Action Plan 3.0

Strengthening Sanctions Against the Russian Federation

Working Group Paper #19

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https://fsi.stanford.edu/working-group-sanctions
The International Working Group on Russian Sanctions aims to provide expertise and experience to governments and companies around the world by assisting with the formulation of sanctions proposals that will increase the cost to Russia of invading Ukraine and that will support democratic Ukraine in the defense of its territorial integrity and national sovereignty. Our working group is comprised of independent experts from many countries. We coordinate and consult with the Government of Ukraine and those governments imposing sanctions. This consultation process helps to inform our views, but our members express independently held opinions and do not take direction from or act at the behest of the Government of Ukraine or any other government, person, or entity. All members of this working group participate in their individual capacity.
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1. Sanctions to Help End Russia’s War

Two years ago, in response to Russia’s brutal invasion of Ukraine, we formed the International Working Group on Russian Sanctions. The goal of this group is to provide the world with ideas on sanctions that will reduce the resources of the Russian Federation and thereby hasten the end of Russia’s invasion of Ukraine. Tragically, over two years later, the Russian leader Vladimir Putin still has the means to continue his war and brutal occupation of parts of Ukraine.

Over the last year, Ukraine has struggled to strengthen its defense capabilities and rebuild its economy, particularly the shattered energy sector. Delays in Western military support and the subsequent deficit in artillery munitions and air defense missiles, compounded by the inherent challenges in rapidly scaling up Ukraine's military production capabilities amid ongoing war and lacking support, have caused Ukraine’s army to now fight largely on the defensive. In the meantime, Russia has regained its momentum. But it would be incorrect to say that Ukraine is losing the war. Russia after all controls far less Ukrainian territory than it did in 2022. Putin has also not achieved many of the other war aims that he had declared on multiple occasions, including the removal of President Volodymyr Zelenskyy and his government, “demilitarization of Ukraine,” and “stopping NATO expansion.”

At the same time, Ukraine has not achieved its war aims either — the liberation of all Ukrainian territory and an end to this war. To help Ukraine achieve these objectives, the democratic world must do more by first and foremost, providing more and better weapons to the Ukrainian Armed Forces. The new $61 billion aid package signed into law by President Joseph Biden in April 2024, coupled with the recent launch of the €50 billion four-year European economic support program for Ukraine and pledges to provide more military aid, will
provide a new and much-needed surge in Ukraine’s economic and military capacities. In parallel, the sanctions coalition needs to escalate the sanctions efforts to ensure the strongest possible advantage for Ukraine in economic and military terms.

Significant sanctions have already been imposed on Russia, for which the sanctions coalition should be applauded. Sanctions have had a major impact on the Russian economy and have constrained Russia’s military and financial capabilities. In particular, the international sanctions coalition – around 50 countries – has substantially reduced Russian export markets and revenues. In addition, the Kremlin’s inability to access roughly $300 billion in central bank reserves has dramatically limited its policy maneuvers.

But more efforts are needed. Weak implementation of existing sanctions has contributed to Russia’s ability to generate higher revenues from oil exports. To evade the price cap, Russia assembled a shadow fleet of aging, poorly maintained, and dubiously insured oil tankers, which has increased oil spill risk for coastal communities globally.¹ Weak implementation of sanctions has also enabled Russia to bolster its military production. Extensive use of Western components in its military industry, sourced through a network of agents, has allowed Russia to increase missile and drone production. By exploiting loopholes in the sanctions regime and the negligence or complicity of Western companies, Russia has continued to import Western equipment and technology. Despite an extensive sanctions regime and isolation from international financial markets, Russia found additional defense spending and increased its stockpile of weapons by engaging partners like Iran and North Korea. All these have in turn led to increased attacks on Ukraine, creating a critical situation in Ukraine’s energy sector.

This is a sober description of facts, not despair. The implementation of existing sanctions needs to be more effective, and more sanctions with tougher, longer-term economic

¹ See the discussion on the risks of the oil spills due to the shadow fleet on Craig Kennedy’s Substack “Navigating Russia”
implications for Russia should be imposed to help end this war. Specifically, the sanctions coalitions should:

- **Confiscate Frozen Russian Assets Abroad** to fund military and financial aid for Ukraine for the duration of the war.

- **Impose New Sanctions on Russian Exports** to undermine Russia’s ability to fund the war. Specifically, we propose (1) extending sanctions to cover pipeline gas, LNG, nitrogen fertilizers, and metals like nickel; (2) tightening sanctions, including a full embargo on uranium, aluminum, and steel products; (3) imposing across-the-board tariff on all remaining imports from Russia; and (4) enforcing the oil price cap, including through sanctions for using Western maritime services and shipping Russian oil above the oil price cap. Once credible price cap compliance has been achieved, the oil price caps should be lowered by $10/barrel, meaning a crude oil price cap of $50/barrel. Regarding the critical oil and gas sector, we propose restricting Russia’s access to Western oil and gas software applications hosted outside of Russia and introducing a comprehensive ban on exporting oil and gas technologies and services to Russia.

- **Introduce Import Tariffs on All Remaining Russian Exports.** The West no longer applies the Most Favored Nation tariffs to Russia, and the allowed WTO-bound tariffs are very high.

- **Strengthen Technology Bans**, including tighter restrictions on Russian access to microelectronics, Computer Numerical Control (CNC) machines, software, and components used in the defense sector. We suggest recreating the Coordinating Committee for Multilateral Export Controls (CoCom), established by the Western Bloc.
in the first five years after the end of World War II, during the Cold War, to impose a technology embargo on Comecon countries.

- **Tighten Financial Sanctions** by further restricting international financial transactions, squeezing liquidity and credit availability, and systematically applying full blocking sanctions on all Russian Banks and key financial institutions. Western banks in Russia should no longer be allowed to indulge in war profiteering by offering Russia a big loophole in financial sanctions.

- **Impose More Sanctions on Russian Companies** to reduce their ability to fund military operations, including especially key Russian firms in the energy and metals sectors. Specifically, this should include dominant companies in Russia, like Gazprom and Rosneft, vital to Russian government revenues and military operations. Rosatom must also be sanctioned.

- **Impose More Personal Sanctions**, including on all senior figures in the government and private sector who help finance and support Russia’s war. Personal sanctions should be coordinated and standardized. Preferably all major sanctioning jurisdictions — the U.S., the EU, the UK, Canada, Japan, Australia, New Zealand, and Switzerland — should coordinate their sanctions. They should also exchange information on why they are sanctioning a particular individual so that they can all defend their verdicts in court.

- **Prevent Lawyers from Enabling Sanctions Evasion.** Western lawyers help sanctioned individuals gain entry to lucrative Western markets by masking their identities through complex corporate structures and other tactics. American lawyers are especially attractive to sanctioned clients due to an extremely high level of confidentiality, lack of reporting, and client due diligence obligations.
- **Designate Russia as a Sponsor of Terrorism** to reinforce the legal and moral costs for countries that continue to trade with the aggressor.

- **Stop Western Companies Doing Business with Russia.** All Western companies should leave Russia for the duration of the war and should face sanctions if they continue to profit from operating in Russia or with Russian entities. This particularly applies to prominent Western companies, like Schlumberger and Raiffeisen, which have undermined the impact of sanctions in critical sectors such as finance and oil.

- **Strengthen Enforcement of Existing Sanctions.** This means providing (1) more resources for government agencies responsible for imposing and enforcing sanctions, and (2) sanctioning Western service providers, including law firms that facilitate sanction evasion.

- **Expand Secondary Sanctions.** Persons and companies in other countries — such as UAE, Turkey, Central Asia, the Caucasus, and China — that aid sanction evasion must be held accountable and be deterred from continuing to supply and support Russia’s war.

