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# The Redistributive Impact of Restrictive Measures on EU Members: Winners and Losers from Imposing Sanctions on Russia\*

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## Abstract

EU sanctions on Russia created concerns among its members. It is well known that sanctions impose a cost on their targets as well as on the senders, as lamented by European governments, but the costs of EU sanctions on its members have not been fully explored. This article intends to fill this gap by looking at the cost of EU sanctions on Russia. Who is bearing the cost among EU countries? This article argues that sanctions had a redistributive impact across the EU. Whereas exports fell for all countries, with Germany, Italy and Finland in the leading positions, the article shows that there are economic sectors that increased their exports to Russia after the imposition of sanctions, which occurred particularly in countries as Greece, Sweden, Luxembourg and Bulgaria. This conclusion is reached by looking at the export flows from individual EU member states divided by SITC sectors to Russia.

**Keywords:** sanctions; European Union; Russia; international security; effectiveness

## Introduction

The decision of the European Union (EU) to impose sanctions on Russia in 2014 created concerns among the EU's Member States. Normally sanctions are imposed by strong actors against weak ones, and it is known that even such measures are costly to senders (Kaempfer and Lowenberg, 1992).<sup>1</sup> This is also the case in disputes with more symmetrical power relations, such as the one between the EU and Russia – which is characterized by high interdependence and significant potential for mutual harm. European governments were aware of the fact that they were going to incur costs, but while some have supported the sanctions on Russia others have criticized the EU policy regarding Moscow based on the economic impact suffered by their own economies.

For instance, Spanish Foreign Minister Jose Manuel Garcia-Margallo declared that sanctions 'are beneficial for no one' (Rettman, 2015), while Viktor Orban, Prime Minister of Hungary, commented in August 2014 that the EU sanctioning policy will cause 'more harm to us than to Russia' (Szakacs, 2014). Prime Minister of Slovakia Robert Fico wondered 'why should we jeopardize the EU economy?' (Muller, 2014), and stated that trade between the EU and Russia should be restored (Jankarikova and Muller, 2016). Greek President Alexis Tsipras made this link explicit: 'The counter-sanctions imposed by

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<sup>1</sup> In line with the literature on sanctions, actors imposing them will be referred to as 'senders' while actors on the receiving end will be referred to as 'targets'.

Russia have inflicted pain on the Greek economy. But we know the retaliations were a response to sanctions [against Russia], the logic of which we do not entirely share [...]. We openly disapproved of the sanctions' (Walker, 2015). Other members, such as Cyprus, France and regional authorities such as Veneto in Italy and Bavaria in Germany, have also been critical of sanctions.

This widespread concern has also triggered a debate on whether the EU should set up compensatory mechanisms to offset the excessive losses experienced by individual countries when sanctions are imposed, assuming that only certain countries bear most of the brunt thereof. In fact, while the impact of EU sanctions on Russia has been studied (Aalto and Forsberg, 2016; Christie, 2016; Connolly, 2015a, 2015b and 2016; Secieru, 2015), the cost of EU sanctions for its own Member States has not been explored beyond the macro level. This article intends to fill this gap by looking at the cost of EU sanctions on Russia, and answer the question of who is bearing that among the EU countries. This article argues that the impact of sanctions against Russia was uneven across the EU. Whereas exports fell for all countries, most acutely in Germany, Italy and Finland, the article shows that there are economic sectors that in fact increased their exports to Russia after the imposition of sanctions. Therefore, even if all EU countries together decreased their exports to Russia, certain economic actors have actually increased their level of activity.

Thus, the argument of the article is that sanctions have created winners and losers in the EU. By looking at the concentration of economic sectors that increased exports since sanctions, this article shows that the most frequent trade expansions, and therefore the greater number of business opportunities available to firms and companies, took place in Greece, Sweden, Luxembourg and Bulgaria. This conclusion is reached by looking at the export flows from individual EU Member States divided by Standard International Trade Classification (SITC)<sup>2</sup> sectors vis-à-vis Russia. The data are taken from the statistical office of the European Union (Eurostat).

The article is divided into five sections. First, the conceptual framework used to evaluate the impact of sanctions is presented. Second, the restrictive measures in place are summarized and an overview of EU–Russian economic relations is briefly presented. Third, the EU data on exports are assessed both at the EU and at the Member State level. Fourth, the system to estimate winners and losers from sanctions is illustrated, and then applied to the export statistics. Finally, the conclusion sums up the core argument of the article.

## I. The Cost of Sanctions

Traumatic events in international relations are notoriously costly for everyone involved. This happens when natural disasters take place, but also when man-made events such as wars and conflicts erupt. Conflicts are considered lose–lose scenarios by liberal thinkers, meaning situations wherein all parties involved find themselves poorer after the event as compared to their situation prior to it. Sanctions are like wars in international politics, so that both senders and targets are expected to be poorer by the end of the crisis.

<sup>2</sup> SITC is a classification adopted by the United Nations. It is used to analyze external trade statistics, import and exports and it allows for comparisons across countries (see also footnote 4).

Sanctions are financially costly for targets. The gross domestic product of Iraq in 1990 fell drastically after the imposition of sanctions (Gordon, 2010). The same could be said for the economy of Haiti in 1993–94 as a consequence of the international pressure applied to reinstate the government of Jean-Bertrand Aristide (Gibbons, 1999), for the economy of the former Yugoslavia in dealing with United Nations and EU sanctions (Biersteker *et al.*, 2016; Hufbauer *et al.*, 2007), and also for the economies of Iran and Syria in more recent episodes of sanctions (Moret, 2015). This is true for a number of reasons, since costs from imposing sanctions can take different forms. First, there are the direct impacts of sanctions – which refer to the sectors that have been directly affected by their imposition. Second, there are the indirect impacts that can occur on sectors related to those directly touched by sanctions, such as transportation for banned products, and on non-related sectors, such as the price of housing and the value of the domestic currency (Giumelli and Ivan, 2013).

