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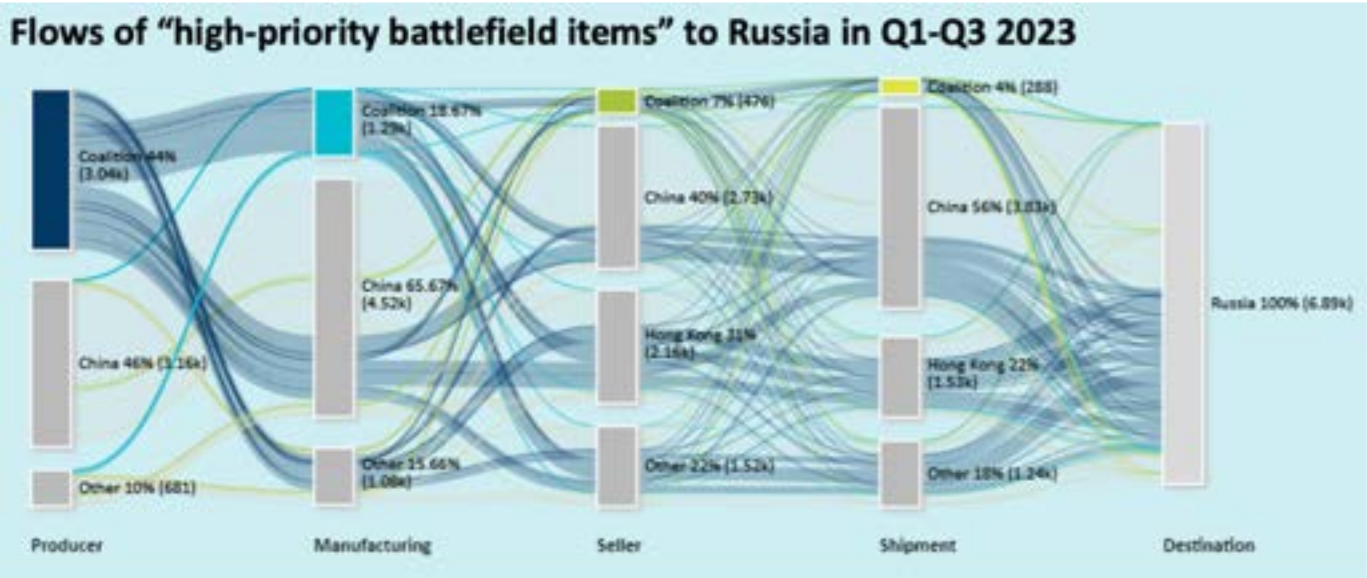
How to Undermine Russia's War Capacity: Insights from Development Day 2023

As Russia's full-scale invasion of Ukraine continues, the future of the country is challenged by wavering western financial and military support and weak implementation of the sanction's regime. At the same time, Russia fights an information war, affecting sentiments for western powers and values across the world. With these challenges in mind, the Stockholm Institute for Transition Economics (SITE) invited researchers and stakeholders to the 2023 Development Day Conference to discuss how to undermine Russia's capacity to wage war. This policy brief shortly summarizes the featured presentations and discussions.

Holes in the Net of Sanctions

In one of the conference's initial presentations Aage Borchgrevink (see list at the end of the brief for all presenters' titles and affiliations) painted a rather dark picture of the current sanctions' situation. According to Borchgrevink, Europe continuously exports war-critical goods to Russia either via neighboring countries (through re-routing), or by tampering with goods' declaration forms. This claim was supported by Benjamin Hilgenstock who not only showed that technology from multinational companies is found in Russian military equipment, but also illustrated (Figure 1) the challenges to export control that come from lengthy production and logistics chains and the various jurisdictions this entails.

Figure 1. Trade flows of war-critical goods, Q1-Q3, 2023.



Source: Benjamin Hilgenstock, Kyiv School of Economics Institute.

Offering a central Asian perspective, Eric Livny highlighted how several of the region's economies have been booming since the enforcement of sanctions against Russia. According to Livny, European exports to central Asian countries have in many cases skyrocketed (German exports to the Kyrgyzs Republic have for instance increased by 1000 percent since the invasion), just like exports from Central Asian countries to Russia. Further, most of the export increase from central Asian countries to Russia consist of manufactured goods (such as telephones and computers), machinery and transport equipment – some of which are critical for Russia's war efforts. Russia has evidently made a major pivot towards Asia, Livny concluded.

This narrative was seconded by Michael Koch, Director at the Swedish National Board of Trade, who pointed to data indicating that several European countries have increased their trade with Russia's neighboring countries in the wake of the decreased direct exports to Russia. It should be noted, though, that data presented by Borchgrevink showed that the increase in trade from neighboring countries to Russia was substantially smaller than the drop in direct trade with Russia from Europe. This suggests that sanctions still have a substantial impact, albeit smaller than its potential.