From this list of measures, the sanctions coalition should craft packages that fulfill **two critical strategic goals:**

**First, the sanctions coalition should put together a package of sanctions to dramatically reduce the economic resources that Putin can deploy to support his invasion of Ukraine.** We estimate that this requires measures that will reduce Russia’s export earnings by $70-80 billion per year, compared to 2023. Though this is a sizeable amount, it is less than what has been done so far. We propose a feasible and cost-effective package that is adequate to this
challenge: reduce Russian export revenues by (1) about $25 billion through enforcement of the current oil price cap; (2) about $25 billion through a package of further sanctions on LNG, pipeline gas, nitrogen fertilizer, nickel, and other metals and an across-the-board tariff on Russian exports; and (3) a further $25 billion through a $10/barrel cut in the oil price caps once the current oil price caps are credibly enforced.

Second, the West needs to implement export restrictions that can contain an expansionist and revisionist Russia, like during the Cold War. This should include a new multilateral organization, modeled after the Coordinating Committee for Multilateral Export Controls (CoCom) established during the Cold War, to manage all trade with Russia; systematic sanctions on critical Russian sectors, including energy, finance, and metals; a ban—with limited exemptions subject to special approval—on all Western companies operating in Russia or providing services to Russian persons, enforced in the first instance in the critical areas of defense, energy, and finance; and credible measures to tackle Russia’s networks of sanction evasion and disinformation.
2. Sanctions Imposed So Far

It is important to recognize how much has already been done on the sanctions front. The sanctions imposed against Russia are among the most extensive measures ever employed since World War II. They include:

- Creation of a sanctions coalition comprising around 50 countries, including the world’s most advanced market economies.
- Imposed sanctions on more than 1,500 Russian individuals as of writing in April 2024, including officials and people related to Putin, Russia’s leading oligarchs, bearing particular responsibility for the invasion and occupation, and executives, military leaders, propagandists, and affiliated individuals.
- The U.S. has imposed sanctions on more than 2,600 Russian companies and institutions; the EU on more than 3,700. These sanctions include many of the leading banks, defense firms, and transport companies.
- Sanctions on the Russian Central Bank, freezing around $300 billion of Russia’s Central Bank reserves, held under the jurisdictions of the sanctioning countries; a ban on transactions with Russian gold.
- Sanctions on some of Russia’s leading banks, ranging from a partial ban on access to Western capital markets and use of the SWIFT system to full bans, freezing banks’ assets and preventing them from doing any business with banks from the sanction coalition countries.
- A ban on Russian companies accessing Western capital markets and a ban on new investment in Russia by Western companies—a blanket ban by the U.S. and a more targeted ban on the extractive sector, including oil, gas, and mining, by the EU.
- Export bans prohibiting exports of goods and technologies in the defense and security sectors, as well as on oil refining, metals, and aerospace goods that could enhance Russian industrial capacities and dual-use goods; a ban on the export of luxury goods.

- Import bans, including a complete ban on oil, gas, and coal imports from Russia (U.S./UK), a complete ban on seaborne crude, many petroleum products and coal imports by the EU, as well as a commitment by the EU to completely end all Russian energy imports by 2027. Significant restrictions have also been imposed on a wide range of other imports, including bans on several steel and aluminum imports, as well as on Russian seafood, alcohol, gold, and diamonds.

- Withdrawal of “most favored nation” (MFN) status from Russia, which means higher and more discriminatory trade barriers and restrictions for remaining trade with Russia.

- Ban on providing a range of professional services to Russia, including quantum computing, architecture, engineering, auditing, IT, advertising, and even financial planning and advice for Russian oligarchs.²

- Ban on exports and re-exports of dual-use goods to Russia, i.e., civilian goods such as electronics and machine tools that can be used for military purposes.

- Introduction of a price cap on Russian oil sold to third countries and transported using Western shipping and/or insurance services, as well as an enforcement action against some companies and tankers that have violated the price cap or otherwise operated in the maritime sector for the benefit of the Russian state.

- Flight ban by 36 countries, closing their airspace to Russian flights.

- Ban on access to EU ports for Russian-flagged vessels, and an EU ban on transit and transportation of Russian goods by road, with some exceptions.

This is an impressive and wide-ranging list of sanctions. However, existing sanctions on Russia are still less severe than the energy sanctions levied on Iran during 2011-2013, which restricted Iran to receiving oil payments only through a controlled escrow account. Similarly, countries identified as State Sponsors of Terrorism face harsher measures than Russia. Russia’s position as a permanent member of the UN Security Council allows it to block broad UN sanctions imposed on North Korea and Iraq. Moreover, the West to date has adopted rather targeted, not broad, sanctions to minimize potential adverse effects on third countries and the general welfare of the Russian populace.
3. The Impact of Sanctions So Far

The Russian political and economic system has many resilient attributes that have reduced the impact of Western sanctions to date:

**Size.** The Russian economy is large, and larger economies can withstand sanctions better than smaller targets.

**Natural Resources.** Russia has an abundance of natural resources—oil, gas, coal, metals, wheat, diamonds, critical materials—that enjoy a high global demand. Since the year 2000, Russia, the world’s largest commodity exporter during the greatest commodity boom ever seen, has earned over $13 trillion (in 2023 US dollars) from export earnings, including oil and gas export earnings of over $10 trillion (in 2023 US dollars). This bounty has underpinned Putin’s regime, enriched his loyalists, facilitated internal repression, and is now financing his war of aggression against Ukraine. Putin’s decision to invade Ukraine in 2022 initially led to an increase in the price of these commodities. A country with fewer raw materials to export and more reliance on trade in manufactured goods would have suffered greater economic disruption.

**Partners.** Russia has partners—notably China, Turkey, UAE, and countries in Central Asia and the Caucasus—that have helped (or been instrumental) circumvent sanctions. Russia has developed networks to obtain dual-use Western goods, which it uses in its military-industrial complex, in roundabout ways.

**Dictatorship.** Russia has radically increased state control over public life since invading Ukraine, closing nearly all independent media outlets and imprisoning opposition leaders and those speaking out against the war. This allows the Kremlin to implement decisions rapidly, without undergoing democratic legal and political processes, and raises the costs of
opposing the war among the Russian public. As a result, Russia’s government faces less opposition from public opinion than a more democratic regime would. Further, Russia has state control over the financial and energy sector; most significant, supposedly “private” economic actors in Russia have in fact obtained or maintained their control over property through a personal relationship with Putin and his cronies. Therefore, they are dependent on him and in no position to pressure Putin to change his policies. With rare exceptions, such as Oleg Tinkoff and Arkady Volozh, few have shown the courage to denounce the war publicly.

**Military.** Russia is one of the few countries—alongside the U.S. and China—to have an almost fully-operational military-industrial complex, which it inherited from the Soviet Union. This industry has been limping along on life support in a shrunken state since the collapse of the Soviet Union. But Putin has been able to reallocate economic resources and pour state funds into an already existing military-industrial complex with large spare capacity. Increasing state control over the economy—reminiscent of the Soviet era—has increased production at military enterprises, helping fuel economic growth in the short term.

But despite all these Russian advantages, Western sanctions have imposed tangible constraints on Russia’s economy, some of its sectors and persons, and restricted access to finance and technology.

