



# Key Elements of Sanctions and Support to Address Russian Aggression in Ukraine

By Vikram Singh and Ken Sofer    March 26, 2014

Russia's military occupation and annexation of the Ukrainian region of Crimea undermines the rules, norms, institutions, and legal frameworks that have been the backbone of the international order since World War II and is a test of the international system's ability to respond. Earlier this month, the Center for American Progress argued that the United States must impose a cost on Russia and provide strong, lasting support for Ukraine while reassuring allies and reinforcing the international system.<sup>1</sup> Both the United States and Europe have taken small but important steps toward these goals, including an initial set of sanctions against political and business leaders close to Russian President Vladimir Putin and one government-connected bank, as well as a total pledge of \$16 billion in aid, mostly in the form of loan guarantees.<sup>2</sup> This should be the start of a coordinated international response that will reject Russia's illegal actions and reinforce states on Russia's periphery that seek peace, stability, and greater integration with the international community.

This week's congressional deliberations and meetings between President Barack Obama and his counterparts in Europe should lay the groundwork for a U.S. response that simultaneously imposes sanctions on Russia and provides support to Ukraine. The following elements should be included in each track of this strategy:

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## Five elements of sanctions on Russia

1. **Steadily expand sanctions** to include the leadership of Russian state-owned enterprises, arms companies, the Central Bank, the Ministry of Foreign Affairs, the Russian Armed Forces, and additional leaders of United Russia Party and the Kremlin. As with previously announced sanctions, these would freeze assets in U.S. banks, impose a travel ban to the United States, and forbid American firms and citizens from doing business with the sanctioned Russian individuals. The expansion of sanctions should be synchronized with governments in Europe and other parts of the world and continue unless Russia can reach a mutually acceptable diplomatic resolution with the government in Ukraine.

2. **Encourage American companies to divest** from Russian assets and businesses, including through financial regulatory tools. U.S. and other international financial regulators must no longer tolerate the cronyism and kleptocracy that has made Russia one of the most corrupt countries in the world.<sup>3</sup> In the United States, the Department of Justice and the Securities and Exchange Commission should more rigorously ensure compliance with the Foreign Corrupt Practices Act.<sup>4</sup> Similarly, the Internal Revenue Service should carefully inspect and audit Russian assets to ensure compliance with all U.S. tax laws.
3. **Cancel sales of arms and dual-use technologies to Russia.** The United States should work cooperatively with partners to discourage providing arms or sensitive technology to Russia. Most importantly, France should halt its contract to sell two Mistral carriers to the Russian Navy.<sup>5</sup>
4. **Limit Russia's global influence.** The Group of 8 leading industrialized nations has informally reverted back to a Group of 7, or G-7, excluding Russia from its discussions. This informal rejection should continue. The United States and Europe should also oppose Russian membership in the Organization for Economic Co-Operation and Development, or OECD, and the International Energy Agency, or the IEA. The United States can also erode Russia's recently acquired trade benefits from its accession to the World Trade Organization, or WTO, through aggressive cases against Russian trade violations. If the crisis in Ukraine expands into a series of consistent Russian violations of international law, the United States could consider invoking security exceptions under Article XXI of the 1947 General Agreement on Tariffs and Trade to exempt the U.S. government from its WTO obligations to Russia.<sup>6</sup>
5. **Heavily scrutinize Russia's compliance with anti-money-laundering laws.** Even without passing any additional sanctions legislation, U.S. and European governments can tie up Russian assets through stricter enforcement of existing laws on money laundering, organized crime, and trade violations. The United States can also press the Financial Action Task Force, or FATF—an international organization to combat money laundering—to highlight Russia's deficiencies in Anti-Money Laundering and Combating the Financing of Terrorism, a step that could deter foreign financial institutions from engaging with Russian banks.

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## Five elements of support for Ukraine

1. **Expedite the \$1 billion loan guarantee** pledged by the United States and the \$15 billion in aid pledged by the European Union.<sup>7</sup> Both pledges are crucial to support the Ukrainian economy and will only be effective if delivered promptly. U.S. and European officials should immediately begin consulting with the interim Ukrainian government on an action plan for the delivery of pledged aid and clarify a public timetable for deployment.

2. **Create a “Friends of Ukraine” group and authorize direct economic and security assistance** through a supplemental appropriation if necessary. Ukraine faces major problems of corruption and weak governance, and the United States—in conjunction with the European Union, the International Monetary Fund, or IMF, and the World Bank—should help address those challenges with reform-focused budget support and technical assistance. The U.S. aid package should include non-lethal security assistance through International Military Education and Training and non-lethal equipment to help professionalize and train the Ukrainian military. Beyond the offsets already identified by Congress, additional aid could come out of the \$85.2 billion of Overseas Contingency Operations funds for fiscal year 2014.\* Congress is currently considering an aid package of \$150 million to Ukraine, which is inadequate to address the economic and security challenges Ukraine currently faces.<sup>8</sup> Congress provided \$557 million in direct assistance to support Georgia—a country one-tenth the size of Ukraine—after Russia invaded South Ossetia and Abkhazia in 2008.<sup>9</sup> U.S. direct assistance to Ukraine should be at least as substantial and should be matched or exceeded by the European Union.
3. **Restructure Ukrainian debt** at the IMF meeting in April. Ukraine is currently due to repay \$3.7 billion to the IMF this year.<sup>10</sup> During this period of transition, the Ukrainian government urgently needs its existing funds for other priorities. The existing debt can be restructured to extend the repayment timeline or repackaged into a new proposal by the IMF that would lend additional funds to Ukraine in exchange for a series of economic reforms.
4. **Pass the stalled IMF reform package into law with sanctions and aid legislation.** The IMF reforms that were negotiated in 2010 and are currently stalled in Congress would increase Ukraine’s borrowing potential by \$6 billion to a total of \$18.6 billion over the next three years.<sup>11</sup> These reforms are a key next step in modernizing the IMF to make it more responsive and effective while enhancing U.S. leadership. Congress should act to approve the reforms before the next IMF meeting in April.
5. **Support the Organization for Security and Cooperation in Europe, or OSCE, mission to Ukraine.** The United States and other OSCE members should provide strong support to the OSCE Mission to Ukraine to help the new Ukrainian government promote human rights, good governance, and freedom of the press and protect civil rights for the Russian-speaking minority population. The OSCE should advise Ukraine to ensure that elections can be held in a free, fair, and inclusive manner.