According to Koch, a key question is how to make companies more responsible for their business? This was a key theme in the discussion that followed. Offering a Swedish government perspective, Håkan Jevrell emphasized the upcoming adoption of a twelfth sanctions package in the EU, and the importance of previous adopted sanctions' packages. Jevrell also continued by highlighting the urgency of deferring sanctions circumvention – including analyzing the effect of current sanctions. In the subsequent panel Jevrell, alongside Adrian Sadikovic, Anders Leissner, and Nataliia Shapoval keyed in on sanctions circumvention. The panel discussion brought up the challenges associated with typically complicated sanctions legislation and company ownership structures, urging for more streamlined regulation. Another aspect discussed related to the importance of enforcement of sanctions regulation and the fact that we are yet to see any rulings in relation to sanctions jurisdiction. The panelists agreed that the latter is crucial to deter sanctions violations and to legitimize sanctions and reduce Russian government revenues. Although sanctions have not yet worked as well as hoped for, they still have a bite, (for instance, oil sanctions have decreased Russian oil revenues by 30 percent).

Reducing Russia's Government Revenues

As was emphasized throughout the conference, fossil fuel export revenues form the backbone of the Russian economy, ultimately allowing for the continuation of the war. Accounting for 40 percent of the federal budget, Russian fossil fuels are currently mainly exported to China and India. However, as presented by Petras Katinas, the EU has since the invasion on the 24th of February, paid 182 billion EUR to Russia for oil and gas imports despite the sanctions. In his presentation, Katinas also highlighted the fact that Liquified Natural Gas (LNG) imports for EU have in fact increased since the invasion – due to sanctions not being in place. The EU/G7 imposed price cap on Russian oil at \$60 per barrel was initially effective in reducing Russian export revenues, but its effectiveness has over time being eroded through the emergence of a Russia controlled shadow fleet of tankers and sales documentation fraud. In order to further reduce the Russian government's income from fossil fuels, Katinas concluded that the whitewashing of Russian oil (i.e., third countries import crude oil, refine it and sell it to sanctioning countries) must be halted, and the price cap on Russian oil needs to be lowered from the current \$60 to \$30 per barrel.

In his research presentation, Daniel Spiro also focused on oil sanctions targeted towards Russia – what he referred to as the "Energy-economic warfare". According to Spiro, the sanctions regime should aim at minimizing Russia's revenues, while at the same time minimizing sanctioning countries' own costs, keeping in mind that the enemy (i.e. Russia) will act in the exact same way. The sanctions on Russian oil pushes Russia to sell oil to China and India and the effects from this are two-fold: firstly, selling to China and India rather than to the EU implies longer shipping routes and secondly, China and India both get a stronger bargaining position for the price they pay for the Russian oil. As such, the profit margins for Russia have decreased due to the price cap and the longer routes, while India and China are winners – buying at low prices. Considering the potential countermoves, Spiro – much like Katinas – emphasized the need to take control of the tanker market, including insurance, sales and repairs. While the oil price cap has proven potential to be an effective sanction, it has to be coupled with an embargo on LNG and preferrable halted access for Russian ships into European ports – potentially shutting down the Danish strait – Spiro concluded.

Chloé Le Coq presented work on Russian nuclear energy, another energy market where Russia is a dominant player. Russia is currently supplying 12 percent of the United States' uranium, and accounting for as much as 70 percent on the European market. On top of this, several European countries have Russian-built reactors. While the nuclear-related revenues for Russia today are quite small, the associated political and economic influence is much more prominent. The Russian nuclear energy agency, Rosatom, is building reactors in several countries, locking in technology and offering loans (e.g., Bangladesh has a 20-year commitment in which Rosatom lends 70 percent of the production cost). In this way Russia exerts political influence on the rest of the world. Le Coq argued that energy sanctions should not only be about reducing today's revenues but also about reducing Russian political and economic influence in the long run.

The notion of choke points for Russian vessels, for instance in the Danish strait, was discussed also in the following panel comprising of Yuliia Pavytska, Iikka Korhonen, Aage Borchgrevink, and Lars Schmidt. The panelists largely agreed that while choke points are potentially a good idea, the focus should be on ensuring that existing sanctions are enforced – noting that sanctions don't work overnight and the need to avoid sanctions fatigue. Further, the panel discussed the fact that although fossil fuels account for a large chunk of federal revenues, a substantial part of the Russian budget come from profit taxes as well as windfall taxes on select companies, and that Russian state-owned companies should in some form be targeted by sanctions in the future. In line with the previous discussion, the panelists also emphasized the importance of getting banks and companies to cooperate when it comes to sanctions and stay out of the Russian market. Aage Borchgrevink highlighted that for companies to adhere to sanctions legislation they could potentially be criminally charged if they are found violating the sanctions, as it can accrue to human rights violations. For instance, if companies' parts are used for war crimes, these companies may also be part of such war crimes. As such, sanctions can be regarded as a human rights instrument and companies committing sanctions violations can be prosecuted under criminal law.