**First, sanctions have hit growth and reduced the resources available to Russia to wage its war in Ukraine.** The initial shock of sanctions in 2022 triggered a 1.2% contraction in Russia’s GDP, instead of a predicted growth in the range of 4% in the absence of war and sanctions (based on projections of a “Covid rebound” and robust commodity prices). Admittedly, Russia’s economy allegedly recovered in 2023 to grow at 3.6%, bolstered primarily by increased military spending. But the state has a monopoly on statistics and may have, therefore, overstated growth. Even with the state’s numbers, the economy is weaker than it would have been if the war had not happened. In particular, sanctions on oil and gas have
reduced Russia’s export earnings by $180 billion (10% of GDP in 2023)\(^3\) over the first two years since the 2022 invasion compared to the revenues that Russia would have received without the discount on oil from sanctions and the loss of gas sales to Europe. Furthermore, about half of Russia’s official reserves ($300 billion) are beyond the reach of Russian authorities at least for the duration of the war—another major hit produced by sanctions.

Second, sanctions have already significantly disrupted some sectors of the Russian economy, including aviation, timber, automobiles, and gas. Given the struggles of the Russian civil aviation industry with limited access to essential components for maintaining its passenger fleet, it is likely that Russian military aviation is also facing difficulties. Similarly, in autumn 2023, Western sanctions stopped the massive new Arctic LNG 2 project and are likely to thwart Russia’s ambitions to expand its LNG export capacity.

Ironically, pipeline gas exports—one of the sectors that ultimately was hit the hardest—have initially been subjected to almost no Western sanctions. Its collapse resulted from the Kremlin’s ill-conceived effort to weaponize Gazprom’s gas exports to Europe. The destabilizing consequences are yet to fully manifest, but they will be deep and far-reaching. In 2022, Gazprom generated over $100 billion in high-margin export revenues, which allowed it to fund around 20% of the federal budget. In 2023, however, with export volumes down by 80% from pre-war levels, Gazprom suffered a $70 billion drop in export revenues, with further drops expected in 2024. Gazprom’s gas division swung from profits of $16.5 billion in 2022 to an unprecedented $13.8 billion loss in 2023. Consequently, Gazprom’s contributions to the state budget fell by half, a clear sign that sanctions are helping reduce the Russian government’s revenues to fund its invasion of Ukraine. Gazprom’s distress is only expected to worsen as export revenues drop further while debt financing costs rise. The old model of using

\(^{3}\) Estimates of the Kyiv School of Economics, available upon request
exports to Europe to subsidize gas prices to Russian industry and households for decades is now fundamentally broken. In time, the Kremlin will be forced to choose between a sharp cut in tax revenues or liberalization of domestic gas prices, which would be highly inflationary, since gas provides 50% of Russia’s primary energy supply. Today, however, the state is forcing Gazprom to cover its losses by borrowing from Russia’s thin, fragile domestic debt markets at 17%, adding to the systemic risk of a domestic credit crisis.

Third, individually sanctioned Russians have suffered large personal losses. The fact that these individuals have tried to get off the sanctions lists through courts and lobbying suggests that these sanctions are effective.

Fourth, sanctions have slowed and interrupted the flow of critical technologies into Russia and made Russia much less attractive to investors. Since the beginning of the 2022 invasion, approximately 1,000 companies have announced a reduction in operations in the aggressor state, 4 387 of which have made a full exit. 5 Generally, the exit of the Western companies and the loss of foreign involvement means reduced transfer of technology, the know-how, and managerial expertise. In cases where Russian owners and executives have left, such as Yandex and Telegram, 6 Russia is now likely to lose out on value that would have otherwise been created in Russia.

Fifth, the Russian private sector is much weaker today than it was before the sanctions. Putin’s diversion of resources from the private sector to the military-industrial complex produced a short-term stimulus boost but will generate long-term economic problems. Russia’s increased military spending in 2022-23 helped offset losses in investment, consumption, and trade in the short run. However, with the economy overheating and real

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4 See the information about the announcements of the largest multinationals by the Yale School of Management: https://som.yale.edu/story/2022/over-1000-companies-have-curtailed-operations-russia-some-remain.
5 See the tracking of the exits by the KSE https://leave-russia.org.
6 Yandex and Telegram services are still available to Russian population.
interest rates already well above 10% (by some estimates now at 16%), this strategy does not look sustainable. Moreover, prioritizing the military has a bad track record in Russia; when the Soviet Union pursued such a strategy, it failed to generate economic growth, producing an economy that lacked dynamism and resilience and leaving it vulnerable when oil prices fell in 1986.

**Sixth, Russia has grown increasingly dependent on China.** Strikingly, while President Xi has supported Putin rhetorically, he has also pushed for economic deals very favorable to China. This can be illustrated by gas imports. China gets to buy Russian gas at a price well below what Europe used to pay for Russian gas while Russia likely will also have to finance and build the infrastructure (for instance, Power of Siberia 2) to deliver gas to China. Such actions are unlike the “unlimited” partnership the two announced in 2022.

**Seventh, Russia has witnessed major emigration since the war began.** More than a million Russians, mostly of working age and with higher education, left Russia.

**Eighth, the Russian economy is growing slower today than it would have without sanctions.** Sanctions constrain Russia’s ability to leverage trade to fund its war, garner support, and curtail Russia's growth prospects. We expect higher funding costs and increased uncertainty to hit investment, while labor supply growth will slow due to the effects of emigration, mobilization, and casualties. Productivity will likely also decline as a result of reduced trade and competition and lack of access to advanced technologies. These effects will produce a longer-term hit on the Russian economy that is hard to estimate, partly because the short-term impacts of oil price movements and fiscal policy distort the picture. But for Russia,

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7 Trading Economics, “Russia Interest Rate.” https://tradingeconomics.com/russia/interest-rate#:~:text=The%20benchmark%20interest%20rate%20in,percent%20in%20July%20of%202020.


9 Re: Russia – Every Week, “Escape from War: New data puts the number of Russians who have left at more than 800,000 people.” July 28, 2023. https://re-russia.net/en/review/347/.
we think a reasonable estimate might be that growth declined from a pre-2014 trend growth rate of 2-3% to trend growth of 1%.\textsuperscript{4} This highlights the cost of Russia’s aggressive choice of war: isolation and decline in place of the alternative of peace, trade, and prosperity.

Finally, consider the counterfactual: How much stronger would Russia’s position be if the sanctions coalition had not imposed sanctions on Russia; if Russia were still the dominant energy supplier to Europe? Or if Russia still had access to Western finance, dual-use technologies, and advanced oil and gas technologies? If Russian assets held abroad had not been frozen? And if travel between Russia and the West continued unimpeded? The current sanctions regime is imperfect, but it has brought us closer to the goal of reducing Russia’s capacity to conduct its war in Ukraine than no sanctions regime would have. Moving forward, we cannot fatalistically declare that sanctions aren’t working and then do nothing new. Instead, we must identify new actions and better enforcement mechanisms to make sanctions more effective as a means to accelerating the end of Russia’s invasion of Ukraine.
4. Agenda for Future Sanctions and Enforcement

The Russian economy has outperformed many predictions even under the current sanctions regime. This means more must be done. Building on our two years of work, anchored by 18 working papers, we have some conceptual recommendations and new concrete proposals.

Conceptually, the sanctions coalition needs to develop a more aggressive, comprehensive plan to help end Russia’s invasion of Ukraine rather than just serving as a tactical reaction to the latest Russian atrocity. Importantly, pressure from sanctions must be ratcheted up continuously. Rather than simply keep in place existing sanctions, sanctions should function like parking tickets; every week that Russian soldiers remain in Ukraine, sanctions should incrementally increase to amplify the pressure on Putin to end his war.

Moreover, Russian individuals and companies have adjusted to the existing sanctions regime to relieve pressure on their economic operations. The countries in the sanctions coalition must counter this with similar creativity and innovations. This must include updating old and outdated assumptions about the dangers of stronger sanctions i.e., fueling inflation or reducing the global energy supply. These were legitimate fears in 2022 but should no longer drive decisions about sanctions today. We have some ideas.

