted countries.²

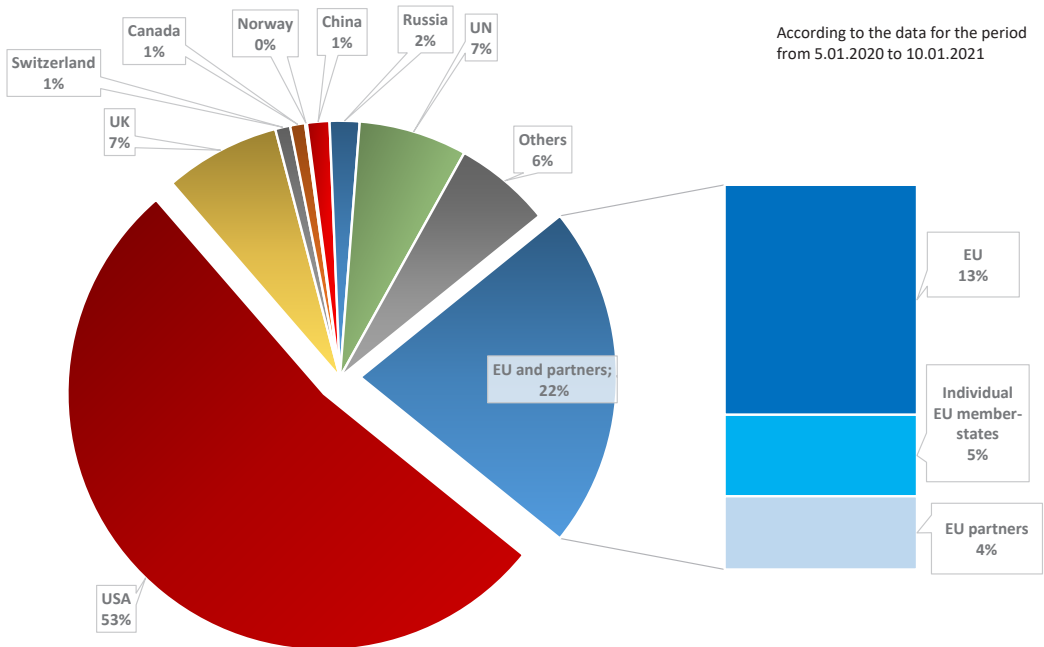
² The SED was first described by Ivan Timofeev. “COVID-19 and the Sanctions Policy: An Attempt at Event-Analysis” // *Vestnik of St. Petersburg University*, vol. 13 (2020), no. 3.

Sanctions Policy: Global Trends

Between January 5, 2020, and January 10, 2021, we recorded 850 sanctions events, including sanctions against Russia and Russian individuals, as well as restrictions against other states, natural persons and legal entities.

The United States is the most active initiating country, accounting for 449 of the 850 events, or 52.8% of the total number. The European Union also qualifies as an active initiator of sanctions, accounting for 110 events (12.94%). However, this number does not include events connected with the actions of individual EU member states, which can impose their own restrictions (for instance, the Baltic states imposed their own sanctions on Belarus), implement enforcement measures, propose initiatives on imposing or lifting sanctions, and render certain court judgments, to name just a few. For instance, Germany accounts for ten such events, France for six, the Netherlands for four, and Cyprus, Denmark, Estonia, Finland, Italy, Latvia, Lithuania, Luxembourg, Malta and Spain, each for one event. Nine events are connected with the actions of several EU countries at once. Therefore, another 39 events can be added to the activities of EU member states. In a number of cases, the European Union’s partners have joined its sanctions regime. These are usually Georgia, Ukraine, Moldova, North Macedonia, Albania, etc. There were 35 such events in total within the period under consideration. In other words, the total number of events connected with EU sanctions and the actions of its individual member states and partner countries is 184.

Figure 1. MAIN INITIATORS OF SANCTIONS



The United Kingdom is fairly active in this area, too. Having withdrawn from the European Union, the United Kingdom has re-launched its own independent sanctions policy. Within the period under consideration, London's activities account for 62 events. Switzerland and Canada account for eight events each, while Norway accounts for one.

China and Russia use sanctions on a far smaller scale. China accounts for 12 events, and Russia for 16.

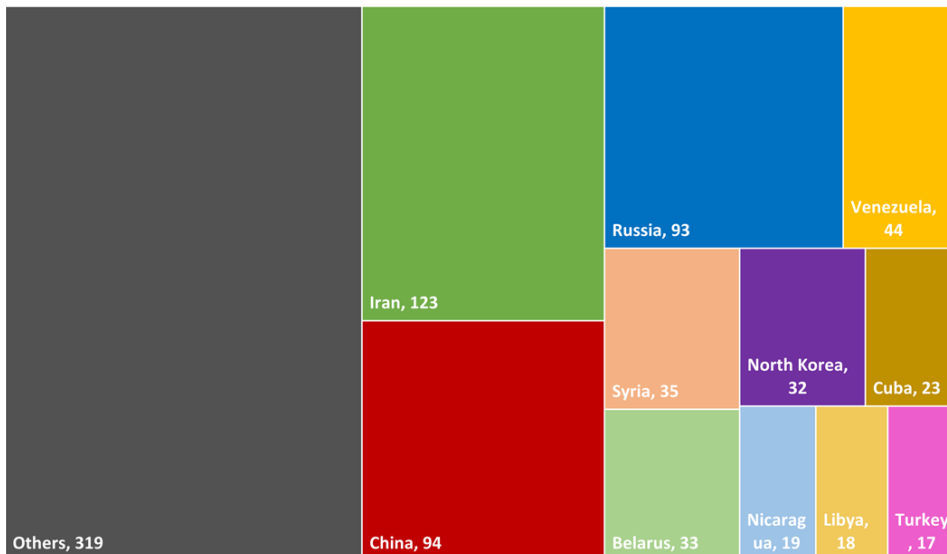
It is noteworthy that the United Nations accounts for only 58 events, even though the UN Security Council is the only source of multilateral restrictive measures. As far as the United Nations is concerned, sanctions imposed by other actors are unilateral in nature.³

As for the targeted states, there are three key leaders here. A total of 123 events have targeted Iran; 94 have targeted China; and 93 have targeted Russia. The "top 3" account for 310 events in total. Other conspicuous targeted states are Venezuela (44 events), Belarus (33), Syria (35), North Korea (32), Cuba (23), Libya (18), Nicaragua (19), and Turkey (17).