At the same time, sanctions are also costly to senders (Schwebach, 2000). The decision to stop purchasing oil from Iraq in 1990 meant that some states had to look for alternative supplies thereof, and probably at a higher price. The decision to halt the sale of weapons to conflict-torn areas means that warring factions do not have weapons anymore, but it also means that arms industries will see reduced profits. Industries and firms in sender countries are thus exposed to the negative consequences of imposing sanctions (Dorussen and Mo, 2001). The cost of sanctions to senders was calculated using the Gravity Model by Hufbauer *et al.* (1990) in their pioneering investigation of sanctions. The Gravity Model estimates the impact of sanctions alongside that of the other factors that can affect trade, such as geographical proximity, language affinity and colonial links among others. However, this approach considers the impact on trade and it calculates the cost of sanctions for senders in GDP value for whole countries. Indeed, their finding is that ‘the typical impact of US sanctions is to significantly reduce bilateral trade between the sender and target and mildly reduce the target country’s trade with all partners’ (Hufbauer *et al.*, 2007, pp. 111–112) – meaning that the focus has been on macro analysis rather than on looking at who actually bore the cost of sanctions.

However, even disastrous events do not have an equal and uniform negative effect on all actors. First, states can still gain from wars and sanctions. This can occur in a situation of large power differentials between the actors in conflict, such as the case of the United States during World War II (Harrison, 1998). Second, disastrous events do not have an equal impact on all sectors of the economy either. Arms producers benefit from belligerent activities, as the emergency equipment industry benefits from the occurrence of natural disasters. Similarly, insurance companies benefit from people’s fears and personal tragedies (Hartley and Sandler, 2007). Targeted sanctions structurally have unequal effects on societies because they aim at specific individuals, companies or sectors within a country’s economy (Giumelli, 2015). However, the literature on assessing the cost to senders has considered neither the evolution from comprehensive to targeted sanctions nor indeed the sector level of analysis.

Addressing these two shortcomings of the literature, this article will propose three hypotheses to test the redistributive impact of targeted sanctions within senders’ societies. First, specific sectors may have gained even if the EU as a whole has borne a cost for the imposition of sanctions. Second, EU Member States may have gained even if the EU as a whole has borne a cost for the imposition of sanctions. Third, specific

sectors in specific EU Member States may have gained even if both/either the EU as a whole and/or their own Member State have/has borne a cost from the imposition of sanctions.

By testing these three hypotheses, the article will assess who the winners and losers are of EU sanctions. EU Member States can be classified as both. An EU member is defined as a winner when exports to Russia increased after sanctions entered into force. When considering country data, namely gross export flows, comparatively less affected EU members are also referred to as 'winners'. The cost of EU sanctions and of Russian countermeasures are not independently assessed, as it is assumed that both constitute different aspects of the same dispute. The hypotheses are tested by looking at the exports of EU countries to Russia; two indexes have been constructed for the purpose of this article. The first is the variation in exports to Russia between 2013 and 2015 (hereafter also EXP-2YEAR). This indicates whether the overall position of a country vis-à-vis Russia has improved or worsened over time. This aggregate value identifies the general trend with regard to the widespread idea that sanctions involve a cost for sender economies under any conditions.

The second indicator is the variation in EU exports to Russia in the 12 months after the imposition of sanctions, as compared to the 12 months before (hereinafter also EXP-AFTER). The first period runs from August 2013 to July 2014, and the second from August 2014 to July 2015. This indicator illustrates how exports have been affected by the imposition of sanctions while also incorporating the 'shock' factor of their actual imposition (which is less relevant in the first indicator). This balances EXP-2YEAR, because it shows the trend that might have been more directly influenced by the entry into force of sanctions.

The EU as a whole and each of its members are scrutinized at both the aggregate level and at sectorial ones. The analysis is done by looking at the statistics on detailed international trade provided by Eurostat. The analysis uses the SITC classification to identify the category of products that could have been harmed by or have benefited from the imposition of sanctions.<sup>3</sup>

It is necessary to point out that sanctions cost cannot be easily quantified and measured, of course. First, sanctions are only part of the story. There are always other factors that influence the health of economies, such as the level of competitiveness, of social capital and others, as well as exogenous ones such as wars, natural disasters and, indeed, sanctions. Second, countries – and especially firms and companies – are operating in a market with multiple buyers and sellers. The very fact that Russia undergoes sanctions does not mean that EU companies are losing money, as they may be reaching out to alternative markets as well. This process of adaptation is well known in the literature (for a very early contribution on this point see Galtung, 1967). Accordingly, the main impact of sanctions occurs in the immediate aftermath of their imposition – whereas the effects of sanctions tend to decrease overtime (Dizaji and van Bergeijk, 2013). In any case, how to fully disentangle the independent impact of sanctions from the country performance in the international marketplace remains unanswered (World Bank, 2015).

<sup>3</sup> The SITC categories are: Food and Live Animals (SITC 0), Beverages and Tobacco (1), Crude Materials, Inedible, Except Fuels (2), Mineral Fuels, Lubricants and Related Materials (3), Animal and Vegetable Oils, Fats and Waxes (4), Chemicals and Related Products, N.E.S. (5), Manufactured Goods Classified Chiefly by Material (6), Machinery and Transport Equipment (7), Miscellaneous Manufactured Articles (8) and Commodities and Transactions not classified elsewhere (9).

However, the analysis of export data can provide a more accurate understanding of the cost of sanctions. There are at least three reasons to assume that exports are a reliable variable by which to study this phenomenon. First, exports provide an immediate indicator of the direct effects of sanctions. Indeed, sanctioned goods cannot be traded anymore and this would immediately be reflected in export data. Second, sanctions affect other indicators only indirectly. For instance, GDP growth and inflation are more sensitive to different dynamics, such as monetary policy and the level of taxation, rather than to shocks such as sanctions – whereas exports are also representative of the relations between two countries. Finally, the analysis of exports allows for a detailed view of what happens to the economy when targeted sanctions are imposed, while aggregate values, such as inflation, do not permit us to understand the internal dynamics in sender/target societies. Export data reveal winners and losers in the EU sanctions on Russia; the next sections demonstrate this more fully.

