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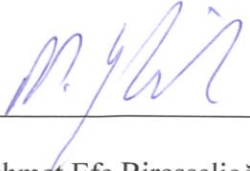
THE EFFECTIVENESS OF EU'S ECONOMIC SANCTIONS: THE CASE
RUSSIA



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ÖZET

AVRUPA BİRLİĞİNİN EKONOMİK YAPTIRIMLARININ ETKİNLİĞİ: RUSYA ÖRNEĞİ

Koçođlu, Tolga

Avrupa Çalışmaları

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Bu çalışmada, literatürde yumuşak güç olarak tanımlanan Avrupa Birliği'nin ekonomik yaptırımlarının Ukrayna krizi bağlamında etkililiđi incelenmiştir. Bu bağlamda, 2013 Maidan protestolarından sonra başlayan ve Dođu Ukrayna'da Rus yanlısı güçlerin çıkardıkları karşılıkların bir iç savaşa dönüşmesi ve bunu takip eden süreçte Rusya Federasyonu'nun Kırım'ı ilhakından sonra Avrupa Birliği'nin bir dizi ekonomik yaptırımlar uygulamasının sonuçları incelenmiştir. Ekonomik yaptırımların etkililiđinin ölçülebilmesi için 2013-2016 arasında Avrupa Birliği ile Rusya Federasyonu'nun ticaret verileri ve Rusya Federasyonunun ekonomik verileri incelenmiştir. Sonuçlar, ekonomik yaptırımların, Rusya Federasyonu'nun Ukrayna'nın egemenliğine daha fazla tehdit oluşturmasını engellenmiş olduğunu göstermiştir. Ancak, yaptırımların koşulu olan Minsk anlaşmasının tam olarak uygulanması Avrupa Birliği tarafından henüz sağlanamamıştır.

Anahtar Kelimeler: Avrupa Birliği, Ukrayna Krizi, Ekonomik Yaptırım, Kırım'ın İlhakı, Rusya Federasyonu

ABSTRACT

THE EFFECTIVENESS OF EU'S ECONOMIC SANCTIONS: THE CASE RUSSIA

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The purpose of this study was to examine the effectiveness of the EU's economic sanctions in the Ukraine crisis as a soft power. In this context, the results of the EU economic sanctions after the 2013 Maidan protests, the conflict of pro-Russian separatists in Eastern Ukraine which resulted with a civil war in Ukraine and the annexation of Crimea by the Russian Federation have been examined. In order to evaluate the effectiveness of the economic sanctions, the 2013-2016 economic data of trade relations between the EU and Russia and the data on the Russian economy have been analyzed. The results have shown that the sanctions constrained further violence against the sovereignty of Ukraine by the Russian Federation. However, the condition of full implementation of the Minsk agreement has not been fully achieved by the EU yet.

Keywords: European Union, Ukraine Crisis, Economic Sanctions, Annexation of Crimea, Russian Federation

This thesis is dedicated to my Father, İsmet Koçođlu



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INTRODUCTION

Recent events in the Eastern Europe have become quite decisive in the World politics. The annexation of Crimea by the Russian Federation was the consequence of some aggregated chains of events in the Continent after the fall of the Berlin Wall. In the relevant literature, it is mostly argued that the power struggle between the West and the East, which means the Russian Federation, remained after the Cold War though by changing its shape and dimension. Excluding a relatively short optimistic period between the end of the Cold War and inauguration of Vladimir Putin, scholars argue that there is a continuum in the power struggle stemming from several historical and political root causes.

After the Cold War, Eastern European states, which were the members of the Warsaw Pact, joined to the European Union (EU) with the so called 2004 and 2007 big bang expansions. The EU had then evolved to a political and economic union from a modest coal and steel community. The inclusion of Eastern European states has been a simultaneous process with their participation to NATO. Although their membership prompted quite a lot discussion in terms of their readiness to be a full-fledged member and the EU's absorbing capacity, the reaction of the Russian Federation had been relatively ignored until the events in Georgia and Ukraine. However, with the domestic power consolidation of the Putin regime and its determination of protecting the grey zone between the West and East from the influence of the West initialized a new conflict in Eurasia.

Ukraine may be considered at the exact center of above mentioned conflict. With its divided population between Russian and Western influence due to its historical pathway, Ukraine has been in social and political turmoil after the fall of the Eastern bloc. On the one hand, the EU approached to Ukraine to intense its mutual economic and social partnership, on the other hand, Russian Federation considered it as an indispensable component of its own sphere of influence in the region. This power

struggle has also been reflected to the domestic political structure of Ukraine over the years. Orange Revolution and Maidan Protests were the emergence of inner power dynamics between pro-Western population in the West and their political actors and pro-Russian, Russian speaking Eastern part of Ukraine. The recent conflict after the Maidan protests, ended with the illegal annexation of Crimea by the Putin regime. It was a first major conflict in the Continent since the end of the Cold War. Despite the efforts of the Russian Federation in proving the exact opposite, rules of the international law clearly identify it as a territorial violation. However, the determination of Putin both in Crimea and in the Eastern Ukraine, in Donetsk and Luhansk, gave way of imposing economic sanctions to the Russian Federation by the EU and United States of America (USA) along with some other states.

The imposition of the sanctions by the EU sparked a new discussion among the scholars. There are several aspects of this discussion. One of the main aspects is the effectiveness of the sanctions. In the first chapter of this study, a literature review on sanctions and their effectiveness is explained. In the second chapter, to assess the historical context of this situation, the mutual relations of the EU between Ukraine and the Russian Federation are elaborated, and the following questions are assessed: What are the root causes of the conflict? What are the differences between two blocs? Why does Ukraine matter both for the EU and the Russian Federation? Which goals are pursued by both sides? The historical importance of Crimea for Russia and the character of the Putin regime are also discussed in the chapter to assess another dimension of the conflict. In the third chapter, the evaluation of the EU's implementation of sanctions in the Ukraine crisis is included.

Another aspect of the discussion is the EU as a global actor. Although the sui generis character of the EU had been a subject of discussion among the scholars, the recent developments in Ukraine sparked new debates on its nature and limits of power. With its complex decision-making mechanism and its infamous inability of conflict resolution especially during the war in former Yugoslavia, the EU's prompt reaction in Ukraine is discussed in the fourth chapter. The question of what enabled the EU is at the core of the discussion. Nevertheless, the timeline of events in Ukraine crisis along with the respective reactions and measures taken by the EU is elaborated in the related chapter to assess the evolution of the decisions of the EU Council which is the driving force of the Union's political direction.

The short term and middle term impact of the economic sanctions on Russia both on Russian economy and society along with its negative impacts on the EU member states are discussed with the relevant economic data in the fourth chapter. As the Ukraine Crisis and the illegal economic annexation of Crimea are in the relatively recent past, there is a gap in the literature. This study is also an attempt to fill the gap by elaborating the effects of the sanctions on the trade between the EU and the Russian Federation especially between the years 2013 and 2016. How the import and export figures of both side have been affected by the sanctions? Which sectors are the most affected ones? Why specific Russian sectors are targeted by the EU? What can be middle and long-term effects of the economic sanctions on both economy? Which EU members have mostly been affected? These questions are discussed in the related chapter.

Finally, in the conclusion part, the effectiveness of the economic sanctions is discussed by taken relevant literature review discussed in the first chapter into account. The main objective of this study is not to predict the political situation neither in the Russian Federation nor in the Ukraine in the future but to assess the effectiveness of the economic sanctions up to now. The timeline of the Ukraine Crisis has relatively been long with its complex political and demographic features therefore the effectiveness of the measures taken by the EU may roughly be evaluated in two parts. First period is the time between the start of the conflict and the downing of the downing of Malaysia Airlines Flight MH17 allegedly by the pro-Russian separatists in Eastern Ukraine air space and the tragic death of 298 passengers on board on 17 July 2014. After the incident, the EU unleashed Tier 3 sanctions. Encompassing a range of sensitive sectors of the Russian Federation, tier 3 sanctions changed the behavior of the EU for a stronger reaction. The measures lead the way to the Minsk I and after the Minsk II agreements with the participation of Russian Federation, Ukraine, France and Germany. Ultimately, the Council declared that the duration of the restrictive measures was linked to the implementation of the Minsk peace process. Therefore, in the final part of this study, the effectiveness of the sanctions will be assessed by taking above mentioned period and decisions into account.

Although the aim of this study is not to evaluate the weight of the EU in the world politics as a global actor, the assessment of its imposition of economic sanctions may also provide a limited insight on this topic. As a soft power, sanctions are the one of the main foreign security tools of the EU and the assessment of their effectiveness

may implicitly be an exploration of the EU's effectiveness in the international relations. The cost burden of the sanctions to the respective EU member states is also an indicator of the trade relations between the EU and the Russian Federation at least for specific, sensitive sectors. This can also reveal the share of principal economic actors in the EU in case of any sanction regime implemented by the EU to the third parties.

To sum up, firstly the economic sanctions will be defined, and their effectiveness will be discussed by grouping the determinant factors to three main categories, namely factors related with the sender, related with the target and finally interrelated factors. Then, the nature of conflict in Ukraine and Eurasia will be discussed by firstly revealing relevant literature on the relations between the EU and Russia. Secondly, by exploring the annexation of Crimea as the peak point of the Crisis. Then, the restrictive EU measures will be assessed by exploring related Council decisions. After, the impact of the economic sanctions will be probed by analyzing relevant Eurostat, OECD, World Bank, Russian Federation Statistics Services, The Central Bank of Russian Federation and IMF data. Finally, a general assessment will be made on the effectiveness of the EU's economic sanctions in the case of the Russian Federation.

CHAPTER 1

LITERATURE REVIEW ON ECONOMIC SANCTIONS

As the EU had evolved from a modest European Coal and Steel Community (ECSC), founded in 1952, to a Union in 1st November 1993 with the Treaty of Maastricht, it has emerged as a global power. It uses several foreign policy tools to achieve its foreign security goals. EU is considered as a soft power, which means, the savoir faire of a state or a Union to persuade other states in world politics without force or coercion (Nye, 2004; p.11). The soft power of an international actor is derived from three distinct sources. These sources are; the actor's cultural features which are attractive to the others, political values which are deemed universal by other international actors and the legitimate foreign policy tools used in the political issues with moral aspects accepted by the others (Nye, 2004; p.12).

The EU defines its overall foreign security objective in the Treaty on European Union (TEU) as to protect the global stability and peace based on the principles of United Nations Charter (TEU, 1993). Thus, the EU place itself in world politics as an organization which has the same aims and concerns with the UN. According to the UN Charter, the objective of the organization is preserving the world security, peace and the territorial integrity of the members against any attempt of violation and to find peaceful solutions to the international issues based on human rights principles (UN Charter, 1945). Nevertheless, Under the scope of Common Foreign and Defense Policy (CFDP), the EU has sent missions and crisis management operations to the conflicts in different regions of the world. The objectives of the missions are defined by the EU as keeping the world peace and maintaining the security, based on the principles of the rule of law and supporting UN arm embargoes imposed to the targets which violates international norms. Therefore, it can be argued that the EU also places itself in the

world politics as a complementary power to the UN missions. At this point, it's not surprising that the one of the EU foreign security tool is the sanctions targeted autonomously or with UN and/or United States to the third countries. Sanctions, having been increasingly used by the EU over the years, represent an important dimension of the EU's global foreign security policy. For this reason, in the first section of this chapter, first a general overview on economic sanctions will be made by referring to the data retrieved from UN and EU documents and analyzing relevant literature. And then the conditions for successful and effective economic sanctions will be assessed in the following part.

1.1. Economic Sanctions

Economic sanctions are foreign policy tools derived from the economic capability, used by international actor(s) against other actor(s) with the aim of punishing or deterring them for/from a rule violation. Economic sanctions are imposed when the rule violation is important for the sender (Heine-Ellison, 2001; p.83). Since the end of the World War I, they have been a liberal alternative to the military instruments (Pape, 1997; p:90). They are broadly used by the UN, EU and the United States.

The legal basis of the UN sanctions is Article 41 of the Chapter VII of the UN Charter. Related article is:

The Security Council may decide what measures not involving the use of armed force are to be employed to give effect to its decisions, and it may call upon the Members of the United Nations to apply such measures. These may include complete or partial interruption of economic relations and of rail, sea, air, postal, telegraphic, radio, and other means of communication, and the severance of diplomatic relations (UN Charter, Article 41).

The article underlines the measures to be taken in case; "The Security Council shall determine the existence of any threat to the peace, breach of the peace, or act of aggression..." (UN Charter, Article 39). Thus, the decision making is centralized by given it to the Security Council of UN. The Security Council takes the decisions by the majority vote but their imposition should not be vetoed by the permanent UN members, namely China, Russian Federation, United Kingdom, France and United States. Once the resolution on a sanction passes, it becomes binding to all UN member

states. The economic sanctions were used only twice before the end of the Cold War. They started in 1963 with the sanction regime imposed to South Africa and then to Rhodesia in 1965. The sanction to South Africa was imposed due to its apartheid regime and its military aggression. Sanction to Rhodesia was imposed after its unilateral declaration of independence from the Great Britain. However, the number of sanctions have drastically increased after the Cold War as it was assumed that increasing international cooperation may also increase the effectiveness of the sanctions (Pape, 1997; p.92). It has been used by the UN in a total of 26 times. They are not only imposed to the states, as its above definition suggests, they may also target terrorist groups such as ISIL and Al-Qaida. In 2016, there have been globally 14 UN sanction regimes. The list of UN Security Council Sanction list is published for all the member states as they should implement all restrictions and measures to the respective targets.

It should be noted that the comprehensive embargoes have been replaced by the targeted sanctions in time. When they are in the form of full embargo, all kind of trade relations and financial transactions with a third state are revoked. US sanctions against Cuba is an example of that kind of comprehensive withdrawal. Comprehensive sanctions were imposed by the UN to Rhodesia in 1968, to Iraq in 1990, to Haiti in 1993. However, due to the humanitarian concerns and the doubts about their effectiveness UN comprehensive sanctions have evolved to the targeted sanctions. Targeted sanctions are also called smart sanctions as their impact on human cost is considered minimum since they are imposed not to punish all the population in the target state but towards a group or regime elites, typically deemed responsible for the rule violation. They may also be designed to impact on a strategic sector which harms the target state's economy. Targeted sanctions may be in the form of diplomatic measures, which means diplomatic isolation of the responsible. Travel bans and asset freezes may also be implemented to the targeted individuals. Travel bans are restrictions of entry of targeted individuals to the external borders. Asset freezes are the access restrictions to the funds such as cash, bank deposits and financial shares of the individuals. Arms embargo may also be imposed, meaning restriction on import/export of arms and arms equipment. Finally, commodity interdiction may be implemented, meaning trade restriction on some selective commodities such as the ban on export of diamonds from the Cote d'Ivoire or ban of luxury goods to North Korea. More than one targeted sanction tool may be used in a single sanction regime.

The global issues which are subject to the UN sanctions may be grouped in five categories; conflict resolution, non-proliferation of nuclear weapons, counter terrorism, democratization and the protection of civilians. Conflict resolutions may be domestic conflicts within a state or conflicts among the states. There is often cross border involvement to the conflicts between the rebel groups in a state or rebel groups are often scattered around several states in a region. The sanctions may be imposed with the aim of military defeat of a group or to end the conflict and support a possible agreement between the groups. Civilian concerns may also be in question. Sanctions imposed on Democratic Republic of the Congo (DRC) may be placed in this category. Persistent Civil War and reported conflicts and human right violations caused the imposition of the sanction regime in DRC. Sanctions may also be used for the non-proliferation of nuclear weapons. Sanctions imposed on North Korea, Iran and Iraq are in this category. The acts of these states violated the Treaty on the Non-Proliferation of Nuclear Weapons (NPT). UN imposed sanctions on the import and export of related material and technology used in nuclear programs and ballistic missiles. In this category, conventional arms trade is also banned since the commerce of conventional arms are usually used in financing nuclear weapon production programs. The next group of sanctions are imposed against terrorism. For instance, the sanctions imposed on Libya falls in this category. The bombing of Pan Am Flight 103 in 1988 by two Libyan terrorist and the refusal of Libya bringing them before the court resulted with the UN sanctions. Democratization may also be a reason for the sanctions. The asset freeze imposed to Saddam Hussein and to the other top officials was intended to overthrow the regime and support a democratic transition in Iraq. And finally, the protection of the civilians may also be an objective. Sanctions against Somalia, DRC, Libya and Sudan fall in this category. For instance, the bombing of civilians in Tripoli by the Libyan government resulted with the UN sanction resolution which underlined human right violation in this state. Asset freeze and travel ban were imposed on top Libyan officials.

Apart from the UN, the economic sanctions are used by the United States and the EU mostly thanks to their sizeable and powerful economy. Economic sanctions are more likely used when the economy of the sender is more sizeable than the target (Heine-Ellison, 2001; p.83). A state with a dependent economy to the target would hesitate imposing economic sanctions. As it is underlined in the beginning of this chapter, the targeted sanctions are one of the CFSP tools of the EU. The term restrictive

measures are broadly used by the EU instead of targeted sanctions. Restrictive measures are frequently taken by the EU in the form of asset freeze, visa and travel ban and arms embargo. In line with the UN sanction regimes, the EU's sanction regimes have also evolved over the years from the comprehensive embargoes to the targeted sanctions with the same humanitarian and effectiveness concerns as UN. Guimelli adds another aspect to this evolution by underlining the importance of the reputational dimension. The sanctions should be clearly explained to the allies and opposing groups of the EU, to the population in the EU and target state and to the allies and dissidents in the target regime (Giumelli, 2013; p.2). Targeted sanctions are more appropriate to be justified than comprehensive embargoes which punish the whole population in the target state. Comprehensive sanctions may also have some adverse effects such as empowering the targeted regime by uniting the population with nationalistic enthusiasm. Targeted sanctions are also designed as to make minimum impact on the infrastructure of the target state. When the infrastructure is less harmed, the chances to get the support from the population and regime dissidents in the target state increase. Finally, the huge impact is not necessarily means higher effectiveness (Heine-Ellison, 2001; p.89).

The EU member states impose economic sanctions since the beginning of the eighties (Koutrakos, 2001; p.12). At the beginning, member states were taking a common position instead of decisions centrally taken by the Council of EU (Giumelli, 2013; p.7). After the formation CFSP, the number of EU sanctions has increased. In the related EU Council document named "Basic Principles on the Use of Sanctions", the principles of the EU sanctions are defined. In the document, EU defines its sanctions policy as:

We are committed to the effective use of sanctions as an important way to maintain and restore international peace and security in accordance with the principles of the UN Charter and of our common foreign and security policy. In this context, the Council will work continuously to support the UN and fulfil our obligations under the UN Charter (Council of the EU, 2004).