Iran, China and Russia account for more than a third of sanctions cases

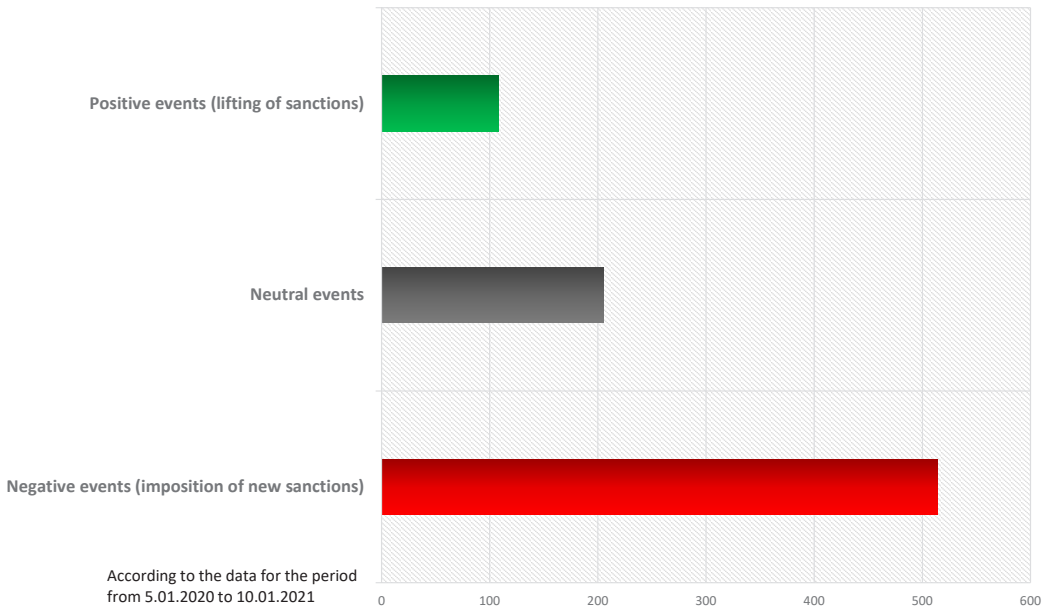
Along with countries and their citizens and organisations, sanctions are frequently imposed to cover a specific functional area. The most widespread areas are fighting terrorism (59 events), protecting human rights (34), combatting drug trafficking (14), and WMD non-proliferation (19).

FIGURE 2. SANCTIONS CASES PER COUNTRY
According to the data for the period from 05.01.2020 to 10.01.2021



³ Idriss Jazairy, Report of the Special Rapporteur on the Negative Impact of Unilateral Coercive Measures on the Enjoyment of Human Rights. August 10, 2015 // United Nations Human Rights Office. UN General Assembly, p. 5.

Figure 3. CHARACTER OF SANCTION EVENTS



Of these 850 events, 514 (60.4%) are negative. That is, they involve imposing new sanctions, prolonging restrictions already in place, using enforcement as punishment for violating sanctions regimes, etc. A total of 205 events (24.1%) are neutral and are, in effect, nothing more than declarations, statements, draft laws or documents. Only 108 (12.7%) of the 850 events are positive. These include lifting sanctions, suspending sanctions, issuing licenses, humanitarian exemptions, and so on (another 23 events are actions undertaken by individual persons and states targeted by sanctions).

The COVID-19 epidemic has not radically affected sanctions policies. Of the 850 events, just 22 are connected with COVID-19. Only five of them are positive and propose specific humanitarian exemptions or mitigations of the sanctions regimes. Other events either boil down to declarations and statements or to blocking individual initiatives in the United Nations on humanitarian exemptions (as was the case, for example, with the blocking of Russia’s proposed Declaration on Solidarity in Countering COVID-19 Pandemic.⁴

The following global trends thus exist.

- 1) The “collective West” remains the most active actor in initiating sanctions. Western countries account for a total of 712 of the 850 sanctions events (83.7%).
- 2) Within that group, the United States accounts for the largest number of events. We should also note that U.S. sanctions are bound to have a greater effect than

⁴ Press Release on Consideration by the UN General Assembly of a Declaration on Solidarity in Countering COVID-19 Pandemic // Permanent Mission of the Russian Federation to the United Nations. April 2, 2020. URL: https://russiaun.ru/ru/news/pressrelease_020420

those imposed by other countries due to its leadership in global finance and the size of its market.

3) Russia and China are two large sanctions targets. It is difficult, however, to label them as active sanctions initiators (together, they account for 28 events, or just 3.29% of the total). This number may increase in the future, as the two states are shaping the instruments and institutions of sanctions policies.

4) The share of UN sanctions appears to be rather moderate compared to the number of unilateral measures imposed by individual Western countries and alliances (58 events versus 712 events).