## II. The Gross Estimate of the Effect of Sanctions on EU–Russia Relations

EU sanctions on Russia are complex in nature. There are three different regimes in place, which have all been imposed since the departure from power of Ukrainian President Viktor Yanukovich in February 2014. The first wave of sanctions entailed the freezing of assets of 18 individuals, who were under investigation for embezzlement in Ukraine (The Council of the European Union, 2014a). Following Russia's decision to annex Crimea in March 2014, the Council decided to ban all goods produced in Crimea from the EU market and targeted individuals that were directly involved with the annexation – such as members of the Russian Army (The Council of the European Union, 2014b). Finally, the third wave of sanctions was imposed so as to constrain Russian's support for rebels in Ukraine whose activities undermine the independence of that state (The Council of the European Union, 2014c). Sanctions, initially consisting of a freezing of assets and a travel ban being imposed on 21 individuals, were then eventually expanded to a total of 151 individuals and 33 entities (The Council of the European Union, 2015).

Sanctions became economically significant as a consequence of the downing of Malaysian Airlines flight MH17 in July 2014. The Council passed Decision 512 imposing an arms embargo, restrictions on the sale of dual-use goods and technology, a ban on the provision of certain services for deep water, Arctic and shale oil-related projects, and restrictions on the issuance of and trade in certain bonds, equity and similar instruments (The Council of the European Union, 2014d). This set of sanctions, combined with the ban on EU food imports that Russia imposed in August 2014 as a response to the restrictive measures imposed by the Council, has in part been responsible for the economic impact lamented by EU leaders. The ban covers all meat products, milk and dairy products, fruits, vegetables and fish, but it does not include, for instance, alcoholic beverages (European Commission, 2015a). In September 2014, financial restrictions were further tightened (The Council of the European Union, 2014e). With the exception of updating the list of targets, which amounted to 149 targets in September 2016, the core of sanctions remained unaltered (Moret *et al.*, 2016).

Certainly, sanctions on Russia were likely to affect trade (Hufbauer *et al.*, 2007; Portela and Orbie, 2014). Russia was the third-largest trade partner of the EU with EUR 285 billion in 2014, after the United States with 515 and China with 467. Whereas

most of the EU imports from Russia are oil related, exports are much more diversified. EU imports in 2014 amounted to a value of EUR 182 billion, of which EUR 137 billion (75 per cent) were related to mineral fuels and related products. Instead, the EUR 103 billion exported to Russia in 2014 were characterized by a strong presence of machinery (45 per cent), manufactured goods (23.9 per cent) and chemical products (18.5 per cent).<sup>4</sup> The European Commission estimated the cost of sanctions for the EU to be as high as EUR 40 million (0.3 per cent of the EU's GDP) in 2014 and EUR 50 million (0.4 per cent of the EU's GDP) in 2015 (Szczepáński, 2015). Additionally, the Russian ban on food imports affected EU exports, according to the Commission's estimation, to the tune of EUR 5 billion (total EU food exports to Russia was about EUR 11 billion in 2014) (European Commission, 2015b).

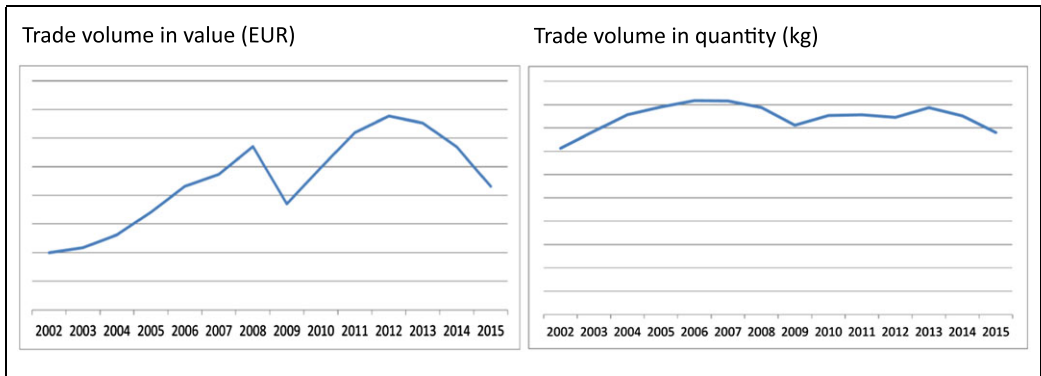
The overall trade volume has declined considerably compared to 2013, going down from EUR 326 billion to EUR 209 billion in 2015; meanwhile exports decreased by EUR 45 billion in 2015 compared to 2013. Sanctions alone, however, do not explain this drop (Gros and Mustilli, 2015). First, trade between Russia and the EU had begun to decline in 2012 with the drop picking up speed in October 2013 – eight months before the imposition of the sectorial sanctions in July 2014. Indeed, trade in 2014 had already declined by 6 per cent compared to 2013 – suggesting that the trend was already negative fuelled by the fall in the oil price, the depreciation of the rouble, the instabilities on the border with Ukraine and the lack of internal reform in Russia (Christie, 2016; Secrieru, 2015). Second, since trade in 2012 represented the highest point thereof after the 2009 level, the decline could also be the product of periodic market fluctuation. Indeed, the trade volume is still above the level it was prior to the 2008–09 financial crisis. Third, trade may have been reduced by overcompliance in implementing sanctions – which means that companies have refrained from trading with Russian counterparts in order to not run the risk of violating sanctions (Johnston, 2015). Finally, trade volume has not changed much when considering the quantity of goods exchanged (and not their value). If one looks at the quantity in 100 tonnes for imports and exports, then the trade volume in 2015 decreased only 6 per cent compared to 2013 – most of it constituted by fewer exports to Russia. As shown by Figure 1, the 2015 level is still above the 2009 one and is comparable to other years – which suggests that the drop in export value could also have been caused by the exchange rate.