Therefore, the EU sanctions may be considered complementary to the UN sanctions (Portela, 2005; p.84). It should be noted that, two of five UN Security Council permanent members, United Kingdom and France, are EU members. Therefore, the EU impose also autonomous sanctions in case France and United Kingdom may not affect sanction decisions in the UN Security Council (Portela, 2005;

p.85). The situation is defined in the Basic Principles on the Use of Sanctions document as:

If necessary, the Council will impose autonomous EU sanctions in support of efforts to fight terrorism and the proliferation of weapons of mass destruction and as a restrictive measure to uphold respect for human rights, democracy, the rule of law and good governance. We will do this in accordance with our common foreign and security policy, as set out in Article 11 TEU, and in full conformity with our obligations under international law (Council of the EU, 2004).

In that case, there are two main group of EU sanctions. On the one side, sanctions imposed based on UN Council resolutions and on the other side, autonomous sanctions or sanctions imposed with United States when the proposal of United Kingdom and France failed in the UN Council. Below table shows 2016 sanction regimes imposed by the EU;

Table 1. EU Sanction Regimes in 2016

EU Sanction Regimes in 2016	
After UN Resolution	Al-Qaeda, Central African Republic, DRC, Guinea-Bissau, Iran, Iraq, Lebanon, Libya, Somalia, South Sudan, North Korea, Taliban, Yemen
Autonomous EU	Burma, China, Egypt, Haiti, Moldova, Tunisia, United States
With US	Belarus, Brundi, Former Yugoslavia, Russia, Ukraine, Syria, Zimbabwe

Source: US Department of treasury (2017)

As it is argued in the beginning of this chapter, the EU place itself as a global, norm based actor as UN in world politics by referring to the UN Charter. According to De Vries and Hazelzet, EU sanctions objectives may be evaluated in two groups. First group of sanctions are related with strategic objectives and the second groups of objectives are related with the norms (DeVries and Hazelzet 2005, p.156). Strategic objectives are direct security issues related with the violation of territorial integrity of the third states, counter terrorism and support for peace process whereas normative objectives are related with the misgovernment issues such as human rights violations and promotion of democracy (DeVries and Hazelzet 2005, p.156). The EU considers misgovernment in the third states as security issues since it threatens the political stability in international relations by causing domestic or regional conflicts and immigration problems in the medium term (Smith 2003; p.98). Therefore, they may also be called indirect security issues.

The EU sanctions may also be categorized as regional and global sanctions (Portela, 2005; p.89). The regional sanctions are the sanctions imposed with the concerns of geographical vicinity. For instance, sanctions imposed on Former Republic of Yugoslavia falls in this category since the conflict occurred next to the EU borders. On the other hand, the EU also imposes sanctions on the states or organizations which are not geographically near to its borders. Sanctions imposed to African and Pacific countries may be placed in this category. To assess the EU's sanction pattern, Portela demonstrated the correlations between direct and indirect security issues and their relations with the geographical vicinity by analyzing the dataset on EU autonomous sanction between 1987 and 2003. The study reveals that the EU may be considered as a global sanction actor since 7 out of 17 sanction regimes where not implemented in its geographical vicinity. On the other hand, the number of sanctions imposed with direct security concerns and indirect security concerns are 21 to 13, which means that the EU is not only a normative actor but equally an actor with direct security objectives. Finally, there are more EU sanctions imposed with direct security issues to its geographical vicinity than towards remote regions which reveals that the EU is more sensitive to the direct security issues when they occur in its surroundings (Portela, 2005).

The objectives of the UN and EU in imposing economic sanctions may be summarized with the classifications of Lindsay and Guimelli. Lindsay reveals that they are deterrence, compliance, punishment, destabilization, solidarity, symbolism

and signaling (Lindsay, 1986). The first group of objectives are deterrence, compliance, punishment and destabilization. Their direct concern is to change the behavior of the target state and decrease the popularity of the regime which deemed responsible of the violation. The second group of objectives are solidarity, symbolism and signaling. These objectives are more related with the message of the sender. They seek to give a signal to the international community and to empower the cooperation among sender states or the alliance. They are mostly symbolic and the sender(s) do not have a serious expectation of behavioral change (Heine-Ellison, 2001). The second group of objectives are in line with the arguments of Daoudi and Dajani. They argue that the only criterion of a successful sanction should not be acquiring concession from the target state. Sender may also have symbolic benefits, such as highlighting the importance of the norms or communicating with the other actors in world politics (Daudi et al., 1983). Guimelli sets three categories of objectives in imposing a sanction. These are coercing, constraining and signaling. Coercing means pushing the target to change its behavior. Constraining is limiting the life and capabilities of the target. Signaling is what Daoudi and Dajani argues, in other words image building in the international politics. Guimelli argues that these three objectives may coexist in the parameters of a sanction regime (Guimelli, 2013).

In this section, a general overview on economic sanctions has been made. In the next section, the relevant literature will be reviewed to assess under what conditions are the sanctions effective means to achieve expected political objectives.

1.2. Effectiveness of Economic Sanctions

In the relevant literature, based on the objectives, capabilities, the course of actions of the actors and the structure of the international politics, there are three main groups of factors correlated with the effectiveness and the success of economic sanctions. First group of factors are related with the sender. Second group of factors are related with the target. And the third group is interrelated factors between the target and the sender. In this section, first the definition of a successful sanction will be made and then such conditions for successful utilization of economic sanctions will be revealed by classifying the factors related to sender and to target.

The definition of a successful sanction varies in the literature. According to Hovi, Huseby and Sprinz, a successful sanction is obtained when the target concedes

to the sender in a political issue or when the non-compliance is made impossible by the sender (Hovi et al. 2005; p.483). Sometimes, the target becomes without means of non-compliance due to the measures taken by the sender. It may be deprivation of necessary materials for a nuclear program or lack of chemical substances to produce chemical weapons. In such cases, non-compliance becomes impossible even the targeted regime desires it (Lopez et. Al, 2004). Pape sets three criteria to define a successful sanction; acquisition of certain political concession by the target, imposition of the sanctions *before* the behavioral change and existence of no other explanatory variable, such as military threat for the related concession (Pape, 1997; p.97). Then, an imposed sanction is successful when the sender achieves a political concession from the target or when the non-compliance becomes impossible for the target due to the measures taken by the sender. Guimelli adds another dimension to the definition of a successful sanction. He argues that sanctions are usually used as a subcomponent of a complex set of foreign security policy. Therefore, in some cases, the sender imposes sanctions not to necessarily obtain a political concession from the target but to emphasize its power and/or norms to the international actors (Guimelli, 2013; p.9). This is in line with the above-mentioned argument by Daoudi and Dajani on the symbolic benefits of the sanctions. However, in the literature, the definition of a successful sanction is broadly related with the concession made by the target.

The general view in the literature is that the economic sanctions are rarely effective in international relations. The study of Hufbauer, Schott, and Elliott's on a dataset of 116 sanction regimes between 1914 and 1990 shows that only 34 % of economic sanctions had been successful (Hufbauer et al., 1990). Besides, the study made by Pape on same dataset revealed that the ration was barely 4 % when a significant behavioral change is in question (Pape, 1997). The main reasons of low successful rate may be as follows; nationalistic ideals may increase the resistance in the target. The target may compensate its loss with import substitution or alternative import sources. Or, the targeted elites may reflect the damage to their dissidents (Pape, 1997; p:93). Other possible causes of the failure of economic sanctions will be assessed hereafter while evaluating the conditions of effective sanctions.

In the relevant literature, the first group of the factors regarding the conditions of a successful and effective sanction are related with the initiator. They define under what conditions a sanction may be successful based on the features, actions, means and capabilities of the sender. Some of them may also be considered as policy

recommendations since they prescribe a sanction regime design for the sender. As the sanctions are often imposed after the crisis, the sender should accomplish a result in a political situation already worsen.

According to the Druláková et al, before imposing a sanction, the objectives of the sanction should be well defined by the sender. A sanction imposed to achieve a very comprehensive and over- ambitious objective is less likely to be succeeded. To calculate the dimension of the objective the sender should evaluate the economic and political cost and sustainability of the sanction and assess whether it would be unilaterally or multilaterally imposed to the target (Druláková et al., 2012). Hufbauer, Schott, and Elliott's study on 116 cases reveals that the sanctions are more likely to be succeeded when the goals of the sender is limited (Hufbauer et al., 1990). The overall economic cost of the sanction to the sender is also a decisive variable in the effectiveness of the sanction. When the sender loses vital markets due to the sanctions, the domestic support will lessen (Heine-Ellison, 2001; 88). To asses it, the sender should calculate the correlation between the economic and political cost and the foreseen gain of a successful sanction (Druláková et al., 2012). However, a sanction with a nearly zero cost to the sender also decreases the effectiveness of the sanction since it will not be deemed credible by the target and international community (Martin, 1992). Obtaining support from the international community is another variable in the effectiveness of a sanction. When there is a lack of support, the sanction will less likely be succeeded. The study of Hufbauer, Schott, and Elliott demonstrate that the support from the international community create a pressure on the target state in yielding to the sanctions (Hufbauer et al., 1990). Economic sanctions will be even less effective if one of the actors in the sender alliance try to make use of the situation (Heine-Ellison, 2001; p:88). At this point, the sender should not only try to isolate the target in the international arena but the reformers and regime dissidents should also be supported to change the government. On the other hand, Lopez and Cortright recommend designing the sanctions in a mixed character. They argue that the process should regularly be evaluated by the sender by punishing the non-compliance and rewarding the compliance in a transparent way (Lopez and Cortright; p:29). The more flexible is its implementation, the more effective will be the sanction regime.

The second group of factors are related with the target. Economic, political and social structure of the target affects the outcome of a sanctions regime. For instance, there is a positive correlation between the degree of democratic consolidation of the

target state and the positive sanction outcome (Druláková et al., 2012; p:104). Democratic regimes will more likely yield to the sender than the autocratic regimes most likely because of the good governance. Economic downturn impacting the population will put more pressure on the government via democratic channels. The economic cost is also a parameter affecting the sanction outcome. When the cost of non-compliance exceeds the cost of compliance, the targets are more fragile to the sanction. In the literature, the positive correlation between high economic impact on a targeted state with weak economy and the effectiveness of the sanctions are often emphasized. However, Blanchard and Ripsman challenge this argument. They argue that domestic and international *political* cost of non-compliance should be lesser than compliance (Blanchard et al.,1999). Even a high economic cost of non-compliance is in question for the target, political cost is yet the determinant factor. Therefore, Blanchard and Ripsman argue, economic sanctions are not enough per se for to obtain a positive outcome. A political pressure should also be imposed to increase the political cost of non-compliance. When the status quo and the public support from their voters which increases their chances of reelection are more important for the targeted regime elites than faced economic burden, they tend to non-comply (Blanchard et al.,1999). Then, what are the factors affecting the political cost for the sender? First group of factors are international support against the sanctions which may decrease the political cost or total opposite of it, a high threat from other international actors, apart from the sender, which may increase the cost. The target will more likely comply to the economic sanction if it perceives higher threat in international arena. Second group of factors is related with the domestic political situation and reflection abilities of the elites. Existence of a strong domestic opposition to the government may increase the political cost for the executives. The politicians in the targeted state will also have difficulty in mobilizing the masses to resist against the sanctions if there is a chaotic political situation. However, the executives may reflect the cost of economic sanctions away from them and their supporters to decrease the political cost (Blanchard et al.,1999). To sum up, economic sanctions will more likely work when there is a high political cost of non-compliance. On contrary, high political incentive of compliance will more likely result with a negative sanction outcome. High political cost of non-compliance may force the regime to compliance only when the domestic political cost of compliance is low and decision makers have less autonomy (Blanchard et al.,1999).

The third and last group is related with interrelated factors between the sender and the target. The scholars in this group argue that the effectiveness of the sanctions is more dependent on interrelated factors between the sender and the target rather than the factors separately affecting the actors.

The study of U-Jin Ang and Peksen argues that issue salience is the key parameter for a successful sanction. Salience is defined as the degree of importance attributed to an issue or value attached to an issue by the actors during the discussion phase (Peksen et al., 2007; p:137). Sender and target may attach different values to an issue. For instance, a crackdown of protesters may be considered as a human right violation by the sender but it may be considered as a national security issue by the target.

Three hypotheses are tested in the study. The first hypothesis is about the relationship between the sender's determination to see the sanction succeed and the outcome of the sanction. The second hypothesis is the correlation between the determination of the target state to resist to the sanctions and the outcome of the sanction. And finally, third one is about the effect of the asymmetry between the issue salience perception of the sender and the target (Peksen et al., 2007). The study reveals that the issue with higher salience for the sender increases the probability of a sanction with positive outcome (Peksen et al., 2007). However, the determination of the target to resist does not produce a negative outcome which means failure of the sanction (Peksen et al., 2007). Finally, the asymmetry between the issue saliences increases the chance of a successful sanction when related asymmetry favors the sender (Peksen et al., 2007).

According to Hovi, Huseby and Sprinz, sanctions are often used in international relations even if they are ill-fated thanks to their domestic political effect in the sender state (Hovi et al., 2005). They often create a perception in domestic politics and public opinion that the related state is taking an action against the target state which violated an international norm (Hovi et al., 2005). They also emphasize the difference between threatening a target state for a sanction and actually imposing it (Hovi et al., 2005). At this point, there is an important detail on the mechanism of the sanctions. As the sanctions are initially threatened before actually imposing them to the target states and the target states which do not obey to the threat usually do not obey to the sanctions, one can argue that imposed sanctions are usually ill-fated (Hovi et al., 2005). Related study of Drezner put forward that economic sanctions imposed

by United States were more successful in behavior change during the treat phase (Drezner, 2003).

Hovi, Huseby and Sprinz discuss the probable reasons of a failed sanction threat. They argue that three main possibilities may be in question; the threat may be not credible, which means an empty threat. The threat may be not potent enough to change the behavior of the target state. Finally, the threat may be non-contingent which means the imposition of the sanctions is not dependent on the compliance of the target state (Hovi et al., 2005). They also discuss the question whether an imposed sanction may work or not despite having a failed threat due to the above mentioned three cases. In such situation, the key variable is that whether the target state has a perfect information on the insight of the threat or not (Hovi et al., 2005). In a situation when the target state has a complete information on the threat, three possibilities may be in question; first, if the threat is empty, it would simply be failed. Second, the threat may be credible but it could be not considered by the target as potent enough as to change its behavior. Finally, the threat may be non-contingent. In this case, the sanction would also be failed since the target would not change its behavior knowing the fact that the sanctions would be imposed in any case (Hovi et al., 2005). The conclusion is that in each situation when the target has complete information, the threat would not be imposed or imposed sanction would be failed (Hovi et al., 2005). Then, when the sanctions work? According to Hovi, Huseby and Sprinz, there are two conditions to get a working sanction; first, the power of the sanctions should be underestimated by the target state or the target should be mistaken by the determination of the opposite side or it should be mistaken by the contingency of the sanctions (Hovi et al., 2005). Second, related misperception should be reconsidered after the imposition of the sanctions (Hovi et al., 2005).

Klinova and Sidorova argue that the sanctions are more likely to be succeeded when they are combined with other factors and measures. When there are complementary factors, such as military or political pressures on the target states, the sanctions become more effective (Klinova et al, 2014; p.219). For instance, initializing an arms race which raises military spending of the target state will more likely increase the effectiveness of economic sanctions by creating more economic depression. They also argue that sanctions are usually more effective in the cases when initiator and target have close economic partnership (Klinova et al, 2014; p.221). The effectiveness

will more likely increase when the initiator's economy is greater than the target state in case they are economic partners.

In sum, the literature provides conditions of effectiveness in three groups. First, the conditions which are related with the sender. Second, the conditions which are related with the target. Third, interrelated conditions. In the rest of the thesis, effectiveness of EU's sanctions against Russia will be assessed according to these three criteria.



CHAPTER 2

NATURE OF THE CONFLICT BETWEEN RUSSIA AND THE EU OVER UKRAINE

In this chapter, EU's relations with Ukraine and Russian Federation after the fall of the Soviet Union will be discussed with the aim of revealing the nature of conflict in Ukraine and Crimea. In this study, it is argued that Ukraine's cultural and geopolitical position between the EU and Russia is the root cause of the conflict.

First, the relations between EU and Ukraine after Ukraine's independence in 1991 will be assessed in conjunction with the question of demarcation of EU boundaries. Where are the boundaries of Europe? How a state is positioned in or out of the EU membership process? What kind of relationship does the EU establish with the outer Europe? In the first part of the chapter, these questions will be discussed to evaluate EU-Ukraine relations.

In the second part of the chapter, relations with EU and Russia will be discussed based on historical and politic differences between them. Their different perceptions on world politics and the causes of increasing competition between them will be assessed with the aim of revealing the reasons of the annexation of Crimea.

Finally, in the third part of the chapter, annexation of Crimea by the Russian Federation will be discussed in the political and cultural context of the previous two parts.

2.1. Ukraine - EU Relations

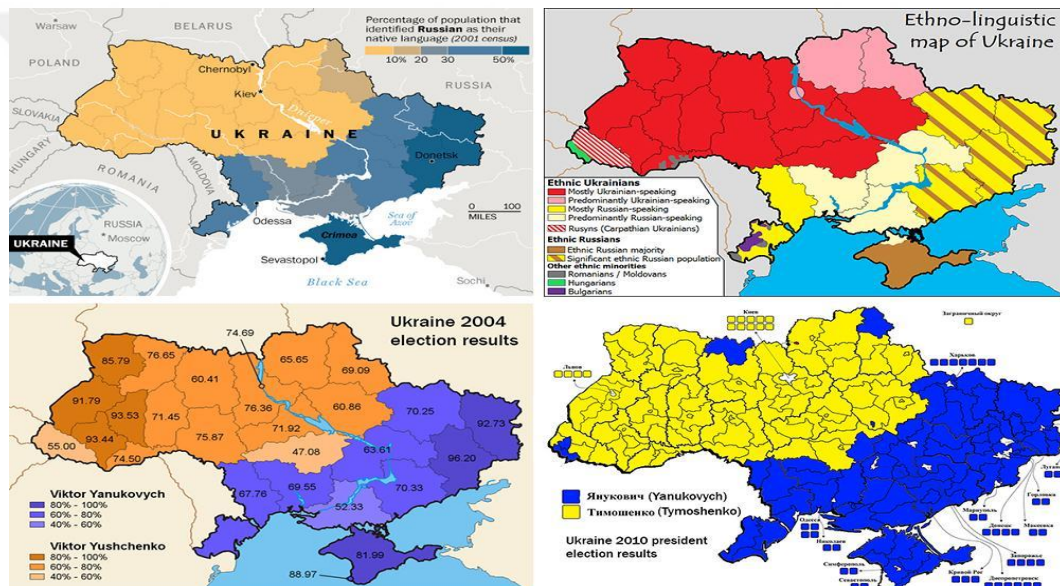
Ukraine declared its independence from the Soviet Union in 1st December 1991 with the Bill of Independence which was issued after the referendum held on the Act of Declaration of Independence. 92,3 % of voters supported the declaration of independence. Leonid Kravchuk and Leonid Kuchma successively ruled the country until 2004. Their presidential terms can be described as a transition period from Soviet regime to a more independent state and as the first implementation of semi-presidential constitutional republic (Haran, 2012). On the one hand, Ukraine had not been able to break away from Russian sphere of influence even after its independence, by contrast with the other Eastern European and Baltic states. On the other hand, oligarchs remained in power as former communist party elites. Civil society had always been quite weak and far from pushing the state for any substantial institutional reform. Corruption and organized crime prevailed the country and oligarchic network strongly opposed any attempt for the transition to the democracy and the rule of law (Haran, 2012).