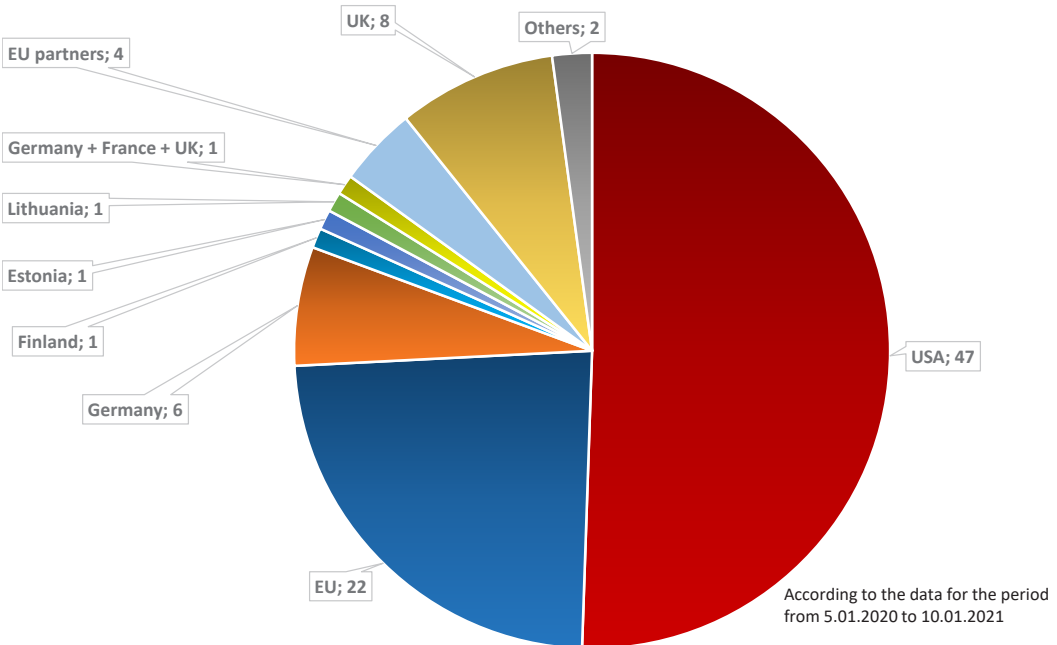
5) China, Belarus and Turkey are the “rising stars” among targeted states. In 2020, the number of foreign sanctions against them became quite visible compared to other states targeted by sanctions.

Sanctions against Russia

Restrictive measures against Russia are built on several overarching topics that include the situation in and around Ukraine, pipeline projects, cybersecurity, WMD non-proliferation, human rights and sanctions regimes against third countries (Venezuela, North Korea, etc.). The problem of businesses is that this is all “big politics.” Developments here are determined by foreign political interests and security issues. At the same time, foreign policy and international relations create sanctions regimes that are fraught with costs and losses for businesses. Individual companies and sectors find it extremely difficult, and sometimes impossible, to manage this risk. However, in order to reduce the costs, it is important to understand the essence of a particular risk and its key development trends.

We can distinguish 93 sanctions events that took place over the period under consideration (2020 to early 2021). Most frequently, the sanctions were initiated by the United States (47 of the 93 events), followed by the European Union with 22. We can also add the actions of individual EU member states, such as Germany (six events) and Finland, Estonia and Latvia (one event each). One event was jointly performed by Germany, France and the United Kingdom. In addition, four events were carried out by the European Union’s partners (including Georgia and Ukraine), joining the sanctions. We thus have a total of 36 events initiated by the European Union, its individual member states and partner countries as part of the EU sanctions regime. The United Kingdom accounts for eight events, and

Figure 4. INITIATORS OF SANCTIONS AGAINST RUSSIA



Switzerland and Ukraine account for one each. Thus, the United States and the European Union initiated the overwhelming majority of sanctions events against Russia.

Ukrainian Sanctions Package

Most of the sanctions events are in one way or another connected with the Ukrainian crisis (44 events out of 93). There are a number of explanations for this. First, a large group of countries (41 in total) were involved in the introduction of sanctions against Russia. Second, these sanctions are among the longest-running regimes of restrictive measures. Third, the overwhelming majority of Russian citizens who have been hit by sanctions have been blocked or put on other sanctions lists on the grounds of this particular sanctions package. These reasons produce a large number of routine actions of various organisations in the initiating states. However, we should not be misled by the seemingly large number of sanctions. There have been no radical changes in Ukraine-related sanctions over the past year. We are talking about the prolongation of sanctions that have already been in place.

In some cases, these events are connected with Russian citizens filing lawsuits to have their names removed from sanctions lists (mostly, these lawsuits proved fruitless). Examples include the legal attempts of Russia's VTB⁵ and Rosneft⁶ to have EU sectoral sanctions against them lifted: Boris Rotenberg's suit against several European banks;⁷ Viktor Vekselberg's litigative attempts to unfreeze his Swiss assets;⁸ and the suit filed by Vekselberg's Lamesa Investment Ltd. against the UK's Cynergy Bank.⁹ Court proceedings continue in Oleg Deripaska's lawsuit against the top management of the United States Department of the Treasury (USDT).¹⁰ Sanctions against these plaintiffs were directly or indirectly connected with the Ukraine-related sanctions against Russia. The paradox is that the plaintiffs themselves frequently have nothing to do with the events in and around Ukraine. They were placed on sanctions lists for political reasons, such as "ties" with the Russian government or their significance for the Russian state. However, in all of these cases, legal acts related to the Ukrainian crisis were used as grounds for inclusion in the sanctions lists.

⁵ Judgment of the Court (Seventh Chamber), 25 June 2020 // CURIA – Documents. 25.06.2020.

URL: <http://curia.europa.eu/juris/document/document.jsf?text=&docid=227736&pageIndex=0&doclang=EN&mode=lst&ir=&occ=first&part=1&cid=6739836>

⁶ Judgment of the General Court (Sixth Chamber), 13 September 2018 // CURIA – Documents. 13.09.2018.

URL: <http://curia.europa.eu/juris/document/document.jsf?text=&docid=205646&pageIndex=0&doclang=EN&mode=lst&ir=&occ=first&part=1&cid=741105>

⁷ Press Release: Boris Rotenberg's Lawsuit Against Banks Dismissed (in Finnish: Tiedote: Boris Rotenbergin kanne pankkeja vastaan hylättiin) // The District Court of Helsinki. 26.11.2020. URL: <https://oikeus.fi/karajaoikeudet/helsinginkarajaoikeus/fi/index/tiedotteet/2020/01/tiedoteborisrotenberginkannepankkejavastaaanhylattin.html>

⁸ Rückschlag für Vekselberg – Vermögen bleibt eingefroren // WIRTSCHAFT. 03.12.2020.