Although EU–Russia trade is substantial, it is still less than 10 per cent of total EU trade with the rest of the world. In 2014 the global EU trade volume was equal to EUR 3,382.9 billion, down from the EUR 3,480.2 billion recorded in 2012. Overall EU exports to the rest of the world increased in 2015 after having declined in 2014. In 2013 EU exports reached EUR 1,736.6 billion, then decreased to EUR 1,702.7 billion in 2014 and after peaked at EUR 1,791.3 billion in 2015. The decline of exports to Russia seems to have affected EU performance in 2014, but this effect appears to have faded away by 2015.

The EU had to bear a cost from imposing sanctions in terms of trade with Russia, but the EU position vis-à-vis the world as a whole has improved despite the crisis in Ukraine. In other words, even though EU countries have lamented shouldering the cost of sanctions, exports actually increased in 2015 to the US and Canada (+16 per cent), Asia and Latin America (+6 per cent) and Oceania (+6 per cent) – so that it can be claimed that the trade loss with Russia may have been compensated for by increases in other

<sup>4</sup> Author's own calculation based on Eurostat data.

Figure 1: Trend of Trade Volume EU–Russia, in EURO and quantity in 100 kg. [Colour figure can be viewed at [wileyonlinelibrary.com](http://wileyonlinelibrary.com)]



directions.<sup>5</sup> It has been speculated that companies could re-route their trade with Russia through third countries such as Kazakhstan, Belarus and Armenia who have free trade agreements with Russia – or through those with historical ties to Moscow – such as Serbia (Kiselyova and Vasovic, 2015; Makhovsky and Devitt, 2014). However, the data do not confirm this idea – as EU exports have only increased to Serbia, and even then to a very limited extent (EUR 817 million in 2015 compared to 2014).

Thus, export losses with Russia seem to have been compensated for by export gains with other countries; this argument will not be explored further here, however, due to space constraints. The assumption is that the cost for re-routing trade through other destinations and for absorbing those financial burdens overtime are proportional to the share of trade lost with Russia. Certainly other factors have been at play, but the sharp decrease since July 2014 indicates that sanctions have played a role in overall EU–Russia trade relations. Whether this role vis-à-vis Russia had negative implications for each particular EU member is answered in the next section.

### III. Testing the Hypotheses

In order to test the hypotheses, the data should show that EU exports to Russia have decreased. This is indeed the case. Overall exports thereto decreased by 13 per cent from 2013 to 2014 and by 28 per cent from 2014 to 2015, namely from EUR 119 billion in 2013 down to EUR 74 billion in 2015. This is almost a 40 per cent decrease in just two years, which is now the lowest export level between Russia and the EU since 2009 as shown in Figure 2.

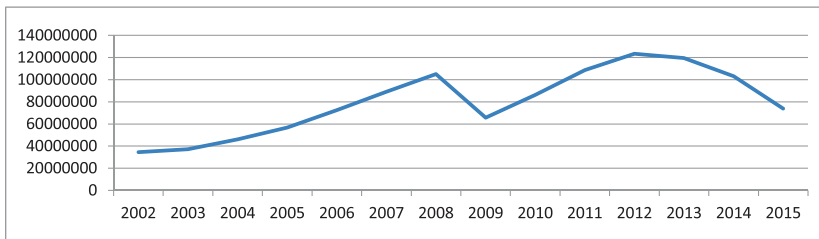
*H1 Economic sectors across the EU have been unevenly affected by the drop in EU exports to Russia.*

This hypothesis finds support in the data, as the decline in EU exports to Russia has indeed not affected all sectors to the same extent. This is not surprising as sanctions

<sup>5</sup> Author's own calculation based on Eurostat data.



Figure 2: EU-28 Exports to Russia in billion EUR. [Colour figure can be viewed at [wileyonlinelibrary.com](http://wileyonlinelibrary.com)]



regarded specific sectors over others, but it is yet relevant to have it empirically verified. Focusing on overall EU exports in each SITC sector since 2013, the drop mainly concerns: SITC 7 – Machinery and Transport Equipment for EUR 25 billion, SITC 0 – Food and Live Animals and SITC 8 – Miscellaneous Manufactured Articles for EUR 5 billion each; and SITC 5 – Chemicals and Related Products, N.E.S. and SITC 6 Manufactured Goods Classified Chiefly by Material for EUR 4 billion each.

The analysis of EXP-AFTER leads to similar results. SITC 7, 0 and 8 explain 80 per cent of the export drop, while SITC 9 shows a moderate increase – which is counter-intuitive considering the overall 25 per cent drop therein. Additionally, it can also be pointed out how certain sectors have suffered more than others since sanctions were imposed. While SITC 5 lost only 10 per cent of its exports, SITC 0 lost 54 per cent of its exports; simultaneously, SITC 1 and 2 lost 15 per cent of their exports, while SITC 4 fell by 43 per cent. Interestingly, SITC 9 (Commodities and Transactions not classified elsewhere) increased by 5 per cent. Clearly, there has been a negative impact on EU exports – but this was uneven across SITC sectors, as shown in Table 1 below.

Table 1: EXP-2YEAR and EXP-AFTER

SITC		EXP-2YEAR		EXP-AFTER	
		%	Nominal*	%	Nominal*
0	Food and live Animals	-62.44%	-5,467	-54.11%	-4,428
1	Beverages and Tobacco	-29.41%	-495	-14.98%	-245
2	Crude Materials, Inedible, Except Fuels	-31.56%	-550	-14.98%	-217
3	Mineral Fuels, Lubricants and Related Materials	-44.48%	-491	-30.39%	-281
4	Animal and Vegetable Oils, Fats and Waxes	-66.30%	-294	-42.93%	-145
5	Chemicals and Related Products, N.E.S.	-21.48%	-4,320	-10.25%	-1,975
6	Manufactured Goods Classified Chiefly by Material	-33.26%	-4,178	-19.57%	-2,301
7	Machinery and Transport Equipment	-43.13%	-24,395	-28.02%	-14,426
8	Miscellaneous Manufactured Articles	-35.98%	-5,352	-23.11%	-3,316
9	Commodities and Transactions not classified elsewhere	3.04%	31	3.73%	38
TOTAL		-36.50%	-45,511	-23.46%	-27,296

\* In million EUR

The analysis of EU exports to Russia suggests that sanctions can at least partly explain the drastic drop recorded therein between 2013 and 2015. Whereas most sectors have been hit hard by this drop, certain ones have suffered more than others. However, EU countries had different degrees of involvement with Russia; a closer look at these data reveals the countries that have shouldered most of the burden from sanctions.