Historically ruled by several powers, Ukraine's territory had been shared between Poland and Russian Empire in previous centuries. After being totally annexed by Russia, Ukraine had been an integrated part of the Soviet Union until its independence with the fall of the iron curtain. Russifying policies and settlement of ethnic Russians to the East of the country was started even in Tsarist Russia and continued in Stalin era (Fraser, 2008). Ukraine had been an independent state during a very short period of time until 1991. Its Western provinces were added to Ukrainian territories only in 1940's. Therefore, there is a deep disunity of identity perception between the West and the East of the country. People in the West of the country regard themselves more European by contrast with people of the East who tend to identify themselves more Russian. Language is also mostly divided into two parts of the country. Russian is overwhelmingly native language in the East whereas Ukrainian is mostly speaking in Westward provinces (Kuzmin and Maksymenko, 2012).

Two critical events have drastically changed Ukraine and its relations with the EU. These are, the Orange Revolution in 2004 and Maidan Protests in 2013. Orange Revolution was the sequence of events occurred after the 2004 presidential elections. Mass protests throughout the country sparked after vote rigging claims against pro-Russian candidate Viktor Yanukovich. Pro-Western candidate Viktor Yushchenko led

the 2004 mass protests along with other opposition leader Yuliya Tymoshenko. Protests resulted with the cancellation of the election results and in the re-election Yushchenko topped the number of votes. Above mentioned pattern of ethnocultural contrast between the West and the East of the country deepened during and after the Orange Revolution since the East of the country supported Yanukovich while the West supported Yushchenko (Copsey, 2006).

Figure 1. 2004 Ukraine Election Results



Source: Vox News (2017)

The root causes of the Orange Revolution were deeper than the mere reactions against the election fraud. Corruption in the state due to the uncontrolled oligarchy and arise of so-called clans which are local officials appointed by the presidents' constitutional power had drawn reaction from the newly flourished middle classes (Karatnycky, 2005). European choice was the main motto during the revolt. Ukraine has always sought for the inclusion to the European system after the disintegration of the Soviet Union. Successive Ukraine governments and Presidents have addressed Europe as the direction of the state. The zenith of the manifestation for European

Choice was the Orange Revolution. The main demands during the protests were the right of freedom of expression, fight against corruption, democratic governance and limiting the intervention of the state (Tigipko, 2011; p.56). Viktor Yushenko was supported by the mass protesters thanks to the above-mentioned reaction. Integration with the European Union was considered as a pathway to the good governance in Ukraine (Tigipko, 2011).

Between 2004 and 2010 had been an era of disillusion with the leaders of Orange revolution. Notwithstanding, the leaders of the Orange revolution had not been able to satisfy democratic demands of the mass protesters, Ukraine's official discourse continued being pro-European. The bad relationship with Russia and political turmoil in domestic Ukraine politics lowered Yushchenko's popularity. Within this background, despite the opinion polls favoring Prime Minister Yulia Tymoshenko, Viktor Yanukovich won the 2010 elections. Indeed, Viktor Yanukovich's election victory over Yushchenko and Tymoshenko came as no surprise. Public discontent with the economy and power struggle between oligarchs had made way for Yanukovich's triumph. Above mentioned regional ethnic and cultural division was also a determinant factor (Kuzmin and Maksymenko, 2012).

Yanukovich consolidated its power during his presidency with vertical hierarchy (Shumylo-Tapiola, 2012). His one-man rule eroded the rule of law which was already weak (Shumylo-Tapiola, 2012). In the meantime, EU and Ukraine had been negotiating on an Association Agreement since 2007. The agreement included Deep and Comprehensive Free Trade Area (DCFTA) which;

offers Ukraine a framework for modernizing its trade relations and for economic development by the opening of markets via the progressive removal of customs tariffs and quotas, and by an extensive harmonization of laws, norms and regulations in various trade-related sectors (European Commission, 2013).

Signing of the agreement was a new phase for both parties. The Association Agreement provides the opportunity of sectoral cooperation and approximation to the *acquis communautaire* in the areas

Transport, environment, cooperation on industrial and enterprise policy, public finance, macroeconomic stability, company law, banking, insurance and other financial services, information society, information technology and telecommunications, tourism, agriculture and rural development, fisheries and

maritime governance, mining, cooperation in science and technology, space cooperation, consumer protection, social cooperation, public health, education, training and youth, cooperation in the cultural and audio-visual field, civil society cooperation, cross-border and regional level cooperation (European Commission, 2013).

However, Viktor Yanukovich declared that Ukraine had suspended the preparations of the Agreement just a week before the Vilnius Summit on 29 November 2013. The government statement said the decision was taken “with the aim of adopting measures to ensure national (economic) security” and “was motivated by a need to bolster economic ties with Russia” (Ukraine Government Decree, 2013). At the same time, Russian officials welcomed Ukrainian government’s decision of abandoning the Association Agreement. The decision created a vast popular uprising in Kiev. Huge crowds gathered and protested the government on European Square with slogans such as "I want to live in Europe" or "Ukraine is part of Europe" (BBC, 2014). In the following weeks, demonstrations turned to the clashes between the protesters and security forces. In 17 December 2013, Ukrainian–Russian action plan was signed in Moscow. The parties agreed on \$15bn-worth of Ukrainian government bonds purchased by Russia and the discount for Russian gas supplied to Ukraine from more than \$400 per 1,000 cubic meters to \$268.5 (BBC, 2014).

Day by day, clashes between protesters and government forces turned deadly. Dozens of people died throughout January and February. Some protesters eventually stormed regional government offices and presidential administration buildings (BBC, 2014). President Yanukovich fled country. Ukrainian parliament named Oleksandr Turchynov as interim president and an arrest warrant has been issued for Yanukovich. In the next elections, Petro Poroshenko has been elected as president (BBC, 2014). In the meantime, Russian rebels infiltrated Eastern Ukraine. Putin made territorial moves in the East of Ukraine and Crimea. Russia's parliament approved President Vladimir Putin's request to use force in Ukraine to protect Russian speaking minorities. Pro-Russian gunmen also seized buildings in the Crimea and Putin signed a bill to absorb Crimea into the Russian Federation. Protesters occupied government buildings in the East Ukrainian cities of Donetsk, Luhansk and Kharkiv, calling for a referendum on independence (BBC, 2014). Ukraine launched military operations against pro-Russian militants in the East. Pro-Russian separatists, backed by Putin, in Donetsk and Luhansk declared independence after unrecognized referendums by the West and Ukraine. In the meantime, Malaysia Airlines flight MH17 from Amsterdam was shot with the loss

of 298 lives during its flight above 50 km on Donetsk region. With the conclusion of the report prepared by Dutch Safety Board in October 2015 blaming the incident on pro-Russian separatist forces in Donetsk, the West blamed Russia for its indirect responsibility.

One of the main parameter of the pathway which led Russian intervention in Eastern Ukraine and the annexation of Crimea is the relations of Ukraine with the EU. From the beginning of its independence, Ukraine clearly targeted a comprehensive transformation for a full integration with the Union (Kuzmin and Maksymenko, 2012). Official Ukraine state discourse has always been the target of being a full member of the EU (Kuzio, 2012). As, all ex-soviet states started to seek a way in the European Continent after the post-cold disorder (Wolczuk, 2016; p.54), Ukraine has sought to place itself as a part of Europe or of the West, in a broad sense (Kuzio, 2012). However, it has not been reciprocal vis a vis the EU. This study argues that the main reason of the lack of reciprocity from EU side is the question of demarcation of EU boundaries.

According to Smith, the boundaries of the EU may be evaluated in four main aspects. They are namely geopolitical, institutional, legal and cultural dimensions of the division between Europe and its beyond. Smith argues that Europe had been an island of stability during the cold war and it has been shaping the continental politics by defining the limits the Europeanness in the continent. By identifying ex-Soviet countries as the unsteady territories, the geopolitical demarcation of inner and outer Europe is drawn by the EU institutions by passing over the Eastern European countries. However, the countries such as Ukraine, Belarus, Armenia and Moldova are considered in the trans frontier zone (Smith, 1996). EU institutions, based on the *acquis communautaire*, draw the legal line. Trade between the EU and the outside defines the transactional boundary and finally, European identity on a historical background designates the cultural boundary (Smith, 1996). Smith's model approaches to the Continental politics based on the dichotomy of inclusion and exclusion by the EU. In this model, Poland is the buffer zone between ordered Europe and turbulent East (Smith, 1996). The ability of the EU in drawing a line between insiders and outsiders is considered as the key parameter of its power as the 'EU can structure and control the linkages between insiders and outsiders' (Smith, 2012; p.12). In this model, the EU's normative power is the sole mold shaping the European politics.

Another group of scholars argue that Smith's model puts the EU at the center of the Continent however it is not the case. The study of Bosse and Korosteleva-

Polglase argues that demarcation is needed to be considered as a reciprocal process. EU's capacity of demarcation and its ability of transferring its rules and norms are limited with the obstructions set by its neighbors (Bosse, G. and Korosteleva-Polglase, 2009; p.146). The EU, having developed a set of shared values to manage its relations with its neighbors without setting them a membership perspective, tries to influence them with the conditionality of their commitment to the related values and the process of rule transfer beyond the borders of the EU is impeded with the own interpretations of 'shared values' of its neighbors (Bogutcaia et al., 2006). Besides, as the EU's shared values argument is often vague, its neighbors question and contest them by putting their own historical interpretation of Europeanness forward. Therefore, shared values rhetoric does not prevent the occurrence of the value gap between the EU and its neighbors. The discourse is often remains at the political level in Eastern Europe (Bogutcaia et al., 2006).

As Sandra Lavenex puts it, the boundaries of the EU have been blurred over the time. EU has devised some sets of relationships with the outer Europe in order to manage the externalities and transfer its rules. This process requires stretching its functional boundaries beyond. On the one hand, there are some 'quasi members' such as Norway and Switzerland. They are deemed European in substance and they are included in the organizational body of the EU. They adopt some EU legislation, such as Schengen Agreement as a full member (Lavenex, 2011). On the other hand, its relationship with its Eastern neighbors which are deemed outside the full membership scope are on the regulatory basis. It means that the EU is transferring its rules with the aim of legislative approximation and cooperation for common issues rather than the adaptation of the *acquis communautaire* (Lavenex, 2011). Relationship circles have been created by the EU to manage its normative power and this process has softened its boundaries (Lavenex, 2011).

The scope of the European Neighborhood Policy (ENP) is basically the institutionalization and coordination of this kind of relationship (Happ and Bruns, 2017). As Haukkala argues, the ENP was devised after the 2004 and 2007 Eastern enlargements to give a politically defensive answer to the full membership expectations and ambitions of the related Eastern Europe states by considering its absorption capacity (Haukkala, 2016). The EU sought to find a way of keeping its normative power in the region without taken a political responsibility, as it is taken during the full membership rounds. ENP may also be considered as a loose alternative

to the enlargement (Wolczuk, 2009). EU seeks to maintain stability in the region by establishing legal approximation with the target states. Action Plans (AP) made with respective states are the backbones of ENP. AP's are basically transformation plans to establish market economy, transferring democratic norms and place EU standards in key policy areas in the target states (Wolczuk, 2009). Conditionality is applied towards ENP states to increase the effectiveness of rule transfer (Haukkala, 2016). Indirect channels such as Sectoral sub committees and transgovernmental organizations are the means of the rule transfer to the ENP states rather than direct negotiations (Lavenex, 2011). In the literature, the main reason of inefficacy of the ENP is considered as the weakness of its leverage due to the lack of membership perspective which creates an inevitable ambiguity (Wolczuk, 2009). The ultimate goal of the ENP is unclear. The only reward for the compliance is access to the EU market. Another reason is the uniformity of ENP towards the target states with different development levels (Franke et al., 2010). Instead of preparing tailor made AP's to the respective neighbors, ENP implements quite similar approaches to each of the target states which increases its inefficiency (Franke et al., 2010) In sum, the ENP may be considered as the institutionalization of EU's external governance in the context of the externalities created with the European integration.

The relationship of Ukraine and the EU may be discussed in above mentioned context. As it is mentioned above, elites and politicians in Ukraine have given a great importance to acquire a place in Europe since the beginning of the independence. In the literature, two main group of reasons of Ukraine's interest to the EU are put forward. First group of reasons are related with the Ukraine's domestic politics. Politicians in Ukraine has seen the EU as a transformative power to be able to modernize the country (Wolczuk, 2009). Investments, credits and access to the lucrative European market have been the vital provisions for the modernization (Wolczuk, 2009). 'European Choice' has been the main motto of all Ukrainian elites and politicians which equate Europe and goodness. In other words, normal has meant European in political discourse in Ukraine (Lavenex, 2011). Despite the ambiguity and lack of membership perspective, Ukraine welcomed ENP with the hope of creating closer relationships with the EU which may end with a full membership perspective and having an external reference point for domestic reforms (Wolczuk, 2009). Second group of reasons are related with the struggles of counterbalancing Russian factor. To escape from the Russian tutelage and with the aim of finding a political security in the

uncertainty vacuum left behind after the fall of the Soviet Union, Ukrainian politicians constantly underlined their sociocultural differences from Russia (Happ and Bruns, 2017). Being a part of Europe has been an essential part of nation building and erasing the traces of their Soviet past (Samokhvalov, 2015). Political discourse in Ukraine emphasized the relationship between national revival and return to Europe (Samokhvalov, 2015). Samokhvalov argues that European Choice for Ukraine is considered as geopolitical foreign policy decision no matter which president takes the office. Geopolitical importance of Ukraine has been brought to the fore in foreign policy discourse (Samokhvalov, 2015).

However, the EU has never been equally ambitious towards Ukraine. As Lavenex puts it, Ukraine has been considered by the EU as a state beyond Europe and a loose relationship was scheduled from the beginning of the independence (Lavenex, 2011). Making PCA without a clear membership perspective was an early declaration of a search for a cooperation in mutual regional and commercial issues with Ukraine rather than including it in European integration (Ferreira-Pereira et al., 2015; p.146). The EU has always given bureaucratic answers, such as including it to the scope of ENP, to the political demands of Ukraine (Ferreira-Pereira et al., 2015; p.149). On the one hand, politicians in Ukraine had assumed during a long period of time that its geopolitical importance could be the main driving force to find a place in European integration, on the other hand, the main parameter for the EU was Ukraine's compliance to the PCA to create a closer relationship model (Lavenex, 2011). Notwithstanding, Ukraine joined to the crisis management missions of the EU and DCFTA initialized a deeper economic cooperation, the EU has always placed Ukraine beyond its boundaries and identified above mentioned external governance model to manage mutual relationship

Nevertheless, the Western oriented character of Orange revolution and Maidan protests along with the ENP, set Russian Federation in motion. These two critical events have been considered as Colored revolutions as the Western plots (Samokhvalov, 2015). Albeit, the EU has never considered itself as a geopolitical actor, the tightening functional relationships between the EU and Ukraine has been perceived by the Putin regime as pushing EU's geopolitical boundaries towards Russia (Wolczuk, 2016). For Russia, the salience of Ukraine is higher than it is for the EU. First and foremost, Ukraine has been an essential component of Russia's own economic integration project, modelled from the EU (Wolczuk, 2016).

In the next section, the relations between the EU and Russian Federation will be discussed to evaluate the other dimension of the conflict after the Maidan Protests.

2.2. Russian Federation - EU Relations

In the relevant literature, the relations between Russian Federation and EU is discussed by taking three main periods into account. They are 1990's post-Soviet era until Vladimir Putin's leadership, Putin era in 2000's until Ukraine Crisis and finally the recent period since the Annexation of Crimea by Russian Federation. During these periods, the relations of two powers has been considered an oscillation between cooperation and conflict. Nevertheless, the relations had never so strained as it has been after the annexation of Crimea by the Russian Federation and following sanctions imposed by the EU and USA. In this section, the relations between Russian Federation and the EU after the fall of the Soviet Union will be discussed to be able to get the picture of the conflict over Ukraine.

Cold war period after the World War two was a continuous absolute tension between two power blocks, namely the Western block and Eastern bloc which was substantially created and shaped by Moscow. It was called 'Cold' war period since there was only proxy wars but not direct conflicts between them (Engle, 2015). Still, it was a period of war since two economically and politically opposite blocks had sought to increase their sphere of influence against each other by supporting different warring parties in different conflict zones on the globe (Engle, 2015). Armament race including nuclear weapons, technological rivalry, propaganda and espionage between two groups were the main characteristics of the related period during the years of 1945 and 1991. In different regions on the world several proxy groups were supported by the respective block (Engle, 2015). Nevertheless, the scope of proxy wars was worldwide. Rivalry between two blocks continued in the Middle East, Far East and Central and South America during the Cold War period (Engle, 2015).

After the collapse of the Soviet Union, the relationship between the European Community/Union and Russian Federation entered the period of relative cooperation. It was an optimistic period with the first attempts of convergence and mutual intention of economic integration for the transition in Russia after the unarguable failure of the Soviet system (Haukkala, 2015). On the one hand, Russia was seeking repositioning

itself in the new world order (Haukkala, 2015; p.26). On the other hand, at the end of the Cold War, European Community/Union was tacitly considering Western values and the market economy as victorious over other political systems (Kuzemko, 2014; p. 58). Therewith, Partnership and Cooperation Agreement (PCA) which has a broad scope from education to trade was signed in 1994. Russia was in the demandant position and EU reserved its right to cancel it in case of non-compliance to the reform requirements (Haukkala, 2015; p.28). Political and economic conditions in the world politics were in favor of the EU or the West in broad terms (Dolghi, 2014). Therefore, European Community/Union could position itself as a power which imposes the values and norms over the Russian Federation which was a *demandeur* (Haukkala, 2015; p.26).