Confiscate Frozen Russian Assets Abroad

Ukraine needs extraordinary financial support as well as a continued supply of weapons. It needs approximately $100 billion a year in international assistance during the war:
at least $50 billion for military supplies, $40 billion to cover the budget deficit to keep the
civilian government services afloat, and $10 billion for humanitarian assistance. In addition, it
will need at least $500 billion over a decade or so for its reconstruction. At the same time,
Russian assets of over $300 billion have been immobilized by the sanctions coalition. We
propose using these Russian assets to make the aggressor pay and finance Ukraine, and have
made proposals on how to do it (see Working Group Paper #15).

We welcome the U.S. adoption of the REPO Act for this purpose and encourage the
EU and other countries to follow suit. With the U.S. Congress giving the President the power
to transfer frozen Russian assets to help Ukraine, and the recent decision of the European
Council to set aside extraordinary revenues originating from immobilized Russian assets,
there is clear progress. We believe that funding, underpinned by the Russian assets, should be
made available to Ukraine as rapidly as possible, with adequate safeguards to ensure it is
spent quickly and effectively. This will be critical for Ukraine’s resilience, given the need for
such resources to resist Russia’s invasion over the longer term and rebuild the country.

**New Sanctions on Russian Commodity Exports**

Countries in the sanctions coalition must do everything possible to reduce Russian
export earnings. That means imposing more sanctions on oil, gas, and metals and introducing
across-the-board tariffs on imports from Russia to degrade Russia’s economic resilience to the
point that, combined with Russian failure to gain ground on the battlefield, will induce a
change in the Kremlin’s policy toward ending the war on terms acceptable to the Ukrainian
government and people.
As mentioned above, the West no longer applies the Most Favored Nation tariffs to Russia, and the allowed WTO-bound tariffs are very high. The EU has decided to introduce such tariffs on agricultural goods from Russia and Belarus. They vary somewhat but are about 50% and should be applied to all Russian exports. Since the West trades little with Russia, this will no longer have any significant inflationary impact on the Western economies. The customs system is well established and enforcement problems would be minimized. It would no longer be necessary to sanction each kind of commodity separately.

The combination of military defeats and a deep economic shock can change Russia’s approach to war. On the military front, the steps required are widely understood—financing and arming Ukraine. On the economic front, however, there appears to be a lack of ambition. We frequently hear the claim that sanctions are not working, and that Russia’s economy is not only not collapsing, but is growing more robustly than expected.

Such an assessment of Russia’s economy is wrong. Russia has a key fragility that has repeatedly put it into crisis in recent years: dependence on commodity exports, especially oil and gas, which generate the critical foreign exchange earnings to finance the budget, underpin the currency, and enable the Russian military to fight in Ukraine. Whenever Russia has faced weakness on the current account—which would imply, given chronic deficits on services and income, even when running a substantial trade surplus—its economy has been in trouble. The economic crises and bank runs in 1988-1994, 1998, 2008, 2015, and 2020 are evidence that Russia’s dependence on commodity exports, particularly oil, remains its weak spot.

Compared to 2022, Russia’s weak spot today is more exposed as a result of a sanctions regime, and looser commodity markets have reduced export earnings. Thanks to the energy sanctions, Russia’s export revenues declined by a whopping 26% from $628 billion in
2022 to $465 billion in 2023, according to the Bank of Finland’s Russia statistics. The aim, therefore, must be to reduce Russia’s export earnings—and thus, reduce its resources—further. It should be possible to drive Russia’s total export revenues below $300 billion.

In 2023, Russia’s current account surplus was running at less than 3% of GDP ($51 billion), although it has now rebounded somewhat in the first half of 2024 on higher oil prices. Targeting this weak spot provides a clear opportunity to constrain Russia and shorten the war. Specifically, a targeted package of further sanctions on the commodities that underpin its economy—bans on Russian gas and metals exports, as well as robust oil price cap enforcement and reducing the oil price cap by $10/barrel, backed up by an across-the-board tariff on imports from Russia—would have a non-linear impact, increasing Russia’s need for financing when it lacks access to external financing. This would be a large but feasible package, and in aggregate somewhat less than what has already been imposed. Of course, we have ideas for going further—pushing the oil price cap down to $30/barrel and imposing Iran-style sanction arrangements, where trade with Russia would be allowed only through an escrow account—but we are proposing a more modest package of restrictions which should still be adequate to put the Russian economy under great stress.

There are two common counters to our proposal. First, some point out that many countries, such as the U.S. and the UK, can run a current account deficit for years without risking the stability of their economies. However, this has not always been feasible for Russia, where a weak trade surplus and a current account deficit have invariably triggered financial and economic upheaval. We think such a counter would apply even less to Russia today since, thanks to the financial sanctions, Russia has been largely unable to borrow money abroad, and half of its central bank reserves have been frozen. In fact, Russia has been

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repaying external debt, with its total foreign debt (both public and private) halved since 2013. Second, many argue that Russia now has a floating exchange rate and can therefore adjust to weaker export earnings by letting the currency weaken. This looks like wishful thinking. Interest rates in Russia have already climbed to 16%, well above the target level. A further weakening of the currency implies continued high inflation, while the high real interest rates hamper private investment.

Many current economic assessments understate Russia’s fragilities: the lack of domestic savings and dependence on external finance; technological dependence on the West or other foreign suppliers in critical areas, such as the oil and gas sector and electronics; and high dependence on volatile commodity exports. We propose to use sanctions to exploit these vulnerabilities. In particular, Russia is an economy that over the last 40 years has only functioned stably when it has had a sizeable trade surplus. This reflects two factors: first, a lack of domestic confidence in the ruble after Russia’s history of depreciations and devaluations. Second, a dependence on foreign (particularly Western) finance and technology imports across many sectors. To maintain confidence, Russia needs to maintain a large stock of foreign exchange reserves to reassure investors that rubles can be exchanged for foreign exchange and that Russia’s credit is good.

In recent years, Russia has also been shielded by its stock of foreign currency reserves. But now over half of the reserves have been frozen abroad and are not available to the Russian authorities. Further, the evidence we have from the National Welfare Fund (NWF) shows an ongoing decline in asset quality. Since early 2022, the NWF has sold its last $50 billion in proper foreign exchange reserves such as euros, yen, and sterling to finance the deficit.

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11 Trading Economics, “Russia Interest Rate.”
Reserves dominated by sanctioned gold and Chinese yuan, which are difficult to convert at scale, do not provide the backing of conventional foreign exchange reserves.

Russia’s economy, with only a modest current account surplus and smaller, lower-quality reserves, is no longer a fortress. Russia has historically run a wide surplus in goods to finance chronic deficits in services and income and is now in an uncomfortable position. Rather than multiple packages of incremental responsive measures, we propose one big package to shift the economic balance and put the Russian economy under considerable stress by pushing the current account and budget into a substantial deficit.

Encouragingly, the markets have also moved against Russia since 2022. Relatively weak global growth and the surge in supply, partly as a result of high prices after the pandemic and Russia’s full-scale invasion of Ukraine, are driving balanced or looser commodity markets in many cases, including for some key Russian exports, such as gas, where large additional volumes of U.S. LNG are starting to come online, and nickel, where a surge in Indonesian supply has driven a much looser market. This reduces Russia’s earnings directly since prices are lower. It makes it possible to substitute Russian supply at a lower cost or forces Russian exporters to offer a deep discount to access new markets and maintain sales.