URL: <https://www.tagesanzeiger.ch/rueckschlag-fuer-vekselberg-vermoegen-bleibt-eingefroren-904953607498>

⁹ Appeal No: A4/2019/2463, Case No: 1236/5/7/15, Hearing date: 16th June 2020 // England and Wales Court of Appeal (Civil Division) Decisions. 30.06.2020.

URL: [https://www.bailii.org/cgi-bin/format.cgi?doc=/ew/cases/EWCA/Civ/2020/821.html&query=\(lamesa\)](https://www.bailii.org/cgi-bin/format.cgi?doc=/ew/cases/EWCA/Civ/2020/821.html&query=(lamesa))

¹⁰ Ivan Timofeev. "Deripaska v. Mnuchin and Gacki": Political Implications // Valdai Discussions Club. 07.07.2020.

URL: <https://valdaiclub.com/a/highlights/deripaska-v-mnuchin-and-gacki/>

Several sanctions events in the “Ukrainian package” reflect the investigations conducted by the USDT into violations of U.S. sanctions regimes. These investigations included identifying possible sanctions violations by foreign companies, for instance, Swedbank,¹¹ Frequency Electronics,¹² and Airbnb,¹³ or completed investigations followed by fines (Deutsche Bank Trust Companies America,¹⁴ BitGo¹⁵). The USDT and other agencies are actively working towards forcing private business to comply with the sanctions legislation. The information at the disposal of the Russian International Affairs Council demonstrates that in 2020, the USDT fined 17 companies under all sanctions regimes. They paid a total of USD 24.5 million. However, this past year turned out to be relatively benign. In 2019, fines imposed on 25 companies totalled USD 1.288 billion. The largest fines were paid by the UK’s Standard Chartered (USD 657 million)¹⁶ and Italy’s UniCredit (USD 611 million).¹⁷

We should also note the criminal proceedings initiated filed in response to violations of the EU and U.S. sanctions regimes. For example, two Russian citizens were charged in Germany with violating the EU sanctions regime and supplying dual-purpose goods to Russia.¹⁸ In the United States, Gabriele Villone, an Italian national, was sentenced to 28 months in jail for his role in supplying turbines to Russia in circumvention of the U.S. sanctions regime.¹⁹ Russian nationals Oleg Nikitin (the head of Russia’s KS Engineering) and Anton Cheremukhin (an employee at the same company) are defendants in that criminal case. Another Russian national and two nationals of Bulgaria are defendants in a criminal case for attempting to violate the sanctions regime and supply radiation-resistant chips to Russia.²⁰

The situation around Donbass has stabilised over the past year, and if the conflict does not escalate again, we should not expect a large-scale expansion of sanctions regime. Still, there are no guarantees against that, and consequently we cannot say with absolute certainty that new sanctions will not be imposed.

¹¹ Press Release, 11 March 2020: Swedbank Notifies OFAC of Potential Sanction Violations // Cision. 11.03.2020.
URL: <https://mb.cision.com/Main/67/3056878/1209269.pdf>

¹² OFAC Investigating Frequency Electronics over Potential Sanctions Breaches // EU Sanctions. 07.09.2020. URL: <https://www.europeansanctions.com/2020/09/ofac-investigating-frequency-electronics-over-potential-sanctions-breaches/>

¹³ Airbnb, Inc: Form S-1 Registration Statement Under the Securities Act of 1933, as filed with the Securities and Exchange Commission on November 16, 2020 // the Securities and Exchange Commission. 16.11.2020.
URL: <https://www.sec.gov/Archives/edgar/data/1559720/000119312520294801/d81668ds1.htm>

¹⁴ Enforcement Release: September 9, 2020 // U.S. Department of the Treasury. 09.09.2020.
URL: https://home.treasury.gov/system/files/126/20200909_DBTCA.pdf

¹⁵ Enforcement Release: December 30, 2020 // U.S. Department of the Treasury. 30.12.2020.
URL: https://home.treasury.gov/system/files/126/20201230_bitgo.pdf

¹⁶ Enforcement Information for April 9, 2019 // U.S. Department of the Treasury. 09.04.2019.
URL: https://home.treasury.gov/system/files/126/20190408_scb_webpost.pdf

¹⁷ Enforcement Information for April 15, 2019 // U.S. Department of the Treasury. 15.04.2019.
URL: https://home.treasury.gov/system/files/126/20190415_uni_webpost.pdf

¹⁸ Staatsschutzverfahren gegen zwei Deutsche wegen mutmaßlicher Verstöße gegen das Russland-Embargo // Hamburger Justiz. 08.12.2020. URL: <https://justiz.hamburg.de/pressemitteilungen/14751402/pressemitteilung-2020-12-08-01/>

¹⁹ Italian National Sentenced to Federal Prison for Attempting to Evade U.S. National Security Trade Sanctions // U.S. Department of Justice. 18.06.2020. URL: <https://www.justice.gov/usao-sdga/pr/italian-national-sentenced-federal-prison-attempting-evade-us-national-security-trade>

²⁰ International Trio Indicted in Austin for Illegal Exports to Russia // U.S. Department of Justice. 18.12.2020.
URL: <https://www.justice.gov/opa/pr/international-trio-indicted-austin-illegal-exports-russia>

The very fact that the sanctions are in place presents risks for individual companies, their owners, managers and employees. This applies both to Russian companies and their foreign partners. A large number of Ukraine-related sanction events are negative (32 out of 44), six events are neutral, and six can be described as positive – although the positive events do not radically change the overall picture. For example, three events are connected with OFAC prolonging its general license for GAZ Group.²¹ In one event, the UK's sanctions regulator OFSI (the Office of Financial Sanctions Implementation) issued a license for interacting with Crimean sea ports.²² The most striking event here is the lawsuit filed by the United States' Exxon Mobil against the USDT, which resulted in a USD 2-million fine for signing contracts with Russia's Rosneft being set aside.²³

Sanctions against Nord Stream 2

The project to build an international gas pipeline from Russia to Germany came under heavy pressure from the United States last year. The legislative foundations for imposing sanctions on Russia's pipeline projects had started to take shape a while ago, back in 2014-2017. In 2019, Congress passed the Protecting Europe's Energy Security Act (PEESA) as part of the National Defense Authorization Act for Fiscal Year 2020.²⁴ The Act prohibited supplying pipelaying vessels. Since the U.S. legislation is extended to foreign companies as well, this act forced several companies to withdraw from the project. The most painful consequence of the act was the exit of Switzerland's AllSeas and its pipelaying ships.

