

Press release

Frozen: The politics and economics of sanctions against Russia

By Ian Bond, Christian Odendahl and Jennifer Rankin

If the European Union wants to use sanctions to send a stronger political message about Russian state-sponsored aggression in Ukraine, it can. A new report by the Centre for European Reform shows that the cost of sanctions for the EU is small. As the world's largest trading bloc, the EU is far more important for Russia than the other way round. The EU is also less dependent on Russian gas than it was in the 2009 gas supply crisis.

Russian policy-makers, on the other hand, have only unpalatable choices, as they face the triple blows of low oil prices, currency devaluation, and western sanctions that compound the effect of the first two. The resulting high inflation, high interest rates, shrinking public revenues and credit crunch are leading to a deep and probably long recession. Despite the recent stabilisation in the oil price and the rouble, the risk of a further deterioration in the Russian economy remains high.

The report concludes that:

- ★ The West may at some stage face a dilemma between allowing economic and political chaos in Russia and bailing out a country with an aggressively anti-Western political leadership.
- ★ In the short term, targeted sanctions against leading supporters of President Putin's Ukraine policy should be expanded. The West should ensure that ordinary Russians get as much information as possible about the wealth of Putin's circle and its origins. The West should also prepare to support parts of the Russian economy and society which might form the backbone of a future Russia.
- ★ The EU must keep the door open to ordinary Russians, through academic exchange programmes and a vastly increased public diplomacy and information effort.
- ★ The conditions for lifting sanctions should be clearly set out, and should include:
 - o restoration of full Ukrainian control over its border, with international monitoring;
 - o the internationally supervised withdrawal of illegal armed groups (including undeclared Russian regular forces) and their weapons;
 - o free and fair elections in Donetsk and Luhansk regions, under Ukrainian law;
 - o full co-operation from the Russians and the 'separatists' with the independent investigation into the MH17 tragedy so that the perpetrators can face justice.
- ★ A prosperous, democratic Russia would be best for everyone; as long as that is unachievable, an aggressive but weak Russia is better than an aggressive and strong Russia. If it becomes clear that Russia is not co-operating in implementing the Minsk agreements to end the Ukraine crisis, Western leaders should start considering sanctions that would support a policy of containment.

About the authors:

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