We see this opportunity for sanctions at a lower cost to the sanctions coalition as now applying to pipeline gas to Europe, LNG, nitrogen fertilizer, and nickel, and potentially to other metals such as copper, platinum, palladium, titanium, and vanadium. With lower prices, we also advocate moving from a partial to a full embargo on aluminum and steel products. Given significant preparation following the G7 announcement in spring 2023 on developing the non-Russian nuclear supply chain, we also propose a full embargo on uranium and its derivatives. With the fall in the wheat price and the resumption of Ukrainian supplies, we also deem it feasible to impose a ban—or at least, as the EU has done, a punitive tariff—on purchases of
Russian wheat. We also propose an across-the-board tariff on all remaining imports from Russia to sanction coalition countries, as mentioned above.

However, the most important commodity is oil, Russia’s main export earning. Both sides have made extensive use of policy tools throughout the war to impact Russia’s oil earnings, with coalition embargoes and the oil price cap aiming to reduce Russia’s export earnings, while Russia helps to negotiate OPEC+ cuts to prop up the oil price and builds up its shadow fleet of tankers to circumvent sanctions. In some respects, the balance in the global oil market is turning against Russia, given a sharp rise in spare capacity, strong non-OPEC supply growth—mainly from the US, Canada, Guyana, and Brazil—and more modest demand growth. However, since late 2023, higher oil prices have favored Russia amid concerns that the Israel-Hamas conflict may lead to regional escalation and affect energy flows, driving a rise in Russian oil exports and budget revenues in 2024.\textsuperscript{12} Moreover, the ongoing tension in the Middle East, with the associated risks of sanctions on Iranian oil or an interruption of energy flows out of the Persian Gulf, looks set to support an elevated oil price for some time.

We urge continued action to curb oil demand, including by encouraging substitutes for oil, such as electric vehicles in transport and heat pumps in heating, and continued action to encourage additional oil supply from other sources, to reduce Russia’s leverage. However, these are longer-term actions.

In oil, the key opportunity for aiding Ukraine through sanctions right now is first to enforce the existing Russian oil price cap and then second to ratchet it down. Since October 2023, oil prices have been pointing to very low levels of compliance with the price cap,\textsuperscript{13} that

\textsuperscript{12} The energy-related budget revenues are up in part because of tax manipulation, not just higher taxable revenues from higher prices; the state is imposing additional taxes and manipulating existing ones to squeeze more out of companies, which means there’s less left over for fundamental investment.

is, a spreading of the “attestations fraud,” and also a sharp decline in G7/EU service providers participation in shipping Russian oil, which reduces the impact of the price cap.¹⁴

Western policymakers have the tools to enforce the price cap; they need to apply them more assertively to counter Russia’s dual evasion strategies. Russia’s primary strategy has been to assemble a “shadow fleet” of aging oil tankers willing to carry cargoes priced above the cap. An estimated $10 billion has been spent acquiring around 300 tankers which provide Moscow with slightly less than half the total capacity it would need for a stand-alone fleet. Russia expected these shadow tankers—stripped of service and ownership ties to coalition-based companies—would be effectively immune to sanctions. But this turned out to be a fallacy. Between October 2023 and May 2024, OFAC imposed asset freezes (“blocking orders”) on some 40 shadow tankers. So far, blocked tankers have been rendered incapable of resuming normal commercial operations. Importers appear reluctant to purchase oil carried by these vessels. Russia, however, continues to look for workarounds. While this has helped slow fleet growth, it has not reversed it. OFAC should significantly step up its campaign.

Russia’s second strategy is targeted at the large number of mainstream, Western-owned and/or insured tankers that it continues to rely on to transport much of its exports. These vessels are owned and/or insured by Western companies, which makes them subject to price cap restrictions. Moscow-friendly traders who charter these mainstream vessels, however, have routinely managed to transport cargoes on them at prices above the cap by providing falsified pricing attestations. Policymakers are aware of the problem and have sought to address it by demanding more detailed pricing information to be included in the attestation. This, however, doesn’t address the underlying problem: bad-actor traders should not be allowed to provide pricing information for price-cap compliance. These bad-actor traders tend to be located well

¹⁴ Overall Russian reliance on Western maritime services is estimated at 36%, as 26% of crude oil and 47% of oil products were shipped by tankers with International Group (IG) P&I insurance coverage in March 2024. Russian Oil Tracker: https://kse.ua/wp-content/uploads/2024/04/ROT_APR24.pdf.
outside the jurisdiction of coalition states, making them hard to hold accountable for falsifying attestations. To remedy this flaw, policymakers should amend price cap rules to require that only traders with significant business exposure to coalition countries would be permitted to charter mainstream vessels and provide price attestations. In effect, this would involve bringing major Western commodities traders back into the Russian crude trade (some continue to trade Russian oil products). This entails significant risk for Western traders—who will potentially fall under the jurisdiction of multiple price-cap regulators. They will look for the various coalition enforcement groups to be highly coordinated in their approach to what is and is not permitted under the rule.

We also propose to shrink the shadow fleet by requiring all Russian ships sailing through the Baltic to maintain safety standards and secure adequate insurance against spills. Rather than enforcing a “shadow-free zone” in the Baltic through litigation and/or interdiction at sea, we propose developing a list of shadow tankers that are not providing disclosures on mandatory spill insurance in line with IMO guidelines and industry norms and notifying them that continued operations in the Baltic will subject them to blocking orders from OFAC and other enforcement agencies. Given how effective blocking orders has been, it is expected that shadow tankers will comply. This plan has the potential to reduce Russian exports by half the amount that can be handled by shadow fleet ships. Moreover, because blocking orders are being used as a deterrent threat, not a punitive sanction, shadow tankers excluded from Russia’s large Baltic trade will remain available for hire elsewhere in the global freight market, thus preventing a squeeze on shipping supply.

As for the price cap itself, we believe the cost of production for Russian oil is in the $5-15/barrel range, far below the price of $62/barrel at which Urals crude sold on average in 2023. Thus, we see a continued commercial incentive for Russia to produce even if the current price caps are ratcheted down significantly from current levels. Moreover, we see any Russian
threats to withhold supply as implausible bluffs, given Russia and the Russian government’s acute dependence on oil revenues and OPEC’s high levels of spare capacity. However, we also recognize that it is not credible to lower the caps until enforcement actions have secured greater compliance with the existing price caps. We also recognize that some sanction coalition governments may be reluctant to take further action on Russian sanctions while there is a live risk of further Iranian oil sanctions or a Middle East oil supply shock.

At this stage, we, therefore, propose an immediate reduction only in the premium product price cap—from $100/barrel to $80/barrel—because refining margins of around $20/barrel do not justify such a wide premium to the $60/barrel crude cap. Then, once credible compliance with the price caps has been established, likely at the beginning of 2025, we propose to ratchet down the price caps from $60/barrel to $50/barrel on crude oil, as well as from $45/barrel to $35/barrel on discounted products, and from $80/barrel to $70/barrel on premium products such as diesel. Combined, these measures would cost Russia about $75-80 billion per year in export earnings, about one-third from tightening enforcement of the current oil price caps; about one-third from the other measures on gas, metals, and the proposed across-the-board tariff; and about one-third from a further $10/barrel reduction in the oil price cap.

We also propose to restrict Russia’s earnings from exporting commodities by tightening the current broad exemption which allows Western trading firms to trade Russian energy. Now that the West is no longer directly dependent on Russian energy, this general loophole that the United States created to facilitate ongoing trade in Russian energy exports by Western companies—General License 8—should be progressively tightened. We propose to start with an immediate ban on trading in Russian coal and Russian oil products, with an announcement of future dates from which trading in Russian LNG and crude will be banned. To reinforce the energy sanctions proposals above, this blanket ban would need to assume exemptions for a selected few banking accounts of the Western commodity traders that would facilitate
enforcement of the price cap, and, on the other hand, exempt at least one Russian bank, ex Gazprombank, to continue unsanctioned trade in gas.