Late last year, PEESA was expanded as part of the National Defense Authorization Act for Fiscal Year 2021.²⁵ Now the restrictions extend to insurance services, modernisation and equipment for pipelaying ships (since Russia managed to adapt its *Akademik Chersky* and *Fortuna* for the needs of the Nord Stream 2 project), as well as to the certification of the pipeline.

The United States Executive Branch also took certain individual measures against Nord Stream 2. For instance, in July 2020, the U.S. Department of State abolished its regulations exempting Nord Stream 2 and the second line of the Turkish Stream from Article 232 of CAATSA (2017).²⁶ In October, the Department of State also extended PEESA interpretation, before the amendments introduced as part of the National Defense Authorization Act for Fiscal Year 2021 even entered into

²¹ Issuance of Venezuela-Related General License 5F and Amended Frequently Asked Question; Issuance of Ukraine-Related General Licenses 13P and 15J // U.S. Department of the Treasury. 23.12.2020.
URL: https://home.treasury.gov/policy-issues/financial-sanctions/recent-actions/20201223_33

²² General licence – INT/2020/059 // Office of Financial Sanctions Implementation. HM Treasury. 26.01.2021.
URL: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/949118/General_licence_-_INT.2020.059_-_Publication_Notice.pdf

²³ Ivan Timofeev. Exxon Mobil Broke the Pattern // Kommersant. 31.01.2020. URL: <https://www.kommersant.ru/doc/4241115>

²⁴ S.1790 – National Defense Authorization Act for Fiscal Year 2020 // U.S. Congress. 20.12.2019.
URL: <https://www.congress.gov/bills/116th-congress/senate-bill/1790/text>

²⁵ H.R. 6395 (116th): National Defense Authorization Act for Fiscal Year 2021 // GovTrack. 15.12.2020.
URL: <https://www.govtrack.us/congress/bills/116/hr6395/text>

²⁶ CAATSA/CRIEEA Section 232 Public Guidance // U.S. Department of State. 26.01.2021.
URL: <https://www.state.gov/caatsa-crieea-section-232-public-guidance/>

force.²⁷ The sanctions can now be extended not only to companies supplying pipelaying vessels, but also to companies modernising those ships.

The European Union and German authorities periodically protest against the U.S. sanctions. Germany has also adopted the decision to establish a special foundation to complete Nord Stream 2.²⁸ However, these protests and actions have not changed the political course of the United States thus far. PEESA amendments require the United States to consult with their European allies before introducing sanctions. But this mechanism does not essentially change anything. In January 2021, the United States started imposing sanctions against the participants of the Nord Stream 2 project. The *Fortuna* vessel and its owner, KVT-Rus, were hit by blocking sanctions.²⁹ Some foreign companies are withdrawing from the project because of the threat of sanctions. Switzerland's Zurich Insurance is a prime example.³⁰ Additionally, Germany's Bilfinger, an engineering company, was reported to have pulled out of the project.³¹

We can identify at least ten sanctions events related to Nord Stream 2 over the period under consideration. It is highly likely that their number will be even higher in 2021 due to the United States imposing sanctions against individual persons, or to individual companies withdrawing from the project.

Election Interference and Cybersecurity

Our 2020 forecast predicted increased sanctions risks in connection with the U.S. presidential elections and the aggravation of the issue of election interference.³² Before the elections, Congress proposed two bills on introducing sanctions related to "interference." On September 30, 2020, a bill was submitted to the House of Representatives that was essentially a new version of the previously adopted DETER Act.³³ This was followed by the submission of another bill, the SECURE Act, on October 1.³⁴ However, these projects were not taken further. The elections themselves did not escalate the "interference" problem in U.S.-Russia

²⁷ Notice of Department of State Public Guidance for the Protecting Europe's Energy Security Act (PEESA) // Federal Register. 05.11.2020. URL: <https://www.federalregister.gov/documents/2020/11/05/2020-24579/notice-of-department-of-state-public-guidance-for-the-protecting-europes-energy-security-act-peesa>

²⁸ Northern German State Plans Foundation to Help Complete Nord Stream 2 Gas Link // Reuters. 06.01.2021. URL: <https://www.reuters.com/article/uk-germany-nordstream-foundation/northern-german-state-plans-foundation-to-help-complete-nord-stream-2-gas-link-idUKKBN29B1G7?edition=redirect=uk>

²⁹ Issuance of Counter Terrorism General Licenses and related FAQs; Counter Terrorism Designations; Venezuela-related Designations; CAATSA – Russia-related Designations; Yemen-related Designations Updates // U.S. Department of the Treasury. 19.01.2021. URL: <https://home.treasury.gov/policy-issues/financial-sanctions/recent-actions/20210119>

³⁰ Bloomberg Leans of Withdrawal of Nord Stream 2 Insurance Company because of U.S. Sanctions // Forbes. 16.01.2021. URL: <https://www.forbes.ru/newsroom/biznes/418707-bloomberg-uznal-o-vyhode-strahovshchika-severnogo-potoka-2-iz-proekta-iz-za>

³¹ *Bild* Reports Germany's Bilfinger SE Withdrawing from Nord Stream 2 // Interfax. 19.01.2021. URL: <https://www.interfax.ru/world/745872>

³² Sanctions Against Russia: A Look into 2020. Report 51/2020 // [Ivan Timofeev, Vladimir Morozov, Yulia Timofeeva]; Russian International Affairs Council (RIAC). Moscow: RIAC NCP, 2020. P.8.