*H2 EU Member States have been affected unevenly by sanctions.*

This hypothesis has been confirmed. No EU Member State has increased its exports to Russia in the aftermath of sanctions, but EU Member States have been unevenly affected by the changing export flows.

Although all EU Member States have experienced a decrease in their exports to Russia, they have all done so to varying extents. EU exports dropped 40 per cent in 2015 compared to 2013, with Malta, Cyprus and Denmark being the three countries that suffered the most in relative terms. Indeed, Malta experienced a 91 per cent drop in its exports to Russia, Cyprus 63 per cent and Denmark 52 per cent. However the lion's share that explains the export drop is Germany (minus EUR 14 billion), Italy (4 billion), France, the Netherlands and Poland (3 billion each), which in combination account for EUR 27 billion of the EUR 46 billion decrease in EU exports to Russia since 2013. Looking at the year before and after the imposition of sanctions does not alter this assessment. Cyprus, Ireland and Malta appear at the bottom of the list with a 55 per cent, 43 per cent and 38 per cent export loss vis-à-vis Russia, respectively, but Germany, Italy, Poland and France are, however, the countries that have lost the most in nominal terms with EUR 8.5, 2.4, 1.9 and 1.8 billion less exports, respectively.

Conversely, Slovenia, Luxembourg and Romania are the countries that have lost the least since 2013 – experiencing decreases in their exports by 28 per cent. The lowest nominal losses belong to Cyprus (EUR 15 million), Malta (EUR 31 million) and Luxembourg (EUR 44 million). Similarly, looking at the 12 months immediately after sanctions does not lead to very different results. Latvia, Slovenia and Luxembourg are the three countries that lost the least in exports to Russia in the year following the imposition of sanctions with drops between 10 per cent and 15 per cent. In nominal terms, Malta, Cyprus and Luxembourg occupy the top of this ranking with losses of EUR 3, 9 and 21 million, respectively. Table 2 below presents a summary of changes in EU Member States' exports to Russia for both EXP-2YEAR and EXP-AFTER.

The finding that no EU Member State has gained from the imposition of sanctions on Russia is consistent with both the outcry of government leaders and the expectations of the literature, but the very different impact that sanctions has had on each EU member may have created winners and losers within the market (per economic sector). The answer to this is delivered by looking at EU Member States' exports divided according to SITC classification.

*H3 While certain EU Member State sectors have contracted after the imposition of sanctions, others have expanded.*

The SITC analysis reveals that while all exports for all EU members contracted after sanctions, certain economic sectors within specific EU members did go through an expansion phase that brought with it more business opportunities. It can be assumed that firms

Table 2: EXP-2YEAR and EXP-AFTER, both Relative and Nominal, for all EU Members Alphabetically

STATE	EXP-2YEAR		EXP-AFTER	
	%	Nominal*	%	Nominal*
Austria	-39.47%	-1,700	-20.76%	-839
Belgium	-40.59%	-2,076	-24.48%	-1,091
Bulgaria	-31.98%	-186	-18.70%	-105
Croatia	-29.61%	-84	-18.26%	-53
Cyprus	-63.05%	-15	-55.10%	-9
Czech Republic	-35.97%	-1,609	-23.92%	-1,037
Denmark	-52.31%	-817	-36.11%	-491
Estonia	-45.19%	-638	-30.70%	-408
Finland	-41.11%	-2,203	-25.92%	-1,300
France	-41.26%	-3,186	-25.54%	-1,802
Germany	-39.00%	-13,957	-26.53%	-8,641
Greece	-47.52%	-193	-28.55%	-106
Hungary	-40.39%	-1,020	-22.55%	-505
Ireland	-42.16%	-267	-42.51%	-317
Italy	-34.01%	-3,663	-23.68%	-2,415
Latvia	-29.10%	-512	-10.58%	-174
Lithuania	-35.53%	-1,730	-21.73%	-1,096
Luxembourg	-28.07%	-44	-15.80%	-21
Malta	-91.07%	-32	-38.09%	-3
Netherlands	-39.37%	-3,132	-22.34%	-1,533
Poland	-36.76%	-2,982	-24.24%	-1,857
Portugal	-39.97%	-105	-30.30%	-72
Romania	-28.38%	-392	-19.32%	-286
Slovakia	-40.24%	-1,028	-29.98%	-735
Slovenia	-27.65%	-329	-14.30%	-162
Spain	-40.65%	-1,144	-29.18%	-794
Sweden	-42.44%	-1,158	-26.49%	-690
United Kingdom	-28.64%	-1,337	-18.67%	-838

\* In million EUR

and companies operating in certain EU members did enhance their market position or have more business opportunities; therefore, sanctions did create winners and losers even though the overall impact on exports is negative.

The comparison between the levels of export in 2013 and 2015 confirms that there are winners in each sector. Considering the share of exports, there are countries that began to export after 2013, others who remained unaltered and others who were severely affected by sanctions being imposed. For instance, Malta exported almost EUR 4 million in SITC 5 in 2015 – while its level in 2013 was only EUR 0.4 million. Cyprus increased its exports in SITC 4 by over 4,000 per cent and Croatia increased its exports in SITC 2 by 1,400 per cent in 2015 compared to 2013.<sup>6</sup> At the same time, the Czech Republic in SITC 0,

<sup>6</sup> It is acknowledged that data on countries with smaller trade volumes can be noisier. Indeed, small nominal trade flows can be considerably higher (or lower) than in the past. However, the positive/negative trend needs to be considered when assessing winners and losers.