In the past, weak exports have triggered economic and financial crises in Russia by undermining the currency, the budget, and confidence. Given looser commodity markets and the implausibility of a Russian oil supply strike—which would immediately plunge Russia into an economic crisis—this would have relatively low costs for the sanctioning countries. We propose an upfront announcement of a credible package of measures to achieve this result—including measures such as a ban on Russian LNG imports and a reduction in the oil price cap to $50/barrel—even if, to minimize disruption, the measures are only implemented with a significant time lag.

**Figure 1. Estimated effect of the proposed sanctions on Russian exports, USD bln**

![Estimated reduced exports, USD bln](image)

*This illustrative estimate of the reduction in Russian exports earnings as a result of our proposed package of measures assumes a $10/bbl reduction in the value of Russian oil exports as a result of oil price cap enforcement, a $20/bbl reduction in the value of Russian premium product exports as a result of a lower premium product oil cap, a one-third fall in LNG exports as a result of a European ban on LNG, and a 10% reduction in revenues from the sale of the remaining LNG, a complete loss of the revenue from the sale of pipeline gas to Europe, a loss of half of the revenue from nitrogen fertilizer exports to Europe, a loss of half of the current revenue from nickel exports to G7 countries, a 20% reduction in trade with sanctions coalition countries as a result of a 30% across the board tariff on residual trade, and a $10/bbl reduction in the value of Russian oil exports as a result of reducing the oil price caps by $10/bbl.*
Given Russia’s historical use of energy profits to underwrite military operations, a preventative measure is crucial to inhibit future leverage in the energy markets. Therefore, the sanctions coalition should restrict Russian access to Western oil and gas software applications hosted outside of Russia, thus limiting its future energy profits.

Finally, we propose introducing a comprehensive ban on the export of oil and gas technologies and services. Significant advanced oil field technologies appear to be not yet covered by export sanctions. These include advanced logging while drilling (LWD), measuring while drilling (MWD), rotary steering systems (RSS) equipment and technology, and reservoir simulation applications. Sanctions should be structured to make certain that Russian companies are not able to access advanced software applications hosted on servers outside of Russia.

As Russia is forced to develop an ever-growing share of its oil from increasingly challenging fields, it is growing increasingly reliant on these advanced, state-of-the-art technologies that are mostly available only from Western companies. While some major oil field service companies have withdrawn from Russia, others, such as SLB (Schlumberger) and Weatherford, continue to operate in Russia.

Some policymakers have the mistaken belief that a comprehensive ban on Western oil field services would lead to a destabilizing collapse in Russian production. That is unlikely. Between stockpiled imported equipment and its own more rudimentary technologies, Russia has the potential to maintain current production levels for some time to come. But to do so, it will be forced to increase capital expenditures and operating costs. That leaves less cash flow available for financing Russia’s war against Ukraine. The failure of the Putin regime to create a commercial environment conducive to innovation—one in which property rights are protected from rivals as well as the state—has hobbled Russia’s efforts at import substitution, especially in the more advanced technologies Russian oil producers so heavily rely on. A ban
on these technologies would have a powerful psychological impact on the regime, raising significant doubts about the medium-term ability of Russian producers to efficiently manage investment budgets for its brownfield and greenfield development programs. A similar problem arose in the Soviet oil industry in the 1980s.

**Strengthen Technology Bans**

As we documented in detail in previous working papers, too many critical technologies are flowing into Russia that help build weapons which are then deployed to kill Ukrainian citizens and soldiers. The sanctions coalition must tighten restrictions on Russian access to microelectronics, Computer Numerical Control (CNC) machines, software, navigation, radio, and chemicals for explosives and other components used in the defense sector.

Export controls, i.e., technology bans, remain a powerful tool to constrain Russia’s military-industrial complex as the country appears to not have been able to find alternative suppliers for many war-critical imports. However, But changes to the current approach are needed to improve their effectiveness.

First, bolstering corporate responsibility is key in this context. Improved enforcement of export controls will ultimately not be possible without buy-in from the private sector, especially coalition-based producers of goods needed for Russia’s military industry. Any effective control of the supply chain has to begin with the initial sale of an item to a distributor,

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as it becomes increasingly complicated to trace its physical whereabouts and impede any illicit activities post-sale. To create incentives for corporations to set up compliance procedures, enforcement agencies must demonstrate a willingness and ability to investigate the trade with controlled goods and impose meaningful fines in the case of export control violations.

Second, significant inconsistencies continue to exist within the Russian export control regime, which hinder effective enforcement and allow for circumvention. Restrictions need to be harmonized across coalition jurisdictions along with derogations and licensing procedures, criminalization of sanctions violations, and negligence provisions that outline procedures that companies are expected to follow. As many of the goods in question are produced on behalf of coalition-based companies in third countries, it is also important to ensure that export controls in all jurisdictions apply extraterritorially the way U.S. ones do under the Foreign Direct Product Rule.

Third, targeting intermediaries in third countries, which provide Russia with war-critical goods from coalition-based producers, is critical. This includes companies in China, Turkey, the UAE, the Caucasus, and Central Asia. They can do so by imposing sanctions on entities that have been found to facilitate export control violations involving any companies or individuals from coalition countries. If this is done comprehensively (i.e., going beyond the current piecemeal approach that targets only a small number of such companies), consistently (i.e., across all coalition jurisdictions), and regularly (i.e., responding to adaption of the circumvention network), it can throw a serious wrench into Russia’s procurement efforts. Any coercive measures should be accompanied by outreach to public and private sectors in key third countries.

Fourth, enforcement agencies in sanctions coalition countries are not adequately equipped to implement and enforce comprehensive export controls such as those imposed on Russia. This includes the United States, where such measures have a longer track record. The
European Union lacks unified enforcement structures altogether, as member states remain responsible for the implementation of restrictive measures, including those imposed on the EU level. Considering that export controls will be an important part of the economic statecraft toolbox for the foreseeable future, these weaknesses need to be addressed.

Better multilateral cooperation is key. For this purpose, democratic countries should also re-establish the Coordinating Committee for Multilateral Export Controls (CoCom). During the Cold War, the United States worked with allies and partners to create CoCom to limit the transfer of goods and technologies to the Soviet Union and other communist states that could be used to advance military capabilities.\(^\text{16}\) CoCom produced positive results, in part because the organization was international, which helped prevent systematic evasion through loopholes. While CoCom was not perfect, the model is the right one for limiting the transfer of military and dual-use technologies to Russia. A new CoCom, based at the OECD, should be established today.

**Tighten Financial Sanctions**

The sanctions coalition must further restrict international financial transactions, squeezing liquidity and credit availability. The sanctions coalition should apply full blocking sanctions on all Russian banks and key financial institutions, starting with banks providing financial services to Russian military personnel. Sanction financial operations and institutions in “friendly” countries that facilitate Russian trade, with a particular focus on Central Asia, the

Caucasus, UAE, China, and Turkey. Western banks should be required to withdraw from Russia.

Russia lacks a deep financial market and has been heavily dependent on Western financing and heavily dollarized, reflecting a lack of confidence in the ruble. This dependency makes financial sanctions a promising area for action. During periods when Russia has run an external surplus, this vulnerability has been manageable, but we believe that it will become increasingly problematic if Russia slips into an external deficit.

Since the beginning of Russia's 2022 full-scale invasion of Ukraine, countries of the sanctions coalition have designated nearly 60 Russian banks out of 360 credit institutions as of February 2024. Further, several non-bank financial companies have been sanctioned, while eight Russian banks have been removed from the SWIFT messaging system. These steps—which hit a majority of the Russian banking sector in terms of assets—initially had a significant impact. However, over time, Russia has adapted to sanctions, using unsanctioned institutions to access the international financial system, developing financial and trade structures to facilitate sanctions evasion, and gravitating towards other states that help Russia avoid the impact of sanctions.