However, in the following years, some disagreements arose between EU and Russia. In the relevant literature, two main groups of reasons of the worsened relations are put forward. First group of reasons are stemmed from the regional policies of EU and the second group are stemmed from the changing domestic politics and correspondingly changing foreign affairs perception in Russia. Relevant studies examining regional policies of the EU argue that EU tried to create a unipolar Continent order by unilaterally imposing its own rules and norms to the Eurasia region and Russia (Haukkala, 2015). Considering itself as a rule maker and a global normative reference, the EU has evolved from an economic Union to a political power in the years (Bordachev, 2016; p:562). Its target of transforming the continent based on European norm and values created discrepancies with the Russia's foreign security goals (Haukkala, 2015). Korosteleva argues that EU started a region building project towards ex-soviet states by offering benefits of an economic integration with the EU by ignoring possible threat perception of the Russian Federation. Using budgets, roadmaps, Association agreements as foreign policy tools, it sought to dominate the region (Korosteleva, 2016). Increasing influence of the West with the military intervention of NATO in Serbia in Kosovo war, without consulting to United Nations Council, incrementally created a thread perception to Russia with their regime changing character (Haukkala, 2015; p.29). The initial idea of interdependence gave its place to the competition in creating spheres of influence in the region (Dolghi, 2014).

The first presidential term of Vladimir Putin started in the year 2000. His first presidency may also be considered as the second period of EU-Russia relations. Putin

sought to establish a regime with the object of revival for Russia. Marxist ideology of Soviet Union was replaced by Putin's 'Great Russian corporatist orthodox' ideology in Russia. Putin has politically positioned Russia in a 'Clash of civilizations' rhetoric against the West. Alleged clash is deemed as to be between Russian speaking, Slavic people and the non-Slavic West. Russian language is seen by Russia as a common denominator of national identity (Engle, 2015). This can be considered as an inclusive and expansive conception in the region. On the other side, corporatism is the prevailing economic model in Russia. Corporatism basically takes the society as an organic body and seeks to harmonize all economical or non-economic interest groups to ensure a prosperous state (Engle, 2015). Economic aspect of corporatism necessitates semi-planned economy along with state capitalism which are inconsistent with Western liberalism (Engle, 2015). Therefore, as Korosteleva argues, a self and other dichotomy has evolved in the Continent (Korosteleva, 2016; p.367). Russia under the Putin regime, started similar region building projects in the Common neighborhood, which means the region between EU and Russia, as EU had been carrying out since the fall of the Soviet Union (Korosteleva, 2016). Russia needed the other to exist as a resurrecting power. With the steady 7 % growth rate, Putin regime started challenging dominant Eu-centric structure in the continent (Haukkala, 2016). Another EU policy creating disagreement with Russia is the NATO expansion along with the EU's Eastern enlargement. Eastern European states which were Warsaw Pact members during the Cold War, have joined to the NATO alliance with their EU memberships. Albania, Bulgaria, Czech Republic, Slovakia, Hungary, Poland, Romania and Baltic states which were parts of the Soviet Union, Estonia, Latvia, Lithuania have joined to the NATO. NATO, as an Euro-Atlantic organization, has been appealing for the former Soviet Union countries and it has worried Russia. Besides, NATO operations in Afghanistan and Iraq also prompted Russia (Dolghi, 2014).

Despite the negative developments, EU and Russia managed to agree on the Four Common Spaces in 2003. It was an agreement which enriches the aspects of PCA for further partnership and cooperation. In the related EU memo, the aim of the agreement was declared as increasing the cooperation in trade, freedom, security, justice, external security, research, education and culture (European Commission, 2004). The scope of the cooperation project was encompassing trade, investment and infrastructure developments, intellectual property right issues, further energy dialogue, cooperation in tackling environmental issues, tackling organized crime and terrorism,

human rights and democratic consolidation topics in Russia and finally, cooperation in assuring stability in the common neighborhood (European Commission, 2004). It was a project based upon the EU values. EU, as a normative actor, was seeking to normalize Russia by adopting its values such as liberal democracy and open market economy but without giving any membership perspective (Dolghi, 2014).

However, 2004 Orange Revolution in Ukraine accelerated the growth of the rift between two poles (Haukkala, 2015). As Nicholas Ross discusses, the effect of the competition in regime preferences of Russia and the EU in Ukraine crisis damaged their relations. As the neoclassical realist theory assumes, bigger states try to materialize their self-interests in smaller states by making rational cost-benefit calculations. They support regimes in smaller countries which are loyal to them. They do not necessarily support similar regimes to them but their loyalty is the main factor. Neorealist theory assumes that in multipolar systems regime preferences of bigger states clash in some third states which is the case, Ross argues, in Ukraine crisis (Ross, 2015). On the one hand, the EU tried to maximize its interests and securing its borders with Ukraine in guise of democracy promotion, on the other hand, Russia tried to undermine pro-EU regime in Ukraine and replacing it with a pro-Russian regime to regain its control in the region (Ross, 2015). Ukraine was in the center of the battleground between two forces. On the one hand, EU was using the tools such as democracy, the rule of law and the attractiveness of its lucrative market to increase its influence beyond its borders. On the other hand, Russia was already seeking to counterbalance the EU by using its cultural and historical ties, shared values and its natural gas to pull Ukraine to the other side (Dolghi, 2014).

According to Rieker and Gjerde, another reason of the rift between the EU and Russia has been their colliding perceptions from the beginning. They argue that constant misperception between each other is the basis of ongoing conflicts, right from the start of Orange Revolution. The EU and Russia use different 'Europe' concept by their own understandings (Rieker et al., 2016). The EU uses the term 'Wider Europe' whereas Russia uses 'Greater Europe'. There are important differences between these two terms. For the EU, Wider Europe signifies stretching of core liberal institutionalist values and security of the community to the East of the continent with the EU integration process at its hearth (Rieker et al., 2016). It projects a loose attachment with neighboring countries to maintain stability. On the other hand, for Russia, Greater Europe signifies a continent with multiple centers without a pivotal ideology (Rieker

et al., 2016). By taking the classical realism as base, a multipolar system is projected. Russia was against EU/NATO domination in the Continent right from the start (Rieker et al., 2016). Besides, it claims that EU is equating 'Europe to the EU' which creates new fault lines, imbalance and crisis in the continent (Rieker et al., 2016).

At the end of the Orange Revolution, pro EU politics won the battle. The events have increased the competition in the common neighborhood. Korostoleva argues that both side has started its own competitive region building project and both side considers itself as a global normative power (Korosteleva, 2016; p.372). On the one hand, EU's EaP and then ENP and on the other hand Russia's Eurasian Economic Union (EEU) have evolved by affecting each other. EEU has basically been an attempt by Russia in creating an alternative pole in the European continent (Haukkala, 2016; p:32). Both union targets similar regional domination. EU and Russia have evolved their regional projects by mutual dependency, coexistence and juxtaposition to a competition and both compels region to make a choice (Korosteleva, 2016).

Another aspect of relationships of both powers is energy trade. Almost 64 % of natural gas is imported by the EU. Russian share is 34 % of this amount. Gazprom and Transneft are state-owned Russian natural gas and crude oil producers. Russian government's share proportion is 50 % in Gazprom and 78 % in Transneft companies. In other respects, Gazprom produces 75 % of Russian natural gas supply and Transneft exports 28 % of the total EU crude oil demand (Clune, 2014). The EU energy consumption is basically in the power generation, industrial, transportation and household sectors. On the one hand, energy consumption rates of Europe have been declined in recent years thanks to the energy efficiency measures taken by related EU bodies (Clune, 2014). On the other hand, EU's natural gas production amount has decreased due to the depletion of natural reserves and its relatively high production costs. Besides, EU's attempts to change energy consumption structure into a more sustainable framework with renewable resources such as biomass, hydro, wind, solar and geothermal power hasn't been as efficient as expected. Environmental, political and economic concerns have limited the use of nuclear energy in the continent (Clune, 2014).

Dependency level on Russian gas varies among the EU countries. Most dependent members are Eastern European and Baltic ex-soviet states. For these reasons, natural gas comes to the forefront in the EU's energy strategies agenda. Since a relevant EU regulation on natural gas storage level is not available, member countries

have various storage capacities (Engerer et al., 2014). Especially, Eastern European countries are more under risk with their high dependency on Russian natural gas and their relatively low storage capacity. Creating a relevant EU-wide infrastructure which expands reverse flow pipeline network to the Eastern Europe is another important step to be taken to decrease natural gas dependency of the region (Engerer et al., 2014). At this point, establishing a mutual energy trade relationship with Russia based on the EU norms is crucial to maintain supply security in Europe. Main aspects of the EU's expectations are a well-structured pipeline grid, a fair and open energy market and sustainable and secure energy supply. It should be noted that EU energy market is equally important for Russia or in other words for Gazprom and it has considerably been dependent on this market (Clune, 2014).

For the EU, the main target has been to maintain and improve energy security by ensuring uninterrupted natural gas flow at affordable price. The EU has pushed Russia to increase its natural gas production and distribution efficiency, foreseeing a mutual benefit for both sides (Pomerantsev, 2015). However, especially the unwillingness of Russia to harmonize Gazprom's business operations with expected EU norms and geostrategic goals of Putin regime which makes Russia's natural gas resources an instrument to reach them have compelled the EU to find a better way to secure its energy supply. Several measures have been taken by the EU; increasing LNG share in overall natural gas consumption, investing in intra-European pipeline infrastructure and making reverse flow option possible and natural gas storage capacity building efforts (Pomerantsev, 2015).

The final phase of the worsening relationship may be considered as the 2014 Ukraine Crisis and following annexation of Crimea. EU generally sought to use a coercive diplomacy to affect Russia's intervention in Eastern Ukraine. The main EU target was stopping Russia's support to the separatists. Knowing the fact that the only way of affecting Russia was to increase the cost of its non-compliance and decrease the cost of its compliance, the EU maintained communication channels open with Russia (Scazzieri, 2017). However, firstly Russia considers Ukraine as a part of Russian sphere in the region and secondly, without the involvement of Russia, separatists would be defeated in Eastern Ukraine (Scazzieri, 2017). This could be a political loss for Russia. Therefore, the cost of compliance would be greater than the cost of compliance (Scazzieri, 2017).

To sum up, the EU overlooked growing discontent in Russia especially towards EU's Eastern Enlargement. According to Nitoiu, there are three main tensions as the root causes of the conflict between them; they are namely divisions among EU Member states, geopolitical tensions between EU and Russia and the clash of their values (Nitoiu, 2016). They both avoided revealing these tensions after the Cold War so that there wasn't any overt crisis between them. However, with the Ukraine Crisis, the deep polarization has come to light.

There is a lack of unity between EU member states towards Russia (Nitoiu, 2016). Instead of speaking with a single voice, EU member states usually prefer establishing bilateral, individual approaches on energy and trade relationships (Nitoiu, 2016). Until Ukraine Crisis, Russia had agreed on EU proposals if they are in line with its geopolitical interests (Nitoiu, 2016). Especially after the Eastern Enlargement, with its increasing resentment, Russia profited from the disaccord among the EU members (Nitoiu, 2016). As the EU Eastern Enlargement and following EaP project overlapped with Russia's aspiration of restoring its Soviet Era zone of influence, Russia started considering Eurasian geopolitics as a zero-sum game (Nitoiu, 2016). Besides, Putin regime perceived any democratic transition in the region as a threat to its autocratic governance model. Putin used the hostility towards the West as a means of accusation towards its political dissidents (Nitoiu, 2016).

The deep polarization between two sides is also a result of their different values and understanding of norms. On the one hand, the EU's field of discourse is composed of notions as solidarity and equality among states, liberalism and ethical behavior in international politics. On the other hand, Russia emphasizes the notion of national sovereignty, the importance of religion and great powers' right of creating zone of influences and legitimate use of force (Nitoiu, 2016). Nitoiu concludes that ignoring these three critical tensions may pave the way for more and crisis in the region.

In the next part, the events which made the greatest damage to the relations of the EU and Russian Federation will shortly be evaluated.

2.3. The Annexation of Crimea

Crimea is a peninsula in Northern coast of the Black Sea. It is located at the west of Azov Sea. Its surface area is 27.000 km² with a population of 2.284.000 based on 2014 census (Bebler, 2015). The distribution of ethnic groups was 58 % ethnic

Russians, 24 % ethnic Ukrainians and 12 % Crimean Tatars after the 2001 census carried out by Ukrainian authorities (Bebler, 2015).

Legal status of Crimea throughout the history is worth to be analyzed since it may provide an insight to its recent annexation by Russian Federation. Also, its perception in Russian culture and its strategic importance for traditional Russian policy making may clarify possible reasons and logic of annexation. Crimea has historically been important for the Russian Orthodox Church since Byzantine Empire first baptized the Kyivan Prince Vladimir in Crimea (Salushev, 2014). This myth has been used by the Putin regime to emphasize the importance of Crimea for Russian national identity as the spiritual source of Russianness and therefore to reinforce the official discourse of Russian/orthodox identity of the Russian Federation (Teper, 2016; p.390). The peninsula played also an important role for Russia in the 19th and 20th century history. 1853 Crimean War between Russian Empire and Britain, France and Ottoman Empire and its resistance against Nazi occupation in World War II have been milestones of Russian historiography (Salushev, 2014).

Legal status of Crimea had changed several times throughout the 20th century. In October 1921, Crimean Autonomous Soviet Socialist Republic (SSR) was declared after the Bolshevik Revolution in Russia. It was joined to the Union of Soviet Socialist Republic (USSR) in 1922 as a province of Russian Soviet Federative Socialist Republic. It had been in this status, except Nazi occupation between 1941 and 1944, until 1954 when it was transferred to Ukrainian Soviet Socialist Republic with a decision made by Politburo of Communist Party of Soviet Union. Related land transfer is deemed partly illegal in the official discourse of the Russian Federation since based on the constitution of USSR, any province change had to legally be made with the consensus between the parliaments of Soviet Socialist Republics of Russia and Ukraine. The supreme Soviet of the USSR did not have a such a constitutional authority to make the transfer of province (Bebler, 2015). The 1954 transfer of the Crimea to Ukraine has also been used by Putin regime in order to legitimize the annexation of Crimea as a remedial action for a historical injustice (Paul, 2015). Putin claims that Crimea and Russia have a deeply shared history and 1954 accession to Ukraine was a question of national identity and pride (Ambrosio, 2016; p.476). Therefore, the annexation of Crimea is often likened to the reunification of Germany in Russian Federation's official discourse (Teper, 2016; p.383). The 'Crimea's return

to Russia' rhetoric was also used in the Parliamentary speech of Putin after the annexation as the unification of the nations (Teper, 2016; p.383).

The status of Crimea had remained unchanged until the collapse of the Soviet Union. Crimea was first declared as the autonomous republic in 1991. In February 1992, Supreme Soviet of Crimea proclaimed itself as the Republic of Crimea and then in 6th of May declared its independence with its own constitution. However, the constitution was amended as Crimea being a part of Ukraine in 19th of May, with the pressure from Ukrainian Parliament. Ukraine strengthened the autonomous status of Crimea, in return (Bebler, 2015).

During the turmoil of Maidan Protests, clashes between pro-Russian separatists and pro-Ukrainian forces started in February 2014. A day later, Russian forces and militia started seizing statically important facilities and airport. According to Anton Bebler, 2.000 marines from Russian Black Sea fleet, 700 special troops and 15.000 regular Russian troops involved in the events in Crimea (Bebler, 2015). The infamous 'Masked Green Men', involved in the Russian operations. Conversely, Ukrainian units in Crimea were not resisted against the invasion. Besides, some of Ukrainian units simply changed side (Bebler, 2015). Bebler argues that three main factors played role in relatively easy invasion of Crimea by the Russian forces. These are the existence of Russian military force in Sevastopol, lack of resistance by Ukrainian troops and geographical proximity of strategic points (Bebler, 2015).

In 16 March 2014, a referendum was held by Crimea. The outcome of the referendum was roughly 97 % in favor of the first question (Bebler, 2015);

1. Do you support Crimea rejoining Russia as a subject of the Russian Federation?
2. Do you support restoration of the 1992 Constitution of the Republic of Crimea and Crimea's status as part of Ukraine?

In this way, Crimea became a de facto part of the Russian Federation by first declaring independence from Ukraine and then joining to Russia with a popular vote.

The status of Crimea after the referendum has not been recognized by Ukraine and the West. It's considered as the violation of Ukraine's territorial integrity by Russian Federation. There are several legal bases for this evaluation. Firstly, the decision of Council of Federation of the Federal Assembly of the Russian Federation, taken in 1st March of 2014, of allowing Russian military operation in Ukraine is a breach of Article 2(4) of the UN Charter (1945) which is as follows;

“All Members shall refrain in their international relations from the threat or use of force against the territorial integrity or political independence of any state, or in any other manner inconsistent with the Purposes of the United Nations.”

Secondly, the action of Russian Federation violates Declaration on Principles of International Law concerning Friendly Relations and Co-operation among States in accordance with the Charter of the United Nations adopted in 1970 with the number A/RES/25/2625. Related declaration openly outlaws using force to violate territorial integrity of a sovereign state. Thirdly, the action violates OSCE Helsinki Final Act, signed in 1975, which refrain any state violation of territorial integrity of other state. Fourth, Russian Federation also violated agreements on the territorial integrity of Ukraine such as Treaty of Friendship and Cooperation between the Russian Federation and Ukraine signed in 1997 and Budapest Memorandum signed in 1994 which recognized the territorial integrity of Ukraine in exchange for its nuclear disarmament (Ambrosio, 2016; p. 471).

There are several arguments made by Kremlin in order to legitimize the annexation of Crimea apart from the above mentioned claim of illegitimacy of its 1954 transfer to Ukraine. The first of them is the self determination of Crimea. Official discourse of the Russian Federation claims that the action aimed helping Crimean people’s right of self-determination (Ambrosio, 2016; p. 468). Kremlin claims that Euromaidan protesters were militant extremists which violated human rights of the ethnic Russians in Crimea and the ousting of Yanukovich by them was a coup d’état which brought an illegitimate, anti-Russian government in Ukraine to power (Ambrosio, 2016; p. 472). They were simply pro-western junta forces (Teper, 2016; p.390). Russian forces intervened in Crimea to protect the ethnic Russians from the assimilation (Teper, 2016). Therefore, Kremlin argues, Crimean people voted for its own will (Ambrosio, 2016). However, according to the international laws, self-determination cannot be proclaimed under the conditions of a foreign state’s armed intervention which was the case during the annexation of Crimea (Zalimas et al., 2016; p.62). Russian gunmen seized the strategic points and state institutions in Crimea before and during the popular vote (Zalimas et al., 2016; p.14). Therefore, self-determinacy allegation of the Russian Federation is legally baseless.

The second claim of Russia is cold war style anti-Russia action of the West in the common neighborhood (Ambrosio, 2016; p. 468). Kremlin argues that the West

initialized the conflict by forcing Ukraine making a choice between the EU and Russia during the signing of the Association Agreement. Yanukovich's choice of not signing led the support of the West to the Euromaidan pro-western fascists (Ambrosio, 2016). In the circumstances, the argument goes, Russia had a responsibility of protecting Russophones (Gardner, 2016; p.491). Russian Federation uses the term Russkiy to determine ethnic Russians minorities living in other states including in Crimea (Teper, 2016). It's a lingua-cultural, inclusive terminology rather than a racial one which is also in line with Putin's irredentism (Teper, 2016).