Romania in SITC 2 and Slovakia in SITC 8 did not show any significant change in exports from 2013 to 2015.

Looking at the nominal increase also reveals this pattern. The largest increase of all belongs to Lithuania in SITC 5 (plus EUR 85 million), which led the ranking alongside other winners such as Germany (SITC 9, plus EUR 63 million) and Belgium (SITC 1, plus EUR 54 million). As mentioned above, the overall decrease is significantly larger than the gains recorded in specific SITC sectors. For instance in SITC 7, Germany's exports to Russia fell by EUR 9.5 billion, the Netherlands' by EUR 1.9 billion and France's by EUR 1.7 billion. Significant losses were also experienced by Germany and Italy in SITC 8 (respectively, minus EUR 1.5 billion and EUR 1.4 billion), and by Germany again in SITC 5 and SITC 6 (respectively, minus EUR 1 billion and EUR 900 million). Other countries recorded important losses as well, such as Poland and Lithuania in SITC 0 (respectively, minus EUR 900 million and EUR 800 million). At the same time, there are also countries that have not experienced much change in their export levels to Russia – such as the Czech Republic in SITC 0, Romania in SITC 2, Austria in SITC 3, Hungary in SITC 6 and Spain in SITC 9.

The change from the year prior to the imposition of sanctions to the year immediately after leads to similar results, but with the emphasis placed on different countries instead of sectors. The most significant winners in relative terms appear to have been Croatia and Malta, with increases of 1,638 per cent and 1,856 per cent in SITC 2 and SITC 5. Other beneficiaries have been France in SITC 9 and Croatia in SITC 1, with 400 per cent increase for each since 2013. Among the biggest losers have been Cyprus (SITC 0, 1 and 4) and Hungary (SITC 4 and 9), with almost zero exports made to Russia in 2015. Others are Denmark in SITC 4 (minus 97 per cent), Malta in SITC 1 (minus 93 per cent) and Greece in SITC 0 (minus 84 per cent). At the same time, there were countries that remained almost uninfluenced by sanctions as they did not see their export share to Russia change – as shown by the cases of Slovenia in SITC 0, Sweden in SITC 1 and SITC 9, the United Kingdom in SITC 2, Latvia in SITC 3, Croatia in SITC 5 and Hungary in SITC 6.

This finding is confirmed by the absolute change in exports to Russia in the twelve months after the decision of the Council to resort to restrictive measures. In value terms, the highest increase occurred in SITC 9 for Germany (EUR 53 million), followed by Belgium in SITC 1 (EUR 49 million) and Lithuania in SITC 5 (EUR 30 million). At the bottom of the list are the countries that had a large export share in SITC 7, so Germany again (minus EUR 6 billion), followed by Italy and France (minus EUR 900 million). Italy also lost EUR 800 million in SITC 8, while Lithuania's exports in SITC 0 dropped by EUR 750 million. The yearly change has been marginal for Slovenia in SITC 0 and 9, Sweden in SITC 1, the UK in SITC 2, Lithuania in SITC 4, Italy in SITC 5 and for Latvia in SITC 8.

As with any other public policy, sanctions create winners and losers, impacting each EU Member State differently. This finding is counter-intuitive as several countries lamented the economic cost borne as a result of the sanctions on Russia. Having analyzed export flows to Russia, the next section thus assesses the winners and losers among EU Member States.

#### **IV. Winners and Losers from EU Sanctions on Russia**

Despite the fact that sanctions have contributed to the deterioration of EU–Russia relations, it has been shown that certain EU members have suffered more than others.

Looking at the aggregate export data suggests that Malta, Cyprus, Germany and Italy are the countries that have suffered the most. In relative terms Malta lost almost 90 per cent of its exports to Russia in 2015 (compared to 2013), 40 per cent of which took place in the 12 months following the imposition of sanctions. At the same time the top nominal loss belongs to Germany, whose exports to Russia decreased by 14 EUR billion in 2015 compared to 2013 – of which EUR 9 billion came in the 12 months following the imposition of sanctions. The three best and worst performing EU member states are summarized in Table 3 below.

Alternatively, winners and losers can be identified at the sub-national level by looking at the sectorial export trend after the imposition of sanctions. It is assumed that a sectorial expansion resulted in more business opportunities for firms located within a certain EU Member State, therefore a specific EU Member State is defined as a ‘winner’ when the export volume in a given SITC category increased. Instead, if sectorial exports went down, then the EU Member State is classified as a ‘loser’. This evaluation is based on the two indicators stipulated above, EXP-2YEAR and EXP-AFTER. Countries were ranked in each SITC sector according to the relative (per cent) and absolute (nominal) variation, so there are ten rankings for four indicators in total. The assessment is based on counting the number of times one country is among the three best- and worst-performing ones in the 40 rankings. Countries are ranked only when there is an increase in exports for ‘winners’, therefore it can occur that there are fewer than three winners in any given ranking. The cumulative results lead to a classification ranging from the most affected to the least affected by EU sanctions on Russia. The full list is presented in the online Appendix 1 (EXP-2YEAR) and Appendix 2 (EXP-AFTER) available at the publisher’s website.

Focusing on the best performing, Greece and Luxembourg turned out to be the EU members that most frequently (15 and 9 times) occupied one of the three highest positions for the ranking in the four indicators used. The other countries that performed better are Bulgaria, Cyprus and Sweden (8 times among the best three). Greece was at the top of the ranking in EXP-2YEARS for SITC 3 and 9, while Luxembourg was first in SITC 1 for EXP-2YEARS and in SITC 8 for EXP-AFTER.