The Russian banking sector plays a crucial role in financing Russia’s war machine and supporting the occupation of Ukraine, including by financing the Russian government, paying taxes to the Russian federal budget, facilitating all transactions of the Russian military-industrial complex, supporting the circulation of the ruble on the territory of Ukraine, and providing financial services to Russian armed forces personnel. Given this critical role in supporting Russia’s invasion and occupation, we favor extending full blocking sectoral sanctions to all banks and financial institutions operating in Russia, with limited waivers, e.g., for subsidiaries of international banks and some other banks involved in certain transactions. Such a sectoral sanction policy, with targeted and limited exemptions, would ensure a robust
institutional framework to police financial transactions with Russia and would be superior to the current reactive “whack-a-mole” regime, where sanctions are imposed when an infringement is spotted. Over time, such broad sectoral restrictions will constrain Russia’s ability to raise capital and finance the war against Ukraine.

In addition, we propose to start sanctioning banks providing preferential mortgages to Russian armed forces personnel and employees of local military industry entities and other government financing programs that support the technology, defense, or manufacturing sectors of Russia’s economy. These mortgages and financing programs have been a powerful tool to attract people to serve in the Russian military, participate in the invasion of Ukraine, and work at Russian defense enterprises that make weapons that are used in the war against Ukraine.

We also propose to target banks and financial institutions in “friendly” countries that carry out transactions servicing trade with Russia. And we recommend requiring all Western banks still operating in Russia, such as Austria’s Raiffeisen and Italy’s Unicredit, to exit. The seven top European banks by assets in Russia—Raiffeisen Bank International, UniCredit, ING, Commerzbank, Deutsche Bank, Intesa Sanpaolo, and OTP—reported a combined profit of more than €3 billion in 2023 and paid the Kremlin more than €800 billion in 2023 taxes. These banks offer Russia a major loophole in the financial sanctions that helps finance the Kremlin’s war in Ukraine. This is war profiteering and is impermissible. These banks should be forced to pay penalties commensurate to the taxes they pay to Russia in the same way the United States penalizes companies paying bribes abroad.

17 Including banks offering Far-Eastern & Arctic mortgage, and many others.
18 Euan Healy and Anastasia Stognei, “Western banks in Russia paid €800mn in taxes to Kremlin last year,” Financial Times, April 28, 2024. https://www.ft.com/content/cd6c28e2-d327-4c2a-a023-098ca43eacf8.
Finally, we propose to sanction the Moscow Exchange (MOEX), which serves as Russia's primary market for currency trading and IPOs of Russian companies. This could further impede the domestic use of dollars and euro and raise the cost of capital for Russia.

**Impose More Sanctions on Russian Companies**

The sanctions coalition must progressively apply comprehensive sanctions against key Russian firms in the energy and metals sectors, including the dominant companies in the economy, such as Gazprom and Rosneft, which are vital to Russian government revenues and military operations. Rosatom also must be sanctioned.

Many leading Russian companies play a central role in financing and arming Russia’s invasion of Ukraine, yet they remain unsanctioned. The impact of such sanctions can be substantial, as was seen by the recent jump in the coal price when the Russian coal firm SUEK was sanctioned by the U.S. Treasury. We urge imposition of sanctions on all Russian firms in the energy sector—including Gazprom, Rosneft, Surgut, Tatneft, Zarubezhneft, Lukoil, Transneft, Sibur, Rosatom, and Roshydro—which are a key source of revenues for the Russian government and provide fuel and power to the Russian armed forces, with specific carve-outs and waivers if required. We similarly propose to impose sanctions on all Russian firms in the metals sector who are helping to arm Russia, including Rusal, Severstal, Evraz, NorNickel, Metalloinvest, NLMK, and MMK, building on the recent sanctions on Mechel.

We would propose to tighten the sanctions progressively. For instance, a starting point would be to sanction all upstream subsidiaries and refineries, which would prevent Western oil field service firms from continuing to provide Russian entities with services and equipment. Another early step could be to impose full sanctions on some of the smaller oil and gas companies such as Tatneft and Zarubezhneft, to gauge the reaction. The objective would be to
impose full sanctions subsidiary by subsidiary, company by company, so as to minimize disruption, with waivers for some permitted activities—e.g., trading oil in compliance with the price cap—but with the clear objective of progressively tightening sanctions until the entire sector was fully subject to sanctions, bar permitted activities. We also propose to require Western oil field service firms such as SLB—which continue, astonishingly, to operate in Russia—to exit.

As discussed in a previous working paper, Rosatom, Russia’s nuclear company, should be sanctioned as it is a Russian military- and state-owned company, and, in particular since it is responsible for the occupation of Ukraine’s Zaporizhzhia Nuclear Power Plant (ZNPP). Further, it is an important source of Russian influence internationally because of its major role in the nuclear fuel cycle, which gives it influence over other nuclear powers, including the U.S. and France, and because of its willingness to help other countries build nuclear power stations. The 2023 Sapporo agreement committed the leading Western nuclear powers to reduce Rosatom’s role in the nuclear fuel supply chain. We propose that the signatories report on progress and announce the next steps, including a date from which they will no longer purchase enriched or converted uranium from Rosatom, as well as personal sanctions on all Rosatom executives involved in the occupation of ZNPP.

**Impose More Personal Sanctions**

Every individual in Russia in the government and private sector who helps to finance and support Russia’s war must be sanctioned. This expanded list should include all senior officials in the Russian government, armed forces, and state-owned enterprises, and their immediate family members, propagandists, and proxies. Many key Russian oligarchs and

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19 See [Working paper 8: Rosatom and Civil Nuclear Power: Recommendations for sanctions](#)
officials and their immediate family members, who are complicit in Russia’s crimes and are the principal beneficiaries of Putin’s regime, remain unsanctioned over two years after the 2022 invasion began. We urge the sanctioning countries to act systematically to sanction all friends of Putin and senior Russian officials, including governors, ministers, senior officials, and senior executives at state-owned companies and defense companies, as well as their immediate family members.

Personal sanctions should be coordinated and standardized. Preferably, all the major sanctioning jurisdictions—the U.S., the EU, the UK, Canada, Japan, Australia, New Zealand, and Switzerland—should coordinate their sanctions. They should synchronize their lists of individuals to eliminate cases in which a Russian individual is on an American sanctions list but not a European list or vice versa. They should also exchange information on the nature and rationale of their sanctions so that they can all defend their verdicts in court. Currently, sanctioned Russian oligarchs sue the weakest link (mainly the EU) and win in EU courts because of shoddy work on the documentation for sanctions by the EU Council. The EU personal sanctioning system is in a legal crisis.

The Russian government is a subversive organization, which is actively seeking—often with substantial success—to undermine Ukraine and Western democracies, meddle in elections and create cyber threats worldwide, and undermine fragile states across Africa. We propose a particular effort to sanction Russian agents and organizations engaged in seeking to undermine other countries, including through propaganda and bribery.

Sanctions coalition countries must also develop a mechanism for individuals to get off the sanction list if they credibly denounce Russia’s invasion of Ukraine, recognize Ukraine’s 1991 borders, have not committed any war crimes, and pledge to assist in Ukraine’s reconstruction. The absence of an exit strategy for sanctioned individuals facilitates Putin by keeping his vertical of power united around him. We suggest using a mechanism for lifting
individual sanctions to encourage proper behavior on the part of sanctioned individuals which was detailed in Working Group Paper #3. Such decisions must be fully coordinated with the Government of Ukraine.