It may be argued that, despite its illegitimacy, the annexation of Crimea by the Russian Federation fulfills several objectives of Putin. First of all, it has reinforced the rebirth of Great Russia concept of the regime. Secondly, it has consolidated the domestic power of the regime with the claim of a remedial action against the injustice of 1954 transfer of Crimea to Ukraine. Finally, it may be considered as a reply to enlargement of NATO and EU towards the near aboard of Russia and consolidation of Russian presence in the black sea (Gardner, 2016).

CHAPTER 3

EU'S IMPOSITION OF RESTRICTIVE MEASURES ON RUSSIA

Following the events of the Ukraine crisis and right after the illegal annexation of Crimea by the Russian Federation in March 2014, the EU immediately reacted with a series of restrictive measures. There are two main groups of restrictive measures. First group is consisting of diplomatic measures which aimed applying pressure on Russia in the international arena. Second group is consisting of economic measures which target sensitive economic sectors of the Russian Federation with the intent of firstly limiting its aggression in Eastern Ukraine and eventually making an end of the illegal annexation of Crime.

Scholars long argue the ineffectiveness of the EU in international politics especially when faced with major global crises. Some infamous examples of its ineffectiveness as a foreign policy actor are its weak stance during the respective civil wars in Yugoslavia and Syria and against global terrorism (Franke, 2017). However, contrary to the expectations, the EU has managed to give a common response to the Ukraine crisis. Cross and Karolewski discuss the impact of Ukraine crisis on the EU as a foreign security actor. EU's power is taken as a dependent variable. Research question of the study is under which circumstances EU's power was enabled or constrained. The sub question is what type of power had the EU under international crises. According to Cross and Karolewski, not only inner dynamics of the Community defines its reactions in the face of a crisis but external context also usually defines the nature of its response. The study claims that the EU often acts as a powerful single actor in international affairs. For instance, the EU is globally a leading actor in the topics such as Climate Change or International Trade. However, in security issues,

it reacts less effectively since its security mechanism was created as disaggregated. Notwithstanding, disaggregation has lessened in time, especially with the creation of the position of High Representative of the European Union for Foreign Affairs and Security Policy (Cross et al, 2017). Ukraine Crisis has enabled its power since “sharp break in trust” and “destabilization in status quo” triggered a sense of urgency in EU security (Cross et al, 2017; p.12). Eventually, the overall defense spending of the EU has increased after the events and the EU reacted unexpectedly to Russia with the sanctions. Cross and Karolewski argue that the constraints of its power are Putin’s divide and conquer strategy which means establishing bilateral pro-Russian relationships with trojan horse states in the Union and drowning into policy continuity instead of making policy adjustments during the unexpected crises (Cross et al, 2017).

Sjursen and Rosen also discusses the dynamics which has enabled the EU’s reaction during the crisis. They argue that the member states acted in common thanks to their agreement over a breach of international norm by the Russian Federation rather than taking it as a security concern. Despite the fact that the EU had taken common action in cases of relatively minor global issues but not after major ones such Ukraine crisis, this time, member states acted in accordance with EU norms. They argue that, in social learning, there are two different sets of norms. They are value based and right based norms. On the one hand, value based norms are respected by the group members since they generate the identity of the respective group and obeying them is an appropriate behavior (Sjursen et al., 2017). On the other hand, right based norms are respected by the group members independently from the structure of their community. For instance, respect to the territorial integrity of a neighbor state like Ukraine may be considered as a right based norm. Member states consider preserving territorial integrity of a state as a right separately from the values of the EU. Nevertheless, member states took a common position after making consultations among them during the Ukraine crisis. Another important point is, common position was taken despite varying economic dependencies of the member states to the Russian Federation. Eastern European members are heavily dependent to the natural gas supplied from Russia. Apart from that, France had a military ship trade deal with Russian navy. Italian company ENI had made a commercial agreement with Gazprom on cooperation in building South Stream pipeline. Besides, Russian Federation has always been a lucrative agricultural market for Italy, Nederland and Greece. However, they all decided to bear the cost of the sanctions, especially after the illegal annexation of

Crimea. Sjurssen and Rosen argue that the cohesion among member states in obeying a right based norm has enabled the EU's foreign security power (Sjurssen et al., 2017).

In this chapter, firstly the evolution of the EU Council decisions of diplomatic and economic restrictions will be assessed. Secondly, their impact until present day and their possible effects both to the Russian and EU economy in the future will be evaluated.

3.1. Diplomatic Measures: EU Council Decisions

The timeline of EU's reaction to the Ukraine crisis may roughly be divided into two periods. First one is the period from 6 March 2014, when EU suspended bilateral talks with the Russian Federation, until 31 July 2014, when third tier (sectoral) sanctions were adopted after the downing of Malaysia Airlines Flight MH17 allegedly by the pro-Russian separatists in Eastern Ukraine air space. The second period may be started from 10 March 2015, when the European Council agreed to link the sanctions to the implementation of the Minsk Agreement until today. The first period was rather a culmination of diplomatic efforts with the aim of coercing and constraining Russia into withdrawing its forces from the Ukrainian territories. In this part, related diplomatic measures and their evolution will be evaluated.

On 3 March 2014, right after the large protests in Sevastopol by the pro-Russian groups demanding a referendum for the independence of Crimea and with the actions of the Russian troops, the EU ministers for foreign affairs convened in order to evaluate the situation of Ukraine. In the extraordinary meeting held on 06 March 2014, EU leaders declared their determination of taking restrictive measures such as travel bans and asset freezes in case of any more territorial aggression made by Russia in Ukraine (European Council, 2014). The EU clearly condemned territorial aggression of Russia over Ukraine (Council of the European Union, 2014). On 16 March 2014, a referendum for independence was made in Crimea. Shortly after the referendum, Russia's upper house of Parliament approved the use of military to protect the lives of ethnic Russians in Crimea. Senators present in the Federation Council voted to approve stationing of the Russian troops in Crimea until the unrest settles (Upi news, 2014). This move by Putin was condemned by the EU Council in the meeting held on 17 March 2014. The Council declared that the referendum would not be considered legal since it was made with the presence of foreign armed troops. It was

considered as a breach of the UN Charter, OSCE Helsinki Final Act, Budapest Memorandum of 1994 and the Bilateral Treaty on Friendship, Cooperation and Partnership of 1997 (Council of the European Union, 2014). The Foreign Affairs Council also underlined that Ukraine constitution only invoked an article for the Autonomous Republic of Crimea on the right to make referendums on its domestic affairs but not on the issues regarding the territorial change (Council of the European Union, 2014). First set of restrictive measures in the form of asset freezes and visa bans was taken on 17 March 2014, against 21 officials which were condemned with their role in the violation of the territorial integrity of Ukraine. The aim of asset freezes and visa bans is creating a reputational cost to the responsible individuals of the norm violation in the global economic and political circuits by downgrading their status (Secrieru, 2015). On 24 March 2014, EU ministers have declared the suspension of their participation to the G8 Summit which was planned to be made in Sochi in June 2014. They also declared that EU-Russia bilateral talks on visa matters would be cancelled and the New Agreement which had been drafted since a while would also be suspended. EU leaders also discussed the cancellation of negotiations over Russia's joining the Organization for Economic Co-operation and Development (OECD) and the International Energy Agency (IEA) (Council of the European Union, 2014).

The first period may also be divided into two phases. The first phase may be considered as a threat move for further sanctions towards Russian policies in Ukraine. As it is discussed in the second chapter, sanctions are more effective in changing the behavior of the target state at the threat phase (Drezner, 2003). When the mechanism of the sanctions is evaluated, it may be argued that the target states which do not obey to the threat usually do not obey to the sanctions (Hovi et al., 2005). Therefore, the initial threat phase of the sanctions is important in yielding the norm violation of the target state. The possible reasons of failed sanction threat would be the lack of its credibility or potency or the imposition of the sanctions may be not dependent on the compliance of the target state (Hovi et al., 2005). The EU had clearly condemned Russian Federation for its actions against Ukraine and had threatened it with possible sanctions unless changing its behavior and stopping its norm violation until 17 March 2014. However, as the Russian Federation had continued its territorial violence in Ukraine, the EU foreign affairs Council held a meeting on 17 March 2014 which may be considered as the end of the threat phase. Then, the second phase started with the first set of restrictive measures. It may be argued that the threat phase of the EU

sanctions was ineffective in coercing Russian Federation to obey international norms and refraining it from the illegal annexation of Crimea (Guimelli et al, 2016).

After each separatist move made by Russian Federation, the restrictive measures had been strengthened until the summer 2014 by adding more individuals and entities to the sanction list. On 11 May 2014, in Donetsk and Luhansk, pro-Russian separatist groups declared independence after referendums. On 12 May 2014, the EU expanded the sanction list by bringing the total number of individuals condemned for their role in destabilizing Ukraine up to 61 (Council of the European Union, 2014). On 23 June 2014, in line with its policy of non-recognition of the illegal annexation of Crimea, the EU decided to impose a complete ban on goods imported from Crimea or Sevastopol. Another diplomatic move was the signing of the Association Agreement with Ukraine on 27 June 2014 which underlined EU support to the sovereignty of Ukraine.

3.2. Economic Sanctions: EU Council Decisions

First episode of the sanctions had not been effective in coercing Russian Federation in negotiating with Ukraine or withdraw it from the Ukrainian territories. Russian Federation had not cooperated with OSCE or other international institution neither. However, it may be argued that first episode of sanctions had been partially effective in constraining it from further expansion especially in the Eastern Ukraine (Guimelli et al, 2016). Especially, asset freezes and visa bans of the targeted individuals was more effective than the threat phase since the EU managed to give a signal to the Russian Federation (Guimelli et al, 2016). As discussed in the chapter two, based on the categorization made by Lindsay and James, there are two sets of objectives of the sanctions. The first set of objectives consisted of are deterrence, compliance, punishment and destabilization with their direct concern to change the behavior of the target state and decrease the popularity of the regime which deemed responsible of the violation (Lindsay et al., 1986). The second group of objectives are solidarity, symbolism and signaling with the objective of giving a clear message to the international community to highlight the norm violation and empower the cooperation among sender states or the alliance (Lindsay et al., 1986). Therefore, the EU at least managed to articulate the international norm violation and cohesion among member states was achieved (Sjursen et al., 2017).

The downing of Malaysian airlines flight MH17 in Eastern Ukraine, in which 298 people on board were killed may be considered as the start of the second period of the EU's reactions. On 17 July 2014, with the detonation of a Russian-made 9N314M-type warhead carried on the 9M38M1 missile, the plane crashed in eastern Ukraine air space controlled by the pro-Russian separatists. Observers from OSCE were not allowed by the separatists (BBC, 2016). In the Foreign Affairs Council meeting held in Brussels on 22 July 2014, the EU asked from the ethnic Russian separatists in Eastern Ukraine to allow OSCE officials investigating the crash zone and bringing responsible to justice. Besides, the Council requested from the European Commission to introduce new set of sanctions on access to capital markets, defense, dual-use goods, and sensitive technologies. Called Tier 3 sanctions, the EU decided;

In order to restrict Russia's access to EU capital markets, EU nationals and companies may no more buy or sell new bonds, equity or similar financial instruments with a maturity exceeding 90 days, issued by major state-owned Russian banks, development banks, their subsidiaries outside the EU and those acting on their behalf. Services related to the issuing of such financial instruments, e.g. brokering, are also prohibited. In addition, an embargo on the import and export of arms and related material from/to Russia was agreed. It covers all items on the EU common military list. Coreper also reached agreement on a prohibition on exports of dual use goods and technology for military use in Russia or to Russian military end-users. Finally, exports of certain energy-related equipment and technology to Russia will be subject to prior authorization by competent authorities of Member States. Export licenses will be denied if products are destined for deep water oil exploration and production, arctic oil exploration or production and shale oil projects in Russia (Council of the EU, 2014).

Implementation of the sectoral sanctions was a new phase of the EU's reaction to the Ukraine crisis. Considering the ineffectiveness of the initial restrictive measures in the form of asset freezes and visa bans to the responsible individuals, the EU launched tier 3 sanctions in order to coerce and restrict Russian Federation. Targeted sanctions against the Russian Federation was designed by selecting strategic sectors of the Russian economy. Christie argues that the main design criteria of the targeted sanctions were; targeting to achieve a significant economic effect on Russian economy but not devastating it, maintaining a balance of cost across the member states, not to seek an immediate effect but an incremental effect on the critical parameters of Russian economy and lifting the sanctions in case of behavioral change (Christie,

2016). In the Council regulation of 31 July 2014, the aim of the sanctions was declared as;

It is therefore considered appropriate to apply additional restrictive measures with a view to increasing the costs of Russia's actions to undermine Ukraine's territorial integrity, sovereignty and independence and to promoting a peaceful settlement of the crisis. These measures will be kept under review and may be suspended or withdrawn, or be supplemented by other restrictive measures, in light of developments on the ground (Council of the EU, 2014).

Therefore, it may be argued that the main motivations of the EU in imposing targeted sectoral sanctions was to coerce Russia to come to the negotiation table for the peaceful resolution of the crisis and support Ukraine's sovereignty against territorial aggression (Secieru, 2015). As Heine-Ellison puts, targeted sanctions are more appropriate than the comprehensive embargoes since comprehensive embargoes may have some unintended adverse effects such as punishing and devastating all population and empowering the targeted regime by uniting the population with nationalistic enthusiasm (Heine-Ellison, 2001). Targeted sanctions are also designed as to make minimum impact on the infrastructure of the target state. When the infrastructure is less harmed, the chances to get the support from the population and regime dissidents in the target state increases as the huge impact is not necessarily means higher effectiveness (Heine-Ellison, 2001; p.89). Therefore, the EU designed the sanctions with the aim of making short run and long run incremental economic impacts on Russian economy (Christie, 2016) and bringing the Russian Federation into negotiation table (Romanova, 2016). In the short run, targeted entities in the related sectors would request compensation from the Russian Federation for their losses due to their inability to reach EU financial instruments after the sanctions. As the related sectors such as energy were strategically important for Russia, the Central Bank would reimburse affected entities with the state funds (Christie, 2016). The situation would likely lead to the higher interest rates and lower investment amounts in the Russian Federation due to the draining state funds. The expected long-term impact would be a spillover of the reimbursement to all sectors with state funds and drain of the Central Bank reserves more. Declining foreign direct investment (FDI) after the worsened business climate due to the sanctions, declining productivity rates and competitiveness due to the lack of Western technology in Russian sensitive sectors would lower the Gross Domestic Product (GDP) ratios and overall income levels (Christie, 2016).

Midterm and possible long-term effects will be evaluated in more detail in the next part of this chapter.

The main short-term effect of the sectoral sanctions is to send a strong signal to Russia. The EU signaled that the member states were ready to bear necessary cost to achieve a peaceful resolution in Ukraine crisis. Russia also allowed a joint investigation team to enter into the MH17 crash zone for the investigation (BBC, 2016). Above all, it may be argued that the imposition of the sectoral sanctions paved the way to the Minsk II agreement by coercing Russian Federation.

Timeline of the second period of the reaction of the EU to the Ukraine crisis may be started with the European Council decision of linking the imposition of sanction regime with the implementation of the Minsk agreements on 19 March 2015. The Minsk I and II agreements were peace negotiations between warring sides, though the bilateral provisions of the Minsk I agreement, made on 5 September 2014, suddenly collapsed right after its signing (BBC, 2015). With the collapse of the ceasefire, the Council of the EU strengthened the sanction regime by shortening the maximum maturity for transferable securities or money market instruments to 30 days instead of 90 days and extended it by including loans and credits. Three major Russian defense energy companies were also added to the list (Council of the EU, 2015). Minsk II agreement was made in the Belarusian capital Minsk with the participation of Russian President Vladimir Putin, Ukrainian President Petro Poroshenko, French President Francois Hollande and German Chancellor Angela Merkel. The key points of the agreement were (BBC, 2015);

- Immediate and full bilateral ceasefire between the warring sides and withdrawal of all heavy weapons.
- Effective monitoring by OSCE.
- Pardon and amnesty by banning any prosecution of figures involved in the Donetsk and Luhansk conflict and release of all hostages and other illegally detained people.
- Full Ukrainian government control in the conflict zone
- Constitutional reform in Ukraine, with adoption of a new constitution by the end of 2015.

In the European Council conclusion on 19 March 2015, it was declared that;

The European Council called on all parties to swiftly and fully implement the Minsk agreements and honor their commitments, and underlined the Russian

authorities' responsibility in this regard. The EU stands ready to support the process, notably as regards the OSCE's ability and capacity to monitor and verify the implementation of the Minsk agreements, and will continue efforts in the trilateral processes on energy and EU-Ukraine DCFTA implementation. The European Council agreed that the duration of the restrictive measures against the Russian Federation, should be clearly linked to the complete implementation of the Minsk agreements. The European Council stands ready to take further measures if necessary (Council of the EU, 2015).

Even though the tier 3 sanctions forced Russian Federation to agree for the second round of the negotiations, the Council decision of linking their continuation with obeying to the main provisions of Minsk Agreements has not been as effective as it was desired. As Druláková et al argues, objectives of the sanctions should be well defined by the sender before their imposition and in case of a very comprehensive or vague objective, sanction is less likely to be succeeded to obtain what is desired from the target (Druláková et al., 2012). In the case of the EU sanctions towards Russian Federation, explicitly linking them to the implementation of the Minsk agreement has been partly successful by constraining Russia from the recognition of so-called Donetsk and Luhansk republics in Eastern Ukraine and preventing it from making further effort to destabilize Ukraine. However, Russian Federation has not withdrawn from the Ukraine territories.

From November 2015 until September 2017, OSCE occasionally reported ceasefire violations in the conflicted zones. The Council extended restrictive measures to more individuals, entities and specific sectors as the Russian Federation has not implemented the provisions of Minsk Agreements. By September 2017, 149 people and 38 entities are subject to travel bans and asset freezes. The measures are currently extended to 15 March 2018. Regarding the Crimea, import ban on goods, restriction on export, restrictions on trade and investment to some economic sectors and infrastructure projects was extended until 23 June 2018. Finally, targeted sectoral sanctions against Russian Federation were also prolonged until 31 January 2018 (Council of the EU, 2017).

In the next part of the chapter, the impact of EU sanctions on Russian economy, society and on the EU member states will be evaluated.

3.3. Impact of EU Sanctions on Russia

Between the years of 2001 and 2007, Russian economy had steadily grown with the ratios 5 to 9 % per year, thanks to high hydrocarbon prices, increasing gas exports, low domestic energy prices which helped Russia to have price competitiveness in the global market and the privatization process of old Soviet era capacities at almost no cost (Aalto, 2016; p.222).

