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Reaction to the annexation: the West announces tougher sanctions against Russia

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In response to the annexation of four occupied Ukrainian regions to the Russian Federation and the Kremlin's threats (including the possible use of nuclear weapons), Western countries are extending their sanctions on Russia, or announcing that they will take such action. New restrictions have already been introduced by the United Kingdom, Japan, Canada, Australia and the United States. Washington has expanded its sanctions list to include representatives of Russia's elite and members of their families (including the Governor of the Central Bank, Elvira Nabiullina, as well as the wife and children of Prime Minister Mikhail Mishustin and defence minister Sergei Shoigu), 169 members of the Federation Council and 109 members of the State Duma (other deputies and the head of the Senate had already been sanctioned), as well as military commanders involved in the war in Ukraine. In addition, the US designated persons in Russia's military-industrial complex, five individuals and nine companies that have been supporting Russia by circumventing the sanctions, among other practices; these include the Chinese company Sinno Electronics Co.

At the same time, in an effort to tighten the existing sanctions, the US issued new guidance that warns of the heightened sanctions risk which all entities (including those from third countries) would face for providing political or economic support to Russia as a result of its illegal attempts to change the status of Ukrainian territory, or help circumvent the sanctions already in place. In parallel, work is underway in Washington (in coordination with all members of the G7) to implement a price cap on Russian oil exports to third countries.

On 30 September, Canada designated 43 representatives of Russia's political and business elite and their family members, as well as 35 senior officials from the occupied Ukrainian territories. Australia, in turn, placed restrictions on 28 individuals involved in conducting the sham referendums in the occupied Ukrainian territories.

The European Commission announced that it will adopt an eighth package of sanctions against Russia, which will require the unanimous decision of the member states. According to the proposals presented, this document may include the following measures:

- a price cap on Russian oil for third countries, agreed by the G7 countries;
- new import bans on Russian products, including further categories of steel product, paper, elements used in the jewellery industry such as stones and precious metals (total value €7 billion);

- an extension of the export ban to of EU goods to the Russian Federation, including civilian technology, aviation, chemical components and electronic components (including all types of semiconductors), as well as riot control gear (tear gas, tasers, etc.);
- a ban on European entities from providing architectural, engineering, legal and IT consultancy services to Russia;
- a ban on EU citizens holding high-paid positions in Russian state-owned companies;
- to list individuals who circumvent EU sanctions (a new category);
- extending the sanction lists to further individuals and entities, including senior officials and those involved in organising the sham referendums on annexation. Those targeted may include Patriarch Kirill, Aleksandr Dugin (a promoter of imperial ideology) and Alan Lushnikov (a majority shareholder in the arms producer Kalashnikov), as well as the Alrosa diamond mining company;
- prohibiting European firms from providing cryptowallet, account or custody services to Russian nationals and entities established in Russia.

Commentary

- The sanctions which the West has introduced or announced are still insufficient to the scale of Russia's aggression and violation of international law. They will also have limited consequences for the country and its economy. It is true that the restrictions adopted so far have struck hard at the sectors affected, including coal, metallurgy, timber, vehicle and air transport. However, the high profits from exports of raw materials (particularly oil) allow the Kremlin to continue financing its growing expenditure on armaments and war, as well as on social policy.
- At the present stage, when most of the key sectors of the Russian economy have already been subjected to sanctions (or, as in the case of the oil sector, are waiting to be implemented), it is essential to tighten the restrictions and prevent them from being circumvented. First and foremost, the threat of secondary sanctions is an important instrument which can discourage third-country entities from supporting Russia in doing this. As an example, in recent days, foreign banks from countries including Turkey, Kazakhstan, Uzbekistan and Vietnam have stopped accepting the Russian MIR bank card, after the US administration concluded that it could be used to circumvent restrictions. So if the EU moved to impose sanctions on those entities which failed to comply with EU restrictions on cooperating with Russia, that would play an important role.
- The West's extension of individual sanctions, including persons beyond the Kremlin's innermost elite, may have an important impact on the mood of the broader Russian establishment. Russian officials shifting their assets abroad has long been a very popular practice, and in many cases their family members continue to benefit from it. Although such restrictions do not cause large financial losses directly (most Russian officials or business representatives have managed to secure their assets by transferring them to persons they have nominated), they do constitute a serious restriction for them and force them to change their way of life, which not everyone is ready to accept. For example Oleg Deripaska, a billionaire who has been subject to US sanctions since 2018, devised a

scheme to circumvent them so he could manage his American assets, but the services there managed to uncover it and extended the sanctions against him.

- Reducing the inflow of petrodollars to Russia would be the biggest blow to the stability of its finances. The EU is supposed to introduce embargos on the import of Russian oil by sea (December 2022) and on petroleum products (February 2023). The negative consequences of this ban for Russia are to be exacerbated further when the G7 countries introduce a price cap on Russian oil exported to third countries. However, it is still unclear whether a consensus within the EU can be reached on this issue. Doubts about this idea have been raised by Greece, Cyprus and Malta, among others, where a significant part of the fleet of tankers handling Russian oil exports are registered; furthermore, Hungary opposes any energy sanctions. In parallel to the ongoing negotiations within the EU, Washington also (so far fruitlessly) has been working to convince oil importers from other continents, including China and India, to join the initiative.