Frozen Assets and Disinformation

The topic of Russian influence was discussed also in the conference's last panel, composed of Anders Ahnlid, Kata Fredheim, Torbjörn Becker, Martin Kragh, and Andrii Plakhotniuk. The panelists discussed Russia's strong presence on social media platforms and how Russia is posting propaganda at a speed unmet by legislators and left unchecked by tech companies. The strategic narrative televised by Russia claims that Ukraine is not a democracy, and that corruption is rampant – despite the major anti-corruption reforms undertaken since 2014. If the facts are not set straight, the propaganda risks undermining popular support for Ukraine, playing into the hands of Russia. Further, the panelists also discussed the aspect of frozen assets and how the these can be used for rebuilding Ukraine. Thinking long-term, the aim is to modify international law, allowing for confiscation, as there are currently about 200 billion EUR in Russian state-owned assets and about 20 billion EUR worth of private-owned assets, currently frozen.

The panel discussion resonated also in the presentation by Vladyslav Vlasiuk who gave an account of the Ukrainian government's perspective of the situation. Vlasiuk, much like other speakers, pointed out sanctions as one of the main avenues to stop Russia's continued war, while also emphasizing the need for research to ensure the implications from sanctions are analyzed and subsequently presented to the public and policy makers alike. Understanding the effects of the sanctions on both Russia's and the sanctioning countries' economies is crucial to ensure sustained support for the sanction's regime, Vlasiuk emphasized.

Joining on video-link from Kyiv, Tymofiy Mylovanov, rounded off the conference by again emphasizing the need for continued pressure on Russia in forms of sanctions and sanctions compliance. According to Mylovanov, the Russian narrative off Ukraine struggling must be countered as the truth is rather that Ukraine is holding up with well-trained troops and high morale. However, Mylovanov continued, future funding of Ukraine's efforts against Russia must be ensured – reminding the audience how Russia poses a threat not only to Ukraine, but to Europe and the world.

Concluding Remarks

The Russian attack on Ukraine is military and deadly, but the wider attack on the liberal world order, through cyber-attacks, migration flows, propaganda, and disinformation, must also be combatted. As discussed throughout the conference, sanctions have the potential for success, but it hinges on the beliefs and the compliance of citizens, companies, and governments around the world. To have sanctions deliver on their long-term potential it is key to include not only more countries but also the banking sector, and to instill a principled behavior among companies – having them refrain from trading with Russia. Varying degrees of enforcement undermine sanctions compliant countries and companies, ultimately making sanctions less effective. Thus, prosecuting those who breach or purposedly evade sanctions should be a top priority, as well as imposing control over the global tanker market, to regain the initial bite of the oil price cap. Lastly, it is crucial that the global community does not forget about Ukraine in the presence of other conflicts and competing agendas. And to ensure success for Ukraine we need to restrain the Russian war effort through stronger enforcement of sanctions, and by winning the information war.

List of Participants

Anders Ahnlid, Director General at the National Board of Trade
Aage Borchgrevink, Senior Advisor at The Norwegian Helsinki Committee
Torbjörn Becker, Director at the Stockholm Institute of Transition Economics
Chloé Le Coq, Professor of Economics, University of Paris-Panthéon-Assas, Economics and Law Research Center (CRED)
Benjamin Hilgenstock, Senior Economist at Kyiv School of Economics Institute
Håkan Jevrell, State Secretary to the Minister for International Development Cooperation and Foreign Trade
Michael Koch, Director at Swedish National Board of Trade
Iikka Korhonen, Head of the Bank of Finland Institute for Emerging Economies (BOFIT)
Martin Kragh, Deputy Centre Director at Stockholm Centre for Eastern European Studies (SCEEUS)
Eric Livny, Lead Regional Economist for Central Asia at European Bank for Reconstruction and Development (EBRD)
Anders Leissner, Lawyer and Expert on sanctions at Advokatfirman Vinge
Tymofiy Mylovanov, President of the Kyiv School of Economics
Vladyslav Vlasiuk, Sanctions Advisor to the Office of the President of Ukraine
Nataliia Shapoval, Chairman of the Kyiv School of Economics Institute
Yuliia Pavytska, Manager of the Sanctions Programme at KSE Institute
Andrii Plakhotniuk, Ambassador Extraordinary and Plenipotentiary of Ukraine to the Kingdom of Sweden
Daniel Spiro, Associate Professor, Uppsala University
Adrian Sadikovic, Journalist at Dagens Nyheter
Kata Fredheim, Executive Vice President of Partnership and Strategy and Associate Professor at SSE Riga
Lars Schmidt, Director and Sanctions Coordinator at the Ministry for Foreign Affairs, Sweden

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