Figure 2. Russia GDP growth per year (2002-2007)



Source: World Bank (2017)

However, Russian Federation failed to benefit from that opportunity by not modernizing its outdated industrial structure (Klinova et al, 2014). The overdependency to hydrocarbon revenues persisted between 2010 and 2014, after the 2009 global economic crisis (Klinova et al, 2014). In 2014, when Ukraine crisis started, the share of hydrocarbon revenues in the Federal budget of the Russia reached to its highest by 51 %. It means high dependency and vulnerability against global hydrocarbon prices (Dreger, 2015).

Figure 3. Hydrocarbon Revenues vs other revenues of Russia

Hydrocarbon Revenues vs. Other Revenues in billion RUR			
Year	Revenues of the Federal Budget	Hydrocarbon Revenues	Ratio %
2010	8.305	3.831	46
2011	11.368	5.642	50
2012	12.856	6.453	50
2013	13.020	6.534	50
2014	14.497	7.434	51

Source: Ministry of Finance of Russia (2017)

Oil prices have decreased from the year 2014 on due to some global factors. Related factors are steady growth slowdown in industrialized states and lower than expected growth rates in emerging countries, OPEC decision of keeping higher production levels for its members and increasing production by non-OPEC countries (Dreger, 2015). As it may be seen on below chart, the oil prices decreased from 100 USD to 50 USD in 2015 due to the global factors.

Figure 4. Oil prices per barrel (USD)



Source: Macrotrends Website (2017)

The collapse in oil prices inevitably affected Russian Federal budget and its growth rate accordingly (Dreger, 2015). Therefore, the effects of economic sanctions on Russian economy should be evaluated by taking this critical point into account.

Before evaluating the effects of the sanctions in this context, it is worth also to note that, in the relevant literature, Russian Federation is considered as an old superpower. In the Soviet era, Russia was more effective on the global economy, especially thanks to the economic organization like Council for Mutual Economic Assistance (COMECON). The members of COMECON were Soviet Union, Bulgaria, Czechoslovakia, the German Democratic Republic, Hungary, Romania, Poland, Cuba, the Mongolian People's Republic and Vietnam. Soviet model was protected with high tariff barriers and the value of ruble was centrally determined. Barter was also available within Comecon countries. Albeit, exchanging goods or services for other countries' goods and services caused more falling away from market realities for all member states along with Russia, it may be argued that Russia was an important player in world economy (Engle, 2015). However, after the collapse of the Soviet Union, Russia has become an economy which is effective only for its immediate neighbors (Aalto, 2016). Efforts for establishing Eurasian Economic Union in the Soviet era sphere of influence in Eurasia may be considered as the institutionalization of this historical fact (Aalto, 2016; p.225). Knowing the fact that the capacity of Russian economy may only be effective in its immediate neighborhood, Eurasian Economic Union has been quite important for Russia.

On the other hand, as Romanova argues, based on its values and norms, EU sought to liberalize Russian market with the aim of creating a European Continent wide common energy market and free trade zone (Romanova, 2016). Before the crisis and subsequent sanctions, EU and Russian Federation were negotiating 13rd round of a new economic Agreement which would replace and deepen existing Partnership and Cooperation Agreement (PCA) (Romanova, 2016). Large scale funds from EU to Russia were allocated (Romanova, 2016; p.781) since Russia desperately needed Western technology to transform its outdated infrastructure especially in the energy market. As it was discussed in Chapter 3, one of the main source of conflict between two side was EU's desire to approximate Russian economy and legislation to the liberal norms and, on the contrary, Russia's request of equality. Therefore, imposed sanctions on Russian banking, oil, financial and military sectors, on the one hand negatively affected Russian economy and on the other hand, it has been evaluated by

Russian politics as an opportunity to initialize an import substitution run up for the Russian industry (Aalto, 2016).

In the next part, the effects of EU sanctions on Russian economy and the question of to what extent Russia may compensate the damage with alternative markets and import substitution will be evaluated.

3.3.1. Effect of EU Sanctions on Russian Economy and Society

Apart from the EU, United States, Canada, Australia, New Zealand, Japan, Ukraine, Moldova and Georgia imposed sanctions against Russian Federation after the Ukraine Crisis (Guimelli, 2016; p.8). However, the trade and investment volume between Russian Federation and EU is much greater than it is with other states which imposed similar sanctions after the illegal annexation of Crimea. For instance, by 2013, the volume of Russian investment in the US was 4,1 Billion USD but in Nederland, it was almost 23,3 Billion USD. US investments in Russia was 10,3 Billion USD but Nederland had 68,2 Billion USD investment (Klinova et al.; p.221). The EU economy is much greater than the Russian economy and there is also a trade asymmetry between them (Havlik, 2014). The World Bank statistics reveals that in 2013, EU was the leading trading partner for Russia. 53 % of Russian exports was to EU zone and 39 % of its imports was from the EU. However, only 2,6 % of EU exports was to Russia and only 4,6 % of EU imports was from Russia (Havlik, 2014; p.5). Therefore, it may be argued that the effect of economic sanctions would be greater on Russian economy than the EU side.

Trade values in the years 2014, 2015 and 2016 between EU members and Russian Federation may be seen in below Eurostat data:

Table 2. 2014-2016 Trade values between EU members and Russian Federation

Indicators	Import Value to the EU/MS (EURO)	Import Value to the EU/MS (EURO)	Import Value to the EU/MS (EURO)	Export Value from the EU/MS (EURO)	Export Value from the EU/MS (EURO)	Export Value from the EU/MS (EURO)
	Russian Federation	Russian Federation	Russian Federation	Russian Federation	Russian Federation	Russian Federation
Years	2014	2015	2016	2014	2015	2016
Austria	2 153 139 136	2 173 278 014	2 016 274 131	3 987 939 222	2 607 527 315	1 932 265 211
Belgium	10 637 209 004	8 316 113 353	7 513 419 206	4 091 978 553	3 037 762 570	3 400 152 634
Bulgaria	3 963 200 660	3 171 045 210	2 331 278 790	526 828 017	400 636 323	344 028 708
Croatia	857 153 942	432 714 373	301 855 596	274 582 838	198 621 624	190 614 880
Cyprus	28 552 429	123 606 920	76 571 908	37 127 462	18 692 587	36 470 630
Czech Republic	4 147 504 843	3 132 508 757	2 117 074 696	4 105 076 581	2 889 473 206	2 782 026 877
Denmark	942 217 353	1 298 548 324	1 376 516 124	1 153 014 343	744 931 238	727 748 049
Estonia	873 386 309	820 775 391	768 701 129	1 186 579 996	772 706 951	776 044 229
Finland	8 576 213 335	5 953 623 960	6 112 473 314	4 638 294 357	3 156 848 358	2 979 338 277
France	9 909 545 804	6 063 476 950	5 304 487 680	6 808 494 284	4 534 456 426	4 941 995 051
Germany	36 205 912 531	27 399 209 919	24 003 956 500	29 230 574 013	21 671 962 643	21 606 235 946
Greece	4 890 658 880	3 398 976 156	2 848 350 781	356 034 438	213 081 393	215 491 087
Hungary	5 404 061 200	3 282 391 853	2 380 303 785	2 069 452 040	1 504 331 437	1 408 034 651
Ireland	214 694 297	149 323 822	182 996 523	718 409 633	365 882 640	361 184 329
Italy	17 275 778 423	14 407 957 392	10 617 460 045	9 502 723 142	7 093 196 165	6 720 476 758
Latvia	1 039 012 436	1 092 146 637	965 504 393	1 605 663 879	1 251 879 590	1 254 216 236
Lithuania	5 347 775 092	4 137 728 402	3 432 026 051	5 080 920 886	3 139 128 121	3 046 343 977
Luxembourg	12 923 782	6 933 129	4 899 269	128 887 968	112 370 679	130 263 403
Maka	15 173 753	73 007 261	24 720 453	3 385 801	3 179 299	3 153 353
Netherlands	25 052 904 696	18 371 173 518	18 465 287 794	6 610 716 855	4 806 607 251	4 700 446 330
Poland	17 060 148 586	12 618 041 530	10 271 154 750	7 006 398 496	5 119 050 331	5 206 372 404
Portugal	710 806 111	636 910 673	1 187 049 153	204 063 726	157 617 919	142 882 904
Romania	2 276 820 314	2 002 403 205	1 975 457 970	1 451 840 059	989 990 998	969 709 591
Slovakia	4 779 872 118	3 433 020 126	2 645 918 917	2 130 144 753	1 526 691 512	1 475 095 098
Slovenia	428 087 430	256 473 694	253 348 689	1 128 649 523	860 944 642	789 595 177
Spain	5 945 086 888	3 333 007 020	3 101 303 266	2 582 773 456	1 669 579 454	1 597 366 681
Sweden	6 212 716 253	4 201 694 810	3 457 262 122	2 426 926 554	1 569 796 324	1 544 662 119
United Kingdom	7 457 200 689	6 122 555 406	5 015 997 962	4 177 131 960	3 330 206 732	3 084 026 974
EU28	182 417 756 294	136 408 645 705	118 751 650 997	103 224 612 835	73 747 153 728	72 386 241 464

Source: Eurostat (2017)

Data reveal that the biggest trade partner of Russian Federation in the EU zone is Germany.

Table 3. Total trade volume between 2014-2016

Partner	Total Trade Volume in Euro
Germany	160.117.851.452
Netherlands	78.007.136.444
Italy	65.617.591.925
Poland	57.281.166.097
France	37.562.456.195
Belgium	36.996.635.320
Finland	31.416.791.501
United Kingdom	29.187.119.723
Lithuania	24.183.922.529
Sweden	19.413.058.182

Source: Eurostat (2017)

Germany is followed by Netherland, Italy, Poland, France, Belgium, Finland, United Kingdom, Lithuania and Sweden. It should be noted that the value of total partnership with Germany is more than the double of the follower.

The EU-28 is the biggest trade partner of Russian Federation with 43,3 % total trade volume in front of China.

Table 4. 2016 EU-Russian Federation trade volume

Imports		Exports		Total Trade	
Partner	% World	Partner	% World	Partner	% World
EU28	38,3	EU28	46,5	EU28	43,3
China	21,1	China	9,6	China	14,1
USA	6,1	Belarus	5	Belarus	5,1
Belarus	5,1	Turkey	4,8	USA	4,5
Japan	3,6	South Korea	3,7	Japan	3,5

Source: International Monetary Fund (2017)

The composition of the traded products may also be seen below:

Table 5. Top 5 products imported from/exported to Russian Federation in 2016

Import from Russia	% Total	Export to Russia	% Total
Mineral products	65,5	Machinery and appliances	30
Not classified	11,1	Chemical Products	18,4
Base metals and articles thereof	7,9	Transport equipment	13,6
Pearls, precious metals and articles thereof	3,7	Plastics, rubber and articles thereof	5,9
Products of the chemical or allied industries	3,5	Foodstuffs, beverages, tobacco	5

Source: Eurostat (2017)

The table shows that the mineral products have the biggest share in the imports of the EU from Russian Federation. Mineral products consist of fuels, ores and other materials. Fuel has the biggest share in mineral products group. Regarding the exports of the EU to Russian Federation, machinery and appliances group has the lion share. The EU also exports chemical substances to the Russian Federation with an important volume. The import and export flow of top three product groups between the EU and Russian Federation between 2013 and 2016 may be seen below:

Table 6. Top three EU imports from Russian Federation (2013-2016)

EU Imports (Value Mio €)	2013	2014	2015	2016
Mineral fuels, lubricants and related materials	160,65	136,783	92,387	78,164
Manufactured goods classified chiefly by material	12,352	13,601	13,972	14,745
Chemicals and related products	6,298	6,323	5,435	4,439

Source: Eurostat (2017)

Table 7. Top three EU exports to Russian Federation (2013-2016)

EU Exports (Value Mio €)	2013	2014	2015	2016
Machinery and transport equipment	56,557	47,387	32,099	31,202
Chemicals and related products	20,115	19,133	15,72	15,709
Miscellaneous manufactured articles	14,875	13,415	9,497	9,432

Source: Eurostat (2017)

Above data confirm that EU is a primary economic partner for Russia, especially with its lucrative market for the hydrocarbon products. The EU members sell mostly machineries, chemical and medicines, appliances, transport equipment (cars), electrical, electronic devices and similar products to the Russian Federation in return.

After revealing EU-Russia economic partnership, sanctions and their impact on Russia may be evaluated in two categories. First group is financial restrictions and second group is sectoral sanctions. Even though, financial and sectoral sanctions have a common objective of making an impact to the Russian Federation's economic parameters by affecting state owned sensitive sectors, they will be evaluated separately in this study. The financial restrictions are;

It is forbidden for EU nationals and companies to buy or sell new bonds, equity or similar financial instruments with a maturity exceeding 30 days, issued by five major state-owned Russian banks and their subsidiaries outside the EU, three major Russian energy companies and three Russian defense companies. Services related to the issuing of such financial instruments are also banned. EU nationals and companies may not provide loans to five major Russian state-owned banks (European Commission, 2014).

The five major targeted Russian banks are Gazprombank, Rosselhozbank, Sberbank, VEB and VTB. The targeted energy companies are Transneft, Rosneft, and Gazpromneft. These are oil trade companies as natural gas companies have been exempted from the EU sanctions due to the member states' dependency to Russian natural gas. Gazpromneft, is a subsidiary of Gazprom and mostly operates in crude oil and petroleum business. Uralvagonzavod, Oboronprom and United Aircraft Corporation (UAC) are the defense companies which are subject to the sanctions. Uralvagonzavod is a battle tank manufacturer. Oboronprom is an aero-space company which produces military helicopter and United Aircraft Corporation is a plane manufacturer. All companies subject to the sanctions are state-controlled.

Financial sanctions have direct effect to Gazprombank, Rosselhozbank, Sberbank, VEB and VTB. EU banks have the biggest share in the credits Russia banks take for their assets. Russian banks received almost 50 % of their credits from Europe (Klinova et al, 2016; p227). EU loans have the 74 % share of 264 Billion USD foreign loans Russia received in 2014 (Klinova et al, 2016; p227). Based on the Russian Central Bank data, Russian external debt increased to 732 Billion USD in 2014. 660 Billion USD of it was the debt of State Companies. In order to be financed and smoothly running, Russian companies need access to the external funds (Secrieru, 2015). Here below, external debt trend of Russian Federation may be seen;

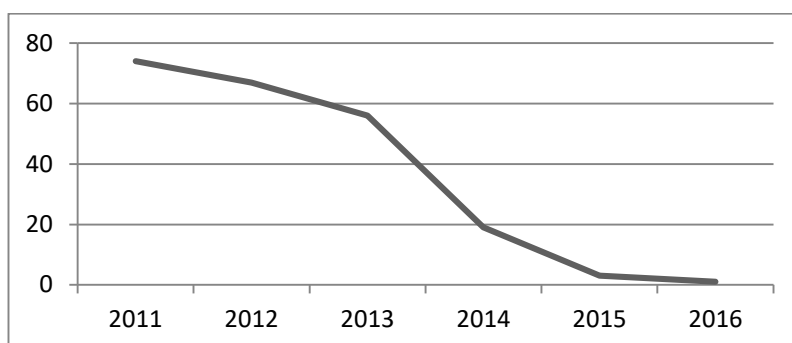
Figure 5. Russian Federation external debt between 2012-2017



Source: Central Bank of Russian Federation (2017)

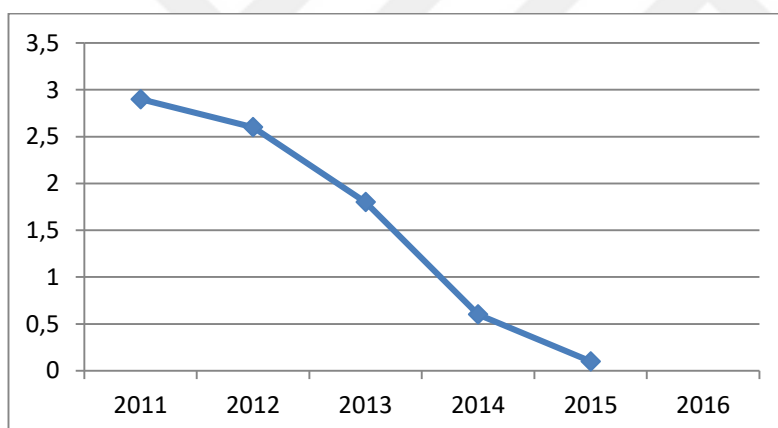
The negative effects of the sanctions which curtail EU investments to Russian Federation may be better understood by checking the data of The European Bank for Reconstruction and Development (EBRD). This is a financial institution which was founded in 1991. Its main function is making investments in Eastern European states to modernize their infrastructure, boosting innovation and supporting their transition to the market economy. Since the beginning, EBRD has provided finance for 788 projects in Russia. The total investment it has made is 24.877 Million Euro. The composition of investment portfolio is consisting of energy, financial institutions, industry, commerce, agribusiness and infrastructure. However, due to the sanctions EBRD has stopped making new operations in Russia. It also should be noted that dropping EBRD investments increases the risk perception in global investment market to Russia (Secieru, 2015; p.30). Below charts reveal the sudden drop in the new number of projects and investment amount (in Billion Euro) of EBRD in Russian Federation;

Figure 6. EBRD annual number of projects in Russian Federation



Source: European Bank of Research and Development (2017)

Figure 7. Annual EBRD investments in Billion Euro

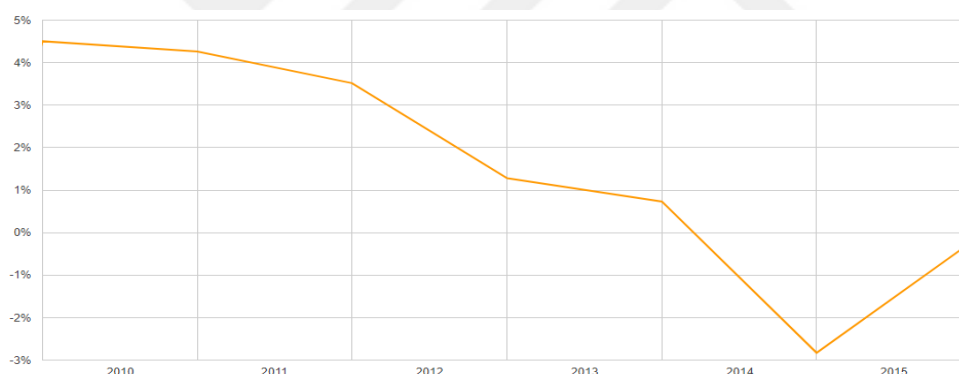


Source: European Bank of Research and Development (2017)

In the global financial system, Russia's ability of finding creditors out of the EU zone is quite limited as the economic sanctions increases the risk perception of the borrowers from other geographies towards Russia. Therefore, foreign capital inflow to Russia reduced after the sanctions. In 2014, the total gross foreign capital inflow reduced by 138 Billion USD. 28 % of decrease was related with banking sector, 18 % was related with public sector liabilities and finally 54 % was related with non-financial sector (Gurvich et al, 2015; p.377). With the secondary effects of the

sanctions such as increasing transaction cost and transaction slowdown, overall cost of the credits has increased (Gurvich et al, 2015). Giving the fact that Russian companies had the requirement of refinance 150 Billion USD debt in 2015 (Aalto et al., 2016; p.230), it may be argued that decreasing borrowing abilities and increasing risk and uncertainty perception of the economic players reduce the investment and consumption and therefore slow overall Russian economy down. Capital outflow will likely affect external debt repayment since Russia's foreign currency reserves are not sufficiently liquid for the debt discharging and the debts will likely surpass the reserves in coming years (Connolly, 2015). Below chart shows the fall in GDP growth after the sanctions;

Figure 8. Russia GDP growth per year (2010-2016)



Source: World Bank (2017)

Increasing uncertainty and risk perception of global players have reduced overall foreign direct investments (FDI) to Russia. Investors from EU (and from other Western states, including USA) are likely more reluctant to make new investments due to the risk of possible nonconformity to sanction rules. This situation is worsening the climate of Russian economy since Gazprombank, Rosselhozbank, Sberbank, VEB and VTB can already not have the opportunity to reach long term foreign debt, decreasing FDI rates lift the effectiveness of the sanctions on the economy. Decreasing FDI rates after the implementation of the economic sanctions may be seen in below chart. It

should also be noted that FDI was at its peak 40.140 USD million in 2013. However, Russian Federation has lost its attractiveness for foreign investors after the sanctions;

Figure 9. FDI to Russian Federation between the years 2013-2017



Source: The Central Bank of Russian Federation (2017)

It should be noted that, after the sanctions, Russia turned to China to compensate its foreign investment loss. However, China's investments decreased 25 % in the first half of 2015, mostly likely again due to the increasing uncertainty and risk perception (Secieru, 2015).

