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Russia's invasion of Ukraine: EU and G7 sanctions test West's resolve

Ruth Green, IBA Multimedia Journalist Thursday 24 November 2022



Aerial view on oil refinery plant. Tyumen, Russia.

As successive packages of international sanctions imposed against Russia since 24 February weigh heavily on the global economy, there's been growing unease in the West that the country is not bearing the brunt of the restrictions.

These concerns may soon be assuaged, however, as the EU prepares to impose its long-awaited embargo on Russian crude oil imports from 5 December.

Sergei Guriev, former chief economist at the European Bank for Reconstruction and Development and current Provost at Sciences Po in Paris, says the embargo will have a devastating impact on Russia's economy. 'Exports from Russia to the EU represent half of the exports of Russian oil and gas, so this is a major, major hit for the Russian budget,' he says.

In fact, Guriev says there are already strong indications that international sanctions are taking their toll on Russia. 'A lot of people think that a stronger rouble suggests the sanctions have failed – this is incorrect,' says Guriev. 'A stronger rouble is not a sign of a strong Russian economy, but a side effect of a decline in imports, which actually hits the Russian economy. In that sense, sanctions have played out pretty significantly in hurting the Russian economy quite badly.'

Ahead of the embargo, EU and G7 countries have also been deep in negotiations to reach a consensus on setting a price cap on Russian oil. The much-debated move is designed to strike a careful balance between defunding Putin's war machine and limiting the war's impact on global energy prices, whilst allowing countries time to find alternative suppliers and avoid creating a global fuel shortage. From 5 February, EU countries will also stop importing all refined oil products from Russia.

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Professor Thomas Biersteker
Geneva Graduate Institute



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oil and gas revenues play such a significant role in supporting Russia's economy and its military campaign in Ukraine, Thomas Biersteker, a professor at the Geneva Graduate Institute, say the full weight of Western sanctions on Russia will only really be felt once these changes take effect. 'The caps will be difficult to implement, but their introduction is a creative idea,' he says. 'I think that many analysts and pundits are too quick to conclude the sanctions on Russia are not working or not having an effect. The most powerful sectoral restrictions have yet to be implemented and are only slated to come into effect next year.'

Despite concerns the West has underestimated the Kremlin's ability to withstand sanctions, Guriev says the impact on key technologies and sectors is already apparent. 'Putin cannot get advanced semi-conductors, aeroplane engines or high-grade steel, so he cannot build more weapons,' he says. 'We see that Putin had to start unpacking Soviet era tanks, which are, of course, not as effective and can break down at any moment. We also see that Putin goes to Iran to buy drones, which shows that he cannot replenish his own equipment himself and he cannot import drones because of technological sanctions. There are also reports from American intelligence, which suggest that he even asks North Korea to send him rockets. So technological sanctions also work [and are] saving lives in Ukraine.'

Biersteker says voluntary measures taken by many companies to exit the Russian market have been striking. However, he maintains that sanctions themselves are the most effective way of displaying a united front in the wake of Russian aggression. 'Sanctions are more significant than diplomatic protestations because they signal that the senders are willing to bear costs,' he says. 'The question is how much of the costs are going to be borne by each side and the resolve to continue them.'

The real test will now come as temperatures start to plummet and nations, particularly in Europe, are forced to end their reliance on Russian energy supplies, says Biersteker. 'Russia is calculating that the increased costs of energy will in fact undercut the European resolve in particular,' he says. 'The US and Canada and other sanctioning parties are far enough removed that they're not as affected as Europe. I think that's the focus on the Russian side: to try to create division and try to break up the solidarity with Ukraine that currently exists within the EU, in particular, and of course with the UK as well.'

The myriad sanctions packages against Russia also continues to pose considerable challenges for the legal profession. 'There is a lot of uncertainty in relation to sanctions, in particular regarding Ukraine,' says Simone Nadelhofer, partner at LALIVE in Zurich and the IBA Business Crime Committee's Corporate Counsel Forum Liaison Officer. 'This is why there has been and still is an increased demand for sanctions-related advice. Clients are just not able to answer these questions without guidance or assurance from lawyers.'

As consumer boycotts and the trend for sanctions over-compliance continues, Nadelhofer says clients' need for legal advice is stronger than ever. 'We have also seen that financial institutions have blocked business relationships with any links to Russia – even though maybe the sanctions would not have obliged them to block these accounts – probably out of fear of sanctions breaches,' she says.

Global Insight spoke to lawyers in several jurisdictions who reported instances of government agencies being 'hugely overwhelmed' by licence applications relating to sanctions and taking months to respond.

Nadelhofer says in Switzerland, which is home to numerous trust companies that have Russian settlors or beneficiaries, the demand for sanctions advice has skyrocketed. 'The rules regarding trusts are quite tricky and not always clear,' she says. 'We have been advising a number of trust companies in this respect and have requested licences from SECO, our government agency responsible for sanctions, on behalf of our clients. However, SECO is overwhelmed by the number of enquiries and patience is required.'

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