³³ H.R.8463 – Defending Elections from Threats by Establishing Redlines Act of 2020 // U.S. Congress. 30.09.2020. URL: <https://www.congress.gov/bills/116/congress/house-bill/8463/text?q=%7B%22search%22%3A%5B%22russia%22%5D%7D&r=178&s=3>

³⁴ H.R.8495 – SECURE Act // U.S. Congress. 01.01.2020. URL: <https://www.congress.gov/bills/116/congress/house-bill/8495/text?q=%7B%22search%22%3A%5B%22russia%22%5D%7D&r=172&s=4>

relations. President Trump's Executive Order No. 13648 of September 12, 2018, obliges the Director of National Intelligence to prepare a report on foreign interference no later than 45 days after the elections.³⁵ Such a report had already been prepared after the 2018 mid-term congressional elections. No interference had been discovered back then. While the media continues to dwell on the topic of election interference, it is not likely to result in any large-scale sanctions against Russia. At least not any of the measures envisioned in the DASKA and DETER acts, which include restrictions against Russia's sovereign debt, blocking sanctions against leading banks, restrictions on supplying equipment to the Russian energy sector, etc.

At the same time, another crisis is brewing between the United States and Russia in connection with cybersecurity issues. The United States reported a large-scale hacking attack against the information systems of government agencies. The U.S. media reported that the attack had allegedly been perpetrated by "hackers connected with Russia."³⁶ However, Washington has not officially accused Moscow of anything yet, which does not mean such accusations will not be made in future.

The United States has already developed a solid legal framework that allows for the swift introduction of sanctions against individuals and organisations in connection with cybersecurity issues. Such sanctions were used four times against Russia in 2020. Blocking financial sanctions were imposed against eight legal entities and 14 natural persons. In 2020, the European Union also imposed cybersecurity-related sanctions against Russia, specifically against a department of the Main Intelligence Directorate of the General Staff of the Armed Forces of the Russian Federation and two of its employees for an alleged hacker attack on Bundestag servers.³⁷ This practice is highly likely to continue, although targeted sanctions are unlikely to do much damage to the Russian economy.

Over the period under consideration, we can identify a total of at least nine sanctions events related to cyber issues and election interference.

Human Rights, WMD Non-Proliferation and the Navalny Case

Unilateral sanctions for human rights abuses are a permanent feature of U.S.-Russia relations. These sanctions are based on the 2012 Magnitsky Act³⁸ and the 2016 Global Magnitsky Human Rights Accountability Act.³⁹ As a rule, they involve

³⁵ Executive Order 13648 of September 12, 2018 // U.S. Department of the Treasury. 12.09.2018. URL: https://home.treasury.gov/system/files/126/election_eo_13648.pdf

³⁶ "Media Reports 'Hackers from Russia' Stealing USDT Data" // RBC. 14.12.2020. URL: <https://www.rbc.ru/politics/14/12/2020/5fd680719a794767bad955d6>

³⁷ Council Decision (CFSP) 2020/1537 of 22 October 2020 amending Decision (CFSP) 2019/797 Concerning Restrictive Measures against Cyber-Attacks Threatening the Union or its Member States // EU Official Journal. 22.10.2020. URL: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.LI.2020.351.01.0005.01.ENG&toc=OJ:L:2020:351:TOC>

³⁸ The Magnitsky Sanctions // U.S. Department of the Treasury. 26.01.2021. URL: <https://home.treasury.gov/policy-issues/financial-sanctions/sanctions-programs-and-country-information/the-magnitsky-sanctions>

³⁹ Global Magnitsky Sanctions // U.S. Department of the Treasury. 26.01.2021. URL: <https://home.treasury.gov/policy-issues/financial-sanctions/sanctions-programs-and-country-information/global-magnitsky-sanctions>

blocking financial and visa sanctions against individual persons who, in the opinion of the U.S. government, are involved in human rights violations. For example, in December 2020, blocking sanctions were imposed against five Russian citizens connected with Head of the Chechen Republic Ramzan Kadyrov,⁴⁰ who himself had been under blocking sanctions since December 2017. In July 2020, the U.S. Department of State added visa sanctions.⁴¹ The USDT also imposed blocking sanctions against five legal entities: the Akhmat Martial Arts Club, Absolute Championship Akhmat promotion company, Chechen Mineral Waters and MegaStroyInvest.

The European Union also developed a sanctions mechanism for issues connected with human rights. On December 7, 2020, the Council of the European Union adopted Decision 2020/1999.⁴² We can suppose that this mechanism will be used against Russian persons as well, although such sanctions will not produce a major macroeconomic effect.

One of the central reasons for imposing sanctions within the period under consideration was the so-called Navalny Case – the exacerbation of Russia’s relations with the West (in particular Germany) following the poisoning of Russian politician Alexei Navalny. The case is at the junction of human rights and WMD non-proliferation issues.