Conversely, Germany is the country that most often (13 times) appeared among the three worst-performing countries. The other two countries are Italy (10 times) and Finland (9 times). Germany was not the biggest loser in terms of shares of its exports, but given the large trade volume with Russia it appears to have been the largest loser in nominal terms in SITC 4, 5, 6, 7 and 8 since 2013. Italy has also suffered in these sectors, and it was the largest loser in the 12 months following the imposition of sanctions in SITC 1 and in SITC 8. Finland was hit the hardest in SITC 3 and SITC 2 after the Netherlands only. Figure 3 shows the best and the worst performing EU member states.

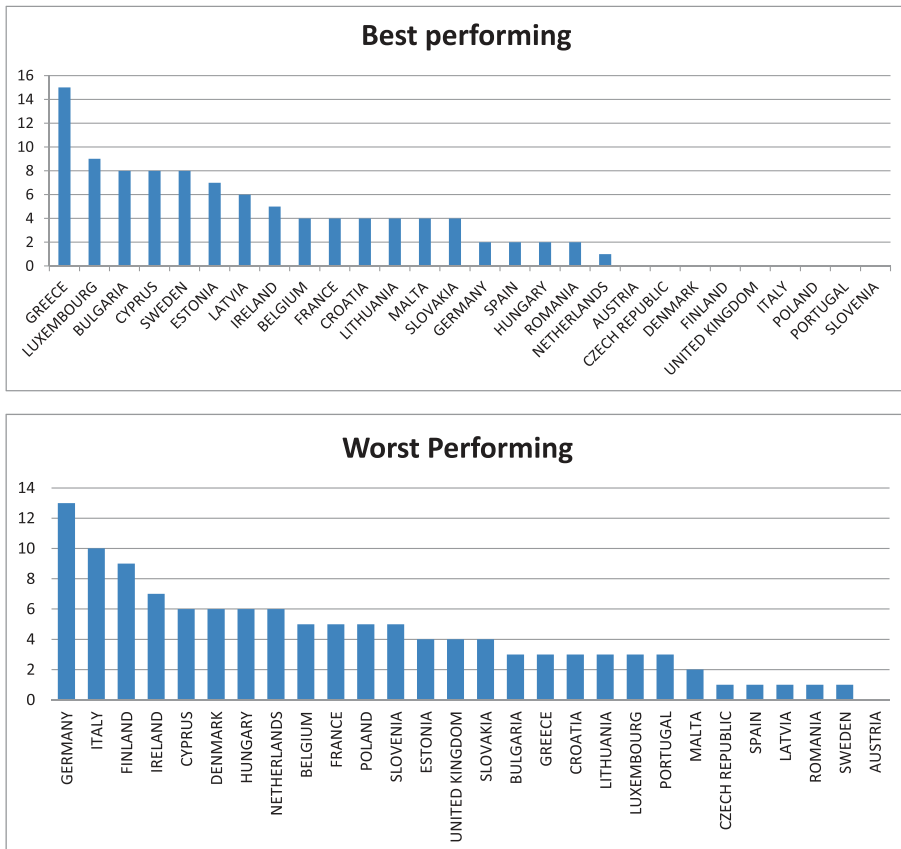
The comparative assessment of how the 28 EU Member States were affected by the sanctions on Russia was carried out by subtracting the number of times a country was on the losing side from the number of times it was identified as a winner. The country that was hit the hardest appears to be Germany (aggregate score of  $-11$ ), and the country that was least affected is Greece (aggregate score of  $+12$ ). The overall picture also shows that the impact of EU sanctions has affected most of its members (26 out of 28), and that winners and losers are equally distributed across the Union. Austria and Slovakia are the only countries who received an aggregated value of 0 (meaning that the number of times they

Table 3: Three Best and Worst Performing EU Member States for EXP-2YEAR and EXP-AFTER, both Relative and Nominal

	EXP-2YEAR			EXP-AFTER		
	STATE	%	Nominal*	STATE	%	Nominal*
Best	SLOVENIA	-27.65%	-15	LATVIA	-10.58%	-3
	LUXEMBOURG	-28.07%	-32	SLOVENIA	-14.30%	-9
	ROMANIA	-28.38%	-44	LUXEMBOURG	-15.80%	-21
Worst	MALTA	-91.07%	-13,957	CYPRUS	-55.10%	-8,641
	CYPRUS	-63.05%	-3,663	IRELAND	-42.51%	-2,415
	DENMARK	-52.31%	-3,186	MALTA	-38.09%	-1,857

\* In million EUR

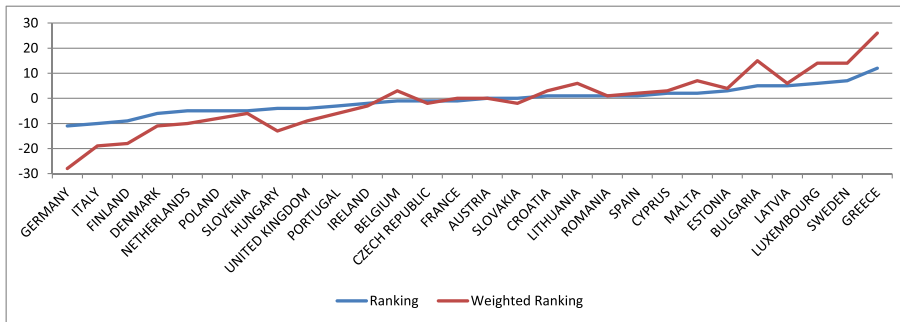
Figure 3: Ranking for Number of Times a Country is Ranked in the First Three Places. [Correction added on 02 May 2017 after first online publication: In Figure 3, SLOVAKIA was previously missed out and this has been added in this version]. [Colour figure can be viewed at [wileyonlinelibrary.com](http://wileyonlinelibrary.com)]



were the best in one sector was equalled by the number of times they were among the worst three performers in other ones). There are 12 countries who receive an overall positive aggregate score, whereas 14 receive a negative score. To be sure, receiving a positive score does not mean a country has benefitted from sanctions. Instead, it indicates that while sanctions have contributed to a reduction in the exports to Russia for the entire country, certain sectors still managed to grow and expand their exports even after sanctions were imposed. Setting a threshold of  $\pm 5$  for countries who could be categorized as unaffected by sanctions, there are three winners (Greece, Sweden and Luxembourg) and four losers (Germany, Italy, Finland and Denmark). Figure 4 below summarizes the aggregated score per country.