Prevent U.S. Lawyers From Enabling Sanctions Evasion

American lawyers and other enablers have long provided a gateway for Russian elites to hide their ill-gotten wealth in the United States. Lawyers, in particular, have been central to masking the identities of sanctioned owners of financial and luxury assets, undermining efforts to hold Russia accountable in the face of the country’s aggressive war against Ukraine. This abuse of the U.S. lawyers’ role must stop.

We urge Congress to re-introduce and pass the ENABLERS Act, which would require lawyers, accountants, and other professionals to conduct basic due diligence on their clients’ identities and report suspicious activity to U.S. authorities, as banks are already required to do. These requirements will prevent sanctioned Russian elites from enjoying access to the United States while profiting from the war in Ukraine.

These policies are necessary to strengthen trust in the legal profession. These obligations can be implemented with due respect for lawyers’ ethical duties. The regulations target those lawyers engaged in corporate and financial transactions with the highest risk of illicit activity. Imposing due diligence and reporting requirements on these transactions will close a key blind spot in sanctions enforcement.

The ENABLERS Act would bring the United States in line with its sanctions coalition partners. All countries surveyed in the report have stronger client due diligence requirements for lawyers than the United States. Moreover, key partners like the United Kingdom and the
European Union also impose robust suspicious activity reporting regimes. Closing these gaps will not only enhance existing measures to support Ukraine but will also shore up the effectiveness of U.S. sanctions in current and future conflicts.

**Designate Russia as a Sponsor of Terrorism**

Russia’s actions in this war—launching a war of aggression and illegally annexing territory, systemically targeting civilian infrastructure and civilians as well as first responders in “double tap” strikes, the widespread use of torture and intimidation in occupied territories, execution of prisoners of war, and causing massive environmental damage by destroying the Kakhovka hydropower plant—are intended to coerce and intimidate Ukraine and Ukrainian society into submission. These are acts of terrorism.

In November 2022, the European Parliament recognized Russia as a state sponsor of terrorism (SST), underscoring that “deliberate attacks and atrocities committed by Russian forces and their proxies against civilians in Ukraine, the destruction of civilian infrastructure and other serious violations of international and humanitarian law amount to acts of terror.”

Although the EU designation lacks robust enforcement mechanisms, such as those that are available under U.S. law, European policymakers have expressed their intent to develop legal mechanisms that would give teeth to their SST designation. We applaud this progress. We also urge the United States to show leadership and finally designate Russia a state-sponsor of terrorism.

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terrorism. It is hard for Ukrainians or other people in the world to understand how Cuba is on the U.S. list, but Russia is not.

It is crucial to emphasize the importance of SST designations of Russia by U.S. authorities in stopping Russian aggression, given that U.S. regulations offer an unparalleled enforcement framework. Specifically, the SST designation would trigger a ban on all arms-related exports and sales. Controls over the export, re-export, and transfer of dual-use items would be strengthened even further, alongside additional financial restrictions. Third parties that are transacting with the Russian state and private sector would face secondary sanctions, which would strengthen compliance with existing sanctions internationally.

Stop Western Companies From Doing Business in Russia

All Western companies should leave Russia while the invasion continues and should now face sanctions if they continue to profit from supporting Russia’s war on Ukraine. This particularly applies to prominent Western companies, such as Schlumberger and Raiffeisen, who have undermined the impact of sanctions in critical sectors such as finance and oil. Western companies in other sectors—e.g., agriculture, healthcare, and retail—who have continued to make money and invest in Russia should also set out plans to wind down and exit their business in Russia. The value of their Russian assets should also be accounted for.

At present, Western companies in Russia pay substantial taxes to the Russian government. A reasonable first step would be to introduce a mechanism that forces companies operating in Russia to pay commensurate fines in their home countries, as the U.S. does for companies paying bribes abroad. Tax payments to Russia should be considered equivalent to bribery.
Strengthen Enforcement of Existing Sanctions

Many smart sanctions on paper are not working today in practice because they are not being enforced. This must change. Enforcement is a key component of any economic sanctions regime, without which the full effectiveness will not be derived. There continue to be weaknesses in the sanctions effort, including in the speed, boldness, and consistency in policy and enforcement across the sanctions coalition. We favor more aggressive actions against sanctions violations to deter evasion and break up networks of corrupt and Russian-related intermediaries in third countries which have helped Russia evade sanctions. Taking lessons learned from Iran sanctions, enforcement actions against larger and more well-known organizations served as a greater deterrent for continued Iran trade, for fear of the consequences. Countries seeking to enforce sanctions must provide more resources for those government agencies responsible for imposing and enforcing sanctions. Western service providers, including legal firms, should be banned from helping Russians evade sanctions and conceal their wealth.

Expanding Secondary Sanctions

Russia depends upon a network of intermediaries in third countries who are willing to undermine the sanctions regime, including Turkey, UAE, China, the Caucasus, and Central Asia. Imposing penalties on people and entities/organizations, from these and other countries who help Russia circumvent sanctions, can disrupt these networks, thereby reducing willingness to cooperate with Russia and Russia’s ability to finance itself and equip its armed forces.
Secondary sanctions, e.g., extraterritorial application of restrictions to persons and organizations outside of the sanctioning country’s jurisdiction, remain a powerful tool and should be employed more aggressively.

In many cases, the actual sanctions may not be needed since the credible threat to deploy such secondary sanctions can have a major impact on behavior, as seen by the decisions of Turkish banks not to accept the Russian payment card “Mir” and Indian refineries reportedly deciding not to buy Russian oil above the price cap after discussions with the U.S. Treasury.

In other cases, more due diligence and scrutiny from Western technology companies over their sales would cut off the flow of goods to Russia. Tightening export control rules, strengthening enforcement, and incentivizing corporate buy-in would achieve this goal. The compliance tools and expertise are available to monitor the end-use of products with reliability; it is the incentive that is lacking. Adjusting the risk-reward calculus for Western military and dual-use technology manufacturers—so that they will suffer significant losses if they allow sales that end up in Russia—could bring about the needed change, just as it did historically with the Foreign Corrupt Practices Act.

To raise the cost of cooperating with Russia, we favor extensive use of secondary sanctions, targeted in the first place against persons involved in supplying military and dual-use equipment to Russia and against persons who are circumventing the oil price cap.
Conclusion:

The Need for A New Big Bang

Until Russia ends its war and withdraws from Ukraine, the default expectation should be that trade between the West and Russia should contract to a residual level, that what trade that remains should be tightly controlled to limit Russia’s revenues and access to technology, and that Russia should be prevented from using trade as cover for political subversion and disinformation. Sanctions remain an underutilized instrument of an overall strategy to constrain Russia and end this horrific war in Ukraine.

We propose packages of measures to fulfill two critical strategic tasks:

**Decrease Putin’s resources for funding his war.** A package of sanctions puts the Russian economy, budget, and currency on the defensive. We propose an ambitious but feasible further package of oil, gas, and metal sanctions, backed by an across-the-board tariff on remaining imports from Russia, as well as stronger enforcement of existing sanctions. Effective implementation of such a package would push Russia into an external deficit and a wide fiscal deficit, which Russia would struggle to finance, undermining the currency and economy, and weakening Russia’s ability to continue its invasion of Ukraine.

**Contain Russia.** As in the Cold War, the West needs to implement restrictions that economically and financially contain an expansionist and revisionist Russia. This should include a CoCom-style body to manage trade with Russia, systematic sanctions on critical Russian sectors, including energy, finance, and metals, and a ban, with limited exemptions
subject to special approval, on Western companies operating in Russia or providing services to Russian persons.
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