Germany claims, and its allies agree, that Navalny had been poisoned with a chemical warfare agent from the Novichok group. Consequently, on October 15, 2020, blocking and visa sanctions were imposed against six high-ranking Russian officials and one research institute.⁴³ The decision was made on the basis of the legal mechanism developed after the 2018 Skripal Case (EU Council Decision 2018/1544 of 2018⁴⁴). The United States has not imposed sanctions in connection with the Navalny Case, but it is only a matter of time. Washington could use the Chemical and Biological Weapons Control and Warfare Elimination Act of 1991 that had previously been invoked in connection with the Skripal Affair: in 2019, Donald Trump signed off on Executive Order No. 13883, which imposed restrictions on transactions involving Russian sovereign debt nominated in a foreign currency, prohibited the IMF from providing assistance to Russia, and introduced a number of trade restrictions.⁴⁵

⁴⁰ Global Magnitsky Designations; Yemen-Related Designation; Magnitsky Act-related Designation Update // U.S. Department of the Treasury. 10.12.2020. URL: <https://home.treasury.gov/policy-issues/financial-sanctions/recent-actions/20201210>

⁴¹ Public Designation of Russian National Ramzan Kadyrov Due to Involvement in Gross Violations of Human Rights (July 20) // U.S. Embassy in Georgia. 20.07.2020. URL: <https://ge.usembassy.gov/public-designation-of-russian-national-ramzan-kadyrov-due-to-involvement-in-gross-violations-of-human-rights-july-20/>

⁴² Council Decision (CFSP) 2020/1999 of 7 December 2020 Concerning Restrictive Measures against Serious Human Rights Violations and Abuses // EU Official Journal. 07.12.2020. URL: <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32020D1999&from=DA>

⁴³ Legislation, Vol. 63, 15 October 2020 // EU Official Journal. 15.10.2020. URL: <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=OJ.L:2020:341:FULL&from=EN>

⁴⁴ Council Decision (CFSP) 2018/1544 of 15 October 2018 Concerning Restrictive Measures Against the Proliferation and Use of CHEMICAL WEAPONS // EU Official Journal. 16.10.2020. URL: <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32018D1544&from=EN>

⁴⁵ Executive Order 13883 of August 1, 2019 // U.S. Department of the Treasury. 05.08.2019. URL: <https://home.treasury.gov/system/files/126/13883.pdf>

Congress had already demanded that the administration investigate the Navalny Case and impose sanctions against Russia.⁴⁶ The case also prompted U.S. senators to sponsor a bill entitled “Holding Russia Accountable for Malign Activities.”⁴⁷ The bill, in particular, proposes blocking and visa sanctions against Russian officials. Thus far, this bill has not become law. Developments around the Navalny Case will inevitably return to the issue of human rights-related sanctions. In 2020, at least 11 sanctions events were connected with the Navalny Case.

⁴⁶ H.Res.1145 – Condemning the Poisoning of Russian Opposition Leader Alexei Navalny and Calling for a Robust United States and International Response // U.S. Congress. 23.09.2020. URL: <https://www.congress.gov/bill/116th-congress/house-resolution/1145/text?q=%7B%22search%22%3A%5B%22Russia%22%5D%7D&r=3&s=2>

⁴⁷ A Bill to Impose Sanctions with Respect to Officials of the Government of the Russian Federation Complicit in the Poisoning of its Citizens for Political Motives, and for Other Purposes // Senator Chris Coons Official Site. 26.01.2021. URL: <https://www.coons.senate.gov/imo/media/doc/09.24.2020%20Russia%20bill.pdf>

Other Sanctions Regimes: China, Venezuela, Libya and Syria

Russian companies also risk facing U.S. coercive measures and secondary sanctions for violating American sanctions regimes. Last year saw relatively few such cases. The risk itself, however, remains and requires that Russian players display caution in working with jurisdictions placed under sanctions.

The most publicised events involve the USDT blocking two subsidiaries of Rosneft for allegedly cooperating with Venezuelan oil company PdVSA, which is under U.S. blocking sanctions. Rosneft Trading and its head Didier Casimiro were put on the USDT's SDN list in February 2020.⁴⁸ In March 2020, TNK Trading was put on the same list.⁴⁹

The European Union imposed blocking and visa sanctions on the Russian businessman Yevgeny Prigozhin for alleged violations of the Libyan weapons embargo.⁵⁰

The U.S. Department of State put one Chinese and three Russian companies on the list of entities with which the U.S. government authorities are prohibited from conducting transactions. Reasons cited included the alleged violations by these companies of sanctions against North Korea and Syria.⁵¹ The United States has significantly toughened its Syria-related sanctions legislation, in particular, through the introduction of the so-called Caesar Act (the Caesar Syria Civilian Protection Act of 2019). The new legislation significantly increases the risk of secondary U.S. sanctions against foreign companies working in Syria.⁵²

In 2020, the number of U.S. sanctions actions against China increased significantly. The United States accounts for 82 (or 87.2%) of 94 China-related sanctions events. Restrictive measures against China are the subject of a separate study. In this regard, Russia is affected by new U.S. trade sanctions against "military end-users" (MEUs). Under these sanctions, a license is needed from the U.S. Department of Commerce to export U.S. technology to companies it believes may be associated with the military-industrial sector. China, Russia and Venezuela are defined as targeted countries. In December 2020, the U.S. Department of Commerce put 58 Chinese and 45 Russian companies and enterprises on the

⁴⁸ Venezuela-Related Designations; Issuance of Venezuela-related General License; Issuance of Venezuela-Related Frequently Asked Questions; Update to the Sectoral Sanctions Identifications List // U.S. Department of the Treasury. 18.02.2020. URL: <https://home.treasury.gov/policy-issues/financial-sanctions/recent-actions/20200218>

⁴⁹ Treasury Targets Additional Russian Oil Brokerage Firm for Continued Support of Maduro Regime // U.S. Department of the Treasury. 12.03.2020. URL: <https://home.treasury.gov/news/press-releases/sm937>

⁵⁰ Council Implementing Regulation (EU) 2020/1481 of 14 October 2020 Implementing Article 21(2) of Regulation (EU) 2016/44 Concerning Restrictive Measures in View of the Situation in Libya // EU Official Journal. 15.10.2020. URL: https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.L_.2020.341.01.0007.01.ENG&toc=OJ.L.2020.341:TOC

⁵¹ Imposition of Nonproliferation Measures Against Foreign Persons, Including a Ban on U.S. Government Procurement // Federal Register. 25.11.2020. URL: <https://public-inspection.federalregister.gov/2020-26000.pdf>

⁵² Igor Matveev. The Caesar Act: A New Challenge for Syria? // RIAC. 10.08.2020. URL: <https://russiancouncil.ru/analytics-and-comments/analytics/zakon-tsezarya-novyy-vyzov-dlya-sirii/>

MEU list.⁵³ Of course, sanctions against Russian nationals stand on their own and are not connected exclusively with sanctions against China. However, U.S. documents on the matter see China and Russia equally as the key threat to U.S. security. Consequently, individual sanctions regimes against China can also be applied against Russia, and vice versa. Such regimes make foreign partners of Russian companies and organisations rather jumpy. A clear example of this was the refusal of Softline (a Microsoft distributor) to sell software to Bauman Moscow State Technical University.