This evaluation has considered the first three positions in each SITC sector as equally important, but assigning different weights does not radically change the final evaluation. Instead of counting the number of times an EU member was ranked among the top three

Figure 4: General and Weighted Ranking (Wins Minus Losses). [Colour figure can be viewed at [wileyonlinelibrary.com](http://wileyonlinelibrary.com)]



performers, three points were assigned when a member was first, two points if it was second and only one point for being third. The final ranking reveals minor interesting differences. First, Greece leads the ranking (31 points) and it is followed by Bulgaria (19) and Cyprus (19). On the loser side, Germany comes first (33 points) – and it is followed by Italy (19) and Finland (18).. Once again, the overall picture if both rankings are considered suggests that Greece, Luxembourg, Sweden together with Bulgaria have been the least affected by sanctions; Germany, Italy and Finland have been the most affected.

## Conclusions

The concerns expressed by several EU leaders regarding the cost of the restrictive measures imposed on Russia were justified. The problems affecting the world economy and the domestic system in Russia notwithstanding, sanctions appear to have accelerated the worsening of that country's economic ties with the EU as a whole. This research has looked at EU exports to Russia and tested three hypotheses based on the theory that sanctions, as with many other public policies or events, have not only an aggregate effect but also a redistributive one. The analysis of export flows from EU Member States to Russia provides empirical support for this theory.

All EU countries have experienced a reduction in their exports to Russia since sanctions were imposed, but certain countries have paid a higher toll than others. The analysis of the export data suggests that Slovenia lost only 28 per cent of its exports in 2015 compared to 2013, while Malta and Cyprus recorded much worse performances (minus 91 per cent and 63 per cent, respectively). Whereas Malta's exports to Russia contracted by EUR 3 million in the year immediately after sanctions were imposed, Germany's fell by EUR 8.5 billion and Italy's by EUR 2.4 billion. Acknowledging that export flows can also be influenced by factors other than sanctions, the data indicate that only certain EU Member States have suffered heavily from the restrictive measures imposed after the crisis in Ukraine.

In addition, not all economic sectors were affected negatively. Instead, firms and companies operating in certain countries have had more business opportunities since the



imposition of sanctions. While the volume of exports in all SITC sectors was lower in 2015 than in 2013, SITC 9 (Commodities and Transactions not classified elsewhere) increased by 5 per cent in the year after sanctions were imposed. While certain SITC sectors dropped considerably in 2015 as compared to 2013 (SITC 4, Animal and Vegetable Oils, Fats and Waxes, by almost 80 per cent), others performed much better (SITC 1, Beverages and Tobacco, lost only 30 per cent). This context contributed to creating winners and losers across the EU as companies and firms located in certain Member States and operating in specific sectors enhanced their market share relative to their competitors located in other EU members. For instance, exports to Russia in SITC 5 (Chemicals and Related Products, N.E.S.) skyrocketed for Malta from EUR 400,000 in 2013 to EUR 3.2 billion in 2015. Similarly, Lithuania's exports in SITC 5 increased in 2015 by EUR 84 million and Belgium's exports increased in SITC 2 (Crude Materials, Inedible, Except Fuels) by EUR 54 million.

There are several factors that can explain these winners and losers. First, certain countries were engaged more intensively than others in trade with Russia in sectors that were directly hit by sanctions – such as dual-use technology and agricultural products. Second, certain countries have suffered more because their geographical proximity to Russia favours trade therewith. Third, some EU members were more interdependent in sectors that were indirectly affected by sanctions – such as the financial measures that hit particularly Russian banks. Certainly, these reasons can partly explain also why certain EU members were the 'winners', but not the only ones. For instance, the depreciation of the rouble, to which the imposition of sanctions also contributed, favoured EU members with lower wages; also, the reduced oil price worked in favour of those EU members that were most dependent on Russian energy supplies. An additional explanatory factor for export increase is the uneven implementation of EU sanctions across its member countries. Thus, while certain goods would not receive an export license in some EU members, they would receive it in others. Since EU legislation has been implemented unevenly in the past, this factor cannot be disregarded *a priori*. However, these explanations are only tentative as this article has focused on identifying winners and losers from the EU sanctions imposed on Russia rather than on explaining the causes of such performances. As such, a full-fledged discussion will have to be the focus of future studies.

This research has shed light on who is bearing the cost of the sanctions imposed on Russia, and also on the EU Member States wherein sanctions not only implied costs but also created opportunities for their firms and companies. While the overall assessment is generally a negative one, the impact of sanctions on the economies of EU Member States has been mixed. Whereas some EU members such as Germany, Italy, Finland and Hungary can claim to have been hit hard by sanctions, others such as Luxembourg, Greece and Sweden can less clearly do so. It is noticeable that economic impact does not seem to explain foreign policy decisions across the EU when it comes to the sanctioning policy on Russia. For instance, Greece has been critical of EU sanctions, but it nevertheless appears to be on the winners' side of the story. At the same time, while Germany has been supportive of sanctions it appears to be on the losers' side. This article contributes to the debate on the relationship between economic cost and foreign policy preferences, and it constitutes the first attempt to do so with the case of sanctions. However its chosen path is only one of several possible new avenues for research that would

enhance our understanding on sanctions' cost. Further research should ask why sanctions have had an uneven impact on different EU members and whether trade expansion was the intended outcome of the winners' leadership. Finally, the findings of this article also lead to awareness of the need for further investigation of how sanctions affect the individual situations of firms and companies. For instance, a micro analysis of EU–Russia sanctions would lead to the discovery of which sanctions regime – EU on Russia or Russian countermeasures – had the highest impact, and how this impact (or the lack thereof) affected the domestic preferences of EU Member States.

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