The depreciation of the ruble against USD and Euro is another effect of the sanctions along with falling oil prices. The ruble lost roughly 50 % of its value against USD and Euro after the sanctions, mostly due to the uncertainty and sudden capital outflow (Secieru, 2015). As the Russian economy is mostly dependent on FDI and commodity exports, ruble is very vulnerable against exchange rate fluctuations. With the falling oil prices and reduced FDI and accordingly Federal budget revenues, depreciation of the ruble has been inevitable. The depreciation of ruble against foreign currencies sharpen the cost of the sanctions also by increasing the import cost of the manufacturers which use mostly imported material for their products (Dreger et al., 2015). Here below, the depreciation chart of the ruble against Euro and USD may be seen;

Figure 10. Exchange rate of Ruble against Euro between the years 2010-2017



Source: The Central Bank of Russian Federation (2017)

Figure 11. Exchange rate of Ruble against USD between the years 2010-2017



Source: The Central Bank of Russian Federation (2017)

Increasing import cost with the depreciation of the ruble against foreign currencies contributed to the soaring inflation rates after the sanctions (Dreger et al., 2015). Therefore, raising policy rates by the Russian Central with the aim of controlling the inflation rate decreases the investments even more.

Figure 12. Inflation rates in Russian Federation between the years 2012-2017



Source: *Trading Economics Website (2017)*

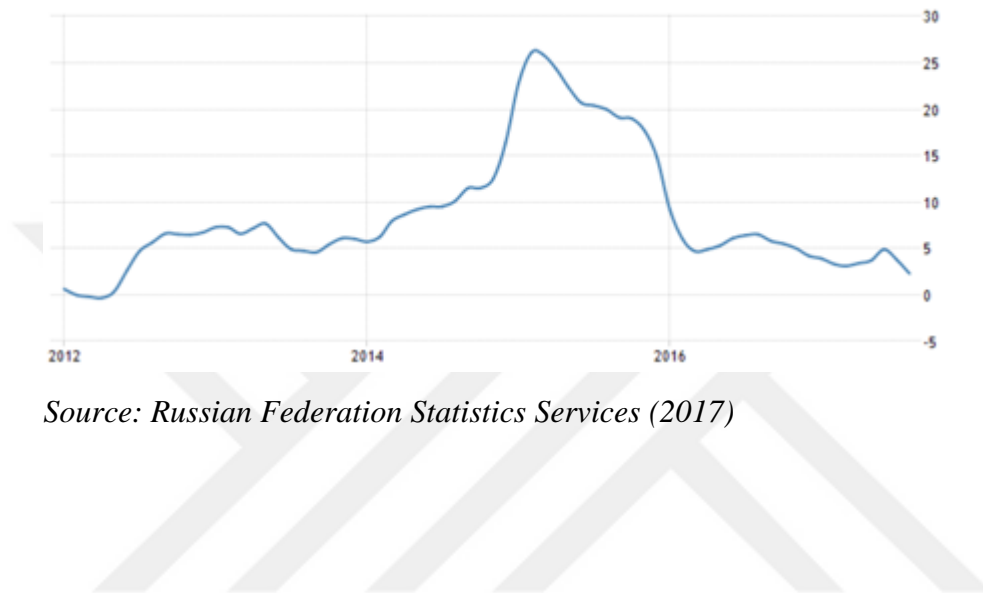
Apart from the effects of financial aspect of the restrictions, sectoral sanctions have complementary negative impact on Russian Federation economy. Russia needs Western technology for especially its energy and military sectors. Without advanced technology, the overall productivity of the related sectors decreases (Gurvich et al, 2015). With slumping oil prices, decreasing productivity ratios of Russian oil companies will likely magnify the revenue loss of Russian Federation budget. Russian military sector also needs sensitive high tech Western devices. Western arm hardware components such as optic, radio electronics and precision machine tools had been imported until the sanctions. EU reports reveal that Russian arms industry needs Western technological devices for 640 positions of several arms. After the sanctions, Russia targeted making import substitution for 127 positions. However, only 7 of them have been realized (Secieru, 2015). As the sanctions restricts “export ban for dual-use goods for military use or military end users in Russia” (Council of the European Union, 2014), the overall competitiveness of Russian military products will likely drop in comparison with its competitors in international market. Import substitution for advanced technology products is a very long process and usually increases the production cost of the manufacturers in the midterm (Romanova, 2016). Besides, with low investment ratios and weak private entrepreneurship due to the above mentioned economic climate and high state interference, technological innovation will likely be very low in upcoming years. For instance, Renault Trucks cancelled its cooperation of armored vehicle production with Russian company Burevestnik. Italian company

Fincantieri also cancelled its cooperation with Rubin Design Bureau for submarine production (Klinova et al., 2016). The situation will also affect export revenues of the Russian Federation due to the products with outdated technology. Kazantsev argues that Russian researcher, engineers and technical staff have been isolated from scientific and technological events taken in Western states. The situation limits the information exchange therefore curtails Russia's level to the technological know-how (Kazantsev, 2017; p. 96). Western technology and know-how is vital for Russian economy. As an example, Russian Federation needs to explore new oil fields in order to sustain its hydrocarbon production. Russia's oil production is in the onshore brownfields of Western and Eastern Siberia where the resources are getting depleted (Connolly, 2015). For oil exploration, especially for the greenfield projects in Western Siberia and Arctic drilling in the regions of Barents and Kara Seas, Timan-Pechora and Shakalin, Western technology is needed (Aalto, 2016; p.228). New machine investments and spare parts for existing machine parks for oil exploration are affected by the EU sanctions. Besides, EU companies which were making investments in Russia or creating joint ventures with Russian companies in energy have suspended their actions following the imposed sanctions. Total annulled its cooperation with Lukoil for the resources in Western Siberia. The plan of making cooperation between Shell and Gazprom has been suspended. Saras, an Italian company, annulled its oil selling plan with Rosneft (Klinova et al., 2016). American Exxon, Italian ENI and Norwegian Statoil have withdrawn their partnership plans in Arctic drilling and shale oil production plans with Rosneft (Aalto, 2016; p.228). Exploring off shore Greenfield resources is vital for the sustainability of Russia's energy commodity revenues as brownfield resources will likely be insufficient in three to five years (Connolly, 2015). The restrictions on EU exports for dual-use goods prolong also the official procedures for related items (Romanova, 2016).

On 7 August 2014, as a counter measure, Russian government adopted a list of products which are banned to be imported from the states that had imposed sanctions. The list consists of meat, diary, fruit and vegetables. EU reports reveal that 73 % of banned products originated in EU member states. As the effects of the counter measures to the EU members will be evaluated in the next part, it may be argued that the ban also negatively affected Russian food inflation ratio. The food prices increased after the ban by reaching an all-time high of 26 % in February 2015. The reasons of soaring prices are the import ban which led to the lower supply quantity in the Russian

market and the cost of diverting the agricultural suppliers to the local producers (Connolly, 2015). Below data show the food inflation rate in Russia;

Figure 13. Russian Federation food inflation between the years 2012-2017



Source: Russian Federation Statistics Services (2017)

As it was put in the beginning of this chapter, the main motivations of the EU in imposing targeted sectoral sanctions was to coerce Russian Federation to come to the negotiation table for the peaceful resolution of the crisis and support the sovereignty of Ukraine. For this purpose, sanctions targeted sensitive sectors, on the one hand, to cut foreign policy inflows, funds and loans to Russia and on the other hand, to raise the cost and price of Russian commodities in the global market and decrease its export revenues (Kazantsev, 2017; p.92). Above data reveal that the sanctions have made aimed impact on Russian economy. Especially, in the short term, capital outflow reached to 80 Billion USD level (Klinova et al, 2014; p.229). In the medium term, GDP and FDI trends have been lower than the period before the sanctions. And finally, Russian economy will likely struggle in the long term mainly with decreasing productivity rates, hostile investment climate and increasing borrowing cost. The cost of subsidizing Crimea may also be added to that list. Secrieru, argues that nearly 80 % of Crimean economy is subsidized by the resources of Russian Federation federal budget. The import ban of the EU on the goods originated from Crimea has increased the cost of the annexation of the peninsula for Russia and related

cost burden will likely be added more in coming years to the overall weight on Russian economy which is already in a recession due to the effects of sanctions and energy commodity prices (Secrieru, 2015).

Any conflict in international relations causes a loss for conflicted parties. When a sanction regime is implemented, not only the target but also the initiator is expected to incur losses (Kaempfer et al, 1992). First of all, the trade volume between two sides will likely lower due to the restrictions. Secondly, the transaction costs of the mutual trade will likely increase. And finally, as the purchasing power in the target state will likely lower, mutual trade volume will also be affected of it. In the case of EU sanctions against Russia, there is trade interdependence between two sides. On the one hand, Russia especially needs Western technological commodities; on the other hand, EU member states need Russian hydrocarbon commodities. Therefore, it is expected that economic loss will occur for the initiator as well. In the next part of the chapter, negative impact of sanctions for the EU member states will be evaluated.

3.3.2. Negative Impact of Sanctions for the EU Member States

Before the sanctions, Russian Federation was the third biggest economic partner of the EU with 285 Billion Euro after United States and China and ahead of Switzerland. Below figure shows the total trade of amount and share with each respective partner;

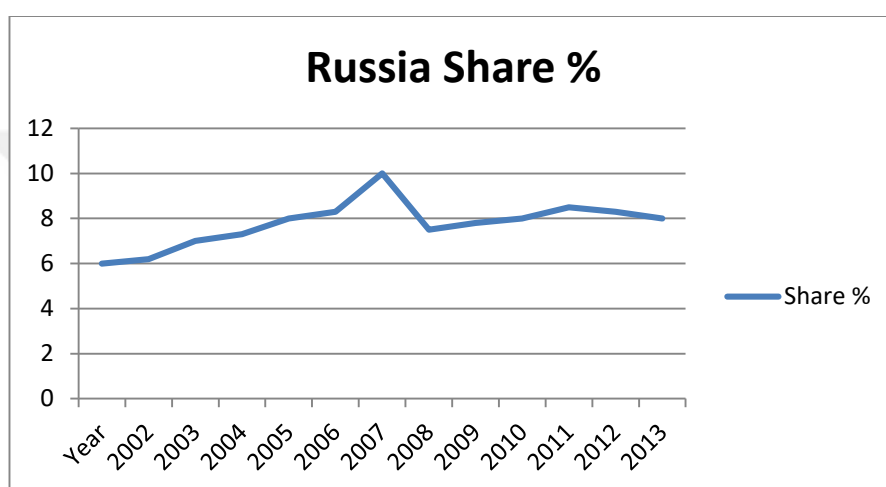
Table 8. 2014/EU top trading partners

EU Top Trading Partners /2014	Value Billion €	% Share
United States	515,6	15
China	467,3	14
Russia	285,1	8
Switzerland	236,9	7

Source: Eurostat (2017)

The share of Russia had increased to 8 % in 2014 from 5 % in 2002. Therefore, there was an incremental increase in the trade volume between the EU and Russia, especially after the sharp fall in 2008-2009 global economic crises. Below chart shows trade volume share trend of Russia between the years 2002 and 2014;

Figure 14. % Russia Share in EU trade between the years 2002-2014



Source: Eurostat (2017)

Eurostat data reveal that both trade volume and share of Russia have decreased after 2014.

Table 9. 2016/EU top trading partners

EU Top Trading Partners/2016	Value Billion €	% Share
United States	610	17,7
China	514,5	15
Switzerland	264,1	7,6
Russia	191,2	5,5

Source: Eurostat (2017)

When the drop of Russia's volume and share is analyzed, it is revealed that the values of both imports from and export to Russia have decreased between the years 2013 and 2016.

Table 10. Trade volumes between the EU and Russia

Trade volumes between the EU and Russia							
EU Imports Billion €				EU Exports Billion €			
2013	2014	2015	2016	2013	2014	2015	2016
206,9	182,4	136,4	118,8	119,4	103,2	73,7	72,4
<i>Drop between 2013/2016: -89,1 %</i>				<i>Drop between 2013/2016: -48 %</i>			

Source: Eurostat (2017)

Standard International Trade Classification (SITC) is a classification method of the UN which is used to compare import and export figures of different commodities and goods for different states or organizations. SITC categories are: food, drinks and tobacco; raw materials; energy products; chemicals; machinery and transport equipment; other manufactured goods. The analysis of respective categories reveals that the overall EU imports from Russia decreased 88.161 Billion € in absolute value between the years 2013 and 2016. The ratio of the decrease is 43 %. The biggest share of the decrease had been for the section mineral fuels, lubricants and related materials. It means that import value volume of oil and oil products has 93,6 % share in total value decrease. Below table shows related EU import values (Billion Euro) and differences;

Table 11. EU import from Russia between 2013 and 2016

	2013	2016	€ Difference	% Change	% Share
Total	206,972	118,811	-88,161	-43%	
Food and live animals	1,176	1,473	0,297	25%	
Beverages and tobacco	82	120	38	46%	
Crude materials, inedible, except fuels	3,671	3,424	-0,247	-7%	
Mineral fuels, lubricants and related materials	160,649	78,164	-82,485	-51%	93,6
Animal and vegetable oils, fats and waxes	441	95	-346	-78%	
Chemicals and related products	6,298	4,439	-1,859	-30%	
Manufactured goods classified chiefly by material	12,352	14,745	2,393	19%	
Machinery and transport equipment	1,973	2,329	0,356	18%	
Miscellaneous manufactured articles	431	476	45	10%	
Commodities and transactions	3,292	2,074	-1,218	-37%	
Other	16,608	11,47	-5,138	-31%	

Source: Eurostat (2017)

However, above data alone do not explain the reason of import value decrease. As the share of oil and oil products is nearly 94 %, it may be argued that the import volume of other commodities remained more or less stable after the sanctions. Therefore, there may be two reasons of the decrease; either the import of related commodities from Russia decreased in net mass during the related period or the total value of related commodity group decreased due to the fall in the oil prices. To be able to assess it, EU imports of energy products between 2013 and 2016 in net mass from Russia, should be probed. Related Eurostat data reveal that EU imports from Russia in energy products remained quite flat in related period of time. Above table shows EU imports of energy products from Russia in net mass (million tons);

Table 12. EU Energy import from Russia in million tons

Energy Products	2013	2016	Difference
Petroleum oils from natural gas condensates	1,1	0,9	-0,2
Petroleum oils and oils obtained from bituminous minerals, crude	165,5	163,7	-1,8
Natural gas in gaseous state	84,3	89	4,7
Coal	56,8	49	-7,8
Lignite	0,1	0,1	0,0
Coke	0,2	0,4	0,2

Source: Eurostat (2017)

The table also reveals that as the import of all other items remained roughly same, natural gas import from Russia increased 6 % after the imposition of the sanctions. Therefore, it may be argued that the sanctions have not negatively affected the EU in the import aspect of the trade with Russia. On the contrary, the energy bill of the EU has been decreasing thanks to the falling oil prices.

The EU export aspect of the trade volume is likely more important to assess the causes of overall trade volume after the sanctions. Below table shows the difference of EU export from 2013 to 2016 in billion Euro;

Table 13. EU export to Russia between 2013 and 2016

	2013	2016	€ Difference	% Change	%Share
Total	119449	72408	-47.041	-39%	
Food and live animals	8756	3188	-5.568	-64%	
Beverages and tobacco	1681	1267	-414	-25%	
Crude materials, inedible, except fuels	1741	1284	-457	-26%	
Mineral fuels, lubricants and related materials	1105	567	-538	-49%	
Animal and vegetable oils, fats and waxes	443	184	-259	-58%	
Chemicals and related products	20115	15709	-4.406	-22%	
Manufactured goods classified chiefly by material	12561	8008	-4.553	-36%	
Machinery and transport equipment	56557	31202	-25.355	-45%	54
Miscellaneous manufactured articles	14875	9432	-5.443	-37%	
Commodities and transactions	1028	931	-97	-9%	
Other	587	636	49	8%	

Source: Eurostat (2017)

The data reveal that the export of almost all SITC items had dropped after the sanctions. The amount of the total decrease is 47.041 Billion Euro which corresponds to 39 % less. Machinery and transport equipment item has the lion share in the drop with 54 % and 25.355 Billion Euro in nominal value. Food and live animals is the second with 5.568 Billion Euro nominal change. Sanctions on export of dual-use technologies and sectoral bans on the sale of technology for deep-sea oil production and Russian countermeasures to the agricultural products seems likely have affected the export volumes of the EU.

The share of Russia in overall EU export in 2016 was 4,1 % and Russia was the fifth biggest export market for the EU. USA has the biggest share with 20,8 % followed by China with 9,7 %, Switzerland with 8,2 % and Turkey with 4,5 %. The overall export amount of the EU to the world increased 5,1 % in 2015 after a slight drop in 2014. In 2016, again it slightly decreased as 2,5 %. Below table shows the amount and growth rate of EU export with the world.

Table 14. EU Export with World

EU Export with World		
Year	Value Million €	Growth %
2013	1,736,371	3,1
2014	1,702,915	-1,9
2015	1,789,154	5,1
2016	1,745,247	-2,5

Source: Eurostat (2017)

Therefore, it may be argued that even if EU export to Russia had decreased between 2013 and 2016, the overall EU export amount had not been affected of the sanctions by increasing 5,1 % in 2015.