⁵³ Commerce Department Will Publish the First Military End User List Naming More Than 100 Chinese and Russian Companies // U.S. Department of Commerce. 21.12.2020. URL: <https://www.commerce.gov/news/press-releases/2020/12/commerce-department-will-publish-first-military-end-user-list-naming>

Key Conclusions

The sanctions policy against Russia has been stabilising for the second year running. There has been no significant escalation of sanctions. At the very least, the current sanctions events have not affected Russia's macroeconomic situation in any significant manner, nor have they produced any noticeable market fluctuations in and of themselves. New causes for sanctions, such as the Navalny Affair or incidents in the digital environment, generate political tensions and warning sanctions from the United States and the European Union against individual Russian nationals. Such measures, however, do not affect the economy as a whole. The attack on Nord Stream 2 resulted in the project being delayed, but not abandoned.

At the same time, Russia's relations with its Western opponents remain tense. They are vulnerable to new crises and subsequent sanctions. "Draconian sanctions" will not be imposed against Russia without a serious political reason. However, a sudden and dramatic escalation in relations, with a qualitative increase in sanctions pressure, cannot be ruled out. This is not the base scenario, but, given the current political situation, it cannot be ruled out either.

The sanctions risk is relevant for Russia from the point of view of individual companies, projects and sectors. Multiple sanctions regimes are implemented routinely with periodical spikes against the background of Russia's political disagreements with the West or as a deferred effect of crises that have already passed.

Russian companies and economic sectors have limited capabilities when it comes to controlling sanctions risks. We can see from experience that there is little chance that the courts in the United States, the European Union and other countries will lift the sanctions. It is possible to have them abolished administratively (by applying to the relevant agencies in the states that had initiated these sanctions), but this would require much time, and there is no guarantee that it will be successful. In some cases, such applications are impossible for political reasons.

Judging by the data we have looked at, it would seem that Russian companies and their foreign partners have learned to work with sanctions risks rather carefully. However, the instances of administrative and criminal proceedings against and involving Russian nationals still exist. The legislative and enforcement practices of initiating countries should be studied with the utmost care and attention. This is particularly important when working in jurisdictions that are under sanctions. The expansion of sanctions against several countries, such as China, Turkey, Belarus, Iran, Syria, etc., as well as against persons associated with them, also need to be taken into account.

The trend for overcompliance with the sanctions legislation of the United States, European Union, United Kingdom and other initiators continues. Partners of Russian companies may avoid transactions even in cases where they are not

subject to sanctions. Russian companies and organisations need to understand the mechanism of the sanctions policy as, among other things, an element of preparation for talks with their partners.

Increasing sanctions pressure on China from the United States will not distract Washington from Russia. The two sanctions regimes can easily co-exist. There are no prerequisites for mitigating the sanctions regimes against Russia.

The relevant Russian agencies should continue their course towards the gradual and “soft” de-dollarisation of the Russian economy, the development of the national payment system, the honing of the use of special economic measures (counter-sanctions), and interaction between the government authorities, business and the expert community on the issue of sanctions.

It is necessary to develop international coordination on adapting to sanctions risks. This requires, first of all, Russia and China developing dialogue and common practices on the issue.

Given that the United States, the European Union, the United Kingdom and several other countries are expanding their sanctions practices, it would be a good idea to work out, both politically and technologically, the issue of a single payment system in the EAEU and the SCO formats.

About the Author

Ivan Timofeev has been a Director of Programs at the Russian International Affairs Council (RIAC). He is responsible for the intellectual performance of RIAC, leading a team of 20 full-time experts and covering more than 30 research programs on political risks and international affairs.

His personal background includes research on economic sanctions and the risk of sanctions for Russian and international business. He is an author and co-author of more than 80 publications issued in Russian and foreign academic press.

Ivan holds PhD in Political Science (MGIMO, 2006) and MA in Society and Politics (CEU and Lancaster University, 2003). He is an Associate Professor at MGIMO-University.

Russian International Affairs Council

The Russian International Affairs Council (RIAC) is a non-profit think tank that focuses on providing practical policy recommendations for Russian organisations, ministries and agencies involved in foreign affairs

RIAC unites the efforts of experts, government officials, entrepreneurs and members of civil society to increase the effectiveness of Russia's foreign policy.

Along with research and analysis, RIAC is actively involved in educational activities aimed at creating a solid network of young global affairs and diplomacy experts.

RIAC is an active player on the public diplomacy arena, presenting Russia's vision on the key issues of global development on the international stage.

RIAC members are the leaders of Russia's foreign affairs community – diplomats, businesspeople, scholars, public figures and journalists

RIAC President Igor Ivanov, Corresponding Member of the Russian Academy of Sciences, served as the Minister of Foreign Affairs of the Russian Federation from 1998 to 2004 and Secretary of the Security Council from 2004 to 2007.

Andrey Kortunov is the Director General of RIAC. From 1995 to 1997, Dr. Kortunov was Deputy Director of the Institute for U.S and Canada Studies of the Russian Academy of Sciences.

Russian International Affairs Council

Cover photo credits:
Vostock Photo

Layout — Olga Ustinkova

Format 70×100 $\frac{1}{16}$. Offset printing.
Printed in 150 copies.

Printed in Russia



Tel.: +7 (495) 225 6283
Fax: +7 (495) 225 6284
welcome@russiancouncil.ru

119049, Moscow,
8, 4th Dobryninsky pereulok

russiancouncil.ru