As the United States and Europe lead the international community in pursuing these steps, Western leaders should be clear-eyed and prepared for the effects of sanctions that will hurt not only Russia, but also Europe and the world economy. They may cost Russian support on issues ranging from Iranian nuclear negotiations to Syria, from the Northern Distribution Network out of Afghanistan to counterterrorist financing. Moscow may

respond to these steps by using its energy resources as a political tool to punish Europe and Ukraine as it did in 2006 and 2009.<sup>12</sup> Europe's continued dependence on Russian natural gas highlights the need for a long-term strategy to diversify its energy supply away from Russian-owned companies, as CAP recommended earlier this month.<sup>13</sup>

And unconditional support for the interim Ukrainian government poses its own risks. The interim leadership is not representative of the Ukrainian population and includes far-right elements that could be further empowered by early elections. Assistance from the United States and Europe should be met with a pledge by Ukraine's elite, including the many billionaires who have been appointed to government posts, to support the IMF reforms and to protect the rights of all Ukrainians, particularly ethnic Russians.

These are costs and risks the United States and its partners must manage in order to support a global order that rejects the annexation of territory by force.

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**\*Correction, March 26, 2014:** *This fact sheet incorrectly stated the year and amount appropriated for Overseas Contingency Operations funds. In fiscal year 2014, the appropriated amount is \$85.2 billion.*

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## Endnotes

- 1 Ken Sofer, "Concrete Steps to Address the Crisis in Ukraine" (Washington: Center for American Progress, 2014), available at <http://www.americanprogress.org/issues/security/report/2014/03/12/85775/concrete-steps-to-address-the-crisis-in-ukraine/>.
- 2 Michael R. Gordon and Steven Erlanger, "U.S. Effort to Broker Russia-Ukraine Diplomacy Fails," *The New York Times*, March 5, 2014, available at <http://www.nytimes.com/2014/03/06/world/europe/ukraine.html>.
- 3 Transparency International, "Corruption Perceptions Index 2013," available at <http://cpi.transparency.org/cpi2013/results/> (last accessed March 2014).
- 4 United States Department of Justice, "Foreign Corrupt Practices Act," available at <http://www.justice.gov/criminal/fraud/fcpa/> (last accessed March 2014).
- 5 Stacy Meichtry, "France May Cancel Mistral Warship Contract for Russia," *The Wall Street Journal*, March 17, 2014, available at <http://online.wsj.com/article/BT-CO-20140317-711663.html>.
- 6 World Trade Organization, "The General Agreement on Tariffs and Trade (GATT 1947)," available at [http://www.wto.org/english/docs\\_e/legal\\_e/gatt47\\_02\\_e.htm](http://www.wto.org/english/docs_e/legal_e/gatt47_02_e.htm) (last accessed March 2014).
- 7 Michael R. Gordon, "Kerry Takes Offer of Aid to Ukraine and Pushes Back at Russian Claims," *The New York Times*, March 4, 2014, available at <http://www.nytimes.com/2014/03/05/world/europe/secretary-of-state-john-kerry-arriving-in-kiev-offers-1-billion-in-loan-guarantees-to-ukraine.html>; Alanna Petroff, "EU offers \$15 billion in aid to Ukraine," *CNNMoney*, March 5, 2014, available at <http://money.cnn.com/2014/03/05/news/economy/ukraine-europe-aid/>.
- 8 Kathleen Hunter, "Senate Reaches Deal on Ukraine Aid Omitting IMF Provision," *Bloomberg*, March 25, 2014, available at <http://www.bloomberg.com/news/2014-03-25/senate-reaches-deal-on-ukraine-aid-omitting-imf-provision.html>.
- 9 Jim Nichol, "Georgia [Republic]: Recent Developments and U.S. Interests" (Washington: Congressional Research Service, 2013), available at <http://www.fas.org/sgp/crs/row/97-727.pdf>.
- 10 Ukrinform, "Ukraine will pay USD 3.72 billion to IMF in 2014," January 29, 2014, available at [http://www.ukrinform.ua/eng/news/ukraine\\_will\\_pay\\_usd\\_372\\_billion\\_to\\_imf\\_in\\_2014\\_316693](http://www.ukrinform.ua/eng/news/ukraine_will_pay_usd_372_billion_to_imf_in_2014_316693).
- 11 For a concise explanation of how the IMF reform package will increase Ukraine's borrowing eligibility, see Nancy Birdsall, "Huh? Stalled IMF Package Would Help Ukraine More Than Ukraine Legislation Will Help Ukraine," Center for Global Development, March 18, 2014, available at <http://www.cgdev.org/blog/huh-stalled-imf-package-would-help-ukraine-more-ukraine-legislation-will-help-ukraine>.
- 12 Jon Henley, "Is Europe's gas supply threatened by the Ukraine crisis?," *The Guardian*, March 3, 2014, available <http://www.theguardian.com/world/2014/mar/03/europes-gas-supply-ukraine-crisis-russia-pipelines>.
- 13 Sofer, "Concrete Steps to Address the Crisis in Ukraine."