When the relevant Eurostat data are checked, it is seen that Germany has a share of 30,02 % share in total drop. Italy is following Germany with 8,62 %, Netherlands with 6,95 %, Poland with 6,18 % and France with 5,91 %.

Table 15. Export value change of EU 28 to Russia between 2013 and 2016

Years	Export Value (EURO) 2013	Export Value (EURO) 2016	Export value difference	Export value change %	% share in total drop
Austria	4.307.993.820	1.952.743.112	-2.355.250.708	-55%	5,01
Belgium	5.113.571.513	3.394.636.952	-1.718.934.561	-34%	3,66
Bulgaria	582.867.481	344.028.708	-238.838.773	-41%	0,51
Croatia	282.192.177	190.562.832	-91.629.345	-32%	0,19
Cyprus	24.215.490	10.177.733	-14.037.757	-58%	0,03
Czech Republic	4.474.225.176	2.775.744.429	-1.698.480.747	-38%	3,61
Denmark	1.562.151.125	727.920.559	-834.230.566	-53%	1,77
Estonia	1.411.469.865	776.574.696	-634.895.169	-45%	1,35
Finland	5.358.589.223	2.979.727.216	-2.378.862.007	-44%	5,06
France	7.720.852.781	4.941.651.683	-2.779.201.098	-36%	5,91
Germany	35.789.242.535	21.674.989.769	-14.114.252.766	-39%	30,02
Greece	404.578.638	215.490.982	-189.087.656	-47%	0,40
Hungary	2.526.261.592	1.418.737.759	-1.107.523.833	-44%	2,36
Ireland	632.543.266	361.190.545	-271.352.721	-43%	0,58
Italy	10.771.687.585	6.720.476.758	-4.051.210.827	-38%	8,62
Latvia	1.759.505.743	1.243.225.951	-516.279.792	-29%	1,10
Lithuania	4.869.020.382	3.057.056.717	-1.811.963.665	-37%	3,85
Luxembourg	156.232.247	130.263.403	-25.968.844	-17%	0,06
Malta	35.599.071	3.153.353	-32.445.718	-91%	0,07
Netherlands	7.956.340.613	4.690.454.429	-3.265.886.184	-41%	6,95
Poland	8.112.824.669	5.206.795.006	-2.906.029.663	-36%	6,18
Portugal	263.046.118	143.047.178	-119.998.940	-46%	0,26
Romania	1.382.263.265	969.709.591	-412.553.674	-30%	0,88
Slovakia	2.554.757.824	1.478.590.534	-1.076.167.290	-42%	2,29
Slovenia	1.189.950.906	789.621.730	-400.329.176	-34%	0,85
Spain	2.812.883.483	1.602.739.295	-1.210.144.188	-43%	2,57
Sweden	2.727.881.455	1.544.771.307	-1.183.110.148	-43%	2,52
United Kingdom	4.666.716.292	3.084.026.974	-1.582.689.318	-34%	3,37
EU28	119.449.464.335	72.428.109.201	-47.021.355.134	-39%	100,00

Source: Eurostat (2017)

The data reveal that EU member states export have been affected by the sanctions to Russia with different degrees. The causes of the results may be; some member states have more intensive export with Russia in sectors affected directly or indirectly with the sanctions and/or geographical proximity and logistics advantage may play a role in uneven effects of the sanctions to the EU member states.

The total share of the export fall of Germany, Italy, Nederland, Poland, France, Austria and Finland in total export fall makes up 67,4 %. Their shares are greater than 5 %. The export drop of Germany has the greatest weight with 30,02 %. When the export decrease numbers and ratios of Germany to Russia are checked, the data reveal that the top four items are capital goods, consumer goods machinery/electronics and transportation.

Table 16. Export decrease to Russia by product groups

Product Group	2013 Export	2015 Export	Difference	% Difference	Weight in change
All Products	48.739.010	24.650.469	-24.088.541	-49%	
Capital goods	23.640.361	10.142.546	-13.497.815	-57%	28,25
Consumer goods	16.650.909	8.875.628	-7.775.281	-47%	16,27
Intermediate goods	5.671.997	3.717.446	-1.954.551	-34%	4,09
Raw materials	662.645	201.053	-461.592	-70%	0,97
Animal	710.635	55.923	-654.712	-92%	1,37
Chemicals	6.023.325	3.905.600	-2.117.725	-35%	4,43
Food Products	1.160.453	760.152	-400.302	-34%	0,84
Footwear	265.498	128.494	-137.004	-52%	0,29
Fuels	278.798	150.270	-128.528	-46%	0,27
Hides and Skins	161.257	58.143	-103.114	-64%	0,22
Mach and Elec	16.702.666	8.015.556	-8.687.110	-52%	18,18
Metals	2.112.347	1.207.479	-904.868	-43%	1,89
Minerals	38.671	23.575	-15.096	-39%	0,03
Miscellaneous	5.284.709	3.302.243	-1.982.467	-38%	4,15
Plastic or Rubber	2.470.821	1.535.392	-935.429	-38%	1,96
Stone and Glass	516.598	265.948	-250.650	-49%	0,52
Textiles and Clothing	1.448.499	734.951	-713.548	-49%	1,49
Transportation	10.203.472	3.716.569	-6.486.903	-64%	13,58
Vegetable	308.642	195.424	-113.218	-37%	0,24
Wood	1.052.528	594.712	-457.815	-43%	0,96
			-47.777.728		

Source: World Integrated Trade Solutions Website (2017)

When the top four decreased commodities and their respective shares in their export fall of Germany, Italy, Nederland, Poland, France, Austria and Finland to Russia are checked, below table may be obtained;

Table 17. Percentage share in export fall to Russia

EU Member	Commodity	% Share in Export fall
Germany	Capital Goods	28,25
	Machine/Electronics	18,18
	Consumer Goods	16,27
	Transportation	13,58
Italy	Consumer Goods	24,89
	Capital Goods	19,37
	Machine/Electronics	13,72
	Transportation	6,26
NL	Capital Goods	25,51
	Machine/Electronics	19,96
	Consumer Goods	15,47
	Animal	5,74
Poland	Consumer Goods	18,2
	Capital Goods	17,13
	Machine/Electronics	12,31
	Raw Material	8,95
France	Capital Goods	21,89
	Consumer Goods	18,43
	Machine/Electronics	12,15
	Transportation	12,15
Finland	Consumer Goods	19,42
	Capital Goods	14,66
	Machine/Electronics	13,92
	Intermediate goods	13,52
Austria	Capital Goods	25,19
	Consumer Goods	16,48
	Chemicals	10,72
	Transportation	8,38

Source: World Integrated Trade Solutions Website (2017)

The results show that capital goods, consumer goods, machinery and transportation commodities have the greatest share in export fall of top seven-member states which have greater than 5 % share in total EU export fall after the sanctions. The results are consistent with the assumptions that: The sanctions affected capital outflow of the EU to Russian Federation which is revealed with falling capital goods; falling purchasing power in Russia due to the depreciation of ruble and lower GDP likely affected the decrease in consumer goods export from all members to Russia;

machinery and equipment export also decreased likely because of the sanctions on export of dual-use technologies and sectoral bans on the sale of technology for deep-sea oil production, lower investment and falling purchasing power. The effect of Russian countermeasures on food product imports to Russia may be considered relatively very small compared with the other above commodities and factors.

In this chapter, the evolution of EU sanctions and their effects on both Russian Federation and member states is evaluated. In the final chapter, the effectiveness of the sanctions will be assessed.



CONCLUSION

As a soft power in the political arena, the EU attempts to be effective in the resolution of global conflicts through economic and political sanctions. Thus, an analysis of the EU's sanctions on other countries will provide us with a better understanding of whether such relevantly less coercive efforts to resolve conflicts are effective in international relations or not. The purpose of this thesis was to evaluate the effectiveness of such sanctions imposed by the EU in the case of Ukraine crisis. First, the criteria of the effectiveness of sanctions were determined based on the literature on sanction regimes, then the case of Ukraine was examined. There were six hypotheses of this study. Based on the effectiveness criteria of the sanctions, the first hypothesis was that since due to historical, economic and political factors Ukraine is higher in salience for Russian Federation, the EU's sanctions would not be effective. The second hypothesis was that EU's sanctions would not be potent enough in the threat phase due to its high salience for Russian Federation. The third hypothesis was that when the sanctions are well defined, clearly linked to a condition (Druláková et al., 2012), and when the goals of the sender is limited (Hufbauer et al., 1990) they would be more successful. The fourth hypothesis was that if the sanctions had devastating economic and social effects on the target, they would not be successful. The fifth hypothesis was that when the target's political structure is autocratic, and the dissidence is weak, there is a less likelihood of the sanctions to be successful. The final and the sixth hypothesis is that when the initiator and the target have a close economic partnership and the economy of the initiator is bigger than the target's, the sanctions are more likely to be successful.

The number of sanctions imposed by the EU has increased after the formation of CFSP. They are one of the essential foreign security tools of the Union. Nevertheless, after the civilian war in Eastern Ukraine with the encouragement of Putin and illegal annexation of Crimea by the Russian Federation, the EU imposed

restrictive measures first on some individuals and entities and then to some sensitive sectors and services including the limitation of the access to EU primary and secondary capital markets, export and import ban on trade in arms, export ban for dual-use goods for military use or military end users in Russia and the access to certain sensitive technologies and services that can be used for oil production and exploration. Simultaneously, EIB and EBRD have suspended its operations in Russia. As a countermeasure, Russian Federation has restricted the import of meat, dairy, fruit and vegetables from the EU.

Despite the fact that Ukraine has been positioned by the EU as a state beyond the demarcation of Europe, “sharp break in trust” and “destabilization of status quo” in the international politics unexpectedly enabled the power of the EU (Cross et al, 2017; p.12). The members have taken the economic and political risk of taking a common position against a right based norm violation in Ukraine (Sjursen et al., 2017). Relevant studies also reveal that the EU more likely impose sanctions when direct security issues, related with the territorial integrity violation occurred in its vicinity, are in question (Portela, 2005). Therefore, imposing sanctions on the Russian Federation which violated territorial integrity of Ukraine in the immediate borders of the EU confirms the literature.

Next, the conclusions of the study will be summarized regarding the sender-related, target-related and interrelated factors which influence the effectiveness of economic sanctions. The sender-related factor that was analyzed in this thesis was related to the quality of the sanctions. When the sanctions are well defined, clearly linked to a condition (Druláková et al., 2012), and when the goals of the sender are limited (Hufbauer et al., 1990) they would be more successful. Sectoral sanctions have been designed by the EU in accordance with the effectiveness criteria explored in the literature review. The objective of the sanctions is well defined by the EU. In the related EU documents and at the speech level, EU clearly linked the duration of the sanction with the implementation of the Minsk agreement. It has been partly successful by constraining Russia from the recognition of so-called Donetsk and Luhansk republics in Eastern Ukraine and preventing it from making further effort to destabilize Ukraine. Hufbauer, Schott, and Elliott’s study reveals that the sanctions are more likely to be succeeded when the goals of the sender is limited. The positive outcome chance of a sanction regime with complex conditions is lesser than the sanction regimes with limited conditions (Hufbauer et al., 1990). Therefore, in the short term, sanctions had

been effective not in coercing the Russian Federation from its territorial violation but constraining it for further violence. According to the theory, in some cases, the sender imposes sanctions to emphasize its power and/or norms to the international actors. It may be argued that solidarity among sender states and the objective of signaling the norm violation have also been achieved by giving a clear message to the international community and by taking a common position.

One of the target-related factors that was analyzed in this thesis was related to the political structure of the target being autocratic or democratic. Relevant literature on the effectiveness of sanctions reveals that a positive outcome is more likely when the target state is democracy and when there is a strong domestic political opposition. The main motivations of the EU in imposing sanctions have been constraining Russian Federation for further violence, finding a solution for the crisis with the implementation of Minsk agreement and sending a strong normative signal. As it is analyzed in this study, Russia has an authoritarian regime and the dissidence is quite weak. Therefore, domestic political cost of the non-compliance would not be high as it would be in a democratic regime. Economic sanctions will more likely be effective when there is a high political cost of non-compliance and high political incentive of compliance will more likely result with a negative sanction outcome (Blanchard et al., 1999).

Another target-related factor that was analyzed in this study was whether the sanctions had devastating economic and social effects on the target. Heine-Ellison (2001) suggested targeted sanctions are more appropriate than comprehensive embargoes that would create nationalistic enthusiasm and solidarity in the target state which leads to non-compliance. The EU sanctions were designed in order not to devastate the Russian economy but with the objective of making short run and long run incremental impacts on Russian economy (Christie, 2016). Thus, in this thesis the design of the EU sanctions was explored by analyzing economic data to understand its impact on Russian economy. The data reveal that targeted sanctions imposed by the EU affect Russian economy negatively. Russian economy and the value of the Ruble are quite dependent on the FDI. The data of EBRD on the investment projects in Russia clearly shows the falling number of EU projects conducted after the sanctions. Besides, the data on falling commodity exports of the EU between 2013 and 2015 reveal that capital goods has the lion share with 28,5 % in the overall export drop change. This finding reveals Russia's restricted access to the EU capital resources. In addition,

consumer goods export had also fallen by 47 % between the same time period. With the falling capital outflow of the EU to the Russian Federation and falling purchasing power in Russia due to the depreciation of ruble and lower GDP likely affected the decrease in consumer goods export from all members to the Russian Federation. Uncertainty in the economy and worsened investment climate will likely lead to lesser FDI input in the medium term. Having not reached EU funds, targeted sectors would return to the Central Bank reserves. With draining state funds, the situations will likely lead to increasing interest rates and therefore lesser investment ratios. Long term effects of the sanctions are related with some other expected parameters. Russian federal budget is highly dependent on hydrocarbon revenues. The share of hydrocarbon revenues was 51 % in 2014. In the short term, falling oil prices has been the key variable but in the long term, Russia needs exploring off shore Greenfield resources to keep its production volumes. The export restrictions on high tech arctic oil exploration goods and cancelled cooperation with Western companies for Greenfield resources will likely disrupt productivity levels.

One of the inter-related factors that was examined in this study was related to the qualities of the threat imposed before the sanctions. According to the theory, the threat may be unsuccessful when it is not credible, not potent enough or may be non-contingent which means the imposition of the sanctions is not dependent on the compliance of the target state (Hovi et al., 2005). The threat phase of the sanctions has not been effective in coercing Russia to withdraw from the territories of Ukraine or making cooperation with OSCE. However, it may be argued that sanction threat limited Russia in making further violation in Eastern Ukraine. It may be argued that in Ukraine case, the high salience attributed to the issue resulted with the negative outcome for the threat. The threat of the EU sanctions may be credible, but it could be not considered by the Russian Federation as potent enough as to change its behavior.

Another inter-related factor that was analyzed in this thesis was the salience factor. Since Ukraine is higher in salience for Russian Federation due to historical, economic and political factors, the EU's sanctions were not expected to be effective. The theory on the effectiveness of the sanctions assume that when the issue salience of the initiator is higher than the issue salience of the target state, sanctions are more likely to succeed and the asymmetry which favors the initiator increases the probability (Peksen et al., 2007). When the relations between the EU, Russia and Ukraine are explored, it may be argued that the issue salience of Ukraine is higher for Russian

Federation than it is for EU for some historical, political and economic reasons. In terms of the domestic Russian politics, annexation of Crimea and breaking Ukraine off the partnership track with the EU by bringing disorder in Donbass region have reinforced the perception of so called rebirth of Great Orthodox Russia. It is also considered as a remedial action against the 1954 territorial transfer and consolidation of Russian fleet in the Black Sea (Gardner, 2016). In terms of power struggle with the West, it may be considered as a move against perceived Western expansion with the EU's Eastern enlargement, its partnership agreements with Eurasian states, NATO presence in Russia's near abroad and so-called colored revolution as Western plots in Ukraine. On the other hand, the EU considers Ukraine beyond Europe and from the beginning of the independence of Ukraine, a loose partnership has been opted. The EU has never offered a full membership perspective to Ukraine despite the fact that Ukrainian politicians equated normalization and modernization with the Europeanness and therefore with the EU membership. In terms of economic consideration, Ukraine is much more important for Russia for its own economic integration model than it is for the EU. Even if the violation against the territorial integrity of Ukraine is an important issue in terms of destabilization in the status quo for the EU, above mentioned historical, political and economic reasons of Russian Federation may be considered as a higher issue salience attributed to Ukraine by the Russian Federation. In addition to this, as Rieker suggests, EU and Russia have different understandings of wider Europe. For the EU, it is stretching its substantial core liberal values to the East. However, for Russia it signifies a continent with multiple centers without unipolarity (Rieker et al., 2016). Therefore, as a conclusion Putin's move may also be considered a result of the collision of two different regional models.

Lastly, the third inter-related factor analyzed in this thesis is the level of economic partnership between the initiator and the target. In the literature, it is also argued that sanctions are usually more effective in the cases when initiator and target have close economic partnership and when the economy of the initiator is bigger than the target (Klinova et al, 2014). In the case of economic sanctions imposed to the Russian Federation, there is a high trade volume between the initiator and the target. The share of the EU in the total trade volume of the Russian Federation is 43,3 %. This ratio makes the EU its biggest trade partner. On the other hand, Russia was the third trade partner of the EU with 8 % share. After the sanctions, the ratio has fallen to 5,5 %. However, Russia is still fourth trading partner of the EU following United States,

China and Switzerland. Trade volumes between the years 2013 and 2016 dropped consistently. In the related period, EU imports from Russia had fallen 89,1 %. EU exports to Russia had fallen 48 %. Mineral fuels and related materials have the biggest share in total drop of EU exports to Russia. As the energy import volumes of the EU from Russia remained flat during the same period of time, the data reveal that falling oil prices has been the reason of the decrease.

Findings of this thesis contributes to the scarce literature on the EU sanctions concerning Ukraine since this crisis is relatively new. Moreover, the analyses of the thesis have confirmed that the EU sanctions on Russian Federation in this case are only partially effective. The sanctions have been effective since they rendered Russian Federation less aggressive in violating Ukraine's sovereignty. However, they have been only partially effective since the implementation of the Minsk agreement is not completed yet. Since there is a continuing Russian presence in Crimea and Eastern Ukraine, the sanctions cannot be said to be fully effective yet.

This is related to another implication of this study which is the role of EU as a soft power in the global politics. Even though EU as a soft power designed its economic sanctions well, there are still limitations to EU's sanctions as a global actor. In the case of Ukraine, EU's sanctions have been well defined, they were not economically devastating for the Russian Federation, and EU had a close economic partnership with the Russian Federation. All of which can be viewed as qualities of effective sanctions. However, the sanctions were still not adequate to achieve what EU aimed (e.g., full implementation of Minsk agreement) and had their limitations.

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